

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

**Six-Months Interim Report
at June 30, 2004**

PIRELLI & C. Società per Azioni

Head office in Milan, Via G. Negri 10

Share Capital Euros 1,799,995,797.60

Milan Companies Register No. 00860340157

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

Honorary Chairman	Leopoldo Pirelli
Chairman	Marco Tronchetti Provera
Deputy Chairman	Alberto Pirelli
Deputy Chairman	Carlo Alessandro Puri Negri
Managing Directors and General Managers	Carlo Buora Giovanni Ferrario
Directors	Carlo Acutis * Gilberto Benetton Carlo De Benedetti * Gabriele Galateri di Genola Giuseppe Gazzoni-Frascara * Mario Greco Georg F. Kraye * Giulia Maria Ligresti Massimo Moratti Luigi Orlando Giovanni Perissinotto Giampiero Pesenti * Ennio Presutti * Maurizio Romiti ** Carlo Secchi * Vincenzo Sozzani Frank Vischer *

* Independent directors

** Mr. Maurizio Romiti resigned from the Pirelli & C. S.p.A. Board of Directors effective September 15, 2004.

Secretary to the Board	Carlo Montagna
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Board of Statutory Auditors

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

General Managers

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

Independent auditors	PricewaterhouseCoopers S.p.A.
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REPORT ON OPERATIONS

Performance of the Group

All economic and financial indicators of the Pirelli & C. S.p.A. Group showed a strong improvement in the first six months of 2004.

Consolidated **sales** of the Group in the first half amounted to Euros 3,573 million and increased 8.3 percent compared to the corresponding period of last year, featuring increases in all sectors. On a comparable basis, net of the effects due to exchange rates and metal prices, sales grew 5.1 percent.

Consolidated **operating profit** amounted to Euros 190 million, an increase of about 34 percent compared to Euros 142 million in the first half of 2003. Operating profit to sales was 5.3 percent, indicating a growth in comparison to 4.3 percent in the first six months of 2003. It should be borne in mind that the first half of 2003 had benefited from the positive effects of the settlement of the dispute concluded with Ciena over its use of patents for Euros 10 million.

Olimpia S.p.A.'s effect on this first half of 2004 was a positive Euros 52 million (a negative Euros 45 million in the first six months of 2003) thanks to Telecom Italia S.p.A.'s dividends booked on the cash basis in the second quarter of 2004, compensating the financial expenses for the period.

The consolidated **net income** was Euros 131 million against a loss of Euros 21 million in the first half of 2003. Excluding Olympia's effect, net income would be Euros 79 million compared to Euros 24 million.

The net income attributable to Pirelli & C. S.p.A. was Euros 112 million compared to a loss of Euros 36 million.

The **net financial position** of the Group at June 30, 2004 was a net debt position of Euros 2,047 million, with an increase from Euros 1,745 million at the end of 2003 but in line with targets and taking into account the seasonal nature of the industrial activities, the distribution of dividends (Euros 132 million), the purchase option exercised by Pirelli for more than 47 million Telecom Italia S.p.A. shares (Euros 110 million) and the subscription to Eurostazioni S.p.A.'s capital increase (Euros 33 million).

Industrial activities displayed a strong growth in operating profit in the first half of 2004 thanks especially to the performance by the Tyres Sector, which recorded its best quarter of the last ten years in terms of profitability, and by the Energy Cables and Systems Sector, which doubled its results after benefiting from reorganization measures and the focus on higher-value segments.

Under severe price pressure for cables and optic fibers, the Telecom Cables and Systems Sector nevertheless showed growth in its new Telecom Systems activities in which sales in the first half of 2004 matched those for the full-year 2003 (approx. Euros 28 million).

In the **real estate sector**, the result including the share of the earnings (losses) of equity investments amounted to Euros 66 million, compared to Euros 53 million in the same period of 2003, an increase of 24 percent.

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

The net result of the parent company, Pirelli & C. S.p.A., for the six months ended June 30, 2004 was a loss of Euros 55 million compared to loss of Euros 44 million in the first half of 2003.

The result was mainly due to financial expenses and investment writedowns that were not compensated by dividends from the subsidiaries which are recorded on the accrual basis and will be booked in the annual financial statements for the year ending December 31, 2004.

Last year, the result had also benefited from the positive effects of the settlement of the dispute concluded with Ciena over its use of patents for a sum of Euros 10 million.

Major events in the first half

- In January 2004, Pirelli finalized the purchase of 10 percent of Pirelli Submarine Telecom Systems Holding B.V. from Cisco Systems, to which it had sold the stake in 2000 for an equivalent amount of approx. US\$ 75 million. This transaction took place following the exercise of Cisco System's right – as stated in the agreements concluded on August 3, 2000 – to resell the above holding to Pirelli for the same amount. Pirelli, after this transaction, holds the entire share capital.
- In January 2004, Pirelli won two important contracts for the supply of 4,000 km of OPGW (Optical Ground Wire) cables and services to the Algerian utilities company Sonelgaz, through the system integrator TCIL (Telecommunications Consultants of India). These two projects will enable Sonelgaz to build a new broadband telecommunications network for voice and data transmission and multimedia services that will encourage development within Algeria.

- In March 2004, Pirelli Cables Ltd – a British affiliate of Pirelli Cavi e Sistemi Energia S.p.A. – and Draka Holding N.V. signed a long-term contract under which Pirelli will supply Draka with low-voltage cables for the British market to be used for the electrical cabling of non-industrial and industrial buildings.
- In the first seven months of 2004, Pirelli & C. S.p.A. 2003-2006 warrants totaling 4,587,680 (equal to 0.29 percent of those issued) were exercised; accordingly 1,146,920 ordinary shares were issued for cash receipts of Euros 0.6 million.
- March 1, 2004 marked the date of the conclusion of the public sale offer and listing of the Tecla Fondo Uffici, the first listed fund, by private contribution, promoted by Pirelli Real Estate S.g.r. S.p.A.. Demand exceeded the offer by 44 percent with oversubscriptions for both the public offer and the institutional placement, with more than 37,000 subscriptions. The offer price was fixed at Euros 505 per share.
- On March 29, 2004, Pirelli RE and Morgan Stanley signed an agreement in principle, which calls for the development of a strategic platform dedicated to the acquisition and management of non-performing loans (loans in dispute secured by mortgages).

On August 6, 2004, the above agreement in principle was executed with the signing of an agreement to set up a joint venture between Pirelli RE and Morgan Stanley Real Estate Funds (MSREF) in the sector of non-performing loans along the basic guidelines agreed during the first half of the year. According to the SIB agreement, (MSREF) and Pirelli RE Credit Servicing will merge to create the number-one operator in Italy for non-performing loans. Shareholders in this company will be MSREF with a 51 percent stake and Pirelli RE with a 49 percent interest, with a put/call option on 51 percent of the investment beginning January 2007. Pirelli RE will acquire 15 percent of the non-performing loan portfolio held by MSREF for a gross book value of about Euros 2.5 billion.

The agreement also states that when the strategic partnership has strengthened its position, MSREF will about 2.1 percent of Pirelli RE's capital at a price of Euros 28.9 per share. The closing of the entire deal is scheduled for the end of November, subject to approval by the antitrust authority and the Bank of Italy and the trustees of the existing securitization.

- On April 5, 2004, Pirelli Cavi e Sistemi Energia was awarded the contract to build a high-voltage turnkey link on behalf of the Singapore national electricity company SP Power Assets Ltd.. to expand the southeast Asian country's electrical network. The contract is worth approx. Euros 50 million.
The project – the most important to be assigned in Asia in 2004 – will help to tackle the increase in demand for electrical power in Singapore, ensuring considerable advantages in terms of compensating peaks of demand for electrical power.
- On April 6, 2004, Pirelli, through the subsidiary Pirelli Finance Luxembourg S.A., exercised the right to purchase 47,155,300 Telecom Italia ordinary shares (equal to 0.46 percent of ordinary share capital) at an exercise price per share of Euros 2.12 for an equivalent amount of approx. Euros 100 million, as established in the call option contract regarding Telecom Italia shares signed in November 2001 with JP Morgan.
- On April 8, 2004, the purchase of four multi-use buildings from Beni Stabili situated in the center of Naples was finalized for a total of Euros 46.1 million. The buildings were purchased by the company Tau, sold on June 29, 2004 to the trading company Orione in which Pirelli RE has a qualified minority stake.

- On April 28, 2004, the Pirelli & C. S.p.A.'s Shareholders' Manual was presented at the headquarters of Borsa Italiana. The manual was conceived with the intent of keeping readers updated on the corporate governance of the Company: from the full adoption of the recommendations contained in the "Self-Regulatory Code of listed companies" to the rationalization of the corporate structure which transferred all the main activities to one single operating holding company: from the adoption of the Code of Ethics to improvements to a rigorous and modern Internal Control System and to an environmental management system and corporate social responsibility, that are among the most advanced, up to the decision to propose a series of amendments to the bylaws to the Shareholders' Meeting in order to further boost the participation of all the shareholders in the life of the company. These amendments include, in particular, the introduction of slates for the nomination of the Board of Directors.
- On April 29, 2004, Pirelli & C. S.p.A. subscribed to Eurostazioni S.p.A.'s share capital increase for Euros 33.3 million. At the same time, Eurostazioni repaid the outstanding loan from the shareholders for Euros 33.4 million.
- On April 30, 2004, Pirelli RE, under a joint venture with Morgan Stanley Real Estate Funds (MSREF 67 percent, Pirelli RE 33 percent), concluded the purchase of eight commercial buildings located in central and northern Italy for a sum of Euros 147.8 million. The buildings have a total space of more than 150,000 m² and are leased to a leading large-scale retailer. The deal – concluded following a bidding procedure – falls under Pirelli RE's broader strategy of increasing its direct investments in structures used specifically by the retail & entertainment sector with the aim of setting up seeded real estate funds specialized in these types of buildings.

- On May 6, 2004, Alcatel and Pirelli signed an agreement regarding their respective submarine telecommunications systems. The agreement calls for Alcatel's purchase of certain activities of Pirelli in this area and the granting of certain intellectual property rights to it in the same sector. At the same time, Pirelli will purchase a 5 percent equity interest in Alcatel's submarine telecommunications systems business with reciprocal put and call options. The deal was concluded on August 26, after obtaining authorization from the Italian antitrust authority.
- On June 21, 2004, Generali Properties, Pirelli & C. Real Estate and Lehman Brothers purchased a portfolio of 36 properties located throughout Italy (in cities such as Turin, Udine, Mantua, Livorno, Lecce and Catania) making up part of the assets of the Generali Group, for a sum of Euros 272 million. The transaction was concluded through the company Solaris, in which Generali Properties and Pirelli Re each have a 40 percent stake and Lehman Brothers holds a 20 percent interest.
- June 30, 2004 marked the start of Cloe Fondo Uffici, the first seeded real estate mutual fund destined for qualified investors set up and managed by Pirelli RE SGR. The Cloe Office Fund consists of 39 service-office buildings with a market value of Euros 877.5 million as appraised by the independent valuers of CB Richard Ellis. About 70 percent of the buildings are located in centralized or semicentralized positions in Milan and Rome with the remaining portfolio spread in other major Italian cities. The duration of the fund is fixed in seven years (plus possibly another three to complete the liquidation of the assets).

