

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

**Six Months Interim Report  
at June 30, 2001**

**PIRELLI Società per Azioni**

**Head office in Milan, Viale Sarca 222**

**Share capital – Euros 1,043,094,358.28**

**Milan Companies Register No. 00886890151**

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**Six Months Interim Report at June 30, 2001**

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


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

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Secretary to the Board	Sergio Lamacchia
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**Board of Statutory Auditors**


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

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**General Managers**


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Finance and Administration	Carlo Buora
Tyres Sector	Giovanni Ferrario
Cables and Systems Sector - Energy	Oscar Cristianci
Cables and Systems Sector - Telecom	Kevin Riddett

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**Independent accountants**


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PricewaterhouseCoopers S.p.A.

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## **COMMENTS ON OPERATIONS**

### **FINANCIAL REVIEW**

The **consolidated income before extraordinary items and income taxes** for the six months ended June 30, 2001 is Euros 276 million, compared to Euros 181 million for the first six months of 2000 (+52.5 percent).

**Extraordinary items** for the first six months of the prior year mainly comprised the gain on the sale of the activities related to the Terrestrial Optical Systems business to Cisco Systems and were equal to Euros 1,166 million, compared to Euros 52 million for this six-month period.

These extraordinary items had a predominating impact on the comparison of **consolidated net income**: Euros 961 million for the six months ended June 30, 2000 and Euros 200 million for the six months ended June 30, 2001.

The **consolidated net income attributable to Pirelli S.p.A.** amounts to Euros 197 million for the six months ended June 30, 2001, compared to Euros 958 million for the first six months of 2000.

**Sales revenues**, equal to Euros 3,946 million, displayed an increase of 9.7 percent compared to the first half of the prior year, which amounted to Euros 3,598 million.

**Gross operating profit** is Euros 432 million (10.9 percent of sales) compared to Euros 402 million for the first six months of 2000 (11.2 percent of sales). Besides the continuous actions to raise efficiency, the supply agreement with Cisco Systems also made a contribution to this improvement of Euros 59 million (Euros 26 million for the first half of 2000).

**Operating profit** is Euros 243 million (6.2 percent of sales), compared to Euros 213 million (5.9 percent of sales) for the first half of 2000.

**Net financial position** shows a liquidity position of Euros 2,225 million compared to Euros 3,495 million at December 31, 2000. The change is due to the pay-out of dividends on 2000 earnings of Euros 286 million, the payment of income taxes accrued the previous year of Euros 614 million; the remaining amount can mainly be ascribed to the deterioration of working capital of Euros 233 million, a seasonal factor, and the payment of Euros 101 million made in respect of the production optimization programs accrued in the 2000 financial statements.

The **consolidated shareholders' equity** went from Euros 5,958 million at December 31, 2000 to Euros 5,870 million as a consequence of the net income for the period and the dividends paid out.

**Net income of Pirelli S.p.A.**, the parent company, is Euros 12 million compared to Euros 226 million for the six months ended June 30, 2000 and Euros 1,733 million for the year 2000.

Such variations are entirely due to the change in the accounting principle for recording dividends which, as described in the 2000 annual report, was changed from the cash to the accrual basis of accounting.

Such change led to higher dividends being recorded in the 2000 financial statements for Euros 1,500 million whereas the first six months of 2000 included dividends recorded on the cash basis for Euros 228 million.

## **THE GROUP**

A strong acceleration in investments marked the first six months of 2001 in a market scenario influenced by an economic situation that shows signs of a slowdown in addition to continuous pressure over sales prices and raw material costs.

Nevertheless, there is an improvement in all operating components.

During the course of the first six months, Pirelli S.p.A. sold No. 32,023,550 treasury shares for net proceeds of Euros 124 million, realizing a gain, before income taxes, of Euros 30 million.

In April 2001, Pirelli Cavi e Sistemi S.p.A. and e.Biscom S.p.A. negotiated a cooperation agreement which also calls for the joint development of new solutions for access to the Internet and Internet Video using fiber optics (“fiber to the home”).

In this context, Pirelli Cavi e Sistemi also purchased No. 484,500 of e.Biscom S.p.A. shares (equal to 1 percent of share capital) for an outlay of Euros 49 million.

In June 2001, Pirelli Cavi e Sistemi S.p.A. and Alloptic Inc., the market start-up leader providing IP, Gigabit Ethernet fiber optic solutions for access networks, signed an agreement – in which, among other things, Pirelli Cavi e Sistemi S.p.A. purchased a 13.8 percent stake in the company for U.S. \$12 million in July – for the development of new optical solutions for access networks.

### **Cables and Systems Sector**

The first half of the year featured opposing trends in the Energy and Telecommunications Sectors.

The Energy Sector again registered a stagnant market, with falling prices. In this area investments, begun after the acquisition of the power cables sector from BICC, continued with a view to rationalizing and optimizing productive efficiency.

In the Telecommunications Sector, the fiber optic business continued in the buoyant trend of the prior year, both in terms of demand and price, although, in June, there were signs of a slowdown, particularly with reference to the North American market.

## **Tyres Sector**

Despite the unfavorable market economy, Pirelli maintained the positions reached in terms of market and profitability.

The strategy geared to strengthening the High Performance segment continued, both through new investments to optimize production and the start-up of new plants using MIRS technology.

Highlights of the consolidated financial statements of the Pirelli Group for the six months ended June 30, 2001 are indicated below:

in millions of euros	06/30/2001	06/30/2000	12/31/2000
. Sales revenues	<b>3,946</b>	3,598	7,477
. Gross operating profit	<b>432</b>	402	820
% of sales	<b>10.9%</b>	11.2%	11.0%
. Operating profit	<b>243</b>	213	437
% of sales	<b>6.2%</b>	5.9%	5.9%
. Financial income and expenses	<b>33</b>	<b>(32)</b>	<b>(75)</b>
. Income before extraordinary items and income taxes	<b>276</b>	181	362
% of sales	<b>7.0%</b>	5.0%	4.8%
. Extraordinary items	<b>52</b>	1,166	4,277
. Income taxes	<b>(128)</b>	<b>(386)</b>	<b>(1,013)</b>
. Net income	<b>200</b>	961	3,626
% of sales	<b>5.1%</b>	n.s.	n.s.
. Net income attributable to Pirelli S.p.A.	<b>197</b>	958	3,632
. Earning per share (in euros)	<b>0.10</b>	0.48	1.82
. Shareholders' equity	<b>5,870</b>	3,288	5,958
. Shareholders' equity attributable to Pirelli S.p.A.	<b>5,672</b>	3,114	5,756
. Equity per share (in euros)	<b>2.83</b>	1.57	2.89
. Net financial position (liquidity)/debt	<b>(2,225)</b>	<b>(296)</b>	<b>(3,495)</b>
. Capital expenditures	<b>310</b>	235	562
. R&D expenditures	<b>109</b>	105	213
. Personnel (at period end)	<b>40,674</b>	41,809	41,914
. Factories (number)	<b>86</b>	86	87
. Pirelli S.p.A. ordinary shares (No. in millions)	<b>1,917</b>	1,901	1,903
. Pirelli S.p.A. savings shares (No. in millions)	<b>88</b>	88	88
. Total Pirelli S.p.A. shares (No. in millions)	<b>2,005</b>	1,989	1,991

• **Sales revenues**

Sales revenues total Euros 3,946 million, with an increase of 9.7 percent compared to the first half of 2000.

Such increase can be ascribed to the following:

• Currency exchange	-	0.9%
• Volumes	+	6.7%
• Prices	+	2.0%
• Mix and other	+	1.9%
		9.7%
		9.7%

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

Sector	1 <sup>st</sup> half 2001 1 <sup>st</sup> half 2000		Geographic area	1 <sup>st</sup> half 2001 1 <sup>st</sup> half 2000	
Cables and Systems	63%	60%	Italy	14.7%	11.4%
Tyres	37%	40%	Other European countries	42.1%	44.1%
			North America	16.0%	15.7%
			Central and South America	15.5%	16.0%
			Australia, Africa and Asia	11.7%	12.8%

• **Operating profit**

Operating profit is Euros 243 million, an increase of 14.1 percent compared to Euros 213 million for the first six months of 2000; operating profit as a percentage of sales revenues is 6.2 percent (5.9 percent in 2000).

The change of Euros 30 million is mainly due to the following:

	<b><u>in millions of euros</u></b>	
• Currency exchange	-	5
• Prices (excluding metals)	+	23
• Volumes	+	95
• Materials	-	35
• Efficiency	+	12
• Change in per unit costs	-	30
• Mix and other (*)	-	63
• Supply Agreement with Cisco Systems	+	33
	+	<u>30</u>

(\*) including accruals of Euros 25 million, expenses to increase production capacity of Euros 15 million, e-business costs of Euros 10 million, effect of high inflation of Euros 6 million and R & D of Euros 4 million

• **Income before extraordinary items and income taxes**

This result is equal to Euros 276 million, compared to Euros 181 million for the same period of 2000, with an increase of 52.5 percent.

• **Extraordinary items**

Extraordinary items show an income balance of Euros 52 million and mainly include the gain, before income taxes, of Euros 30 million on the sale of Pirelli S.p.A. treasury shares on the market and Euros 36 million obtained by Cisco Systems as part of the sale of the Terrestrial Optical Systems last year.

• **Net income**

Net income totals Euros 200 million (after extraordinary income, net of Euros 52 million and income taxes of Euros 128 million) compared to Euros 961 million for the first six months of 2000 (after extraordinary income, net of Euros 1,166 million and income taxes of Euros 386 million).

• **Shareholders' equity**

Shareholders' equity went from Euros 5,958 million at December 31, 2000 to Euros 5,870 million, with a decrease of Euros 88 million.

Such decrease can be analyzed as follows:

	<b><u>in millions of euros</u></b>
• Translation adjustment	(17)
• Net income for the period	200
• Dividends to third parties	(286)
• Subscription to stock options	29
• Other changes	(14)
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	(88)
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### **Net financial position**

The net financial position shows a liquidity position of Euros 2,225 million compared to Euros 3,495 million at December 31, 2000. The variation of Euros 1,270 million can be explained as follows:

• Exchange differences		(15)
• Operating profit	243	
• Depreciation and amortization	189	
• Net investment balance	(348)	
• Change in working capital	(233)	
• Change in provisions and other	(7)	
• <b>Free cash flows</b>	<b>(156)</b>	
• Effect of acquisitions	(53)	
• Extraordinary items	52	
• Financial income and expenses	29	
• Income taxes	(128)	
• Dividends paid	(286)	
• Other changes	(749)	
• <b>Net cash flows</b>		<b>(1,291)</b>
• Change in shareholders' equity		36
• <b>Change in net financial position</b>		<b>(1,270)</b>

“Other changes” include the payment of income taxes accrued last year of Euros 614 million and the payment of Euros 101 million for the production optimization programs accrued in the 2000 financial statements.

- **Capital expenditures**

Capital expenditures total Euros 310 million, compared to Euros 235 million for the first six months of 2000, with an increase of Euros 75 million (+ 32 percent). The ratio of capital expenditures to depreciation is equal to 1.88 (1.41 in 2000).

- **R&D expenditures**

R&D expenditures are entirely charged to the statement of income and amount to Euros 109 million, compared to Euros 105 million for the first six months of 2000. They represent 2.8 percent of sales revenues (2.9 percent in 2000).

- **Personnel**

Personnel now number 40,674 units at June 30, 2001 compared to 41,914 units at December 31, 2000 and 41,809 units at June 30, 2000.

In the first six months of the year, 5,246 units left and 4,006 units were added, with a net reduction of 1,240 units.

The workforce can be analyzed as follows:

	<b><u>June 30,2001</u></b>	<b><u>December 31,2000</u></b>
<u>Total work force</u>	40,674	41,914
of which:		
- temporary	2,976	2,976
- active work force	37,698	38,938

### Related party disclosures

According to Consob Communications No. 97001574 of February 20, 1997 and No. 98015375 of February 27, 1998 which deal with related party transactions among Group companies, the effects of such transactions on the balance sheet and statement of income of the consolidated financial statements at June 30, 2001 are presented below.

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

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

The following table presents the major transactions at June 30, 2001 that the Pirelli S.p.A. Group has entered into with the parent companies (Pirelli & C. A.p.A. and Pirelli & C. Luxembourg S.A.) and the subsidiaries of the latter companies, which are included in the scope of consolidation of Pirelli & C. A.p.A..

(in millions of euro)			
Type of transaction	With parent companies	With subsidiaries of Pirelli & C. A.p.a	Total
TRADE RECEIVABLES AND OTHER	0.3	15.9	<b>16.2</b>
TRADE PAYABLES AND OTHER	(0.6)	(7.7)	<b>(8.3)</b>
FINANCIAL RECEIVABLES	162.7	154.2	<b>316.9</b>
FINANCIAL PAYABLES	0.0	(64.3)	<b>(64.3)</b>
REVENUES FOR GOODS AND SERVICES	0.6	1.4	<b>2.0</b>
COSTS FOR GOODS AND SERVICES	(2.4)	(4.6)	<b>(7.0)</b>
FINANCIAL INCOME	1.8	6.6	<b>8.4</b>
FINANCIAL EXPENSES	(6.5)	(0.6)	<b>(7.1)</b>

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

- **financial receivables**, relating to loans receivable by Pirelli International Ltd – UK (subsidiary of Pirelli S.p.A.) from Pirelli & C. Luxembourg S.A.;
- **revenues for goods and services**, relating to the performance of various services rendered by Pirelli S.p.A. and Pirelli Informatica S.p.A. to Pirelli & C. A.p.A.;
- **costs for goods and services**, relating to costs for the corporate secretarial services and internal auditing rendered by Pirelli & C. A.p.A. on behalf of Pirelli S.p.A.;
- **financial income and expenses**, relating to interest income and expenses on the current account transactions and loans, as well as costs and revenues for hedging transactions carried out by Pirelli International Ltd. (subsidiary of Pirelli S.p.A.) on behalf of Pirelli & C. A.p.A..

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

- **trade receivables and other**, relating to the sale of Pirelli Cavi e Sistemi S.p.A. buildings (subsidiary of Pirelli S.p.A.) to Lambda S.r.l. (indirect subsidiary of Pirelli & C. A.p.A.);
- **trade payables and other**, relating to services rendered by companies in the Pirelli & C. Real Estate S.p.A. Group (subsidiary of Pirelli & C. A.p.A.) to Pirelli S.p.A. and its subsidiaries;
- **financial receivables and payables**, relating to receivables and payables from transactions on the current account by Pirelli Servizi Finanziari S.p.A. with companies in the Pirelli & C. Real Estate S.p.A. Group (subsidiary of Pirelli & C. A.p.A.);
- **revenues for goods and services**, relating to cost recoveries for various services rendered by Pirelli S.p.A. and Pirelli Informatica S.p.A. (subsidiary of Pirelli S.p.A.) on behalf of Pirelli & C. Real Estate S.p.A. and its subsidiaries;

- **costs for goods and services**, relating to costs for property management services incurred by Pirelli S.p.A. and its subsidiaries for the services rendered by companies in the Pirelli & C. Real Estate S.p.A. Group (subsidiary of Pirelli & C. A.p.A.);
- **financial income and expenses**, relating to interest income and expenses on the aforementioned current account and loan transactions.