THE GROUP

The highlights of the consolidated financial data of the Group in the first half of 2004 can be summarized as follows:

	(in millions of euros)		
	1 st half	1 st half	Year
	2004	2003	2003
. Net sales	3,573	3,298	6,671
. Gross operating profit	364	322	628
% of net sales	10.2%	9.8%	9.4%
. Operating profit	190	142	268
% of net sales	5.3%	4.3%	4.0%
. Share of earnings (losses) of equity investments	77	(22)	(51)
. Operating profit (loss) incl. share of earnings (losses) of equity invest.	267	120	217
. Financial income (expenses)	(55)	(74)	(134)
. Extraordinary items	(7)	(2)	(9)
. Income taxes	(74)	(65)	(70)
. Net Income (loss)	131	(21)	4
% of net sales	3.7%	n.s.	0.1%
. Net income (loss) attributable to Pirelli & C. S.p.A.	112	(36)	(39)
. Earnings (loss) per share (in euros)	0.03	(0.01)	(0.01)
. Shareholders' equity	3,685	3,799	3,678
. Net equity attributable to Pirelli & C. S.p.A.	3,443	3,499	3,429
. Equity per share (in euros)	0.99	1.01	0.99
. Net financial (liquidity)/debt position	2,047	1,598	1,745
. Capital expenditures	113	119	273
. R&D expenditures	106	104	204
. Employees (at period-end)	37,120	36,412	36,337
. Factories (number)	77	77	77
. Pirelli & C. S.p.A. ordinary shares (No. in millions)	3,326.7	3,325.6	3,325.6
. Pirelli & C. S.p.A. savings shares (No. in millions)	134.8	134.8	134.8
. Total Pirelli & C. S.p.A. shares outstanding (No. in millions)	3,461.5	3,460.4	3,460.4

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

(in millions of euros)

	Energy Cables & Systems		Telecom Cables & Systems		Tyres		INDUSTR. AGGREGATE	
	1 st half 2004	1 st half 2003	1 st half 2004	1 st half 2003	1 st half 2004	1 st half 2003	1 st half 2004	1 st half 2003
. Net sales	1,448	1,312	205	228	1,646	1,509	3,299	3,049
. Gross operating profit (loss)	94	70	-	(2)	244	219	338	287
% of net sales	6.5%	5.3%	0.0%	n.s.	14.8%	14.5%	10.2%	9.4%
. Operating profit (loss)	54	27	(15)	(21)	154	129	193	135
% of net sales	3.7%	2.1%	n.s.	n.s.	9.4%	8.5%	5.9%	4.4%
. Share of earnings (losses) of equity investments	-	(1)	-	-	-	-	-	(1)
. Op. profit (loss) incl. share of earnings (losses) of eq. inv.	54	26	(15)	(21)	154	129	193	134
. Financial income (expenses)	(15)	(15)	(6)	(9)	(19)	(25)	(40)	(49)
. Extraordinary items	(1)	7	(1)	1	-	10	(2)	18
. Income taxes	(14)	(9)	(1)	-	(51)	(39)	(66)	(48)
. Net income (loss)	24	9	(23)	(29)	84	75	85	55
% of net sales	1.7%	0.7%	n.s.	n.s.	5.1%	5.0%	2.6%	1.8%
. Net financial (liquidity)/debt position	400	393	305	436	375	570	1,080	1,399

(in millions of euros)

	Industrial Aggregate		Pirelli & C. Real Estate		Other		TOTAL	
	1 st half 2004	1 st half 2003	1 st half 2004	1 st half 2003	1 st half 2004	1 st half 2003	1 st half 2004	1 st half 2003
. Net sales	3,299	3,049	291	281	(17)	(32)	3,573	3,298
. Gross operating profit (loss)	338	287	37	37	(11)	(2)	364	322
% of net sales	10.2%	9.4%	-	-	-	-	10.2%	9.8%
. Operating profit (loss)	193	135	26	29	(29) *	(22)	190	142
% of net sales	5.9%	4.4%	-	-	-	-	5.3%	4.3%
. Share of earnings (losses) of equity invest.	-	(1)	40	24	37 **	(45)	77	(22)
. Op. profit (loss) incl. share of earnings (losses) of eq. inv.	193	134	66	53	8	(67)	267	120
. Financial income (expenses)	(40)	(49)	2	-	(17)	(25)	(55)	(74)
. Extraordinary items	(2)	18	(5)	-	-	(20)	(7)	(2)
. Income taxes	(66)	(48)	(13)	(13)	5	(4)	(74)	(65)
. Net income (loss)	85	55	50	40	(4)	(116)	131	(21)
% of net sales	2.6%	1.8%	-	-			3.7%	n.s.
. Net financial (liquidity)/debt position	1,080	1,399	44	71	923	128	2,047	1,598

* of which, goodwill amortization on purchases of Pirelli S.p.A. shares, €13 million (€13 million in 2003)

** accounting for Olimpia S.p.A. using the equity method, net income of €52 million (loss of €45 million in 2003)

- **Net sales**

Net sales are equal to Euros 3,573 million and recorded an increase of 8.3 percent compared to the first half of the prior year (Euros 3,298 million).

Excluding the foreign exchange effect (- 1.6 percent) and the offsetting of metal prices in the Energy business (+ 4.8 percent), the effective change is equal to + 5.1 percent.

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

Sector	1 st half 2004	1 st half 2003	Geographical area	1 st half 2004	1 st half 2003
Energy Cables and Systems	41%	40%	Italy	22.0%	26.4%
Telecom Cables and Systems	6%	7%	Other European countries	44.2%	39.2%
Tyres	45%	45%	North America	9.5%	9.4%
			Central and South America	13.5%	11.9%
Real Estate	8%	8%	Australia, Africa and Asia	10.8%	13.1%

- **Gross operating profit**

Gross operating profit is equal to Euros 364 million (10.2 percent of net sales), compared to Euros 322 million in the first half of 2003 (9.8 percent of net sales).

- **Operating profit**

Operating profit stands at Euros 190 million against Euros 142 million in the first half of 2003. The percentage of operating profit to net sales is 5.3 percent (4.3 percent in the first half of 2003).

The aggregate of the industrial activities recorded an operating profit of Euros 193 million, equal to 5.9 percent of net sales, compared to Euros 135 million in the first half of 2003 (4.4 percent of net sales), with an increase of 43 percent.

The Real Estate Sector shows an operating profit of Euros 26 million, in line with the first half of 2003.

Operating profit in the first half of 2003 also comprised the positive impact of the settlement of the dispute concluded with Ciena over its use of patents (Euros 10 million).

The change in operating profit can mainly be attributed to:

	(in millions of euros)
Operating profit 1st half 2003	142
• Currency exchange effect	(5)
• Prices (excluding metals)/mix	(17)
• Volumes	66
• Production factors per unit cost	(32)
• Efficiencies	39
• Depreciation	7
• Other	(10)
	48
Operating profit 1st half 2004	190

Share of earnings (losses) of equity investments

The share of the earnings (losses) of equity investments is a positive balance of Euros 77 million compared to a negative balance of Euros 22 million in the first half 2003.

This caption particularly includes Olimpia S.p.A.'s result which, thanks to dividends from Telecom Italia S.p.A. received and booked in May 2004, shows earnings of Euros 52 million (losses of Euros 45 million in the first half of 2003), and the results of the companies in the Real Estate Sector which show earnings of Euros 40 million (Euros 24 million in the first half of 2003).

The total also includes the writedown of the investment in F.C. Internazionale Milano S.p.A. for Euros 10 million.

- **Financial income (expenses)**

Financial income (expenses) shows an expense balance of Euros 55 million compared to Euros 74 million in the corresponding period of 2003. The improvement over the prior year is due to both higher dividends collected and lower average net debt during the period.

- **Extraordinary items**

Extraordinary items show an expense balance of Euros 7 million compared to an expense balance of Euros 2 million in the first six months of 2003.

- **Net income (loss)**

The net result is a net income of Euros 131 million (after income tax expenses of Euros 74 million) compared to a net loss of Euros 21 million in the first half of 2003 (after income tax expenses of Euros 65 million).

The net income attributable to Pirelli & C. S.p.A. for the six months to June 30, 2004 is Euros 112 million compared to a net loss of Euros 36 million in the first six months of 2003.

• **Shareholders' equity**

The shareholders' equity attributable to Pirelli & C. S.p.A. at June 30, 2004 is Euros 3,443 million (Euros 0.99 per share), an increase compared to Euros 3,429 million at December 31, 2003 (Euros 0.99 per share).

Total shareholders' equity went from Euros 3,678 million at December 31, 2003 to Euros 3,685 million at June 30, 2004. Such increase is detailed below:

	(in millions of euros)
. Translation adjustments	21
. Net income for the year	131
. Dividends to third parties paid by:	(132)
- Pirelli & C. S.p.A	(109)
- Pirelli & C. Real Estate S.p.A.	(19)
- Other Group companies	(4)
. Buyback of Pirelli Real Estate treasury shares	(10)
. Other changes	(3)
	7

• **Net financial position**

The net financial position is a net debt position of Euros 2,047 million and an increase over Euros 1,745 million at December 31, 2003. This, however, is in line with 2004-2006 targets, taking into account the effects connected with the distribution of dividends for Euros 132 million, the exercise of the option for the purchase of 47 million Telecom Italia shares for Euros 110 million and the subscription of Eurostazioni S.p.A.'s capital increase for Euros 33 million.

The change in the net financial position of Euros 302 million can be explained by the following analysis of cash flows:

	(in millions of euros)
. Operating profit	190
. Depreciation and amortization	174
. Net investments:	(169)
- intangible assets and property, plant and equipment	(123)
- financial assets	(46)
. Change in working capital	(88)
. Change in provisions and other	(6)
. Free cash flows	101
. Purchase of Telecom Italia shares	(110)
. Financial income (expenses)	(55)
. Extraordinary items	(7)
. Income taxes	(74)
. Dividends paid	(132)
. Other changes	(25)
. Free cash flows from ordinary operations	(302)
. Changes in shareholders' equity	1
. Total changes in shareholders' equity	1
. Translation adjustments	(1)
. Change in net financial position	(302)

. **Capital expenditures**

Capital expenditures total Euros 113 million compared to Euros 119 million in the first half of 2003.

The ratio of capital expenditures to depreciation is 0.84 (0.85 in the first half of 2003).

- **R & D expenditures**

R&D expenditures borne by the Group and completely expensed in the statement of income went from Euros 104 million in the first half of 2003 (3.4 percent as a percentage of industrial aggregate net sales) to Euros 106 million in the first half of 2004 (3.2 percent as a percentage of industrial aggregate net sales).

- **Employees**

Headcount of employees at June 30, 2004 is 37,120, compared to 36,337 at December 31, 2003, an increase of 783. The change is due to an increase of 988 employees with temporary contracts (of which 642 are in the Tyres Sector, 293 in the Energy Cables and Systems Sector and 53 in the Telecom Cables and Systems Sector) and a decrease of 205 employees with permanent contracts.

- **Factories**

The number of plant facilities remains unchanged compared to December 31, 2003.

Related party disclosure

With reference to the disclosure required by Consob Communication No. 97001574 dated February 20, 1997 and No. 98015375 dated February 27, 1998 in respect of transactions by Group companies with related parties, a statement is made to the effect that all transactions, including those between the parent company and its subsidiaries, and those among subsidiaries, fall under the ordinary operations of the Group, are carried out at arm's length, and there are no transactions of an unusual and exceptional nature or constituting a potential conflict of interest.

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

Furthermore, in order to provide complete disclosure, the transactions between the Pirelli & C. S.p.A. Group and the Telecom Italia S.p.A. Group in the first six months of 2004 are described below. These transactions fall within ordinary operations, are carried out at arm's length and there are no transactions of an unusual and exceptional nature or constituting a potential conflict of interests:

- **revenues for goods and services**, relating to the supply of telecommunications cables and services rendered by Pirelli & C. S.p.A., Shared Service Center S.c.r.l. and Pirelli & C. Real Estate S.p.A. (Euros 110 million);
- **costs for goods and services**, mainly relating to telephone and computer services and the supply of electrical energy (Euros 22 million);
- **trade receivables**, relating to the supply of the goods and services described above (Euros 73 million);
- **trade payables**, relating to telephone and computer services and the supply of electrical energy described above (Euros 26 million).

Significant events subsequent to the end of the first half

- On July 8, 2004, the 84,060,667 Pirelli & C. S.p.A. ordinary shares and the 63,045,500 warrants 2003-2006 on Pirelli & C. S.p.A. ordinary shares, which had been contributed to the shareholders voting trust, were sold prorata by Rizzoli Corriere della Sera MediaGroup S.p.A. to the other participants in the Pirelli & C. Voting Trust (except for Sinpar S.p.A. which did not exercise the right to purchase its share of the stock). The per share price, equal – in accordance with the clauses of the agreement – to the average market price recorded over the last three months, was Euros 0.825 per share and Euros 0.090 per warrant.
- On July 9, 2004, Pirelli & C. purchased 7,413,341 RCSMediaGroup S.p.A. shares placed on sale by Gemina S.p.A., equal to 1.01 percent of the share capital, for a total equivalent amount of approx. Euros 33 million. Following this transaction, Pirelli & C. holds 2.92 percent of RCSMediaGroup ordinary share capital, which is entirely pledged to the Shareholders' Agreement. The average per share price of the RCSMediaGroup shares in Pirelli & C.'s portfolio is equal to Euros 2.74.
- On July 14, 2004, Pirelli sold its 50 percent investment (which was not a controlling interest) in Afcab Holdings, the sole shareholder of the South African manufacturer of power cables, African Cables Limited, to the parent company Reunert Limited for a sum of African rands 165.75 million (about Euros 22 million), realizing a gain of Euros 7 million.

Afcab Holdings had initially been a joint venture between Siemens and Reunert, a South African electronics group. Pirelli had taken over the investment in 1998 as part of the acquisition of the activities of Siemens in the power cables sector. Pirelli decided to sell its share in the company, in which it did exercise control, preferring to focus on more strategic markets.

The deal will be finalized once approval is obtained from the relevant authorities.

- On July 23, 2004, Spazio Industriale 2, a joint venture between Pirelli RE (25 percent) and Soros Real Estate Investors (75 percent), signed a preliminary agreement for the purchase of 26 formerly-owned Enel properties from Excelsia Otto (the company controlled by the DB Real Estate Global Opportunities fund, managed by Deutsche Bank and by CDC-IXIS), for the sum of approx. Euros 93 million.
- On July 28, 2004, Pirelli & C. S.p.A. successfully concluded the placement of 3,400,000 Pirelli & C. Real Estate S.p.A. shares (equal to 8.37 percent of share capital) with Italian and foreign institutional investors.
Deutsche Bank AG London, in charge of the placement, informed Pirelli & C. S.p.A. that the demand for Pirelli & C. Real Estate shares far exceeded supply and that the placement price was equal to Euros 27.25 per share.
The gross gain realized by the Group in the consolidated financial statements amounts to more than Euros 56 million; the transaction was settled on August 3, 2004.
- On September 2, 2004, the Ministry of Economy and Finance notified Pirelli Real Estate SGR that it will be appointed to manage of one of the three portfolios in the investment fund in public properties for non-residential use that the Ministry will shortly set up and with an estimated market value of between Euros 3.5 and 4 billion.

Outlook for the current year

The results achieved in the first half of the year enable the Group to confirm its expectations for a significant improvement in results for the full-year 2004 in all sectors at both the operating profit and net income levels, barring outside factors of an extraordinary nature which are not predicable at this time.

The net financial position will be in line with the targets set out in the 2004-2006 plan.

In particular, with reference to **industrial activities**, the growth in profitability witnessed in the first half should continue for the Energy Cables and Systems Sector in the second half. The Tyres Sector should carry on its positive trend, allowing for the seasonal impact. In the Telecom Cables and Systems Sector, pressure over prices should remain for cables and fibers while the growth of broadband on fiber and copper (ADSL) should allow for a further gain in the sales of access solutions.

As regards **real estate operations**, it is reasonable to expect, for 2004, a growth in operating profit including the share of earnings (losses) of equity investments compared to the prior year in line with the three-year plan.

ENERGY CABLES AND SYSTEMS SECTOR

The consolidated figures for the Energy Cables and Systems Sector in the first half ending June 30, 2004 can be summarized as follows:

	(in millions of euros)		
	1st half	1st half	Year
	2004	2003	2003
. Net sales	1,448	1,312	2,637
. Gross operating profit	94	70	169
% of net sales	6.5%	5.3%	6.4%
. Operating profit	54	27	83
% of net sales	3.7%	2.1%	3.1%
. Financial income (expenses)	(15)	(16)	(23)
. Extraordinary items	(1)	7	(5)
. Income taxes	(14)	(9)	(16)
. Net income	24	9	39
% of net sales	1.7%	0.7%	1.5%
. Net financial (liquidity)/debt position	400	393	354
. Capital expenditures	22	25	68
. R&D expenditures	17	16	33
. Employees (at period-end)	10,882	11,119	10,746
. Factories (number)	48 *	48	48

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

Net sales in the first half ending June 30, 2004 amount to Euros 1,448 million, with an increase of 10.4 percent compared to the same period of the prior year.

On a comparable basis (excluding the effects of foreign exchange and metal prices) the effective change in net sales is 0.1 percent, which can be analyzed as follows:

• Volumes	+	1.4%
• Prices/mix	-	1.3%
Change on a comparable basis	+	0.1%
• Currency exchange effect	-	1.3%
• Metal prices	+	11.6%
Total change	+	10.4%

Operating profit in the first half ending June 30, 2004 is Euros 54 million compared to Euros 27 million in the first half of 2003.

Operating profit is equal to 3.7 percent of net sales and compares to 2.1 percent in the same period of the prior year.

The change in operating profit is due to the following:

	(in millions of euros)
Operating profit 1st half 2003	27
• Currency exchange effect	(1)
• Prices (excluding metals)/mix	(3)
• Volumes	17
• Production factors per unit cost	(6)
• Efficiencies	14
• Depreciation	3
• Other	3
	27
Operating profit 1st half 2004	54

Net income in the first half of 2004 is Euros 24 million after financial expenses of Euros 15 million, extraordinary expenses of Euros 1 million and income tax expenses of Euros 14 million.

The **net financial position** is a net debt position of Euros 400 million compared to Euros 354 million at December 31, 2003 and Euros 393 million at June 30, 2003.

Headcount of **employees** at June 30, 2004 is 10,882, with an increase of 136 compared to December 31, 2003 (excluding employees with temporary contracts, there is a decrease of 157).

BUSINESS PERFORMANCE

Net sales remained much the same (+0.1 percent) compared to the prior year, on a comparable basis.

The increase in sales in Europe (13 percent) was almost entirely attributable to the marked rise in the price of metals. Net of the impact of this factor, growth was equivalent to 0.9 percent.

The increase in sales (+9 percent) in North America was mainly due to higher volumes, both on the domestic and intercompany markets. The positive change due to the increase in the prices of metals was offset by the negative mix and prices, but, more particularly, by the foreign exchange effect.

Sales in South America increased by 30 percent compared to the prior year, thanks to higher volumes and prices. However, approximately half the increase in sales can be attributed to the growing increase of the price of metals.

The Asia Pacific area (Australia, Indonesia and China) posted a negative sales trend, with a reduction of 16 percent compared to the prior year, due to a sharp contraction of orders.

In terms of products, there was an improvement in the mix offered to the market, with growth in the **Industrial Market** area and an improvement in volumes in the **General Market** area, which posted an increase in sales, excluding the impact of the prices of metals, of approx. 6 percent, compared to the prior year.

Activities in **Energy Submarine Systems** were significant and focused on the development of the Basslink project (a 400-kV transmission system between Australia and Tasmania). In particular, work centered on the production of the second length (100 km) of the paper and extruded submarine power cables for the project, and the installation of the first length (100 km). Overall, the contract is worth approx. Euros 185 million and includes the manufacture and installation of 300 km, respectively, of paper, extruded and telecommunications cables.

During the same period, work began on the Spain-Morocco II project, a contract acquired in a consortium with Nexans Norvegia, which involves the supply and installation of a 400-kV interconnection system between Spain and Morocco. As far as Pirelli is concerned, the project means the production of 2 submarine power cables for a total length of 57 km, an optical cable and installation activities, which will be conducted during 2005 by the cable-laying vessel "Giulio Verne". The total value of the contract for Pirelli is Euros 60 million.

R&D activities

In the field of energy, the main activities were as follows:

- Development of an innovative cable based on **Air-BagTM** technology and adapted for use in I/S OGP (Oil, Gas and Petrochemical) applications and in general for use in chemically aggressive environments (**AirguardTM**).
- Development of special **Airguard-type products**.
- Extension of **Air-BagTM light technology** to products for the General Market.
- Development of protection systems based on **Air-BagTM** technology combined with metallic protection systems (Wire bag, Tape bag).
- Joint development with CORECOM (the Milan Politecnico University) of an optical instrument for the distributed acquisition of temperature - **New DTS**. Completion of the monitoring and operating system for the Real Time Thermal Rating system for the line of Barajas Airport outside Madrid (**RTTR-Barajas**).
- Writing, jointly with GRTN, of a development manual for **undergrounding power lines using insulated cables**. The manual will be used by the Energy Authority as a benchmark for developing the national transmission network.
- Development and optimization of a 2,500 mm² Milliken enameled copper-wire conductor.
- Design of a magnetic screening system with special steel ribbons wound round a tripolar cable and protected by a layer of Air-Bag.
- R&D of **Roundflat** systems for Industrial&Specials.
- R&D of **lead-less** cable systems for terrestrial and submarine applications.

Outlook for the current year

The increase in profitability recorded in the first half is expected to continue into the second half of 2004. In the meantime, plans are going forward for the restructuring and industrial efficiency programs already in place and for the initiatives to improve the commercial portfolio.

TELECOM CABLES AND SYSTEMS SECTOR

The consolidated figures for the Telecom Cables and Systems Sector in the first half ending June 30, 2004 can be summarized as follows:

	(in millions of euros)		
	1 st half 2004	1 st half 2003	Year 2003
. Net sales	205	228	427
. Gross operating loss	-	(2)	(1)
% of net sales	0.0%	n.s.	n.s.
. Operating loss	(15)	(21)	(39)
% of net sales	n.s.	n.s.	n.s.
. Financial income (expenses)	(6)	(9)	(20)
. Extraordinary items	(1)	1	4
. Income taxes	(1)	-	(1)
. Net loss	(23)	(29)	(56)
% of net sales	n.s.	n.s.	n.s.
. Net financial (liquidity)/debt position	305	436	302
. Capital expenditures	14	11	22
. R&D expenditures	16	18	34
. Employees (at period-end)	2,094	2,308	2,218
. Factories (number)	11 *	11	11

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

Net sales in the first six months ending June 30, 2004 amount to Euros 205 million, with a reduction of about 10 percent compared to the same period of the prior year.

The Telecom Systems business grew with net sales in the first half of 2004 equal to the net sales for the entire year 2003 (approx. Euros 28 million).

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

• Volumes	+	2.0%
• Prices/Mix	-	10.5%
Change on a comparable basis	-	8.5%
• Currency exchange effect	-	1.6%
Total change	-	10.1%

The **operating loss** in the first six months ending June 30, 2004 is Euros 15 million compared to an operating loss of Euros 21 million in the first half of the prior year. The positive contribution by volumes, accompanied by continuing actions to reduce costs have more than compensated the negative price/mix variance.

The result in the first half referring to submarine activities, sold following the agreement signed with Alcatel, was a loss of Euros 7 million.