### **Significant subsequent events and future outlook**

On July 28, the Board of Directors of Pirelli S.p.A. voted to authorize the Chairman to proceed to formalize agreements with Bell S.A. for the purchase by Pirelli S.p.A., acting in agreement with Edizione Holding S.p.A., of an approximate 23 percent equity stake in Olivetti S.p.A. from Bell S.A.. The estimated price of the deal is about Euros 7 billion (Euros 4.175 per share).

Bell's shareholders unanimously passed a resolution to accept Pirelli S.p.A.'s offer, acting in agreement with Edizione Holding S.p.A.

The agreement between Pirelli and Edizione Holding states that this investment will be held by the company Olimpia S.p.A., in which, indicatively, Pirelli has a 60 percent stake and Edizione Holding a 20 percent stake, whereas IntesaBCI and Unicredito displayed interest in acquiring about a 10 percent stake each. Olimpia has also purchased the Olivetti shares already held by the two groups and equal to 1.80 percent by Pirelli and 1.84 percent by Edizione Holding. After these transactions, Olimpia will thus hold an approximate 27 percent stake in Olivetti.

The agreement will be perfected after the necessary authorizations have been received from the competent authorities.

As to financing, Olimpia is scheduled to have equity available of up to Euros 6 billion and a five-year loan contract from a syndicate of leading bankers for an amount of up to a maximum of Euros 3 billion.

Pirelli Group's new strategy calls for the new Telecommunications activities to be joined by a selected number of highly profitable businesses, with segmentation at the top end of the range. In effect, these refer to the vehicle and motorcycle businesses of the Tyres Sector, where future developments are closely linked to the new MIRS technology, the manufacture of fiber optics and telecom cables and the real estate business reporting to Pirelli & C..

As to the remaining traditional businesses of the Group, although providing high cash flows and holding important positions on the market, the plan calls for their gradual abandonment and sale in order to direct the maximum amount of resources to the Telecommunications activities.

The Truck Tyres B.U. and the Energy Cables and Systems Business will therefore be sold, indicatively, over the next 18 months; such sales are expected to bring in proceeds of at least Euros 2 billion.

The serious slowdown of the United States economy, the crisis in Japan, a flat European economy and especially the heightening of the crisis in the reference market for telecommunications cables, will influence the economic performance of the Group as compared to the prior year.

Nevertheless, despite an expected reduction in operating profit, the profit before extraordinary items, income taxes and the effects of the Olivetti deal, (estimated at about Euros 60 million) will be in line with that of the year 2000.

## CABLE AND SYSTEMS SECTOR

in millions of euros	06/30/2001	06/30/2000	12/31/2000
. Sales revenues	<b>2,478</b>	2,171	4,591
. Gross operating profit	<b>251</b>	210	466
% of sales	<b>10.1%</b>	9.7%	10.2%
. Operating profit	<b>161</b>	124	289
% of sales	<b>6.5%</b>	5.7%	6.3%
. Extraordinary items	<b>22</b>	1,305	2,173
. Net income	<b>117</b>	1,080	1,780
% of sales	<b>4.7%</b>	n.s.	n.s.
. Net financial position (liquidity)/debt	<b>729</b>	(843)	(1,644)
. Capital expenditures	<b>192</b>	141	337
. R&D expenditures	<b>48</b>	49	100
. Personnel (at period end)	<b>19,392</b>	20,240	20,496
. Factories (number)	<b>65</b>	64	65

**Sales revenues** for the six months ended June 30, 2001 amount to Euros 2,478 million, with an increase of 14.1 percent over the first six months of 2000. This gain is concentrated in the countries involved in the acquisition of the former BICC units (which were not included in the first six months figures of the prior year) and in Telecom activities as a result of the increase in the sales volumes of optical cables.

The total change is due to:

• Volumes	+	10.1%
• Prices - Metals	+	1.5%
- Non Metals	+	2.3%
• Mix and other	+	0.2%
	+	<u>14.1%</u>

**Operating profit** is equal to Euros 161 million (including the contribution of Euros 59 million from the supply agreement with Cisco Systems) compared to Euros 124 million for the first half of the prior year, which comprised Euros 26 million related to the supply agreement with Cisco Systems.

As a percentage of sales, the operating profit is equal to 6.5 percent (4.1 percent excluding the effects of the Cisco Systems agreement) compared to 5.7 percent for the first six months last year (4.5 percent excluding the effects of the Cisco Systems agreement).

It should be stressed that the six-month period has been negatively affected, compared to the same period of the prior year, by the line-by-line consolidation of the former BICC activities, where the restructuring currently underway has not fully had the expected effect.

The positive variation of Euros 37 million is detailed below:

	<b><u>in millions of euros</u></b>	
• Currency exchange	+	1
• Prices (excluding metals)	+	32
• Volumes	+	55
• Materials	-	2
• Change in per unit costs	-	10
• Mix and other (*)	-	72
• Supply Agreement with Cisco Systems	+	33
	+	<u>37</u>

(\*) including accruals of Euros 25 million, expenses to increase production capacity of Euros 15 million, effect of high inflation of Euros 6 million and e-business costs of Euros 5 million

**Extraordinary items** show an income balance of Euros 22 million due to the income recognized by Cisco Systems on the sale of the Terrestrial Optical Systems business last year and lower expenses incurred by the various affiliates.

The first six months of 2000 showed extraordinary income of Euros 1,305 million, being the balance between the pre-tax gain on the sale of the Terrestrial Optical Systems business to Cisco Systems and extraordinary expenses connected with restructuring and reorganization plans.

**Net income** for the first six months of 2001 is equal to Euros 117 million, compared to Euros 1,080 million for the six months ended June 30, 2000.

**Net financial position** shows a debt position of Euros 729 million, compared to a liquidity position of Euros 1,644 million at December 31, 2000. During the six-month period, dividends of Euros 1,495 million were paid to Pirelli S.p.A. and income taxes of Euros 583 million were paid largely on account of the extraordinary transactions entered into the previous year.

At June 30, 2001, **personnel** number 19,392, with a reduction of 1,104 compared to December 31, 2000.

Activities have continued in the second half to separate the corporate activities of the Energy from the Telecommunications Sector, which should be concluded by the end of the year.

Certain key data and a brief commentary regarding the Energy and Telecommunications Sectors are presented below for purposes of information:

	Energy Sector			Telecommunications Sector		
	6/30/2001	6/30/2000	12/31/2000	6/30/2001	6/30/2000	12/31/2000
Sales revenues	1,691	1,530	3,162	812	652	1,376
Gross operating profit	20	41	58	82	58	154
<i>% of sales</i>	1.2%	2.7%	1.8%	10.1%	8.9%	11.2%

(in millions of euros)

## **Energy**

The increase in sales revenues compared to the same period of the prior year (+10.5 percent) can be attributed to the acquisition of the former BICC units.

The contribution to profitability deriving from higher volumes was partly eroded by a worsening of the mix and a modest fall in prices.

Capital expenditures associated with the manufacturing of cables new design (AIR BAG) and the laying of overhead cables underground continued.

In **Europe**, sales revenues increased by 25 percent as a result of the effect of the former BICC companies, whereas there were no significant variations in the individual countries, with the exception of Spain, where the trend was buoyant, and the problems resulting from the economic situation in Turkey.

The sales performance in **North America** fell (-2.5 percent) following the recession currently in progress.

The good trend in **South America** marked an increase in sales during the six-month period of 24 percent; for the time being, the energy crisis in Brazil and the economic and financial problems in Argentina do not seem to be having a significant negative effect on the local units.

An analysis of the performance of individual product lines shows a promising trend in Special Cables, whereas, on average, the activity in Utilities reflects lower volumes and prices.

In **Submarine Power Systems**, work continued geared to acquiring new contracts in the Offshore Sector (particularly in the United States). A contract was acquired to link the islands of Malta - Comino and Gozo and the marine survey was also completed in Australia for the Basslink Project (destined to connect Australia and Tasmania).

## **Telecommunications**

The demand for **telecommunications cables** maintained a positive trend during the first quarter of the year but, in the second quarter, showed signs of a slowdown particularly as a result of the North America market trend.

However, the increase in volumes and the continuous attention given to reducing costs made it possible to improve profitability.

The demand for **fiber optic cables** followed the trend of Telecommunications Cables with a slight weakness of the mix following reduced use of fibers for long-distance cables.

There was good growth of sales in Europe (+41 percent), and particularly in Italy, France and Spain.

In North America, too, business continued to grow (+38 percent) although there were signs of a slowdown in the last few months.

In South America, sales revenues of both copper telephone cables and fiber optic cables almost doubled.

In Australia, the positive levels of activity continued while the Chinese affiliate recorded significant growth.

In **Submarine Telecommunications Systems**, the first half of 2001 was characterized by the completion of the production of Tight cables relating to contracts acquired in 2000.

Work on the cable for the Palma-Algiers project, scheduled for installation between the end of 2001 and the beginning of 2002, is at an advanced stage.

This business is being negatively affected by the stagnant international context. However, the Research & Development activities continue.

## **Research & Development**

In the field of **Power**, the phase of introducing the market to products created with the new Air-Bag Cable System™ technology continued.

This innovation is giving rise to a modular architecture of products/systems with a vast range of application (general, industrial and special markets) thanks partly to the development of hybrid optical-electrical solutions. In particular, the Air-Bag Cable System™ line offers a combination of technical and economic advantages which will make it possible to extend underground electrical systems for the transmission and distribution of power (UNDERGROUNDING), ensuring greater reliability, improved safety and lower environmental impact than conventional electrical systems.

In the field of **Fiber Optics**, a new fiber with a low hydroxyl ion content, which broadens the possible range of application of monomode fibers in WDM systems, was developed and industrially qualified.

At the OFC2001 Conference/Exhibition held at Anaheim, California in the United States, new fibers were presented: the “FineLight” designed for broadband access networks and FTTH (fiber-to-the-home) and the “Advanced FreeLight” designed for long-distance and high-speed transmission applications, with 50 percent less PMD (Polarization Mode Dispersion).

In the field of **Optical Cables** a new, completely dielectric cable has been developed, particularly for applications in railway networks, equipped with particularly robust protection against lateral stresses, known as AIRBAG (a Pirelli trademark). The reduced weight of the cable, together with its intrinsic toughness, make it particularly suitable for problematic laying conditions.

A range of fiber optic cables, of which production is already under way, has also been developed for metropolitan links with a potential of up to 100 fibers, fitted with

a low smoke, low halogen, flame resistant sheath and with a new covering of rodent-proof glass fiber.

### **Future outlook**

In the second half of the year, in the Energy Cables and Systems Sector, there is expected to be a recovery thanks partly to the improvements in productive efficiency achieved by the Group; in light of the most recent trends, the Telecommunications Cables and Systems Sector will be heavily penalized by the marked slowdown affecting its reference market.

## TYRES SECTOR

in millions of euros			
	06/30/2001	06/30/2000	12/31/2000
. Sales revenues	<b>1,477</b>	1,425	2,880
. Gross operating profit	<b>201</b>	204	370
% of sales	<b>13.6%</b>	14.3%	12.8%
. Operating profit	<b>111</b>	107	180
% of sales	<b>7.5%</b>	7.5%	6.3%
. Extraordinary items	--	(168)	(224)
. Net income (loss)	<b>51</b>	(125)	(172)
% of sales	<b>3.4%</b>	(8.8%)	(6.0%)
. Net financial position (liquidity)/debt	<b>709</b>	722	748
. Capital expenditures	<b>106</b>	92	216
. R&D expenditures	<b>61</b>	56	113
. Personnel (at period end)	<b>20,475</b>	20,813	20,637
. Factories (number)	<b>21</b>	22	22

**Sales revenues** for the first six months of 2001 show an increase of 3.6 percent over the same period of the prior year.

Such change can be summarized as follows:

• Currency exchange	-	1.6%
• Volumes	+	3.1%
• Prices	-	0.7%
• Mix and other	+	2.8%
		<hr/>
	+	3.6%
		<hr/>

**Operating profit**, equal to Euros 111 million and representing 7.5 percent of sales, shows an increase of Euros 4 million over the same period of the prior year due to:

	<u>in millions of euros</u>	
• Currency exchange	-	6
• Prices	-	9
• Volumes	+	38
• Materials	-	33
• Efficiency	+	12
• Change in per unit costs	-	20
• Mix and other	+	22
	+	<u>4</u>

**Net income** is Euros 51 million compared to a loss of Euros 125 million for the first six months of 2000. The net result last year included a net extraordinary expense balance of Euros 168 million due mainly to industrial restructuring costs.

**Net financial position** shows a debt position of Euros 709 million, compared to Euros 748 million at December 31, 2000. The change is primarily due to the purchase of a further equity stake in the Brazilian affiliate (Euros 62 million) by Pirelli S.p.A. following the delisting of the company from the San Paolo stock exchange in November 2000 and a worsening of working capital; conversely, Pirelli S.p.A. subscribed to the share capital increase of Pirelli Tyre Holding for Euros 240 million.

At June 30, 2001, **personnel** number 20,475, including 1,593 temporary employees. Compared to December 31, 2000, this constitutes a reduction of 246 staff owing to the continuation of employee rationalization plans and activities. The number of

operatives also fell by 382 units, mainly as a result of the closing of the production plant at Hanford (U.S.A.).

Compared to December 31, 2000, the number of temporary employees increased by 466 units, with the specific aim of augmenting flexibility and coping with seasonal peaks of activity.

As far as the development of resources and organization are concerned, a new Business Unit organizational structure was implemented (Car & Light Truck, Truck, Motorcycle and Steel Cord) which ensures a greater concentration of corporate resources and expertise, thus generating more transparent accountability. With the new system of organization, the Sector will maintain its role as general business coordinator, services provider and competence center.

### **The scenario**

The first six months of 2001 were characterized by a marked slowdown of the world economy which affected all of the main geographical areas. In Latin America, both the financial difficulties of Argentina and the energy crisis in Brazil, which, it is feared, may have negative repercussions on industrial production and consumption, are giving cause for concern. The Asian economy shows no difference from the general trend of the world economy, but is affected more than any other by the slowdown in the United States.

## **Sourcing**

During the first six months of 2001, the prices of raw materials stood higher than the average of 2000, a year in which, moreover, prices had soared. This increase can mainly be attributed to two factors: the constant weakness of the euro against the U.S. dollar and the price of oil, which wavered at around U.S. \$25-30 a barrel.