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

		(in millions of euros)
Operating loss 1st half 2003		(21)
• Currency exchange		
• Prices (excluding metals)/mix	(25)	
• Volumes	7	
• Production factors per unit cost	5	
• Efficiencies	13	
• Depreciation	4	
• Other	2	
		6
Operating loss 1st half 2004		(15)

The **net result** in the first half of 2004 is a loss of Euros 23 million after financial expenses of Euros 6 million, extraordinary expenses of Euros 1 million and income tax expenses of Euros 1 million.

The **net financial position** is a net debt position of Euros 305 million compared to Euros 302 million at December 31, 2003 and Euros 436 million at June 30, 2003.

Headcount of **employees** at June 30, 2004 is 2,094, with a reduction of 124 compared to December 31, 2003 (excluding employees with temporary contracts, the decrease is 177).

BUSINESS PERFORMANCE

During the first half of 2004, both the optical and copper **cables** markets continued to be affected by the negative economic situation. Total sales during the first six months of 2004 held fairly steady compared to the first half of 2003. On the one hand, this reflects the continuing pressure on prices, but also suggests a slight increase in volumes. However, there were some positive signs.

Although, on the one hand, North America was again affected by the sharp contraction in prices, it is also true that there was a certain growth in volumes. Instead, in Europe, there was considerable movement in the market of copper cables for ADSL, which led to increased investments on the part of traditional telephone operating companies.

On a global scale, however, the reduction in the sales volumes of optical cables and the consequent deterioration of the mix were most intensely felt in Europe. Conversely, South America and Australia reported a certain stability in sales, linked especially to investments in copper cables, which partially offset the reduction in sales of optical cables.

Demand for **optical fibers** was also affected by the trend in the demand for telecommunications cables, resulting in a reduction of volumes and prices.

In contrast, the development of activities in **new areas of business** (Broad Band Access) continued, effectively doubling the sales reached during the same period of the prior year. This was partly accomplished by repositioning the activities of the sector.

The introduction of products for Internet access (Gateways) during the first half of 2004 reached significant volumes, particularly in the case of Telecom Italia (TI) and Fastweb (FW):

- ADSL routers for Telecom Italia
- gateways with both ADSL and fiber VOIP for residential Fastweb users.

The sales volumes reported during the first half of 2004, in terms of sales, are equivalent to those reached during the whole of the prior year. This suggests positive prospects for the end of the year, which should enjoy a considerable rise in sales volumes as a natural consequence of the efforts made in R&D in this field, in recent years.

R&D activities

- **In the field of optical fibers**

During the first half of 2004, R&D activities in the sphere of optical fibers focused on the development of products associated with the BBA (Broad Band Access) distribution network, particularly FTTx (Fiber to the curb, home, etc.) and “Metropolitan Area”.

One example of the research activities is a product which is able to support “Triple Play” (Voice, Cable TV and Internet) distribution. Because of a gain of more than 3dB on the threshold of a non-linear phenomenon called Stimulated Brillouin Scattering (SBS), this product is also particularly suitable for transmitting analog signals. As a result, it is also suitable for the transmission of analog TV via cable.

At its current stage of development, this product has passed the basic feasibility phase.

In the field of cables

- Development of a range of *double jacket microsheat* cables with a fiber count of up to 144 fibers, which are particularly resistant to tensile stresses, compression and water propagation, for the France Telecom national optical network.
- Development of compact *single jacket microsheat* cables for the Dutch access network, with a fiber count of between 2 and 48 fibers and a diameter of between 2 and 6 mm.
- Development and supply of *multi-loose tube cables* with a fiber count of 12 - 24 - 36 - 84 fibers for the German Deutsche Telecom optical network.
- The industrialization and mass production continued of different versions of 48-fiber OPGWs *having a central plastic tube inside an aluminum sheath*, thanks to their small diameter and their competitive cost, have made it possible for various countries around the world to build high-voltage overhead power lines.
- Development and supply of *12-fiber "Breakout" type* cables for interiors of buildings for the British market.
- Development of a new *6-fiber optical cable for antenna feeders* to connect the actual antenna to the "base station" which is connected in turn to the optical network. The new cables are required to replace the old, heavy coaxial cables (which have high attenuation values) in the mobile network with the new generation of optical cables. Thanks to their low level of attenuation, the new cables will provide an economical way of reducing the number and improving the position of expensive base stations, which can thus be installed at considerable distances from base station transmitter antennas.

- Development and supply of a new type of *24-fiber aerial cable for installation on ground wires or phase conductors of high-voltage overhead power lines by means of multiple lashing*. The supply includes the installation system and equipment, which were also developed by Pirelli.

Outlook for the current year

Despite the fact that the telecommunications sector shows no obvious signs of a recovery, there are some markets on which the Group is focusing with the aim of overcoming this negative economic period. In particular, there is still fierce competition in terms of prices on the fibers market. This is having a negative impact on the associated cables market, especially because of the persisting lack of large-scale investments in infrastructures on the part of public and private enterprise. On the other hand, the Access Network market is showing high development potential which our company hopes to exploit by acquiring contracts and orders in Italy and abroad.

As for the prospects of the sector over the coming months, there is still expected to be a certain amount of pressure on prices also accompanied by interesting developments regarding volumes in certain geographical areas (particularly North America). In the field of access products, the high level of implementation of broadband service using fiber and copper cables (ADSL) on the part of the leading telecommunications companies (within and outside Europe) suggests that there are still considerable opportunities in terms of volumes, albeit in the presence of growing competition in terms of prices.

TYRES SECTOR

The consolidated figures for the Tyres Sector in the first half ending June 30, 2004 can be summarized as follows:

	(in millions of euros)		
	1st half 2004	1st half 2003	Year 2003
. Net sales	1,646	1,509	2,970
. Gross operating profit	244	219	399
% of net sales	14.8%	14.5%	13.4%
. Operating profit	154	129	220
% of net sales	9.4%	8.5%	7.4%
. Financial income (expenses)	(19)	(25)	(45)
. Extraordinary items	-	10	(1)
. Income taxes	(51)	(39)	(45)
. Net income	84	75	129
% of net sales	5.1%	5.0%	4.3%
. Net financial (liquidity)/debt position	375	570	317
. Capital expenditures	72	79	173
. R&D expenditures	64	61	123
. Employees (at period-end)	21,150	20,532	20,437
. Factories (number)	22	22	22

Net sales in the first six months of 2004 are Euros 1,646 million, with an increase of 9.1 percent compared to the corresponding period of the prior year. Net of the foreign exchange effect, the actual variation is an increase of 11.1 percent.

The change in net sales can be attributed to:

• Volumes	+	9.3%
• Prices/mix	+	1.8%
Change on a comparable basis	+	11.1%
• Currency exchange effect	-	2.0%
Total change	+	9.1%

Operating profit in the first six months of 2004 is Euros 154 million, an improvement of more than 19 percent compared to the same period of the prior year, representing 9.4 percent of net sales, compared to Euros 129 million and 8.5 percent of net sales in the first half of 2003.

The change in operating profit can be summarized as follows:

	(in millions of euros)
Operating profit 1st half 2003	129
• Currency exchange effect	(4)
• Prices/mix	11
• Volumes	42
• Production factors per unit cost	(26)
• Efficiencies	10
• Depreciation	(1)
• Other	(7)
	25
Operating profit 1st half 2004	154

Net income is Euros 84 million (after financial expenses of Euros 19 million and income tax expenses of Euros 51 million) and compares to Euros 75 million (after financial expenses of Euros 25 million, extraordinary income of 10 million and income tax expenses of Euros 39 million) in the first half of 2003.

The **net financial position** is a net debt position of Euros 375 million compared to Euros 317 million at December 31, 2003 and Euros 570 million at June 30, 2003.

The negative change is mainly due to the payment of dividends to Pirelli & C. S.p.A. for Euros 85 million.

Headcount of **employees** at June 30, 2004 is 21,150, including 2,347 with temporary contracts (20,437 employees at December 31, 2003 including 1,705 with temporary contracts).

Compared to December 31, 2003, management and staff decreased by 39 persons consequent to the continuation of rationalization projects and activities involving the workforce and increased by 110 blue-collar workers to meet production requirements.

The number of employees under temporary contracts shows an increase of 642, with the main purpose being to meet seasonal peaks in production operations, particularly with reference to Turkey, Venezuela and Germany.

CONSUMER MARKETS

Car tyres

During the first half of 2004, the **European automobile market** reported a positive trend, both in terms of vehicle registrations (+3.7 percent) and production (+1.3 percent), compared to the first half of 2003 in Western Europe.

Italy is in line with the trend while the **United Kingdom** is slightly below. There was marked growth in **Spain**, and a slight contraction in **France** and **Germany**. The tyres market also reported increases in both the original equipment and replacement channels.

The Turkish market continued to show strong growth, both in terms of the vehicle market and the tyres market.

Despite the recovery of automobile production and, hence, the demand for **Original Equipment**, the demand for **Replacements** in the first half of 2004 was positive in the passenger car/light truck segment, with an increase of 6 percent compared to the prior year.

With regard to the **United States**, there was an increase in passenger car registrations (+2.1 percent during the first five months of the year).

In **Latin America**, on the one hand, there was a considerable increase in vehicle registrations, while, on the other, there was a further rise in car production destined for export. In the tyres market, in **Brazil**, there were positive results deriving from both the demand for Replacements and Original Equipment. In **Argentina**, after the negative results reported in 2002, the tyres market continues to report increases in all segments of demand.

In **Asia**, the dynamic expansion of the vehicle sector continued, with different rates of growth depending on the market sector.

The growth of business, in markets where there was an increasing level of competitiveness, reported a positive gain in volumes and sales revenues compared to the first half of 2003. This increase was principally sustained by trends which were significantly higher than the average of the markets in the Export areas, particularly

the **Middle East** and **Asia**, **Latin America** and **North America**, while the markets in **Europe** remained steady.

There was considerable growth in sales in **North America** as forecast and according to previously announced plans.

In particular, there was an appreciable gain in volumes and sales for **Pirelli's top lines**, both in the passenger car and SUV sectors, like the **P Zero Nero** and the **P Zero Rosso**, the **Scorpion Zero** and the **Scorpion Zero Asimmetrico**. A very positive start was seen for sales of **Winter** tyres in May and June, with growth rates which were considerably higher than in the same period of the prior year.

During the first half of 2004, intensive efforts were made to innovate and focus on new high-performance products based on distinctive technologies: **MIRS** (Modular Integrated Robotized System) for tyre production and **CCM** (Continuous Compound Mixing) for the production of new compounds.

Rome was the venue for presentation of the new updated range of UHP tyres. The new range, called **Planet Zero**, includes the **PZero Corsa System**, a tyre with directional and asymmetric tread design, continuing the trend of leadership in technological innovation already presented by **Pirelli** in 1994 with the **PZero System**. The new range has a high level of performance and safety which derive partly from the experience accumulated by **Pirelli** in its racing activities. In addition, the new range includes the **Scorpion Zero Asimmetrico** with sizes of more than 20", destined for equipping the more powerful SUVs.

To demonstrate **Pirelli's** leadership in the UHP segment in terms of technology and performance, the **P Zero Nero** also won the test organized by the specialist German magazine "**Auto Motor und Sport**", achieving performance of a level that far surpassed the best products of the competition.

At the end of June, **Tierra del Fuego** was the setting for the presentation of the latest in the range of UHP **Planet Zero** tyres, the **Winter Sottozero**, a 19" tyre equipped with a combined directional/asymmetric tread pattern. The new tyre guarantees the highest levels of performance, in maximum safety and comfort, whether on snow, ice, or damp or wet asphalt and demonstrates the excellent results achieved by research and

development by using top-notch technologies such as nanocomposites for compounds.