With this in mind, cost-saving programs, which had already been started the prior year, were stepped up, both as regards raw materials and the acquisition of indirect services and materials, impacting costs and the effectiveness of the purchasing processes.

## **Vehicle and tyre market**

During the first half of the year, the European car market saw a fall of 3.3 percent in terms of vehicle registrations, in keeping with the slowdown of the economy. The Italian and German markets were particularly slow. Conversely, the European market of commercial vehicles reported a growth of more than 3 percent, with light vehicles keeping pace but with a reduction in the demand for medium and heavy vehicles.

In Europe, the car Original Equipment market recorded a decrease of approximately 2 percent, in relation to the fall in the number of vehicle registrations, which began to recover some of the ground lost only from April onwards. On the other hand, the trend of Light Trucks Original Equipment tyres continued positively. With reference to the car Replacement channel, in Europe, during the early months of 2001, there was a slight recovery in demand. In other markets outside Europe, North America displayed a particularly negative trend (approximately -7 percent), due mainly to the slowdown of the economy. This influenced the performance of the Original Equipment market, which, during the first four months of the year, recorded a definite slump (-18 percent). In Latin America, there was a reasonable rate of growth, particularly in Brazil and in Argentina. This situation was more marked in Original Equipment where, with the exception of Argentina, growth was very buoyant.

The Truck Replacements business remained fairly stable in Europe, where the slight fall recorded for the first four months of the year was offset by a decisive recovery from the end of April. On the other hand, there was a marked falloff in the North American (-11 percent) and Turkish (-29 percent) markets. The good results achieved in Latin America continued, sustained by the positive trend of demand in Brazil and Venezuela (both recorded +5 percent) while the market in Argentina dropped (-4 percent).

### **Business Units**

**Car/Light Truck B.U.:** the Replacements business ends the first six months of the year with a positive growth in volumes on a global scale, compared to the prior year, driven by strong growth in Europe and in Exports, compensating for the falloff recorded in North America, South America and Turkey.

In terms of market share, the growth can be found in almost all areas (with the exception of a slight erosion in Brazil and Argentina). This is partly due to the excellent performance of both the brand mix (higher sales of the Pirelli trademark more than compensate the lower performance of the second brands) and the product mix, where the considerable increase in the “premium” segments made it possible to improve our market share in all the main markets.

The above took place against a background of substantial stability (the slight increase in the European market was offset, on a worldwide scale, by the stability of the South American market and the falloff in the North American and Turkish markets) where the competitive scenario remains critical, and has not yet permitted a positive evolution in terms of prices.

Mention should be made of the ever greater commitment in offering our customers a “value proposition” through the use of information technologies as levers for the innovation, acceleration and the streamlining of operational processes.

With reference to Original Equipment, in Europe, the first six months of 2001 were faced with a highly competitive market situation, marked by pressures over selling prices, the increase in the costs of raw materials and the falloff in demand. It is important to point out the growth in volumes in the premium segments for passenger cars and Sport Utility Vehicles (SUV), thanks particularly to the homologations obtained with the new tyres P6000 Powergy, P Zero Rosso and Scorpion. Volumes in Turkey fell owing to a decline in demand. The trend of volumes in South America was positive.

As far as product development is concerned, during the first half of 2001 there was a considerable renewal in the range of two key segments: High-Performance and Winter, including the SUV business.

In fact, in March 2001, two new HP products were presented to the world Press and customers. These tyres will constitute a significant part of the sales revenues from Pirelli brand car tyres during the next few years.

In the Winter segment, which is in constant growth, two new products were also presented: the Winter Snowcontrol and the Scorpion Ice & Snow. As from next winter, the former will be fitted on cars in the medium and medium-small segment, which, today, still constitutes approximately 50 percent of the total Winter market; the latter is destined for the SUV business, which, during the last few years in Europe and for some decades in North America, has been growing, especially at the top end of the range.

Now, the SUV segment, which, until a few years ago, was a small niche market, is becoming more segmented and therefore also requires a special tyre for snow and ice with the aim of maximizing braking and traction.

**Truck B.U.:** in terms of sales volumes the Truck Business Unit recorded an increase of 2 percent compared to the same period in 2000, but with a positive contribution by the Replacements business (+6 percent) which more than compensated the fall in

Original Equipment tyres (-16 percent). In particular, the first half of 2001 was characterized by the economic crisis currently impacting the Turkish market, where the fall in volumes, in both Replacements and Original Equipment, was partly offset by higher volumes in the markets of Europe, Africa and the Near and Far East.

Taking the trend of each market in turn, in Europe, there was a growth of 6 percent; in Egypt, where the market is growing, there was an increase in the volume of radial products and a greater penetration of the Pirelli brand; in South America, the fall recorded on the Brazilian market was offset by the growth of other markets. In particular, again in South America, the radialization process displayed an increase, especially in Original Equipment.

During the first six months of 2001, new products were introduced: for the “U” Segment, tyres destined for light commercial vehicles on city roads and for the transporting of passengers in Europe and South America; for the “R” segment, tyres for heavy road transport, destined for South America; for the “G” and “Q” segments, tyres for rougher off-road use or under particularly difficult road conditions, for the markets of Egypt, Europe and South America.

**Motorcycle B.U.:** the first six months of 2001 show a significant growth in volumes compared to the first half of 2000. The markets which grew most compared to the prior year are Italy and the United States, whereas the German market, despite recording significant growth, registered a considerable erosion of market share at the beginning of the year, with a gradual recovery in the following months.

The Scooter segment settled at the levels of the prior year, despite a diminishing market.

With reference to Original Equipment, again compared to the first half of the prior year, the fall of volumes in Italy was more than compensated by the positive trend in Latin America and Japan.

**Future outlook**

The outlook for the second half of the year suggest a highly competitive market, also accentuated by the economic crisis in Turkey and South America, particularly in Argentina and Brazil. Performance will therefore be affected by the evolution of the macroeconomic situations of these two important geographical areas, yet remain in line with that of the prior year.

**PIRELLI S.P.A.****Summary data**

	<b>(in millions of euro)</b>		
<b>BALANCE SHEET</b>	<b>06/30/2001</b>	<b>06/30/2000</b>	<b>12/31/2000</b>
Intangible assets	21.6	12.6	15.2
Property, plant and equipment	27.8	26.8	27.5
Investments	2,693.3	2,406.8	2,625.8
Net working capital	135.0	131.9	1,605.5
	<b>2,877.7</b>	<b>2,578.1</b>	<b>4,274.0</b>
Shareholders' equity	3,506.8	2,257.1	3,766.8
Provisions	76.3	64.4	62.8
Net financial position (liquidity)/debt	(705.3)	256.6	444.4
	<b>2,877.8</b>	<b>2,578.1</b>	<b>4,274.0</b>
<b>STATEMENT OF INCOME</b>			
Financial income and expenses	1.4	0.6	2,367.9
Value adjustments to final assets	--	--	(0.7)
Other operating income and expenses	(19.8)	(13.7)	(21.4)
<b>Income before extraordinary items and income taxes</b>	<b>(18.4)</b>	<b>(13.1)</b>	<b>2,345.8</b>
Extraordinary items	30.4	301.6	330.1
Income taxes	(0.2)	(62.5)	(943.0)
<b>Net income</b>	<b>11.8</b>	<b>226.0</b>	<b>1732.9</b>

### **Review of financial position**

The balance sheet structure of the company changed between December 31, 2000 and June 30, 2001 as follows:

- **net invested capital** decreased by Euros 1,396.3 million, compared to December 31, 2000, following the receipt of dividends from subsidiaries that were recorded at December 31, 2000 on the accrual basis (Euros 1,500.5 million), partly offset by capital increase in Pirelli Tyre Holding N.V. – Amsterdam – (Euros 240 million) and the sale, respectively, to Pirelli Pneumatici S.p.A. and Pirelli Cavi e Sistemi S.p.A. of Pirelli Pneus S.A. shares and Pirelli Cabos S.A. (Brazil) shares received following the spin-off of the share capital of Pirelli S.A. – San Paolo – (Euros 96.7 million).
- **shareholders' equity** decreased by Euros 260 million mainly as a result of the pay-out of dividends from prior year earnings.
- **net financial position**, following such changes, went from a debt position of Euros 444.4 million at December 31, 2000 to a liquidity position of Euros 705.3 million at June 30, 2001.

### **Results of operations**

Income for the first six months of 2001, after income taxes of Euros 0.2 million, is Euros 11.8 million, compared to Euros 226 million for the corresponding period of 2000.

As commented previously, the first six months ended June 30, 2000 included dividends from subsidiaries, accounted for on the cash basis and net of the related tax credit, of Euros 228 million.

**Results from ordinary operations**

- **Financial income (expenses), net:** the amount of Euros 1.4 million (Euros 0.6 million for the first six months of 2000) comprises investment income from other companies of Euros 1.7 million and the net interest expense balance of Euros 0.3 million.
- **Other operating income (expenses):** the increase in operating expenses can be ascribed to higher depreciation and amortization and expenses to implement the new information projects.
- **Extraordinary items:** this item mainly includes the gain on the sale of No. 32,023,550 treasury shares on the market (Euros 30.3 million)

The Board of Directors

Milan, September 10, 2001

**PIRELLI GROUP**

**CONSOLIDATED SIX MONTHS**

**FINANCIAL STATEMENTS AND COMMENTS**

(in thousands of euros)

<b>CONSOLIDATED BALANCE SHEETS</b>	<b>6/30/2001</b>	<b>12/31/2000</b>	<b>6/30/2000</b>
<b>ASSETS</b>			
<b>A) CAPITAL SUBSCRIPTION RIGHTS</b>			
<b>B) FIXED ASSETS</b>			
<b>I) INTANGIBLE ASSETS</b>			
Formation costs	4,223	3,942	4,829
Patents and design patent rights	4,601	5,308	5,786
Concession, licenses, trademarks and similar rights	8,590	6,469	4,744
Goodwill	11,426	4,580	6,519
Difference on consolidation	66,442	68,073	70,231
Intangible assets in progress and payments on account	8,302	512	6,069
Other intangible assets	74,449	75,352	61,996
<b>TOTAL INTANGIBLE ASSETS</b>	<b>178,033</b>	<b>164,236</b>	<b>160,174</b>
<b>II) PROPERTY, PLANT AND EQUIPMENT</b>			
Land and buildings	713,709	729,737	657,634
Plant and machinery	1,281,889	1,353,201	1,313,496
Industrial and commercial equipment	124,975	130,240	132,449
Other property, plant and equipment	182,928	156,914	153,817
Assets under construction and payments on account	426,536	233,077	191,061
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>2,730,037</b>	<b>2,603,169</b>	<b>2,448,457</b>
<b>III) FINANCIAL ASSETS</b>			
Investments in:			
a) Subsidiaries	5,476	5,476	19,409
b) Associated companies	33,760	33,322	24,530
c) Other companies	178,977	114,876	77,804
Financial receivables:			
a.2) Subsidiaries due beyond 12 months	14,662	14,662	14,662
b.1) Associated companies due within 12 months	-	13,760	-
b.2) Associated companies due beyond 12 months	-	-	13,760
c.1) Other companies due within 12 months	16,629	6,464	-
c.2) Other companies due beyond 12 months	73,162	81,903	95,967
Other securities	8,918	8,370	21,294
Treasury shares	315,334	409,529	336,278
<b>TOTAL FINANCIAL ASSETS</b>	<b>646,918</b>	<b>688,362</b>	<b>603,704</b>
<b>TOTAL FIXED ASSETS</b>	<b>3,554,988</b>	<b>3,455,767</b>	<b>3,212,335</b>

(in thousands of euros)

<b>CONSOLIDATED BALANCE SHEETS</b>	<b>6/30/2001</b>	<b>12/31/2000</b>	<b>6/30/2000</b>
<b>C) CURRENT ASSETS</b>			
<b>I) Inventories</b>			
Raw materials, auxiliaries and consumables	295,810	290,560	223,933
Work in process and semifinished products	194,607	209,821	283,104
Work in progress against orders	235,356	174,460	127,388
Finished products and goods for resale	550,962	543,597	479,485
Advances	9,324	13,530	11,134
<b>TOTAL INVENTORIES</b>	<b>1,286,059</b>	<b>1,231,968</b>	<b>1,125,044</b>
<b>II) Receivables</b>			
Trade	1,963,200	1,791,327	1,767,435
Subsidiaries	2,142	3,644	797
Associated companies	69,392	5,362	93,476
Parent companies	162,995	85,781	77,502
Other receivables	971,509	1,299,667	1,509,933
<b>TOTAL RECEIVABLES</b>	<b>3,169,238</b>	<b>3,185,781</b>	<b>3,449,143</b>
<b>III) Current financial assets</b>			
Other securities	1,455,927	1,237,160	191,439
<b>TOTAL CURRENT FINANCIAL ASSETS</b>	<b>1,455,927</b>	<b>1,237,160</b>	<b>191,439</b>
<b>IV) CASH AND BANKS</b>			
Bank and postal deposits	2,378,630	3,686,831	1,698,401
Checks	3,015	5,667	3,035
Cash on hand	7,536	8,792	2,811
<b>TOTAL CASH AND BANKS</b>	<b>2,389,181</b>	<b>3,701,290</b>	<b>1,704,247</b>
<b>TOTAL CURRENT ASSETS</b>	<b>8,300,405</b>	<b>9,356,199</b>	<b>6,469,873</b>
<b>D) ACCRUED INCOME AND PREPAID EXPENSES</b>			
Accrued income	34,064	108,833	98,676
Prepaid expenses	35,761	32,056	32,996
<b>TOTAL ACCRUED INCOME AND PREPAID EXPENSES</b>	<b>69,825</b>	<b>140,889</b>	<b>131,672</b>
<b>TOTAL ASSETS</b>	<b>11,925,218</b>	<b>12,952,855</b>	<b>9,813,880</b>

(in thousands of euros)