The **homologation portfolio** continues to expand. This time, it was again the turn of the **best-seller PZero Rosso** (with homologations obtained for Alfa Romeo, Audi, Daimler Chrysler, Ferrari, Maserati, Peugeot, Saab and Volkswagen), the **P7** (Alfa Romeo, Ford, Opel), the **P6** (Daimler Chrysler, Fiat, Lancia), the **Eufori@** (BMW) and the **Scorpion STR** (Alfa Romeo).

In the United States, manufacturers again acknowledged the performance of the **P6 Four Seasons**, the product designed expressly for the U.S. market. Numerous new homologations were obtained for models manufactured by Ford and GM.

At the Detroit Motor Show and the Geneva International Motor Show, Pirelli recorded a record number of visitors to its stands. At the American show, the **P6 Four Seasons**, the **P Zero Rosso**, the **P Zero Nero**, the **P Zero Corsa** and the **Scorpion Zero** were only some of the tyres fitted on the prestigious models on show. In Geneva, Pirelli reported a **record number of tyres fitted with its tyres**, a phenomenon which has been steadily increasing in recent years with all the European vehicle manufacturers.

The racing season again yielded excellent results during the first half of 2004. On average, the Subaru Impreza WRC fitted with Pirelli tyres, which had won the Pilot's Title with Petter Solberg in 2003, continues to be the fastest car in the World Championships circuit, especially on dirt roads which are always positive for the P Zero dirt-road range. So far, Pirelli tyres have won two championships, in New Zealand and Greece, again with Solberg at the wheel, ending the first part of the World Championships in second place. However, the Norwegian driver could also have won in Mexico, Cyprus, Turkey and Argentina, where he was consistently in the lead before technical problems ensued.

In Racing, Pirelli won three of the six races of the FIA GT Championship held from the beginning of the season until June, again with the Saleen S7 which was almost always in the lead in the qualifying rounds and also on grounds of pure performance. The Ferrari 575 also performed well and was always close behind the winners, as was the Ferrari 360, competing against the most powerful Porsches in Group N.

In September, the Maserati MC12 will make its debut on the race track. This new brainchild for the FIA GT Championship will race exclusively with Pirelli tyres.

Motorcycle tyres

During the first half of 2004, sales of motorcycles and scooters reported a positive trend both in volumes and value. These results were achieved in a replacements market where good growth was reported in the **Pacific** area and in **North** and **South America**, whereas, in **Europe**, growth was moderate but higher than the average of the market. The countries with the highest growth rates were in **Southern Europe** and the **United States**. In this scenario, there was an improvement in the market share both in the radial and conventional motorcycle tyre segment and in the scooter segment. The demand for original equipment was positive for motorcycles and scooters with large and medium-size engines, whereas it contracted in the case of scooters with small engines. The most significant homologations obtained during the period were for the Honda CBR 1000 RR and the Triumph Rocket III 2300 cc.

Racing activities once again saw Pirelli at the top in numerous national championships by mid-season and in the **World Cross MX1 Championship**. Excellent results were achieved in association with Pirelli's new role as **Official Tyre Supplier** of the **World Superbike** and **Supersport Championships**. From the point of view of technological innovation, various homologations were obtained with the racing tyre **Pirelli Diablo Corsa** based on **MIRS technology**. At Valencia, the new **Supersport Metzeler Racetec** using **MIRS technology** was launched, with three different compounds for participants in the national championships or for those who want to equip a racing bike and also race on tracks. Sales of the new **Metzeler Roadtec Z6**, launched at the start of last year were excellent. The new tyre has already been awarded first place in various comparative tests in the touring radial segment.

INDUSTRIAL MARKET

Truck tyres

Overall, markets expanded both in **Europe** and in general in the **Mediterranean Basin**, and in **Latin America**. Market growth was evident in both the replacement and original equipment channels.

As a result of this overall expansion, sales in **Europe** reported volumes and market share in line with those of the prior year. In particular:

- **Turkey**: improved volumes and market share;
- **Egypt**: volumes and market share substantially in line with the prior year;
- **Latin America**: increased volumes and market share;
- **Rest of the World**: significantly increased volumes and market share;

In April, the new Pirelli FH85 Amaranto, a product deriving from MIRS experience, was launched in Naples. The logical progression of the revolutionary new automated MIRS production process, first developed to produce runflat tyres, then extended to manufacture radial motorcycle tyres, is now its application to commercial vehicle truck tyres.

The Pirelli FH85 Amaranto constitutes a perfect fusion of the qualities which, today, are required for high-performance tyres for luxury coaches and heavy vehicles driven over long distances: economy of use, structural uniformity, simple-to-drive, structural and acoustic comfort and safety in all kinds of driving conditions.

Steelcord tyres

During the first half of 2004, the world Steelcord market reported an increase of more than 8 percent, driven principally by emerging markets such as **China, Eastern Europe** and **South America**.

Within this general scenario, Steelcord tyres closed the first half of 2004 with an increase in sales that was in line with the growth of the market.

At the beginning of 2004, there was a marked increase in the prices of steel and, consequently, in the prices of steel cords. In the third quarter, the growth trend continues. The increases in the cost of the raw material have led to a higher sales price for the finished product.

From the industrial point of view, the two factories in **Turkey** and **Brazil** have expanded their production capacity and reported improved performance compared to the first half of 2003, thanks to the increase in production volumes.

Outlook for the current year

In the second half of the year, the expansion phase is expected to continue, despite the possibility of a slight slowdown in the U.S.A. and Western Europe. The brilliant performance reported in **Asia** and particularly in **China** and **Japan** is expected to continue, while growth is expected to be confirmed in **Brazil** and **Argentina**. This forecast is based on the assumption that development will continue without interruptions of consumption or investment and amid a continuous expansion of world trade.

However, risks associated with the rise in the price of oil, higher interest rates and currency fluctuations, with particular reference to the U.S. dollar and some of the Asian currencies, must also be taken into account. The **European Union** is finding it difficult to take decisive action to improve the level of competitiveness of the whole system and create far-reaching synergies between member states.

In this context, the Tyres Sector is expected to improve its results in the second half of the year, compared to those in the second half of 2003, despite the fact that, historically, second-half results tend to be not as good as those of the first half.

REAL ESTATE SECTOR

The first half recorded strong growth that was perfectly in line with the targets set in three-year plan 2004-2006.

Net income attributable is equal to Euros 50.5 million compared to Euros 40.3 million in 2003, with an increase of 25 percent.

Economic review

In view of the Group's business model, the aggregate production value, net of acquisitions, and the operating profit including the share of earnings (losses) of equity investments are the most important indicators that express the business volumes managed and the trend in results at the operating level.

(in millions of euros)	1 st half 2004	1 st half 2003	
Aggregate production value, net of acquisitions	910.7	693.0	31%
Consolidated production value	257.8	282.2	
- of which, net of acquisitions	234.7	244.9	
Operating profit including the share of earnings (losses) of equity investments	66.2	53.3	24%
Income before extraordinary items	68.5	53.2	
Net income - attributable	50.5	40.3	25%

Aggregate production value, net of acquisitions, amounts to Euros 910.7 million with a growth of 31 percent compared to Euros 693.0 million in the first half of 2003.

Consolidated production value alone in the first half of 2004 is Euros 257.8 million, compared to Euros 282.2 million in the first half of 2003. The decrease, in keeping with the Group's business model, is due to the growing impact of initiatives in minority-owned investments rather than consolidated investments.

Operating profit (loss) including the share of earnings (losses) of equity investments is a profit of Euros 66.2 million in the first half of 2004, compared to Euros 53.3 million in the first half of 2003, a growth of 24 percent.

Attributable net income is Euros 50.5 million, compared to Euros 40.3 million in the first half of 2003, with an increase of 25 percent.

Balance sheet and financial review

(in millions of euros)	6/30/2004	12/31/2003	6/30/2003
Fixed assets	359.6	313.4	252.9
of which, investments in real estate funds and investment companies	187.7	149.7	118.2
Net working capital	143.4	162.3	234.5
of which, inventories	270.3	325.0	362.5
Net invested capital	503.0	475.7	487.4
Shareholders' equity	422.9	424.8	360.2
of which, minority interest	5.0	3.2	0.4
Provisions	36.5	41.7	55.8
Net financial (liquidity)/debt position	43.6	9.2	71.4
Financed	503.0	475.7	487.4

Attributable shareholders' equity at June 30, 2004 is Euros 417.9 million compared to Euros 421.6 million at the end of 2003. The reduction is mainly due to the difference between dividends paid (Euros 53.8 million) and the net income for the period (Euros 50.5 million).

The net financial position shows a net debt position of Euros 43.6 million at June 30, 2004, an improvement of Euros 27.8 million compared to Euro 71.4 million at June 30, 2003 (Euros 9.2 million at the end of 2003).

The adjusted net financial position (expressed gross of the financing made to minority-owned companies) is a net debt position of Euros 278.5 million compared to Euros 249.3 million at June 30, 2003 (a net debt position of Euros 223.7 million at the end of 2003).

The gearing ratio is 0.66 compared to 0.53 at December 31, 2003 and 0.69 at June 30, 2003, reflecting the targets set in the three-year plan.

Fixed assets total Euros 359.6 million at June 30, 2004, compared to Euros 313.4 million at the end of 2003, with a growth of Euros 46.2 million, of which Euros 21.5 million refers to the purchase of 2 percent of the shares of Tecla Fondo Uffici and 5 percent of the shares of Cloe Fondo Uffici by Pirelli RE SGR.

Net working capital is equal to Euros 143.4 million, compared to Euros 162.3 million at the end of 2003. The decrease can be attributable to the reduction in inventories following the sale of properties finalized during this first half.

Outlook for the current year

On the basis of available information, a growth in operating profit, including the share of earnings of equity investments, can reasonably be expected for 2004, in line with the three-year plan.

For additional information on the performance of the real estate group, please refer to the report drawn up by Pirelli & C. Real Estate S.p.A..

PIRELLI & C. AMBIENTE S.P.A.

Pirelli & C. Ambiente S.p.A. reported a loss of Euros 1.3 million in the first half ending June 30, 2004 compared to a loss of Euros 1 million in the first six months of 2003 and a loss of Euros 2.1 million for the year ending December 31, 2003.

During the first half, the company continued its activities in the field of renewable energy sources through the production of a quality fuel derived from waste (CDR-P), for the start of renewable energy development through the replacement of primary fossil fuels, and in the sector of environmental redevelopment.

As for renewable energy development, double shifts started working in May at the affiliate company, I.D.E.A. Granda S.c.r.l., to produce CDR-P. This made it possible to reach the anticipated level of potential production capacity.

As for environmental redevelopment, the purchase of the business at the end of last year allowed Pirelli & C. Ambiente to start operations during the first half in the sector of environmental reclamation, especially by promoting such activities outside the captive perimeter of the group.

PROFORMA DATA

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

Proforma consolidated financial data at June 30, 2004 of Pirelli & C. S.p.A. is presented below, assuming the consolidation line-by-line of Olimpia S.p.A. and the use of the equity method to value the investment in Telecom Italia S.p.A..