<b>CONSOLIDATED BALANCE SHEETS</b>	<b>6/30/2001</b>	<b>12/31/2000</b>	<b>6/30/2000</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>A) SHAREHOLDERS' EQUITY</b>			
- Of Pirelli S.p.A.	5,672,164	5,756,079	3,114,044
I) Share capital	1,042,775	1,035,261	1,034,430
II) Share premium reserve	313,528	262,160	269,511
III) Revaluation reserve	2,855	2,855	2,855
IV) Legal reserve	207,052	206,430	206,430
V) Reserve for treasury shares in portfolio	315,334	409,529	336,278
VII) Other reserves	2,023,413	133,174	167,717
VIII) Retained earnings	1,570,377	74,716	138,587
IX) Net income for the period	196,830	3,631,954	958,236
- Minority interest	198,189	201,767	174,079
a) Capital and reserves	195,279	208,011	170,932
b) Net income for the period	2,910	(6,244)	3,147
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>5,870,353</b>	<b>5,957,846</b>	<b>3,288,123</b>
<b>B) PROVISIONS FOR LIABILITIES AND EXPENSES</b>			
Pension and similar obligations	269,313	215,686	214,986
Income taxes	196,180	181,098	165,602
Other	381,871	553,178	502,510
<b>TOTAL PROVISIONS FOR LIABILITIES AND EXPENSES</b>	<b>847,364</b>	<b>949,962</b>	<b>883,098</b>
<b>C) PROVISION FOR EMPLOYEES' LEAVING INDEMNITY</b>	<b>154,421</b>	<b>171,483</b>	<b>166,691</b>
<b>D) PAYABLES</b>			
Bonds	500,004	500,004	500,004
Bank borrowings	1,422,419	1,182,369	1,126,267
Other financial companies	144,826	159,807	707,207
Advances from customers	271,501	255,167	271,415
Trade	1,345,169	1,341,271	1,174,188
Subsidiaries	-	232	776
Associated companies	3,900	12,375	19,975
Parent companies	577	90,292	156,738
Taxes	622,134	1,200,287	778,155
Social security	42,991	47,306	39,836
Other payables	454,623	743,882	389,909
<b>TOTAL PAYABLES</b>	<b>4,808,144</b>	<b>5,532,992</b>	<b>5,164,470</b>

(in thousands of euros)

<b>CONSOLIDATED BALANCE SHEETS</b>	<b>6/30/2001</b>	<b>12/31/2000</b>	<b>6/30/2000</b>
<b>E) ACCRUED LIABILITIES AND DEFERRED INCOME</b>			
Accrued liabilities	224,940	319,378	292,733
Deferred income	19,996	21,194	18,765
<b>TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME</b>	<b>244,936</b>	<b>340,572</b>	<b>311,498</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>11,925,218</b>	<b>12,952,855</b>	<b>9,813,880</b>
<b>MEMORANDUM ACCOUNTS</b>			
<b>PERSONAL GUARANTEES</b>			
- Sureties on behalf of other companies	6,683	5,621	38,998
- Endorsements on behalf of other companies	20,586	25,279	15,521
	<u>27,269</u>	<u>30,900</u>	<u>54,519</u>
<b>THIRD PARTY ASSETS HELD IN DEPOSIT</b>			
- Securities held in deposit	142,697	142,175	143,005
- Goods in process	2,955	1,537	1,905
	<u>145,652</u>	<u>143,712</u>	<u>144,910</u>
<b>ASSETS HELD BY THIRD PARTIES</b>			
- Securities held as guarantees and sureties	41,050	21,247	23,434
- Share held in deposit	1,277,216	1,036,288	920,716
- Goods in process	10,930	7,752	8,506
	<u>1,329,196</u>	<u>1,065,287</u>	<u>952,656</u>
<b>COMMITMENTS</b>			
- Capital expenditures	128,731	124,701	100,979
	<u>128,731</u>	<u>124,701</u>	<u>100,979</u>
<b>OTHER MEMORANDUM ACCOUNTS</b>			
- Potential losses for risk of default on discounted bills	240	241	240
	<u>240</u>	<u>241</u>	<u>240</u>
<b>TOTAL</b>	<b>1,631,088</b>	<b>1,364,841</b>	<b>1,253,304</b>

(in thousands of euros)			
<b>CONSOLIDATED STATEMENTS OF INCOME</b>	<b>6/30/2001</b>	<b>6/30/2000</b>	<b>12/31/2000</b>
<b>A) PRODUCTION VALUE</b>			
Revenues from sales and services	3,945,878	3,597,869	7,476,671
Changes in inventories of work in process, semifinished and finished products	(21,912)	26,587	67,828
Changes in work in progress against orders	39,567	(11,134)	(57,364)
Increase in property, plant and equipment	6,444	4,494	13,436
Other revenues and income:			
a) Miscellaneous	112,086	84,179	197,787
b) Government grants	3,897	3,699	11,525
<b>TOTAL PRODUCTION VALUE</b>	<b>4,085,960</b>	<b>3,705,694</b>	<b>7,709,883</b>
<b>B) PRODUCTION COSTS</b>			
Raw materials, auxiliaries, consumables and goods for resale	(2,096,141)	(1,851,600)	(3,910,640)
Service expenses	(617,555)	(528,556)	(1,143,832)
Lease and rent expenses	(40,177)	(48,335)	(93,209)
Personnel	(782,729)	(765,655)	(1,579,579)
Amortization, depreciation and write-downs:			
a) Amortization of intangible assets	(24,651)	(21,832)	(44,565)
b) Depreciation of property, plant and equipment	(164,268)	(166,722)	(338,248)
d) Write-downs of receivables included in current assets and cash and banks	(29,289)	(3,945)	(15,614)
Changes in inventories of raw materials, auxiliaries, consumables and goods for resale	43,473	13,298	88,932
Other accruals	(9,971)	(6,480)	(15,814)
Other operating expenses	(121,759)	(112,577)	(219,900)
<b>TOTAL PRODUCTION COSTS</b>	<b>(3,843,067)</b>	<b>(3,492,404)</b>	<b>(7,272,469)</b>
<b>DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS</b>	<b>242,893</b>	<b>213,290</b>	<b>437,414</b>
<b>C) FINANCIAL INCOME AND EXPENSES</b>			
Investment income	3,958	4,962	9,351
Other financial income:			
a) from receivables included in fixed assets	130	40	196
b) from securities included in fixed assets	0	697	1,391
c) from securities included in current assets	5,074	6,197	12,815
d) income other than the above	377,270	120,823	308,984
Interest and other financial expenses	(339,255)	(165,214)	(407,934)
<b>TOTAL FINANCIAL INCOME AND EXPENSES</b>	<b>47,177</b>	<b>(32,495)</b>	<b>(75,197)</b>

(in thousands of euros)			
<b>CONSOLIDATED STATEMENTS OF INCOME</b>	<b>6/30/2001</b>	<b>6/30/2000</b>	<b>12/31/2000</b>
<b>D) VALUATION ADJUSTMENTS TO FINANCIAL ASSETS</b>			
Revaluation	0	138	196
Write-downs	(14,498)	(116)	(1,006)
<b>TOTAL VALUATION ADJUSTMENTS</b>	<b>(14,498)</b>	<b>22</b>	<b>(810)</b>
<b>E) EXTRAORDINARY ITEMS</b>			
Extraordinary income	69,873	1,672,382	5,258,268
Extraordinary expenses	(18,019)	(506,255)	(981,337)
<b>TOTAL EXTRAORDINARY ITEMS</b>	<b>51,854</b>	<b>1,166,127</b>	<b>4,276,931</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>327,426</b>	<b>1,346,944</b>	<b>4,638,338</b>
Income taxes	(127,686)	(385,561)	(1,012,628)
<b>NET INCOME FOR THE PERIOD</b>	<b>199,740</b>	<b>961,383</b>	<b>3,625,710</b>
<b>GROUP</b>	<b>196,830</b>	<b>958,236</b>	<b>3,631,954</b>
<b>MINORITY INTEREST</b>	<b>2,910</b>	<b>3,147</b>	<b>(6,244)</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****AT JUNE 30, 2001**  
-----**FORM AND CONTENT**

The consolidated six months financial statements at June 30, 2001 have been prepared in the same format using the same accounting principles and principles of consolidation as those adopted in the financial statements at December 31, 2000 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 six months net result of the period and the shareholders' equity reported by Pirelli S.p.A. at June 30, 2001 and the corresponding consolidated figures are presented in the supplementary information.

## COMMENTS ON THE CONSOLIDATED BALANCE SHEETS

### ASSETS

#### B) FIXED ASSETS

#### I) INTANGIBLE ASSETS

Intangible assets may be analyzed as follows:

	12/31/2000	Translation adjustment	Increase	Decrease	Amortization	06/30/2001
. Formation cost	3,942	1	1,323		(1,043)	4,223
. Patents and design patent rights	5,308	0	367		(1,074)	4,601
. Concessions, licenses, trademarks and similar rights	6,469	13	3,446		(1,338)	8,590
. Goodwill	4,580	58	9,126		(2,338)	11,426
. Difference on consolidation	68,073	0	587		(2,218)	66,442
. Other	75,864	407	23,128	(8)	(16,640)	82,751
	<b>164,236</b>	<b>479</b>	<b>37,977</b>	<b>(8)</b>	<b>(24,651)</b>	<b>178,033</b>

## II) PROPERTY, PLANT AND EQUIPMENT

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

	(in thousand of euros)	
	<b>06/30/2001</b>	<b>12/31/2000</b>
<b>Gross value</b>		
. Opening balances	6,238,375	5,825,769
. Translation adjustment	(130,134)	79,183
. Change in scope of consolidation	0	16,147
. Additions	309,641	561,937
. Disposals	(87,719)	(244,661)
	<b>6,330,163</b>	<b>6,238,375</b>
<b>Accumulated depreciation</b>		
. Opening balances	3,635,206	3,400,998
. Translation adjustment	(118,090)	63,233
. Change in scope of consolidation	0	(13,308)
. Depreciation charge for the year	164,268	338,248
. Disposals	(81,258)	(153,965)
	<b>3,600,126</b>	<b>3,635,206</b>
<b>Net values</b>	<b>2,730,037</b>	<b>2,603,169</b>

The net increase compared to December 31, 2000 is due to a combination of the following:

- translation adjustments, in reference to property, plant and equipment included in the financial statements of foreign companies, and due to the weakness of the euro against the currencies in the countries in which the Group companies operate;
- the ratio of additions during the period to depreciation equal to 1.88.

### III) FINANCIAL ASSETS

#### Investments

Investments went from Euros 153.7 million to Euros 218.2 million and can be analyzed as follows:

(in thousands of euros)						
	12/31/2000	Translation adjustment	01/01/20001	Increase	Decrease	06/30/2001
Subsidiaries	5,476	0	5,476	0		5,476
Associated companies	33,322	15	33,337	5,092	(4,669)	33,760
Other companies	114,876	(25)	114,851	64,126		178,977
	<b>153,674</b>	<b>(10)</b>	<b>153,664</b>	<b>69,218</b>	<b>(4,669)</b>	<b>218,213</b>

The increase in investments in associated companies totals Euros 5.1 million and mainly refers to the acquisition of a 30.3 percent stake in EpicLink S.p.A. (Euros 3.8 million).

The decrease in investments in associated companies amounts to Euros 4.7 million and principally regards the sale of the investments in Sicrem S.p.A. (Euros 3.6 million) and in Trelleborg S.p.A. (Euros 0.4 million).

The increase in investments in other companies amounts to Euros 64.1 million and chiefly reflects the acquisition of a 1 percent stake in e.Biscom S.p.A. (Euros 48.8 million) and the subscription to the capital increase of F.C. Internazionale Milano S.p.A. (Euros 12.4 million).

C) **CURRENT ASSETS**

I) **INVENTORIES**

Inventories amount to Euros 1,286 million, compared to Euros 1,232 million at December 31, 2000, and can be analyzed as follows:

	(in thousands of euros)	
	<b>06/30/2001</b>	<b>12/31/2000</b>
. Cables and Sytems Sector	786,059	778,346
. Tyres sector	499,998	453,620
. Other	2	2
	<b>1,286,059</b>	<b>1,231,968</b>

II) **RECEIVABLES**

Receivables, which totaled Euros 3,185.8 million at December 31, 2000, now amount to Euros 3,169.2 million, and can be analyzed as follows:

	(in thousands di euros)			
	<b>06/30/2001</b>		<b>12/31/2000</b>	
	<b>Financial</b>	<b>Trade and other</b>	<b>Financial</b>	<b>Trade and other</b>
. Trade	0	1,963,200	0	1,791,327
. Subsidiaries	1	2,141	82	3,562
. Associated companies	2,445	66,947	2,081	3,281
. Parent companies	162,733	262	85,646	135
. Other receivables	189,848	781,661	261,083	1,038,584
	<b>355,027</b>	<b>2,814,211</b>	<b>348,892</b>	<b>2,836,889</b>

**Trade receivables from customers**

These may be analyzed by due date as follows:

	(in thousands of euros)	
	06/30/2001	12/31/2000
. Due within 12 months	2,079,480	1,880,521
. Due beyond 12 months	3,865	3,971
. Allowance for doubtful receivabl	(120,145)	(93,165)
	<b>1,963,200</b>	<b>1,791,327</b>

No receivables are due beyond five years.

### **III) CURRENT FINANCIAL ASSETS**

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

### **LIABILITIES AND SHAREHOLDERS' EQUITY**

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

##### **OF PIRELLI S.P.A.**

“Share capital” totals Euros 1,042,775 thousand and consists of No. 1,917,331,163 ordinary shares and No. 88,006,016 savings shares, all with a par value of Euro 0.52 per share and normal dividend rights.

During the first six months, No. 5,113,890 ordinary shares were issued and subscribed to at par value and No. 9,336,700 ordinary shares at a price of Euros 2.774 which, as voted by the Board of Directors on March 20, 2000 and

November 7, 2000, were assigned to the managers and cadres of the Company and its subsidiaries as well as the parent company and other subsidiaries of the latter, in Italy and abroad.

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

### **MINORITY INTEREST**

The minority interest in shareholders' equity went from Euros 201.8 million at December 31, 2000 to Euros 198.2 million at June 30, 2001. The change is due to the balance between the increase for the net income in the first half of 2001, the payment of dividends referring to the prior year and the translation adjustment for the conversion of financial statements into euros.

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

	<b><u>6/30/2001</u></b>	<b><u>12/31/2000</u></b>
Celikord A.S. (Turkey)	49.00%	49.00%
Sicable S.A. (Ivory Coast)	49.00%	49.00%
Pirelli Telecom Cables Co. Ltd Wuxi (China)	30.90%	30.90%
BICCGeneral Baosheng Cable Co. Ltd (China)	33.00%	33.00%
Turk Pirelli Lastikleri A.S. (Turkey)	37.81%	37.81%
Pirelli Submarine Telecom Systems Holding B.V. (The Netherlands)	10.00%	10.00%
Pirelli Pneus S.A. (Brazil)	0.82%	0.82%
Pirelli Energia Cabos e Sistemas S.A.(Brazil)	0.74%	1.14%
Pir. Telecomunicações Cabos e Sistemas S.A. (Brazil)	0.74%	1.14%
Pirelli Deutschland A.G. (Germany)	1.06%	1.06%
Pirelli de Venezuela C.A. (Venezuela)	3.78%	3.78%
Solac Soc. Laminadora Ltd (Brazil)	11.00%	11.00%
P & A K.K. (Japan)	49.00%	49.00%
Turk Pirelli Kablo ve Sistemleri A.S. (Turkey)	16.25%	16.25%
Alexandria Tire Co. S.A.E. (Egypt)	17.27%	17.27%

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

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

	(in thousands di euros)	
	<b>06/30/2001</b>	<b>12/31/2000</b>
. Provision for current taxes	28,893	24,780
. Provision for deferred taxes	167,287	156,318
	<b>196,180</b>	<b>181,098</b>

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

	(in thousands of euros)	
	<b>1<sup>st</sup> half 2001</b>	<b>1<sup>st</sup> half 2000</b>
. Current taxes	121,290	391,539
. Deferred taxes	6,396	<b>(5,978)</b>
	<b>127,686</b>	<b>385,561</b>

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

The tax charge is lower compared to the six months ended June 30, 2000 mainly due to the gain that was recorded in the first half of the previous year on the sale of Terrestrial Optical Systems business.

## **OTHER PROVISIONS**

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

	(in thousands of euros)		
	<b>Restructuring</b>	<b>Other</b>	<b>Total</b>
<b>At 12/31/2000</b>	<b>285,446</b>	<b>267,732</b>	<b>553,178</b>
. Translation adjustment	8,926	2,068	10,994
. Utilization	(137,629)	(57,702)	(195,331)
. Increase	531	12,499	13,030
<b>At 06/30/2001</b>	<b>157,274</b>	<b>224,597</b>	<b>381,871</b>

The **provision for restructuring costs** at June 30, 2001 amounts to Euros 157.3 million and consists of Euros 146.3 million for the Cables and Systems Sector and Euros 11 million for the Tyres Sector. The utilization during the period by the Cables and Systems Sector and Tyres Sector was Euros 78.5 million and Euros 59.1 million, respectively.

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

## **D) PAYABLES**

Payables amount to Euros 4,808.1 million at June 30, 2001, compared to Euros 5,533 million at December 31, 2000, and can be analyzed as follows:

(in thousands of euros)

	06/30/2001		12/31/2000	
	Financial	Trade and other	Financial	Trade and other
. Bonds	500,004	-	500,004	-
. Bank borrowings	1,422,419	-	1,182,369	-
. Other financial companies	144,826	-	159,807	-
. Advances form customers	-	271,501	-	255,167
. Trade	-	1,345,169	-	1,341,271
. Subsidiaries	-	-	-	232
. Associated companies	1,000	2,900	-	12,375
. Parent companies	-	577	66,361	23,931
. Taxes	-	622,134	-	1,200,287
. Social security	-	42,991	-	47,306
. Other payables	-	454,623	-	743,882
	<b>2,068,249</b>	<b>2,739,895</b>	<b>1,908,541</b>	<b>3,624,451</b>

An analysis by due date, according to the type of payable, is as follows:

### Financial payables

(in thousands of euros)

	06/30/2001		12/31/2000	
	within 12 months	beyond 12 months	within 12 months	beyond 12 months
. Bonds	4	500,000	4	500,000
. Bank borrowings	594,642	827,777	403,616	778,753
. Other financial companies	91,108	53,718	111,275	48,532
. Associated companies	1,000	-	-	-
. Parent companies	-	-	66,361	-
	<b>686,754</b>	<b>1,381,495</b>	<b>581,256</b>	<b>1,327,285</b>

Financial payables are secured by liens and mortgages for Euros 149 million.

Financial payables due within the 12 months amount to Euros 686.8 million and also include the current portion of long-term debt of Euros 40.3 million.

#### - **Bank borrowings**

Bank borrowings due beyond 12 months, amounting to Euros 827.8 million, include borrowings due beyond five years for Euros 110 million.

- **Payables to other financial companies**

The amount due beyond 12 months, amounting to Euros 53.7 million, includes Euros 41 million due beyond five years.

**Trade and other payables**

	(in thousands of euros)			
	<b>06/30/2001</b>		<b>12/31/2000</b>	
	<b>within 12 months</b>	<b>beyond 12 months</b>	<b>within 12 months</b>	<b>beyond 12 months</b>
. Advances from customers	271,501	-	255,167	-
. Trade	1,345,147	22	1,341,228	43
. Subsidiaries	-	-	232	-
. Associated companies	2,900	-	12,375	-
. Parent companies	577	-	23,931	-
. Taxes	541,055	81,079	1,118,598	81,689
. Social security	42,991	-	47,306	-
. Other payables	421,157	33,466	700,706	43,176
	<b>2,625,328</b>	<b>114,567</b>	<b>3,499,543</b>	<b>124,908</b>

## COMMENTS ON THE CONSOLIDATED STATEMENTS OF INCOME

### A) PRODUCTION VALUE

#### - Revenues from sales and services

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

	(in thousands of euros)			
	<b>1<sup>st</sup> half 2001</b>		<b>1<sup>st</sup> half 2000</b>	
<b>Geographic area</b>				
Europe:				
. Italy	579,065	14.68%	410,837	11.42%
. Other European countries	1,660,295	42.07%	1,586,510	44.10%
North America	631,150	16.00%	564,212	15.68%
Central and South America	610,822	15.48%	576,417	16.02%
Oceania, Africa and Asia	464,546	11.77%	459,893	12.78%
	<b>3,945,878</b>	<b>100.00%</b>	<b>3,597,869</b>	<b>100.00%</b>
<b>Sector</b>				
Cables and Systems	2,478,418	62.81%	2,171,348	60.35%
Tyres	1,477,476	37.44%	1,424,956	39.61%
Other	55,575	1.41%	41,847	1.16%
Inter-elimination	(65,591)	(1.66%)	(40,282)	(1.12%)
	<b>3,945,878</b>	<b>103.32%</b>	<b>3,597,869</b>	<b>102.24%</b>

## B) PRODUCTION COSTS

### - Personnel costs

Personnel costs consist of the following:

	(in thousands of euros)	
	1 <sup>st</sup> half 2001	1 <sup>st</sup> half 2000
. Salaries and wages	610,364	600,299
. Social security costs	127,560	125,556
. Leaving indemnity	22,149	15,686
. Pension and similar costs	10,591	10,782
. Other costs	12,065	13,332
	<b>782,729</b>	<b>765,655</b>

### - Depreciation of property, plant and equipment

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

	(in thousands of euros)	
	1 <sup>st</sup> half 2001	1 <sup>st</sup> half 2000
. Buildings	15,796	19,202
. Plant and machinery	109,711	109,126
. Commercial and industrial equipment	20,565	21,929
. Other assets	18,196	16,465
	<b>164,268</b>	<b>166,722</b>

## C) FINANCIAL INCOME AND EXPENSES

### - Investment income

Investment income amounts to Euros 4 million and refers to dividends received from equity investments in other companies.

### - Other financial income

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

	(in thousands of euros)	
	1 <sup>st</sup> half 2001	1 <sup>st</sup> half 2000
. Interest from associated companies	392	716
. Interest from parent companies	1,665	17,342
. Bank interest and other interest	129,982	40,462
. Other financial income from parent companies	155	26
. Miscellaneous financial income	16,246	26,317
. Gains on exchange	228,830	35,960
	<b>377,270</b>	<b>120,823</b>

### - Interest and other financial expenses

These expenses include:

	(in thousands of euros)	
	1 <sup>st</sup> half 2001	1 <sup>st</sup> half 2000
. Interest to associated companies	23	18
. Interest to parent companies	771	0
. Bond interest	12,087	12,121
. Bank interest and interest to other financial companies	64,389	52,086
. Other financial expenses to associated companies	0	251
. Other financial expenses to parent companies	5,770	4,170
. Miscellaneous financial expenses	28,688	48,077
. Losses on exchange	227,527	48,491
	<b>339,255</b>	<b>165,214</b>

## E) EXTRAORDINARY ITEMS

### - Extraordinary income

Extraordinary income went from Euros 1,672.4 million in the first six months of the prior year to Euros 69.9 million, and can be analyzed as follows:

	(in thousands of euros)	
	1st half 2001	1st half 2000
. Gain on disposal	31,262	39,481
. Miscellaneous	38,611	1,632,901
	<b>69,873</b>	<b>1,672,382</b>

"Gains on disposal" mainly include Euros 30.3 million on the sale of Pirelli S.p.A. treasury shares on the market.

"Miscellaneous" principally comprises Euros 36.3 million recognized by Cisco Systems on the sale of the Terrestrial Optical Systems last year.

In the corresponding of the prior year, "miscellaneous" mainly comprised the pre-tax gain on the sale of the Terrestrial Optical Systems business.

### - Extraordinary expenses

Extraordinary expenses total Euros 18 million, compared to Euros 506.3 million in the first half of 2000, and consist of the following:

	(in thousands of euros)	
	1st half 2001	1st half 2000
. Losses on disposals	271	9,885
. Miscellaneous	17,748	496,370
	<b>18,019</b>	<b>506,255</b>

**OTHER INFORMATION****- Personnel**

The average number of employees in the companies included in consolidation during the first half of 2001, by category, is as follows:

. executives	656
. employees	10,762
. workers	26,875
. temporary	2,885
	<hr/>
	41,178
	<hr/> <hr/>

- **Exchange rates**

The main exchange rates used in consolidation are as follows:

	(local currency against Euros)					
	Period-end		Change in	Average		Change in
	06/30/2001	12/31/2000	%	1° half 2001	1° half 2000	%
<b>Europe</b>						
Italian lira	1,936.27	1,936.27	0.00%	1,936.27	1,936.27	0.00%
German mark	1.95583	1.95583	0.00%	1.95583	1.95583	0.00%
Dutch guilder	2.20371	2.20371	0.00%	2.20371	2.20371	0.00%
French franc	6.55957	6.55957	0.00%	6.55957	6.55957	0.00%
Spanish peseta	166.386	166.386	0.00%	166.386	166.386	0.00%
Belgian franc	40.3399	40.3399	0.00%	40.3399	40.3399	0.00%
British puond	0.6031	0.6241	(3.36%)	0.62355	0.61214	1.86%
Swiss franc	1.5228	1.5232	(0.03%)	1.5308	1.5853	(3.44%)
Hungarian forint	243.6300	263.8400	(7.66%)	261.6231	257.5605	1.58%
Slovakian koruna	42.2007	43.4897	(2.96%)	43.4427	42.1588	3.05%
Greek drachma	340.750	340.750	0.00%	340.7500	334.4552	1.88%
<b>North America</b>						
American dollar	0.8480	0.9305	(8.87%)	0.8981	0.9601	(6.46%)
Canadian dollar	1.2927	1.3965	(7.43%)	1.3779	1.4078	(2.12%)
<b>Suth America</b>						
Brazilian real	1.9546	1.8195	7.42%	1.9331	1.7163	12.63%
Argentine peso	0.8480	0.9305	(8.87%)	0.8981	0.9601	(6.46%)
<b>Oceania</b>						
Australian dollar	1.6735	1.6770	(0.21%)	1.7216	1.5740	9.38%
<b>Asia</b>						
Yuan (Chinese) renminbi	7.0186	7.7021	(8.87%)	7.4338	7.9452	(6.44%)
Singapore dollar	1.5451	1.6130	(4.21%)	1.6011	1.6413	(2.45%)
Indonesian rupiah	9,650.0000	8,956.000	7.75%	9,426.0000	7,493.000	25.80%
<b>Africa</b>						
Egyptian pound	3.305	3.610	(8.45%)	3.4752	3.2956	5.45%
Ivory Coast franc	655.957	655.957	0.00%	655.9570	655.9570	0.00%

**Net financial position**

The composition of the net financial position, which shows a change of Euros 1,270.2 million compared to December 31, 2000, is as follows:

	(in thousands of euros)	
<b>Net financial position</b>	<b>06/30/2001</b>	<b>12/31/2000</b>
. Short-term financial payables	686,754	581,256
. Accrued interest expenses	32,470	22,682
. Cash and banks	(2,389,181)	(3,701,290)
. Other securities	(1,455,927)	(1,237,160)
. Short-term financial receivables	(371,656)	(369,116)
. Accrued interest income	(12,219)	(13,946)
<b>Net short-term financial position</b>	<b>(3,509,759)</b>	<b>(4,717,574)</b>
. Medium/long-term financial payables	1,381,497	1,327,285
. Medium/long-term financial receivables	(87,824)	(96,565)
. Other securities	(8,918)	(8,370)
<b>Net medium/long-term debt position</b>	<b>1,284,755</b>	<b>1,222,350</b>
<b>Net financial position (liquidity)/debt</b>	<b>(2,225,004)</b>	<b>(3,495,224)</b>



**PIRELLI GROUP**

**SUPPLEMENTARY INFORMATION**

CONSOLIDATED STATEMENTS OF CASH FLOWS		(in thousands of euros)
	1/1 - 06/30/2001	1/1 - 12/31/2000
<b>NET DEBT AT BEGINNING OF YEAR</b>	<b>3,495,224</b>	<b>(1,017,089)</b>
<b>Translation adjustments</b>	<b>(14,781)</b>	<b>11,772</b>
<b>Operating profit</b>	<b>242,893</b>	<b>437,414</b>
<b>Depreciation and amortization</b>	<b>188,920</b>	<b>382,813</b>
Increase in intangible assets	(28,608)	(83,781)
Increase in property, plant and equipment	(309,641)	(561,937)
Increase in financial assets	(75,152)	(344,104)
Disposal of intangible assets	0	2,399
Disposal of property, plant and equipment	6,461	26,133
Disposal of financial assets	6,086	80,518
<b>Net investments</b>	<b>(400,854)</b>	<b>(880,772)</b>
Changes in inventories	(40,799)	(68,863)
Changes in trade and other accounts receivable/payable	(192,494)	58,307
<b>Changes in working capital</b>	<b>(233,293)</b>	<b>(10,556)</b>
<b>Changes in provisions for liabilities and expenses</b>	<b>(15,361)</b>	<b>(11,296)</b>
<b>Other changes</b>	<b>8,273</b>	<b>(50,539)</b>
<b>FREE CASH FLOW</b>	<b>(209,422)</b>	<b>(132,936)</b>
<b>Extraordinary items</b>	<b>51,854</b>	<b>4,276,931</b>
<b>Financial income and expenses</b>	<b>29,490</b>	<b>(84,546)</b>
<b>Income taxes</b>	<b>(127,687)</b>	<b>(1,012,628)</b>
<b>Sales/Purchase of treasury shares</b>	<b>94,195</b>	<b>(73,823)</b>
<b>Other</b>	<b>(843,508)</b>	<b>1,605,433</b>
<b>Cash flow before dividends</b>	<b>(1,005,078)</b>	<b>4,578,431</b>
<b>Dividends paid</b>	<b>(286,327)</b>	<b>(165,571)</b>
<b>Net cash flow</b>	<b>(1,291,405)</b>	<b>4,412,860</b>
Share capital increase Pirelli S.p.A.	0	5138
Share capital increase (minority interest)	35,966	82,543
<b>Changes in share capital</b>	<b>35,966</b>	<b>87,681</b>
<b>Changes in net financial position (*)</b>	<b>(1,270,220)</b>	<b>4,512,313</b>
<b>NET LIQUIDITY (DEBT) AT END OF PERIOD</b>	<b>2,225,004</b>	<b>3,495,224</b>
<b>(*) Financed by:</b>		
Increase (decrease) in long-term loans	62,405	(146,440)
Increase (decrease) in short-term loans	114,473	(150,945)
Decrease (increase) in cash and banks and cash equivalents	1,093,342	(4,214,928)
	<u>1,270,220</u>	<u>(4,512,313)</u>