<i>(in millions of euros)</i>	Proforma adjustments						Proforma consolidated financial data 6/30/2004 Pirelli & C. S.p.A. (2)
	Consolidated financial statements 6/30/2004 Pirelli & C. S.p.A. (1)	Elimination of Olimpia S.p.A net result attributable to Pirelli & C. S.p.A. (50.4%)	Olimpia S.p.A. line-by-line consolidation	Adjustments to Olimpia financial statements to take into account the valuation made by Pirelli when the merger surplus was allocated	Consolidation adjustments and valuation of investment in Telecom Italia S.p.A. using the equity method	Total proforma adjustments	
Condensed statement of income							
- Net sales	3,573	-	-	-	-	-	3,573
- Operating profit	190	-	-	-	-	-	190
- Financial income (expenses)/ valuation adjustments to financial assets	22	(53)	106	-	(235)	(182)	(160)
- Extraordinary items	(7)	-	-	-	-	-	(7)
- Income taxes	(74)	-	-	-	-	-	(74)
- Net income (loss)	131	(53)	106	-	(235)	(182)	(51)
- Net income (loss) - Pirelli & C. S.p.A.	112	(53)	53	-	(119)	(119)	(7)
- Goodwill amortization effect	1	-	-	-	169	169	170
- Net income (excl. goodwill amortization)	132	(53)	106	-	(66)	(13)	119
- Net income - Pirelli & C. S.p.A. (excl. goodwill amortization)	113	(53)	53	-	(34)	(34)	79
Reclassified balance sheet							
- Fixed assets	6,059	(53)	9,561	(1,245)	(5,479)	2,784	8,843
- Net working capital	688	-	39	-	-	39	727
- Total net invested capital	6,747	(53)	9,600	(1,245)	(5,479)	2,823	9,570
- Financed by:							
- Shareholders' equity	3,685	(53)	6,430	(1,245)	(5,479)	(347)	3,338
- of which shareholders' equity - Pirelli & C. S.p.A.	3,443	(53)	3,241	(627)	(4,024)	(1,463)	1,980
- Provisions	1,015	-	-	-	-	-	1,015
- Net financial (liquidity)/debt position	2,047	-	3,170	-	-	3,170	5,217

(1) Pirelli & C. S.p.A. consolidated financial statements (investment in Olimpia S.p.A. accounted for using the equity method)
(2) proforma data (line-by-line consolidation of Olimpia S.p.A. and equity method valuation of Telecom Italia S.p.A.)

The proforma consolidated financial data has been prepared using the statutory financial statements of Olimpia S.p.A. at June 30, 2004 and the consolidated financial statements of the Telecom Italia S.p.A. Group at the same date.

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

- in the column “Elimination of Olimpia S.p.A. net result attributable to Pirelli & C. S.p.A. (50.4%)”: elimination of the statement of income and balance sheet effects of valuing Olimpia S.p.A. with the equity method in the Pirelli & C. S.p.A. consolidated financial statements at June 30, 2004;
- in the column “Olimpia S.p.A. line-by-line consolidation”: inclusion of the assets, liabilities, revenues and costs resulting from the financial statements for the six months ended June 30, 2004 of Olimpia S.p.A., attributing the share of net equity and results of operations to the minority interest;
- in the column “Adjustments to Olimpia financial statements to take into account the valuation made by Pirelli when the merger surplus was allocated” the amount of Euros 1,245 million derives from the effect of the allocation of the merger surplus of Pirelli & C S.p.A. in 2003 which was booked as a deduction of the goodwill posted by Olimpia on the investment in Telecom Italia S.p.A.;
- in the column “Consolidation adjustments and valuation of investment in Telecom Italia S.p.A. using the equity method”: inclusion of the effect of accounting for Telecom Italia S.p.A. using the equity method, giving rise to a negative valuation adjustment of Euros 235 million, of which Euros 97 million relates to the amortization of implicit goodwill for six months out of a total twenty-year period, Euros 44 million to Olimpia S.p.A.’s share of the first-half 2004 net income of the Telecom Italia Group and Euros 182 million to the reversal of Telecom Italia S.p.A. dividends collected by Olimpia.

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

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

- in the column "Consolidated financial statements at June 30, 2004 Pirelli & C. S.p.A.", the amount of Euros 1 million refers to the amortization charge for the six months on the goodwill booked by Pirelli & C. S.p.A. in respect of Olimpia S.p.A.;
- in the column "Consolidation adjustments and valuation of investment in Telecom Italia S.p.A. using the equity method", the amount of Euros 169 million includes Euros 97 million for the goodwill booked by Olimpia S.p.A. in respect of Telecom Italia S.p.A. and Euros 72 million for the original goodwill booked by Olivetti S.p.A. in 1999 in respect of Telecom Italia S.p.A..

A comparison of shareholders' equity and net debt between the consolidated financial statements of Pirelli & C. S.p.A. and the proforma consolidated financial data of Pirelli & C. S.p.A. at June 30, 2004 and June 30, 2003 is presented below, assuming:

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

<i>(in millions of euros)</i>	Shareholders' equity		Net debt		Net debt/Shareholders' equity		Shareholders' equity - Pirelli & C. S.p.A.	
	6/30/2004	12/31/2003	6/30/2004	12/31/2003	6/30/2004	12/31/2003	06/30/2004	12/31/2003
Pirelli & C. S.p.A. Group: consolidated financial statements	3,685	3,678	2,047	1,745	0.56	0.47	3,443	3,429
Pirelli & C. S.p.A. Group: proforma consolidated data with Olimpia S.p.A. consolidated line-by-line and Telecom Italia S.p.A. valued using the equity method	3,338	3,524	5,217	5,023	1.56	1.43	1,980	2,089
Pirelli & C. S.p.A. Group: proforma consolidated data with Olimpia S.p.A. and Telecom Group consolidated line-by-line	20,319	22,362	38,434	38,369	1.89	1.72	1,980	2,089

PIRELLI & C. S.p.A. - SUMMARY DATA

The statement of income is summarized as follows:

(in millions of euros)

STATEMENT OF INCOME	1 st half 2004	1 st half 2003	12/31/2003
Financial income (expenses)	(25.6)	(27.2)	(46.5)
Investment income	1.2	4.4	261.4
Valuation adjustments to financial assets	(19.8)	-	(56.5)
Other operating income (expenses)	(11.6)	(3.3)	(19.1)
Income (loss) before extraordinary items and income taxes	(55.8)	(26.1)	139.3
Extraordinary items	1.1	(18.3)	(20.6)
Income taxes	-	0.5	19.1
Net income (loss)	(54.7)	(43.9)	137.8

The first half of 2004 ends with a loss of Euros 54.7 million compared to a loss of Euros 43.9 million in the first half of 2003.

The increase in the loss of Euros 10.8 million compared to the corresponding period of the prior year is principally due to the result before extraordinary items and income taxes (which went from a loss of Euros 26.1 million to a loss of Euros 55.8 million), offset by an improvement in extraordinary items as a result of the absence of the costs relating to the merger of Pirelli S.p.A. and Pirelli & C. Luxembourg S.p.A. that had been incurred in the first half of 2003.

The deterioration in the loss before extraordinary items and income taxes is mainly due to investment writedowns of Euros 19.8 million made during the first half of 2004, lower investment income from Group companies of Euros 3.5 million compared to the corresponding period of the prior year, a lower operating result by Euros 8.3 million due to the posting in the first half of 2003 of income on the settlement of the dispute concluded with Ciena over its use of patents (Euros 10 million) and in part compensated by an improvement in financial income (expenses), net, of (Euros 1.6 million).

(in millions of euros)

BALANCE SHEET	6/30/2004	12/31/2003	6/30/2003
Intangible assets	11.3	12.3	14.4
Property, plant and equipment	56.0	56.4	57.0
Financial assets	4,683.9	4,657.7	4,247.1
Net working capital	60.2	196.6	18.4
	4,811.4	4,923.0	4,336.9
Shareholders' equity	3,192.4	3,355.1	3,173.4
Provisions	353.4	354.2	419.7
Net financial position	1,265.6	1,213.7	743.8
	4,811.4	4,923.0	4,336.9

The changes in the balance sheet can be summarized as follows:

- **financial assets** increased by Euros 26.2 million due to investments for increases in share capital of Eurostazioni S.p.A. (Euros 33.3 million), F.C. Internazionale Milano S.p.A. (Euros 11.7 million) and Eurofly Service S.p.A. (Euros 1.3 million).

Such increase was partly offset by valuation adjustments made to certain investments: F.C. Internazionale Milano S.p.A. (Euros 10 million), Eurofly Service S.p.A. (Euros 2.5 million), Pirelli & C. Ambiente S.p.A. (Euros 1.3 million), G.I.M. Generale Industrie Metallurgiche S.p.A. (Euros 3.1 million), S.M.I. Società Metallurgica Italiana S.p.A. (Euros 1.6 million) and Trefin S.r.l. (Euros 1.3 million).

- **net working capital** decreased by Euros 136.4 million principally due to the collection of dividends relating to the year 2003 for Euros 131.5 million and the sale of receivables from the tax authorities to Group companies for Euros 7.7 million.
- the decrease in **shareholders' equity** compared to the prior year is detailed in the following table:

	(in millions of euros)
Shareholders' equity at 12/31/2003	3,355.1
Dividends paid	(108.6)
Warrants 2003-2006 exercised	0.6
Net loss	(54.7)
Total changes	(162.7)
Shareholders' equity at 6/30/2004	3,192.4

- **net debt** went from Euros 1,213.7 million at December 31, 2003 to Euros 1,265.6 million at June 30, 2004. The change in net debt of Euros 51.9 million is detailed in the following table:

	(in millions of euros)
Operating loss	(11.6)
Investment income (expenses)	(49.5)
Other changes	9.6
Free cash flows	(51.5)
Financial income (expenses)	(25.6)
Dividend collected	132.7
Dividends paid	(108.6)
Sundry changes	1.1
Total change	(51.9)

The Board of Directors

Milan, September 9, 2004

PIRELLI GROUP

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

(in thousands of euros)

CONSOLIDATED BALANCE SHEETS	June 30, 2004	December 31, 2003	June 30, 2003
ASSETS			
A) CAPITAL SUBSCRIPTION RIGHTS			
Portion called up	5	-	-
Portion not called up	-	-	2,442
B) FIXED ASSETS			
I) INTANGIBLE ASSETS			
Formation costs	17,069	19,775	15,885
Patents and design patent rights	1,468	1,708	2,395
Concession, licenses, trademarks and similar rights	25,500	24,844	7,157
Goodwill	31,478	33,132	63,158
Difference on consolidation	406,757	421,376	417,820
Intangible assets in progress and payments on account	4,217	2,096	8,941
Other intangible assets	51,295	53,577	52,122
TOTAL INTANGIBLE ASSETS	537,784	556,508	567,478
II) PROPERTY, PLANT AND EQUIPMENT			
Land and buildings	677,955	682,529	698,507
Plant and machinery	1,032,707	1,071,596	1,063,414
Industrial and commercial equipment	120,066	127,290	130,335
Other property, plant and equipment	78,790	86,766	94,635
Assets under construction and advances to suppliers	190,387	186,414	218,465
TOTAL PROPERTY, PLANT AND EQUIPMENT	2,099,905	2,154,595	2,205,356
III) FINANCIAL ASSETS			
Investments in:			
a) Unconsolidated subsidiaries	14,859	19,381	7,023
b) Jointly controlled subsidiaries	2,640,754	2,588,671	2,256,221
c) Associated companies	242,306	187,809	156,104
d) Other companies	441,642	313,069	279,311
Financial receivables:			
a.2) Unconsolidated subsidiaries due beyond 1 year	-	-	14,662
b.1) Associated companies within 1 year	-	-	69
b.2) Associated companies beyond 1 year	237,790	219,641	174,077
c.1) Other companies due within 1 year	8,952	6,878	8,286
c.2) Other companies due beyond 1 year	55,176	56,217	65,461
Other securities	81,692	81,824	91,547
Treasury shares	4,678	4,678	4,678
TOTAL FINANCIAL ASSETS	3,727,849	3,478,168	3,057,439
TOTAL FIXED ASSETS	6,365,538	6,189,271	5,830,273

(in thousands of euros)