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands of euros)

	SHARE CAPITAL	SHARE PREMIUM RESERVE	LEGAL RESERVE	TRANSLATION ADJUSTMENT	OTHER RESERVES (*) RETAINED EARNINGS NET INCOME FOR THE YEAR	TOTALE
<b>Balance at December 31, 1999</b>	<b>1,032,152</b>	<b>270,083</b>	<b>204,840</b>	<b>80,678</b>	<b>687,154</b>	<b>2,274,907</b>
Profit distribution, as per resolution of May 8, 2000						
* to Legal Reserve			1,590		(1,590)	0
* dividends to shareholders					(150,862)	(150,862)
* to directors					(1,747)	(1,747)
February 10, 2000 subscription of n° 3,343,000 ordinary shares	1,739					1,739
April 27, 2000 subscription of n° 450,000 ordinary shares	234					234
May 19, 2000 subscription of n° 545,200 ordinary shares	284					284
June 21, 2000 subscription of n° 41,000 ordinary shares	21					21
November 30, 2000 subscription of n° 400,000 ordinary shares	208	902				1,110
December 19, 2000 subscription of n° 1,198,900 ordinary shares	623	1,127				1,750
Withdrawal from share premium reserve to set up reserve for treasury shares in portfolio		(9,952)			9,952	0
Adjustment of net equities of subsidiaries companies					(30,084)	(30,084)
Translation adjustment				26,773		26,773
Net income for the year					3,631,954	3,631,954
<b>Balance at December 31, 2000</b>	<b>1,035,261</b>	<b>262,160</b>	<b>206,430</b>	<b>107,451</b>	<b>4,144,777</b>	<b>5,756,079</b>
Profit distribution, as per resolution of May 8, 2001						
* to Legal Reserve			622		(622)	0
* dividends to shareholders					(286,327)	(286,327)
* to directors					(14,142)	(14,142)
January 2001 subscription of n° 355,200 ordinary shares	185	676				861
February 2001 subscription of n° 8,689,484 ordinary shares	4,518	13,966				18,484
March 2001 subscription of n° 4,701,006 ordinary shares	2,444	4,814				7,258
May 2001 subscription of n° 583,900 ordinary shares	304	1,316				1,620
June 2001 subscription of n° 121,000 ordinary shares	63	273				336
Withdrawal from share premium reserve to set up reserve for treasury shares in portfolio		30,324			(30,324)	0
Translation adjustment				(8,835)		(8,835)
Net income for the period					196,829	196,829
<b>Balance at June 30, 2001</b>	<b>1,042,775</b>	<b>313,529</b>	<b>207,052</b>	<b>98,616</b>	<b>4,010,191</b>	<b>5,672,163</b>

(\*)The item "Other reserves" includes: Revaluation Reserve, Reserve for treasury shares in portfolio, la Riserva per Concentrazioni, la Riserva da Conferimenti and Consolidation reserve.

**RECONCILIATION OF NET RESULTS AND SHAREHOLDERS' EQUITY OF PIRELLI S.P.A. AND CORRESPONDING CONSOLIDATED FIGURES OF THE GROUP AT JUNE 30, 2001**

(in thousands of euros)

	Share Capital	Reserves	Net income	Total
<b>Pirelli S.p.A.</b>	<b>1,042,775</b>	<b>2,452,149</b>	<b>11,852</b>	<b>3,506,776</b>
Earnings for the year of consolidated companies (before consolidation adjustment)			208,761	208,761
Capital and reserves of consolidated companies (before consolidation adjustment)		4893278		4,893,278
Consolidation adjustments:				
- carrying value of investments in consolidated companies		(2,546,094)		(2,546,094)
- intragroup dividends		23,580	(23,580)	0
- other		(390,354)	(204)	(390,558)
<b>Group</b>	<b>1,042,775</b>	<b>4,432,559</b>	<b>196,829</b>	<b>5,672,163</b>

## LIST OF INVESTMENTS

## 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	Tyres	Vienna	.AS./000	10,000	100.00%	Lunares S.A.
Pirelli-Oekw GmbH	Cables and Systems	Vienna	Euro	2,071,176	100.00%	Pirelli Cable Holding N.V.
<b>BELGIUM</b>						
Pirelli Tyres Belux S.A.	Tyres	Brussels	Euro	700,000	100.00%	Lunares S.A.
<b>FINLAND</b>						
Pirelli Cables and Systems OY	Cables and Systems	Helsinki	Euro	10,000,000	100.00%	Pirelli Cable Holding N.V.
<b>FRANCE</b>						
Eurelectric S.A.	Cables and Systems	La Bresse	Euro	4,036,500	100.00%	Pirelli Câbles et Systèmes S.A.
Pirelli Câbles et Systèmes S.A. (formerly Cables Pirelli S.A.)	Cables and Systems	Paron	Euro	136,800,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Telecom Cables et Systemes France S.A.	Telecom Cables and Systems	Bagnolet	Euro	40,000	100.00%	Pirelli Câbles et Systèmes S.A.
Pneus Pirelli S.A.	Tyres	Puteaux	Euro	3,062,400	100.00%	Lunares S.A.
SMI S.A.S.	Tyres	Gonesse	Euro	77,000	100.00%	Metzeler Reifen GMBH
Supereat S.A.	Telecom Cables and Systems	Paris	Euro	40,000	100.00%	Pirelli Câbles et Systèmes S.A.
<b>GERMANY</b>						
Bergmann Kabel und Leitungen GmbH	Cables and Systems	Schwerin	Euro	1,022,600	100.00%	Pirelli Kabel und Systeme Holding GmbH
Deutsche Pirelli Reifen Holding GmbH	Financial	Breuberg/Odenwald	Euro	7,694,943	100.00%	Pirelli Tyre Holding N.V.
ISO Industrie Spedition Odenwald GmbH	Tyres	Breuberg/Odenwald	Euro	25,565	100.00%	Pirelli Reifenwerke GmbH & Co. K.G.
Materialverwertungsgesellschaft Breuberg GmbH	Tyres	Breuberg/Odenwald	Euro	25,565	100.00%	Deutsche Pirelli Reifen Hold. GmbH
Metzeler Reifen GmbH	Tyres	Breuberg/Odenwald	Euro	16,361,340	100.00%	Pirelli Deutschland A.G.
Pirelli Deutschland A.G.	Tyres	Breuberg/Odenwald	Euro	26,075,886	98.94%	Deutsche Pirelli Reifen Hold. GmbH
Pirelli Kabel und Systeme Holding GmbH	Cables and Systems	Berlin	Euro	26,000	99.00%	Pirelli Cable Holding N.V.
Pirelli Kabel Grundstücksverwaltungs GmbH	Cables and Systems	Berlin	Euro	25,600	100.00%	Pirelli Cavi e Sistemi S.p.A.
Pirelli Kabel und Systeme Beteiligungs GmbH	Cables and Systems	Berlin	Euro	25,600	100.00%	Pirelli Kabel und Systeme Holding GmbH
Pirelli Kabel und Systeme GmbH & Co. KG	Cables and Systems	Berlin	Euro	5,113,000	100.00%	Pirelli Kabel und Systeme Beteiligungs GmbH
Pirelli Kabel und Systeme Verwaltungs GmbH	Cables and Systems	Berlin	Euro	25,600	100.00%	Pirelli Kabel und Systeme Beteiligungs GmbH
Pirelli Reifenwerke GmbH & Co. K.G.	Tyres	Breuberg/Odenwald	Euro	35,790,943	100.00%	Pirelli Deutschland A.G.
Pirelli Reifenwerke Geschaeftsfuehrungs GmbH	Services	Breuberg/Odenwald	Euro	25,565	100.00%	Deutsche Pirelli Reifen Hold. GmbH
Pirelli Telekom Kabel und Systeme Deutschland GmbH	Telecom Cables and Systems	Berlin	Euro	25,000	100.00%	Pirelli Cavi e Sistemi S.p.A.
Pneumobil GmbH	Tyres	Breuberg/Odenwald	Euro	259,225	99.62%	Pirelli Reifenwerke GmbH & Co. K.G.
Veith Wohnungsbau GmbH	Real estate	Breuberg/Odenwald	Euro	127,823	100.00%	Pirelli Deutschland A.G.
<b>GREECE</b>						
Antem Representations & Trading Co. Ltd. in liq.	Tyres	Athens	Drs./000	1,000	100.00%	Pirelli Hellas S.A.
Diafimisis Roda Ltd (in liquidation)	Advertising	Athens	Drs./000	3,000	99.33%	Elastika Pirelli S.A.
Elastika Pirelli S.A.	Tyres	Athens	Drs./000	557,000	0.33%	Antem Repr.& Trading Co Ltd
Pirelli Hellas S.A. (in liquidation)	Tyres	Athens	US\$/000	22,050	99.90%	Lunares S.A.
					0.10%	Pirelli Pneumatici Holding S.p.A.
					79.86%	Pirelli Tyre Holding N.V.
<b>HUNGARY</b>						
MKM Magyar Kabel Muvek RT.	Cables and Systems	Budapest	HUF/000	6,981,070	100.00%	Pirelli Cable Holding N.V.
Kabel Keszletertekeesito BT.	Cables and Systems	Budapest	HUF/000	1,239,841	100.00%	MKM Magyar Kabel Muvek Rt.
Pirelli Construction Hungary Limited	Cables and Systems	Budapest	HUF/000	3,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Hungary Tyre Trading and Services Limited	Tyres	Budaors	HUF/000	3,000	100.00%	Lunares S.A.
<b>ITALY</b>						
Pirelli Cavi e Sistemi Energia Italia S.p.A. (formerly CEAT Cavi S.r.l.)	Cables and Systems	Milan	Euro	110,000,000	100.00%	Pirelli Cavi e Sistemi S.p.A.
Centro Servizi Amministrativi Pirelli S.r.l.	Services	Milan	Euro	51,000	100.00%	Pirelli S.p.A.
Fibre Ottiche Sud - F.O.S. S.p.A.	Optical fibers	Battipaglia (SA)	Euro	5,200,000	100.00%	Pirelli Cavi e Sistemi S.p.A.
Fintheta S.p.A.	Real estate	Milan	Euro	255,000	100.00%	Pirelli S.p.A.
Kallithea S.p.A (formerly Kallithea Immobiliare S.r.l.)	Real estate	Milan	Euro	10,400	100.00%	Pirelli S.p.A.
Istituto Piero Pirelli S.p.A. (in liquidation)	Training	Milan	Euro	135,000	80.00%	Pirelli S.p.A.
					10.00%	Pirelli Pneumatici Holding S.p.A.
					10.00%	Pirelli Cavi e Sistemi S.p.A.
Maristel S.p.A.	Cables and Systems	Milan	Euro	1,020,000	100.00%	Pirelli Cavi e Sistemi S.p.A.
Neri Gomme & C. S.r.l. (in liquidation)	Tyres	Milan	Lire/mil.	20	100.00%	Sistema Puntogomme S.p.A.
Pirelli Cavi e Sistemi S.p.A.	Cables and Systems holding com.	Milan	Euro	182,694,200	98.75%	Pirelli S.p.A.
Pirelli Cavi e Sistemi Telecom Italia S.p.A.	Cables and Systems	Milan	Euro	41,000,000	1.25%	Pirelli Finance (Luxembourg) S.A.
Pirelli Informatica S.p.A.	Information Systems	Milan	Euro	520,000	100.00%	Pirelli Cavi e Sistemi S.p.A.
					100.00%	Pirelli S.p.A.

## COMPANIES CONSOLIDATED USING THE FULL CONSOLIDATION METHOD

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Pirelli Labs S.p.A.	Research and Development	Milan	Euro 10,000	100.00%		Pirelli Cavi e Sistemi S.p.A.
Pirelli Metzeler Motoveloc S.r.l.	Tyres	Milan	Euro 4,590,000	100.00%		Metzeler Reifen GmbH
Pirelli Nastri Tecnici S.p.A. (in liquidation)	Sundry	Milan	Euro 384,642	100.00%		Pirelli S.p.A.
Pirelli Pneumatici Europa S.r.l.	Services	Milan	Euro 20,000,000	100.00%		Pirelli Pneumatici Holding 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.	Tyres	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.	Cables and Systems	Milan	Euro 50,000,000	100.00%		Pirelli Submarine Telecom Systems Holding B.V.
Polo Viaggi S.r.l.	Travel agency	Milan	Euro 46,800	100.00%		Pirelli S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro 104,000	93.00%		Pirelli S.p.A.
				1.00%		Pirelli Cavi e Sistemi 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.
				100.00%		Pirelli Pneumatici Holding S.p.A.
				100.00%		Pirelli S.p.A.
Sistema Puntogomme S.p.A.	Tyres	Milan	Euro 3,060,000	100.00%		
Trefin S.r.l.	Financial	Milan	Euro 4,242,476	100.00%		
<b>LUXEMBOURG</b>						
Gamico Holding S.A.	Financial	Luxembourg	SF/000 2,100	100.00%		Pirelli Finance (Luxembourg) S.A.
Pirelli Finance (Luxembourg) S.A.	Financial	Luxembourg	Euro 270,228,168	100.00%		Pirelli S.p.A.
<b>NORWAY</b>						
Pirelli Kabler og Systemer AS	Cables and Systems	Ski	Nok 100,000	100.00%		Pirelli Cables and Systems OY
<b>THE NETHERLANDS</b>						
Optical Technologies The Netherlands B.V.	Cables and Systems	Delft	Euro 183,235,100	100.00%		Pirelli S.p.A.
Pirelli Cable Holding N.V.	Cables and Systems holding com.	Delft	Euro 272,515,065	100.00%		Pirelli Cavi e Sistemi S.p.A.
Pirelli Cables and Systems N.V.	Cables and Systems	Delft	Euro 5,000,000	100.00%		Pirelli Cable Holding N.V.
Pirelli Cable Overseas N.V.	Cables and Systems	Delft	Euro 10,000,000	100.00%		Pirelli Cavi e Sistemi S.p.A.
Pirelli Submarine Telecom Systems Holding B.V.	Cables and Systems	Delft	Euro 4,500,000	90.00%		Pirelli Cavi e Sistemi S.p.A.
Pirelli Telecom Cables and Systems The Netherlands N.V. (formerly Property Technology and Intellectual Property Licensing N.V.)	Cables and Systems	Delft	Euro 50,000	100.00%		Pirelli Cavi e Sistemi S.p.A.
Pirelli Tyre Holding N.V.	Tyre holding company	Breukeken	Euro 798,396,003	100.00%		Pirelli S.p.A.
Pirelli Tyres Nederland B.V.	Tyres	Breukeken	Euro 18,152	100.00%		Lunares S.A.
Sipir Finance N.V.	Financial	Rotterdam	Euro 41,146,522	100.00%		Pirelli Tyre Holding N.V.
<b>POLAND</b>						
Pirelli Polska Sp.zo.o.	Tyres	Warsaw	Zloty 6,257,708,500	100.00%		Lunares S.A.
<b>PORTUGAL</b>						
Desco Fabrica Portuguesa de Material Electrico e Electronico S.A.	Cables and Systems	Arcozelo Vngaia	Euro 1,545,000	70.93%	29.07%	Pirelli Cables et Systemes S.A. Eurelectric S.A.
<b>ROMANIA</b>						
S.C. Pirelli Romania Cabluri si Sisteme S.A.	Cables and Systems	Slatina	RL/000 208,927,700	100.00%		Pirelli Cable Holding N.V.
<b>SLOVAK REPUBLIC</b>						
Kablo Bratislava Spol. S.R.O.	Cables and Systems	Bratislava	SK 523,334,000	100.00%		Pirelli Cable Holding N.V.
Pirelli Slovakia S.R.O.	Tyres	Bratislava	SK 200,000	100.00%		Lunares S.A.
<b>SPAIN</b>						
Fercable S.A.	Cables and Systems	Barcelona	Euro 3,606,073	100.00%		Pirelli Cables y Sistemas S.A.
Omnia Motor S.A.	Tyres	Barcelona	Euro 1,502,530	100.00%		Pirelli Neumaticos S.A.
Pirelli Cables y Sistemas S.A.	Cables and Systems	Barcelona	Euro 34,257,690	100.00%		Pirelli Cable Holding N.V.
Pirelli Neumaticos S.A.	Tyres	Barcelona	Euro 45,075,908	100.00%		Pirelli Tyre Holding N.V.
Pirelli Esmar S.A.	Cables and Systems	Torredembarra	Euro 8,714,675	100.00%		Pirelli Cables y Sistemas S.A.
<b>SWEDEN</b>						
Pirelli Kablar och System AB	Cables and Systems	Hoganas	SK/000 100	100.00%		Pirelli Cables and Systems OY
Pirelli Tyre Nordic AB	Tyres	Stockholm	SK/000 950	100.00%		Lunares S.A.
<b>SWITZERLAND</b>						
Agom S.A.	Tyres	Conthey	SF 50,000	75.00%		Lunares S.A.
Agom S.A. Bioggio	Tyres	Bioggio	SF 250,000	75.00%		Lunares S.A.
Agom S.A. Locarno	Tyres	Locarno	SF 50,000	75.00%		Lunares S.A.
Agom S.A. Lugano	Tyres	Lugano	SF 102,000	75.00%		Lunares S.A.
Biasi S.A.	Tyres	Lugano	SF 250,000	75.00%		Lunares S.A.
Lunares S.A.	Tyre holding company	Basel	SF/000 10,000	100.00%		Pirelli Tyre Holding N.V.

## COMPANIES CONSOLIDATED USING THE FULL CONSOLIDATION METHOD

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Pirelli Cables and Systems S.A.	Cables and Systems	Basel	SF/000 500	100.00%		Pirelli Cable Holding N.V.
Pirelli Produkte Holding A.G.	Cables and Systems	Basel	SF/000 9,500	100.00%		Pirelli Cable Holding N.V.
Pirelli Société de Services S.a.r.l.	Financial	Basel	SF/000 50	100.00%		Pirelli Société Générale S.A.
Pirelli Société Générale S.A.	Financial	Basel	SF/000 140,000	100.00%		Pirelli S.p.A.
Pirelli Submarine Telecom Systems S.A.	Cables and Systems	Basel	SF/000 1,230	100.00%		Pirelli Submarine Telecom Systems Holding B.V.
Pirelli Tyre (Europe) S.A.	Tyres	Basel	SF/000 1,000	100.00%		Lunares S.A.
<b>TURKEY</b>						
Celikord A.S.	Tyres	Istanbul	TL/mil. 12,100,000	49.75%		Pirelli Tyre Holding N.V. Sipir Finance N.V. 0.71%
				0.27%		Pirelli Pneumatici Holding S.p.A.
				0.27%		Pirelli Deutschland A.G.
Türk-Pirelli Lastikleri A.S.	Tyres	Istanbul	TL/mil. 44,000,000	60.01%		Pirelli Tyre Holding N.V. Sipir Finance N.V. 1.57%
				0.08%		Pirelli Deutschland A.G.
				0.08%		Pirelli UK Tyres Ltd
				0.08%		Pirelli Pneumatici S.p.A.
				0.08%		Lunares S.A.
				0.08%		Pirelli Pneumatici Holding S.p.A.
				0.08%		Metzeler Reifen GmbH
				0.08%		Metzeler Reifenwerke GmbH & Co. K.G.
				0.08%		Pirelli Neumaticos S.A.
Türk Pirelli Kablo ve Sistemleri A.S.	Cables and Systems	Mudania / Bursa	TL/mil. 3,780,000	83.746%		Pirelli Cable Holding N.V.
Zalsan Zırai Arac Lastikleri A.S.	Tyres	Istanbul	TL/mil. 1,400,000	70.00%		Türk-Pirelli Lastikleri A.S.
<b>UNITED KINGDOM</b>						
Aberdare Cables Ltd	Cables and Systems	London	£/000 610	100.00%		Pirelli General plc
Pirelli Cables (Industrial) Limited	Cables and Systems	London	£ 9,010,935	100.00%		Pirelli General plc
Pirelli Metals Ltd (formerly Pirelli Cables (Rod Rollers) Limited)	Cables and Systems	London	£ 100,000	100.00%		Pirelli General plc
Pirelli Cables (2000) Limited	Cables and Systems	London	£ 118,653,473	100.00%		Pirelli General plc
CTC 1994 Limited	Tyres	London	£ 984	100.00%		Central Tyre Ltd
Central Tyre Ltd	Tyres	London	£/000 100	100.00%		Pirelli UK Tyres Ltd
Courier Tyre Company Ltd	Tyres	London	£/000 10	100.00%		Pirelli UK Tyres Ltd
CPK Auto Products Ltd	Tyres	London	£/000 10	100.00%		Pirelli UK Tyres Ltd
Pirelli Cables Ltd	Cables and Systems	London	£/000 100	100.00%		Pirelli General plc
Pirelli Cables and Systems International Ltd	Cables and Systems	London	Euro 100,000	100.00%		Pirelli Cable Holding N.V.
Pirelli Cables (Supertension) Ltd	Power Cables and Systems	London	£ 5,000,000	100.00%		Pirelli General plc
Pirelli Construction Company Ltd	Cables and Systems	London	£ 8,000,000	100.00%		Pirelli General plc
Pirelli Focom Limited	Cables and Systems	London	£ 6,447,000	100.00%		Pirelli General plc
Pirelli General plc	Cables and Systems	London	£ 102,100,000	100.00%		Pirelli UK plc "B"
Pirelli International Limited	Financial	London	Euro 250,000,000	100.00%		Pirelli Finance (Luxembourg) S.A.
Pirelli Tyres Ltd	Tyres	London	£/000 16,000	100.00%		Pirelli UK Tyres Ltd
Pirelli UK Employee Share Trustee Limited	Financial	London	£ 2	100.00%		Pirelli UK plc "C"
Pirelli UK Finance Ltd	Financial	London	£/000 6,969	100.00%		Pirelli UK plc "C"
Pirelli UK plc "A"	Tyre holding company	London	£/000 57,354	100.00%		Pirelli Tyre Holding N.V.
Pirelli UK plc "B"	Cables and Systems holding com.	London	£ 54,299,058	100.00%		Pirelli Cable Holding N.V.
Pirelli UK plc "C"	Finance holding company	London	£/000 11,626	100.00%		Pirelli S.p.A.
Pirelli UK Tyres Ltd	Tyres	London	£/000 56,819	100.00%		Pirelli UK plc "A"
<b>NORTH AMERICA</b>						
<b>CANADA</b>						
Pirelli Cables and Systems Inc.	Cables and Systems	St Jean sur Richelieu	Can.\$ 40,000,000	100.00%		Pirelli Cable Holding N.V.
Pirelli Tire Inc.	Tyres	Ottawa	Can.\$ 6,000,000	100.00%		Lunares S.A.
<b>U.S.A.</b>						
Metzeler Motorcycle Tire North America Corp.	Tyres	Seattle (Washington)	US\$/000 150	100.00%		Metzeler Reifen GmbH
Pirelli Communications Cables and Systems USA LLC ( formerly Pirelli Cables and Systems LLC)	Telecom Cables and Systems	Wilmington (Delaware)	US\$ 10	100.00%		Pirelli North America Inc. "B1"
Pirelli Power Cables and Systems USA LLC	Power Cables and Systems	Wilmington (Delaware)	US\$ 10	100.00%		Pirelli North America Inc. "B2"
Pirelli Construction Services Inc.	Cables and Systems	Dover (Delaware)	US\$ 1,000	100.00%		Pirelli Communication Cables and Systems USA LLC
Pirelli Jacobson Inc.	Cables and Systems	Dover (Delaware)	US\$ 2,000	100.00%		Pirelli Communication Cables and Systems USA LLC
Pirelli North America Inc. "A"	Tyres	Wilmington (Delaware)	US\$ 3.15	100.00%		Pirelli Tyre Holding N.V.
Pirelli North America Inc. "B1" (formerly Pirelli North America Inc. B)	Telecom Cables and Systems	Wilmington (Delaware)	US\$ 5.75	100.00%		Pirelli Cavi e Sistemi S.p.A.
Pirelli North America Inc. "B2" (formerly Pirelli North America Inc. B)	Power Cables and Systems	Wilmington (Delaware)	US\$ 1.10	100.00%		Pirelli Cavi e Sistemi S.p.A.
Pirelli Tire LLC	Tyres	Wilmington (Delaware)	US\$ 1	100.00%		Pirelli North America Inc. "A"
<b>CENTRAL/SOUTH AMERICA</b>						
<b>ARGENTINA</b>						
Fipla S.A.	Cables and Systems	Buenos Aires	Peso 130	66.97%		Pirelli Cons. Cond.Inst. SAIC
Pirelli Consultora Conductores e Instalaciones S.A.I.C.	Cables and Systems	Buenos Aires	Peso 2,227	100.00%		Pirelli Cable Holding N.V.
Pirelli Consultora de Telecomunicaciones S.A.	Telecom Cables and Systems	Buenos Aires	Peso 12,000	100.00%		Pirelli Cable Holding N.V.
Pirelli Argentina de Mandatos S.A.	Services	Buenos Aires	Peso 500,000	100.00%		Pirelli Société Générale S.A.

## COMPANIES CONSOLIDATED USING THE FULL CONSOLIDATION METHOD

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Pirelli Energia Cables y Sistemas de Argentina S.A. (formerly Pirelli Cables S.A.I.C.)	Power Cables and Systems	Buenos Aires	Peso	44,509,458	74.73%	Pirelli Cons. Cond.Inst. SAIC Pirelli Cable Holding N.V. Pirelli Tyre Holding N.V. Pirelli Pneumatici Holding S.p.A. Pirelli Consultora Conductores e Instalaciones S.A.I.C. Pirelli Cable Holding N.V. Pirelli Energia Cables y Sistemas de Argentina S.A. (formerly Pirelli Cables S.A.I.C.)
Pirelli Neumaticos S.A.I.C.	Tyres	Buenos Aires	Peso	19,016,500	99.02%	
Pirelli Telecomunicaciones Cables y Sistemas de Argentina S.A.	Telecom Cables and Systems	Buenos Aires	Peso	12,000	75.000%	
Tel 3 S.A.	Cables and Systems	Buenos Aires	Peso	11,075,000	51.00%	
<b>BRAZIL</b>						
Muriaé Ltda	Financial	Santo André	Real	80,000,000	100.00%	Pirelli Pneu S/A Pirelli Cavi e Sistemi S.p.A. Pirelli S.A.
Pirelli Energia Cabos e Sistemas do Brasil S.A. (formerly Pirelli Cabos S/A )	Power Cables and Systems	Santo André	Real	98,566,717	87.20%	
Pirelli Pneu Nordeste Ltda	Tyres	Feira de Santana	Real	29,991,402	100.00%	Pirelli Pneu S/A Pirelli Energia Cabos e Sistemas do Brasil S.A. Pirelli S.p.A. Pirelli Pneumatici S.p.A. Pirelli Tyre Holding N.V. Pirelli S.A. Pirelli Cavi e Sistemi S.p.A. Pirelli S.A. Pirelli Pneu S/A Pirelli Energia Cabos e Sistemas do Brasil S.A. Pneuc Com. e Import. Ltda Pirelli Energia Cabos e Sistemas do Brasil S.A.
Pirelli Produtos Especiais Ltda	Cables and Systems	Cerquillo	Real	43,143,421	100.00%	
Pirelli S.A.	Financial	Santo André	Real	45,848,684	100.00%	
Pirelli Pneu S/A	Tyres	Santo André	Real	264,618,982	54.66%	
Pirelli Telecomunicações Cabos e Sistemas do Brasil S.A.	Telecom Cables and Systems	Sorocaba	Real	64,240,293	87.200%	18.93%
Pneuc Comercial e Importadora Ltda	Tyres	San Paolo	Real	12,913,526	100.00%	79.78%
Same da Amazonia Ltda	Cables and Systems	Manaus	Real	48,291,480	99.99%	0.27%
Solac-Laminadora de Cobre Ltda	Cables and Systems	Jacarei	Real	8,485,100	89.00%	10.15%
<b>CHILE</b>						
Pirelli E y T S.A.	Cables and Systems	Santiago	C.P./000	3,072,471	99.82%	Pirelli Instalaciones Chile S.A. Pirelli Cons. Cond. Inst. SAIC Cite S.A. Pirelli Pneu S/A Pneuc Com. e Import. Ltda
Pirelli Instalaciones Chile S.A.	Cables and Systems	Santiago	C.P./000	918,707	90.00%	
Pirelli Neumaticos Chile Limitada	Tyres	Santiago	US\$/000	20	95.00%	10.00%
<b>COLOMBIA</b>						
Pirelli de Colombia S.A.	Tyres	Santa Fe De Bogota	P.Col./000	10,977,466	94.94%	Pirelli Pneu S/A Pirelli de Venezuela C.A. Muriaé Ltda Pirelli Pneu Nordeste Ltda Pneuc Com. e Import. Ltda
					4.98%	
					0.03%	
					0.03%	
					0.02%	
<b>DUTCH ANTILLES</b>						
Pirelli Financial Services Company N.V.	Financial	Curacao	US\$/000	11,000	100.00%	Pirelli Finance (Luxembourg) S.A. Pirelli Financ. Services Co NV
Pirelli Insurance & Reinsurance Company N.V.	Insurance	Curacao	US\$/000	10,000	100.00%	
<b>MEXICO</b>						
Pirelmex S.A. de C.V.	Tyres	Mexico City	Mex Peso	35,098,400	99.95%	Pirelli Pneu S.A. Pneuc Comercial e Importadora Ltda
					0.05%	
<b>URUGUAY</b>						
Cite S.A.	Cables and Systems	Montevideo	Ur. Peso/000	4,900	100.00%	Pirelli Energia Cables y Sistemas de Argentina S.A. (formerly Pirelli Cables S.A.I.C.)
<b>VENEZUELA</b>						
Comercializadora de Neumaticos 2050 C.A.	Tyres	Valencia	Bol.	100,000	96.00%	Pirelli de Venezuela C.A. Pirelli Tyre Holding N.V.
Pirelli de Venezuela C.A.	Tyres	Valencia	Bol./000	13,062,679	96.22%	
<b>AFRICA</b>						
<b>EGYPT</b>						
Alexandria Tire Company S.A.E.	Tyres	Alexandria	EGP	300,000,000	74.54%	Pirelli Pneumatici Holding S.p.A. Pirelli Pneumatici S.p.A. Alexandria Tire Company S.A.E.
International Tire Company Ltd	Tyres	Alexandria	EGP	50,000	96.00%	
<b>IVORY COST</b>						
SICABLE - Société Ivoirienne de Cables S.A.	Cables and Systems	Abidjan	CFA F./mil.	740	51.00%	Pirelli Câbles et Systèmes S.A.
<b>SOUTH AFRICA</b>						
Pirelli Tyre (Pty) Ltd (formerly Italian Tyre (Proprietary) Limited)	Tyres	Sandton	Rands	1	100.00%	Lunares S.A.