CONSOLIDATED BALANCE SHEETS	June 30, 2004	December 31, 2003	June 30, 2003
C) CURRENT ASSETS			
I) INVENTORIES			
Raw materials, auxiliaries and consumables	235,152	228,941	247,107
Work in process and semifinished products	216,469	217,478	330,828
Contract work in progress	220,863	156,958	185,867
Finished products and goods for resale	596,586	609,419	499,203
Advances	12,587	9,218	9,051
TOTAL INVENTORIES	1,281,657	1,222,014	1,272,056
II) RECEIVABLES			
Trade	1,538,721	1,326,740	1,454,420
Unconsolidated subsidiaries	8	22,004	40,221
Associated companies	136,951	166,807	181,186
Other receivables	449,412	413,935	574,231
TOTAL RECEIVABLES	2,125,092	1,929,486	2,250,058
III) CURRENT FINANCIAL ASSETS			
Other securities	309,127	283,525	235,912
TOTAL CURRENT FINANCIAL ASSETS	309,127	283,525	235,912
IV) CASH AND BANKS			
Bank and postal deposits	265,287	257,704	495,411
Checks	814	2,979	15,557
Cash on hand	1,513	2,933	1,454
TOTAL CASH AND BANKS	267,614	263,616	512,422
TOTAL CURRENT ASSETS	3,983,490	3,698,641	4,270,448
D) ACCRUED INCOME AND PREPAID EXPENSES			
Accrued income	32,906	40,453	65,580
Prepaid expenses	33,982	32,681	42,571
TOTAL ACCRUED INCOME AND PREPAID EXPENSES	66,888	73,134	108,151
TOTAL ASSETS	10,415,921	9,961,046	10,211,314

(in thousands of euros)

CONSOLIDATED BALANCE SHEETS	June 30, 2004	December 31, 2003	June 30, 2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
A) SHAREHOLDERS' EQUITY			
- Parent company interest	3,442,869	3,428,567	3,499,008
I) Share capital	1,799,986	1,799,399	1,799,399
II) Share premium reserve	500,291	500,291	500,291
III) Revaluation reserve	1,679	1,680	1,679
IV) Legal reserve	74,772	67,885	67,884
V) Reserve for treasury shares in portfolio	4,678	4,678	4,678
VII) Other reserves	712,003	879,153	945,925
VIII) Retained earnings	237,090	214,838	214,838
IX) Net income (loss)	112,370	(39,357)	(35,686)
- Minority interest	242,248	249,180	299,520
a) Capital and reserves	223,992	205,535	284,430
b) Net income	18,256	43,645	15,090
TOTAL SHAREHOLDERS' EQUITY	3,685,117	3,677,747	3,798,528
B) PROVISIONS FOR LIABILITIES AND EXPENSES			
Pensions and similar obligations	184,085	198,665	204,863
Income taxes	169,610	162,322	210,951
Other	493,071	515,152	615,514
TOTAL PROVISION FOR LIABILITIES AND EXPENSES	846,766	876,139	1,031,328
C) PROVISION FOR EMPLOYEES' LEAVING INDEMNITY	168,426	169,006	156,312
D) PAYABLES			
Bonds	1,150,004	1,150,004	1,150,004
Bank borrowings	1,744,848	1,250,939	1,431,493
Other financial companies	39,780	180,305	102,821
Advances from customers	189,116	134,069	206,178
Trade	1,498,464	1,380,117	1,247,346
Unconsolidated subsidiaries	138	5,321	4,436
Associated companies	45,266	56,418	42,116
Taxes	211,069	192,871	197,757
Social security agencies	49,340	56,999	51,282
Other payables	485,564	522,003	472,288
TOTAL PAYABLES	5,413,589	4,929,046	4,905,721

(in thousands of euros)

CONSOLIDATED BALANCE SHEETS	June 30, 2004	December 31, 2003	June 30, 2003
E) ACCRUED LIABILITIES AND DEFERRED INCOME			
Accrued liabilities	249,829	230,873	278,562
Deferred income	52,194	78,235	40,863
TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME	302,023	309,108	319,425
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	10,415,921	9,961,046	10,211,314

(in thousands of euros)

CONSOLIDATED BALANCE SHEETS	June 30, 2004	December 31, 2003	June 30, 2003
PERSONAL GUARANTEES			
- Sureties on behalf of other companies	258,286	273,254	218,950
- Credit guarantees on behalf of other companies	20,506	16,906	15,590
- Other guarantees	79,706	-	-
	<u>358,498</u>	<u>290,160</u>	<u>234,540</u>
THIRD PARTY ASSETS HELD IN DEPOSIT			
- Securities held in deposit	993,032	1,230,245	591,767
- Third-party goods held in deposit	14,406	10,100	10,059
	<u>1,007,438</u>	<u>1,240,345</u>	<u>601,826</u>
ASSETS HELD BY THIRD PARTIES			
- Securities held as guarantees and sureties	58,251	56,715	16,826
- Shares held in deposit	383,467	563,636	327,518
- Goods held by third parties	6,157	4,314	4,118
	<u>447,875</u>	<u>624,665</u>	<u>348,462</u>
COMMITMENTS AND CONTINGENCIES			
- Commitments for purchases of fixed assets	501,431	534,356	558,769
- Commitments for purchases of investments	38,059	40,948	-
- Put options granted to third parties	2,249,632	2,209,360	2,145,634
- Sale of tax receivables due from the tax authorities	92,425	101,558	102,052
	<u>2,881,547</u>	<u>2,886,222</u>	<u>2,806,455</u>
OTHER MEMORANDUM ACCOUNTS			
- Potential losses for risk of default on discounted bills	75	21,954	26,872
- Forward securities purchases	342,100	342,100	200,000
	<u>342,175</u>	<u>364,054</u>	<u>226,872</u>
TOTAL MEMORANDUM ACCOUNTS	<u>5,037,533</u>	<u>5,405,446</u>	<u>4,218,155</u>

(in thousands of euros)			
CONSOLIDATED STATEMENTS OF INCOME	1st half 2004	1st half 2003	Year 2003
A) PRODUCTION VALUE			
Revenues from sales and services	3,573,125	3,297,577	6,671,300
Changes in inventories of work in process, semifinished and finished products	(33,962)	(35,619)	(2,447)
Changes in contract work in progress	62,320	(10,399)	20,153
Increase in property, plant and equipment	7,267	3,440	10,659
Other revenues and income:			
a) Miscellaneous	127,031	88,024	150,668
b) Government grants	1,735	954	6,375
TOTAL PRODUCTION VALUE	3,737,516	3,343,977	6,856,708
B) PRODUCTION COSTS			
Raw materials, auxiliaries, consumables and goods for resale	(1,774,463)	(1,512,505)	(3,215,408)
Service expenses	(741,193)	(700,329)	(1,385,871)
Lease and rent expenses	(43,129)	(37,719)	(80,662)
Personnel costs	(727,334)	(687,901)	(1,371,175)
Amortization, depreciation and writedowns:			
a) Amortization of intangible assets	(38,473)	(40,229)	(82,853)
b) Depreciation of property, plant and equipment	(135,422)	(139,338)	(277,701)
d) Writedowns of receivables included in current assets and cash and banks	(6,230)	(15,336)	(26,263)
Changes in inventories of raw materials, auxiliaries, consumables and goods for resale	22,541	39,583	63,262
Other accruals	(11,020)	(16,768)	(47,135)
Other operating expenses	(92,564)	(90,965)	(165,222)
TOTAL PRODUCTION COSTS	(3,547,287)	(3,201,507)	(6,589,028)
DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS	190,229	142,470	267,680
C) FINANCIAL INCOME AND EXPENSES			
Investment income	14,005	3,696	14,432
Other financial income:			
a) from receivables included in fixed assets	6,969	4,818	10,246
b) from securities included in current assets	-	45	-
c) from receivables included in current assets	11,197	3,559	25,455
d) income other than the above	216,321	135,232	210,965
Interest and other financial expenses	(303,844)	(221,810)	(395,036)
TOTAL FINANCIAL INCOME AND EXPENSES	(55,352)	(74,460)	(133,938)

(in thousands of euros)

CONSOLIDATED STATEMENTS OF INCOME	1st half 2004	1st half 2003	Year 2003
D) VALUATION ADJUSTMENTS TO FINANCIAL ASSETS			
Revaluations	96,663	25,400	70,676
Writedowns	(19,790)	(46,989)	(121,027)
TOTAL VALUATION ADJUSTMENTS	76,873	(21,589)	(50,351)
E) EXTRAORDINARY ITEMS			
Extraordinary income	3,155	44,161	69,064
Extraordinary expenses	(10,204)	(46,309)	(77,964)
TOTAL EXTRAORDINARY ITEMS	(7,049)	(2,148)	(8,900)
INCOME BEFORE INCOME TAXES	204,701	44,273	74,491
Income taxes	(74,075)	(64,869)	(70,203)
NET INCOME (LOSS)	130,626	(20,596)	4,288
PARENT COMPANY INTEREST	112,370	(35,686)	(39,357)
MINORITY INTEREST	18,256	15,090	43,645

NOTES TO THE SIX-MONTHS CONSOLIDATED FINANCIAL STATEMENTS**AT JUNE 30, 2004**

FORM AND CONTENT

The consolidated financial statements for the six months ended June 30, 2004 have been prepared with the same format and content consistent with the accounting principles and principles of consolidation adopted in the financial statements at December 31, 2003 and described in the previous annual report.

Reclassifications, where appropriate, have been made to the financial statements at December 31, 2003 and the six-month financial statements at June 30, 2003, for purposes of comparison.

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

The reconciliation of the net result for the period and the shareholders' equity reported by Pirelli & C. S.p.A. at June 30, 2004 and the corresponding consolidated figures is presented in the supplementary information.

COMMENTS ON THE CONSOLIDATED BALANCE SHEETS

ASSETS

B) FIXED ASSETS

I) INTANGIBLE ASSETS

The composition and movements in intangible assets are presented below:

	12/31/2003	Translation adjustment	Increase	Decrease	Amortization	6/30/2004
. Formation costs	19,775	-	718	(165)	(3,259)	17,069
. Patents and design patent rights	1,708	3	17	-	(260)	1,468
. Concessions, licenses, trademarks and similar rights	24,844	3	2,245	(434)	(1,158)	25,500
. Goodwill	33,132	339	630	-	(2,623)	31,478
. Difference on consolidation	421,376	-	1,138	-	(15,757)	406,757
. Other	55,673	39	15,216	-	(15,416)	55,512
	556,508	384	19,964	(599)	(38,473)	537,784

II) PROPERTY, PLANT AND EQUIPMENT

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

	(in thousands of euros)	
	6/30/2004	12/31/2003
Gross value		
. Opening balances	5,390,891	5,757,030
. Translation adjustment	51,745	(363,950)
. Change in scope of consolidation	-	13,039
. Allocation of merger surplus	-	(124,909)
. Additions	113,229	273,475
. Disposals	(120,079)	(163,794)
	5,435,786	5,390,891
Accumulated depreciation		
. Opening balances	3,236,296	3,350,624
. Translation adjustment	69,231	(268,401)
. Change in scope of consolidation	-	1,302
. Depreciation charge	135,422	277,701
. Disposals	(105,068)	(124,930)
	3,335,881	3,236,296
Net book value	2,099,905	2,154,595

The ratio of additions during the period to depreciation is 0.84.

III) FINANCIAL ASSETS

(in thousands of euros)

	12/31/2003	Change in scope of consolidation	Increase	Decrease	6/30/2004
Investments in unconsolidated subsidiaries	19,381	(4,522)	-	-	14,859
Investments in jointly controlled subsidiaries	2,588,671	-	52,083	-	2,640,754
Investments in associated companies	187,809	-	73,090	(18,593)	242,306
Investments in other companies	313,069	-	144,553	(15,980)	441,642
	3,108,930	(4,522)	269,726	(34,573)	3,339,561

“**Investments in unconsolidated subsidiaries**” amount to Euros 14,859 thousand; the amount refers entirely to the investment in AFCAB Holdings (Proprietary) Ltd..