## COMPANIES CONSOLIDATED USING THE FULL CONSOLIDATION METHOD

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
<b>OCEANIA</b>						
<b>AUSTRALIA</b>						
Pirelli Telecom Cables & Systems Australia PTY Limited (formerly Pirelli Cables Australia Ltd)	Telecom Cables and Systems	Liverpool - N.S.W.	Austr.S 38,500,000	100.00%		Pirelli Cavi e Sistemi S.p.A.
Pirelli Power Cables & Systems Australia PTY Limited	Power Cables and Systems	Liverpool - N.S.W.	Austr.S 15,000,100	99.999%	0.001%	Pirelli Cavi e Sistemi S.p.A. Pirelli Telecom Cables & Systems Australia PTY Limited
Pirelli Tyres Australia Pty Ltd	Tyres	Pymble - N.S.W.	Austr.S 150,000	100.00%		Lunares S.A.
<b>NEW ZEALAND</b>						
Pirelli Telecom Cables & Systems New Zealand Limited (formerly Pirelli Cables NZ Ltd)	Telecom Cables and Systems	Auckland	\$ nz 10,000	100.00%		Pirelli Telecom Cables & Systems Australia PTY Limited
Pirelli Power Cables & Systems New Zealand Limited	Power Cables and Systems	Auckland	\$ nz 10,000	100.00%		Pirelli Power Cables & Systems Australia PTY Limited
Pirelli Tyres (NZ) Ltd	Tyres	Wellington	\$ nz 100	100.00%		Pirelli Tyres Australia Pty Ltd
<b>ASIA</b>						
<b>CHINA</b>						
BICC Cables China Ltd	Cables and Systems	Hong Kong	\$ Hong Kong 2,000	100.00%		Pirelli Cables Asia-Pacific Pte Ltd
BICCGeneral Baosheng Cable Co. Ltd	Cables and Systems	Jiangsu	US\$ 19,500,000	67.00%		Pirelli Cables Asia-Pacific Pte Ltd
Pirelli Cables (Shanghai) Trading Co. Ltd	Cables and Systems	Shanghai	US\$ 200,000	100.00%		Pirelli Cables Asia-Pacific Pte Ltd
Pirelli Telecom Cables Co. Ltd Wuxi	Cables and Systems	Xuelang Town	US\$ 27,275,750	69.092%		Pirelli Cable Overseas N.V.
<b>JAPAN</b>						
P & A K.K.	Tyres	Tokyo	Yen/000 1,700,000	51.00%		Pirelli Tyre Holding N.V.
Pirelli K.K.	Tyres	Tokyo	Yen/000 40,000	100.00%		Lunares S.A.
<b>INDIA</b>						
Pirelli Cables (India) Private Limited	Cables and Systems	New Delhi	Indian Rupee 10,000,000	100.00%		Pirelli Cable Holding N.V.
<b>INDONESIA</b>						
PT Pirelli Cables Indonesia	Cables and Systems	Jakarta	US\$'000 50,000	99.30%	0.70%	Pirelli Cable Holding N.V. Pirelli Cable Overseas N.V.
<b>MALAYSIA</b>						
BICC (Malaysia) Sdn Bhd	Cables and Systems	Jalan Sultan Ismail	Ringgit/000 100	100.00%		Pirelli Cables Asia-Pacific Pte Ltd
Submarine Cable Installation Sdn Bhd	Cables and Systems	Kuala Lumpur	Ringgit/000 10	99.00%	1.00%	Pirelli Cavi e Sistemi S.p.A. Pirelli Cable Systems Pte Ltd
<b>MAURITIUS</b>						
BICCGeneral Asia Pacific Holdings	Cables and Systems	Port Louis	US\$ 2	100.00%		Pirelli Cables Asia-Pacific Pte Ltd
<b>SINGAPORE</b>						
BICC Cables Malaysia Pte Ltd	Cables and Systems	Singapore	S\$. 2	100.00%		Pirelli Cables Asia-Pacific Pte Ltd
BICC Energy Cables Pte Ltd	Cables and Systems	Singapore	S\$. 3,000,000,000	100.00%		Pirelli Cables Asia-Pacific Pte Ltd
Pirelli Cables Asia-Pacific Pte Ltd (formerly BICCGeneral Asia Pacific Cables Pte Ltd)	Cables and Systems	Singapore	S\$. 213,324,290	100.00%		Pirelli Cable Overseas N.V.
Pirelli Asia Pte Ltd	Tyres	Singapore	S\$. 2	100.00%		Lunares S.A.
Pirelli Cable Systems Pte Ltd	Cables and Systems	Singapore	S\$. 25,000	50.00%	50.00%	Pirelli General plc Pirelli Cable Holding N.V.

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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>ASSOCIATED COMPANY</b>						
<b>EUROPE</b>						
<b>GERMANY</b>						
Drahtcord Saar Geschaefsfuehrungs GmbH	Tyres	Merzig	DM/000	60	50.00%	Pirelli Deutschland A.G.
Drahtcord Saar GmbH & Co. K.G.	Tyres	Merzig	DM/000	30,000	50.00%	Pirelli Deutschland A.G.
Kabeltrommel Gesellschaft mbH & Co K.G.	Cables and Systems	Cologne	DM/000	20,000	27.48%	Pirelli Kabel und Systeme GmbH & Co. KG
<b>ITALY</b>						
Axxium Italia S.r.l.	Tyres	Acqui Terme (AL)	Lire/mil.	90	49.00%	Sistema Puntogomme S.p.A.
Epiclink S.p.A.	Information Systems	Milan	Euro	12,500,000	30.30%	Pirelli S.p.A.
SMP Melfi S.r.l.	Tyres	Melito (NA)	Lire/mil.	6,800	50.00%	Pirelli Pneumatici Holding S.p.A.
<b>SPAIN</b>						
Optiwire S.L.	Cables and Systems	Barcelona	Euro	6,010	50.00%	Pirelli Cables y Sistemas SA
<b>UNITED KINGDOM</b>						
Rodeo Ltd	Cables and Systems	Gravesend	£/000	5,000	40.00%	Pirelli General plc
<b>CENTRAL/SOUTH AFRICA</b>						
<b>ARGENTINA</b>						
Lineas de Transmision de Buenos Aires S.A.	Cables and Systems	Buenos Aires	Peso/000	12	20.00%	Pirelli Argentina de Mandatos S.A.
<b>BRAZIL</b>						
K.M.P. Cabos Especiais e Sistemas Ltda	Cables and Systems	San Paolo	Real	6,600,916	40.00%	Pirelli Cabos S.A.
Pirelli & C. Real Estate Ltda (formerly MCM Empreendimentos Imobiliarios - Empresa Pirelli & C. Ltda)	Real estate	Santo André	Real	2,000,000	30.00%	Pirelli S.A.
<b>ASIA</b>						
<b>SAUDI ARABIA</b>						
Sicew-Saudi Italian Co. for Electrical Works Ltd	Cables and Systems	Jeddah	Saudi Rials/000	1,000	34.00%	Pirelli Cable Holding N.V.

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## OTHER INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
<b>EUROPE</b>						
<b>AUSTRIA</b>						
Pirelli Kabelwerke und Systeme GmbH	Cables and Systems	Vienna	AS/000	500	100.00%	Pirelli Cavi e Sistemi S.p.A.
<b>FRANCE</b>						
L.D.S. France - Soc.de Transport et Distribution S.A.	Distribution	Bagnolet	Euro	98,625	100.00%	Pirelli S.p.A.
<b>GERMANY</b>						
Industriekraftwerk Breuberg GmbH (formerly Pirelli Energie Deutschland GmbH)	Cogeneration	Breuberg/Odenwald	Euro	1,533,876	26.00%	Pirelli Deutschland AG
<b>HUNGARY</b>						
Ipoly Kabeldob KFT.	Cables and Systems	Szecsény	HUF/000	36,330	25.16%	MKM Magyar Kabel Muvek Rt.
<b>AFRICA</b>						
<b>SOUTH AFRICA</b>						
AFCAB Holdings (Proprietary) Ltd	Cables and Systems	Sandton	Rands	4,000	50.00%	Pirelli Cable Holding N.V.
African Cables Ltd	Cables and Systems	Vereeniging	Rands	9,886,098	100.00%	AFCAB Holdings (Proprietary) Ltd
ATC (Proprietary) Ltd	Cables and Systems	Brits	Rands	632,912	21.00%	African Cables Ltd
<b>ZIMBABWE</b>						
BICC CAFCA Limited	Cables and Systems	Harare	\$Zimb	15,706,000	73.46%	African Cable Ltd
BICC (CENTRAL AFRICA) (Private) Limited	Cables and Systems	Harare	\$Zimb	200,000	100.00%	BICC CAFCA Limited
Zimbabwe Cables (Pte) Limited	Cables and Systems	Harare	\$Zimb	2	100.00%	BICC CAFCA Limited
<b>ASIA</b>						
<b>CHINA</b>						
Tianjin Top Power Cables Co. Ltd	Cables and Systems	Tianjin Municipality	US\$	13,100,000	51.15%	Pirelli Cable Holding N.V.
<b>MALAYSIA</b>						
Power Cables Malaysia Sdn Bhd (formerly BICCGeneral Cables (Malaysia) Sdn Bhd)	Cables and Systems	Selangor Darul Ehsan	Malay. Ringgit	8,000,000	40.00%	Pirelli Cables Asia - Pacific Pte Ltd
<b>OCEANIA</b>						
<b>AUSTRALIA</b>						
MM Cables Energy Products Superannuation Pty Ltd	Cables and Systems	Sidney	Austr.\$	2	100.00%	Pirelli Telecom Cables & Systems Australia PTY Ltd

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

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
<b>AUSTRALIA</b>						
Optix Australia Ltd	Cables and Systems	Tottenham(Victoria)	Austr. \$ 4,000,000	15.00%		Pirelli Telecom Cables & Systems Australia PTY Ltd
<b>FRANCE</b>						
Pneu Holding S.A.	Tyre holding company	Grenoble	FF 110,779,200	14.21%		Sipir Finance N.V.
<b>ITALY</b>						
Eurofly Service S.p.A.	Services	Caselle Torinese	Lire/mil. 2,375	16.33%		Pirelli S.p.A.
F.C. Internazionale Milano S.p.A.	Sport	Milan	Lire/mil. 70,272	14.01%		Pirelli S.p.A.
Hermes S.p.A. (in liquidation)	Financial	Treviso	Lire/mil. 900	14.17%		Pirelli S.p.A.
Servizio Titoli S.r.l.	Services	Turin	Euro 105,000	12.38%		Pirelli 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) SA
<b>SWITZERLAND</b>						
Voltimum S.A.	Cables and Systems	Meyrin	SF 2,850,120	14.,286%		Pirelli Cavi e Sistemi S.p.A.
<b>TUNISIA</b>						
Société Tunisienne des Industries de Pneumatiques S.A.	Tyres	Tunis	Tunisian din 34,775,400	15.83%		Pirelli Pneumatici S.p.A.
<b>TURKEY</b>						
Türk Sondel Enerji A.S.	Cogeneration	Istanbul	TL/mil 900,000	13.98% 4.99%		Türk-Pirelli Lastikleri A.S. Celikord A.S.

**AUDITORS REPORT ON THE LIMITED REVIEW OF THE INTERIM FINANCIAL REPORTING FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2001**

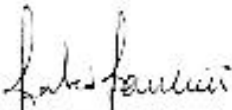
To the Shareholders  
of Pirelli SpA

- 1 We have performed a limited review of the interim financial reporting of Pirelli SpA for the six months period ended 30 June 2001, consisting of balance sheet, income statement and related comments notes (both for the holding company and consolidated). We have also ensured that the management discussion and analysis is consistent with other information in the interim financial reporting.
- 2 Our work was carried out in accordance with the procedures for a limited review recommended by the National Commission for Companies and the Stock Exchange (Consob) with Deliberation n° 10867 of 31 July 1997. The limited review consisted principally of inquiries of company personnel about the information reported in the interim financial reporting and about the consistency of the accounting principles utilised therein with those applied at year end as well as the application of analytical review procedures on the data contained in the interim financial reporting. The limited review excluded certain auditing procedures such as compliance testing and verification or validation tests of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike an audit on the annual statutory and consolidated financial statements, we do not express a professional audit opinion on the interim financial reporting.
- 3 Regarding the comparative data of the company financial statements and the consolidated financial statements of the prior year-end and prior interim financial reporting, reference should be made to our reports dated respectively 11 April 2001 and 4 September 2000.

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

Milan, 11 September 2001

PricewaterhouseCoopers SpA



Fabio Facchini  
(Partner)

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