“**Investments in jointly controlled subsidiaries**” amount to Euros 2,640,754 thousand and refer to the investment in Olimpia S.p.A. (50.4 percent), which has been accounted for using the equity method. The amount includes goodwill that is being amortized over 20 years (Euros 43,148 thousand).

“**Investments in associated companies**” amount to Euros 242,306 thousand compared to 187,809 thousand at December 31, 2003.

Details of investments are as follows:

(in thousands of euros)

real estate group	
Aree Urbane S.r.l. (former Ortensia S.r.l.)	2,543
Bernini Immobiliare S.r.l.	1,979
CFT Finanziaria S.p.A.	6,995
Continuum S.r.l.	2,875
Delta S.p.A.	1,038
Dixia S.r.l.	6,323
Domogest S.r.l.	1,628
Esedra S.r.l.	2,413
FIM - Fabbrica Italiana di Mediazione S.r.l.	1,078
Geolidro S.r.l.	2,072
Induxia S.r.l.	2,397
IN Holding Italy S.a.r.l.	7,719
Iniziative Immobiliari S.r.l.	35,445
Ininm Due S.a.r.l.	3,201
Immobiliare Prizia S.r.l.	4,555
Localto S.p.A.	1,118
Massetto 1 B.V.	7,598
M.S.M.C. Italy Holding B.V.	40,546
M.S.M.C. Solferino S.a.r.l.	2,041
Orione Immobiliare Prima S.p.A.	3,229
Popoy B.V.	12,567
Sci Roev Texas Partners L.P.	2,516
Solaris S.r.l.	4,361
Trixia S.r.l.	6,775
Other minor companies	243
	163,255
industrial group	
Power Cables Malaysia Sdn Bhd (Malaysia)	7,599
Drathcord Saar Gmbh & Co. K.G. (Germany)	5,090
Rodco Ltd. (United Kingdom)	4,356
Kabeltrommel Gmbh & Co. K.G. (Germany)	2,810
STIP Tunisi (Tunisia)	2,410
SMP Melfi S.r.l. (Italy)	1,807
K.M.P. Cabos Especiais e Sistemas Ltda (Brazil)	1,481
Industriekraftwerk Breuberg Gmbh (Germany)	521
Other minor companies	843
	26,917
other	
Eurostazioni S.p.A.	51,300
I.D.E.A. Granda Società consortile	633
Other minor companies	201
	52,134
TOTAL	242,306

“Investments in other companies” amount to Euros 441,642 thousand compared to Euros 313,069 thousand at December 31, 2003. The increase is mainly due to the exercise of the options rights on Telecom Italia S.p.A. ordinary shares (Euros 109,670 thousand), the capital increases in F.C. Internazionale Milano S.p.A. (Euros 11,720 thousand) and in Eurofly S.p.A. (Euros 1,334 thousand), the purchase by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. of a 5 percent share of Cloe Fondo Uffici (the seeded mutual fund for investments destined for institutional investors) for an amount of Euros 15,000 thousand, and a 2 percent share of Tecla Fondo Uffici for an amount of Euros 6,531 thousand. Such increases have been offset by reductions made to the investments in F.C. Internazionale Milano S.p.A. (Euros 10,000 thousand), Eurofly S.p.A. (Euros 2,467 thousand) and G.I.M. Generale Industrie Metallurgiche S.p.A. (Euros 2,598 thousand).

“Other securities” amount to Euros 81,692 thousand compared to Euros 81,824 thousand at December 31, 2003. They mainly refer to Fenera Holding S.p.A. bonds (Euros 2,582 thousand) held by Pirelli & C. S.p.A., 10 shares of Fondo Prudentia equal to Euros 517 thousand held by Pirelli & C. S.p.A. and advances on convertible bond asset swaps on Telecom Italia S.p.A. convertible bonds 2010 and share swap transactions on Telecom Italia S.p.A. shares - Telecom Italia S.p.A. convertible bonds 2010 held by the subsidiary Pirelli Finance (Luxembourg) S.A. (Euros 77,442 thousand).

A comparison with the market prices of these assets shows a difference of approx. Euros 50 million. No writedown has been made since there is no permanent impairment in value.

“Treasury shares” amount to Euros 4,678 thousand and consist of 2,617,500 ordinary shares, equal to 0.08 percent of share capital (0.08 percent of ordinary shares alone).

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

A comparison of the price of the treasury shares with the average market price shows a total lower value of Euros 2.5 million. Valuation at cost has been maintained in the financial statements as this is not considered a permanent impairment in value.

C) CURRENT ASSETS**D) INVENTORIES**

Inventories amount to Euros 1,281,657 thousand compared to Euros 1,222,014 thousand at December 31, 2003, and may be analyzed as follows:

(in thousands of euros)		
	6/30/2004	12/31/2003
. Energy Cables and Systems Sector	504,817	395,030
. Telecom Cables and Systems Sector	61,506	58,213
. Tyres Sector	454,921	453,342
. Real Estate	270,339	325,035
. Other/consolidation adjustments	(9,926)	(9,606)
Total	1,281,657	1,222,014

II) RECEIVABLES

Receivables, which amounted to Euros 1,929,486 thousand at December 31, 2003, rose to Euros 2,125,092 thousand, and can be analyzed as follows:

(in thousands of euros)				
	6/30/2004		12/31/2003	
	Financial	Trade and other	Financial	Trade and other
. Trade	-	1,538,721	-	1,326,740
. Unconsolidated subsidiaries	-	8	18,428	3,576
. Associated companies	71	136,880	32,723	134,084
. Other receivables	35,304	414,108	2,151	411,784
	35,375	2,089,717	53,302	1,876,184

Trade receivables

Trade receivables, by due date, are detailed as follows:

	(in thousands of euros)	
	6/30/2004	12/31/2003
. Due within 1 year	1,659,552	1,468,773
. Due beyond 1 year	242	469
. Less: allowance for doubtful receivables	(121,073)	(142,502)
	1,538,721	1,326,740

No receivables are due beyond five years.

III) CURRENT FINANCIAL ASSETS

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

LIABILITIES AND SHAREHOLDERS' EQUITY

A) SHAREHOLDERS' EQUITY

PARENT COMPANY INTEREST

“Share capital” amounts to Euros 1,799,986 thousand at June 30 2004 and consists of 3,326,746,409 ordinary shares and 134,764,429 savings shares, all with a par value of Euros 0.52 per share and normal dividend rights.

The increase of Euros 587 thousand compared to December 31, 2003 is due to the exercise of 4,509,512 warrants (exercise ratio 1:4).

At June 30, 2004, outstanding warrants number 1,557,345,814 and are exercisable by June 20, 2006.

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

MINORITY INTEREST

The minority interest in shareholders' equity went from Euros 249,180 thousand at December 31, 2003 to Euros 242,248 thousand at June 30, 2004. The change is due mostly to the results for the six months to June 30, 2004, the payment of last year's dividends and the translation adjustments due to the conversion of financial statements to euros.

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

	6/30/2004	12/31/2003
Shared Service Center s.c.r.l. (Italy)	50.00%	50.00%
Auto Cables Tunisie S.A. (Tunisia)	49.00%	49.00%
Celikord A.S. (Turkey)	49.00%	49.00%
Sicable S.A. (Ivory Coast)	49.00%	49.00%
Turk Pirelli Lastikleri A.S. (Turkey)	36.94%	36.94%
Pirelli & C. Real Estate S.p.A. (Italy)	34.78%	35.38%
Pirelli Baosheng Cable Co. Ltd (China)	33.00%	33.00%
Tianjin Pirelli Power Cables Co. Ltd (China)	33.00%	33.00%
P & A.K.K. (Japan)	-	30.85%
Turk Pirelli Kablo ve Sistemleri A.S. (Turkey)	16.25%	16.25%
Pirelli Telecom Cables Co. Ltd Wuxi (China)	13.29%	13.29%
Alexandria Tire Co. S.A.E. (Egypt)	13.19%	13.19%
Pirelli de Venezuela C.A. (Venezuela)	3.78%	3.78%

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

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

	(in thousands of euros)	
	6/30/2004	12/31/2003
. Provision for current taxes	60,873	52,627
. Provision for deferred taxes	108,737	109,965
	169,610	162,322

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

	(in thousands of euros)	
	1st half 2004	1st half 2003
. Current taxes	70,874	68,119
. Deferred taxes	3,201	(3,250)
	74,075	64,869

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

OTHER PROVISIONS

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

(in thousands of euros)			
	Provision for restructuring costs	Sundry provisions	Total
Balance at December 31, 2003	51,481	463,671	515,152
. Translation adjustment	241	457	698
. Utilization	(18,180)	(14,299)	(32,479)
. Increase	2,269	7,431	9,700
Balance at June 30, 2004	35,811	457,260	493,071

The **provision for restructuring costs** amounts to Euros 35,811 thousand at June 30, 2004 and is principally composed of: Euros 17,039 thousand referring to the Energy Cables and Systems Sector, Euros 10,444 thousand referring to the Telecom Cables and Systems Sector and Euros 6,447 thousand referring to the Tyres Sector. Utilizations during the first half by the Energy Cables and Systems Sector, the Telecom Cables and Systems Sector and the Tyres Sector amount, respectively, to Euros 12,838 thousand, Euros 2,375 thousand and Euros 2,967 thousand.

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

They include the provision relating to the options granted to the shareholder banks of Olimpia and Hopa under the shareholders’ agreements (Euros 280,925 thousand).

D) PAYABLES

Payables amount to Euros 5,413,589 thousand at June 30, 2004 compared to Euros 4,929,046 thousand at December 31, 2003, and may be analyzed as follows:

	(in thousands of euros)			
	6/30/2004		12/31/2003	
	Financial	Trade and other	Financial	Trade and other
. Bonds	1,150,004	-	1,150,004	-
. Bank borrowings	1,744,848	-	1,271,441	-
. Other financial companies	39,780	-	159,803	-
. Advances from customers	-	189,116	-	134,069
. Trade	-	1,498,464	-	1,380,117
. Unconsolidated subsidiaries	1	137	4,834	487
. Associated companies	4,866	40,400	9,609	46,809
. Taxes	-	211,069	-	192,871
. Social security agencies	-	49,340	-	56,999
. Other payables	-	485,564	-	522,003
	2,939,499	2,474,090	2,595,691	2,333,355

The analysis of financial payables by due date is as follows:

Financial payables

	(in thousands of euros)			
	6/30/2004		12/31/2003	
	within 1 year	beyond 1 year	within 1 year	beyond 1 year
. Bonds	4	1,150,000	4	1,150,000
. Bank borrowings	1,218,234	526,614	750,681	520,760
. Other financial companies	21,029	18,751	136,810	22,993
. Unconsolidated subsidiaries	1	-	4,834	-
. Associated companies	4,866	-	9,609	-
	1,244,134	1,695,365	901,938	1,693,753

Financial payables are secured by liens and mortgages of Euros 23,674 thousand.

Financial payables due beyond five years amount to Euros 275,692 thousand.

Bonds

These refer to Pirelli & C. S.p.A. 1998-2008 bonds of Euros 500,000 thousand, issued on October 21, 1998, paying interest at 4.875 percent and repayable in a one-off payment on October 21, 2008. They also includes bonds of Euros 500,000 thousand issued in 2002 by the subsidiary Pirelli Finance (Luxembourg) S.A., paying interest at a fixed rate of 6.5 percent, maturing April 4, 2007, and bonds of Euros 150,000 thousand issued by Pirelli & C. S.p.A. in 1999, paying interest at 5.125 percent and maturing April 7, 2009.

Bank borrowings

Bank borrowings due beyond one year include the portion due beyond five years of Euros 99,726 thousand.

Payables to other financial companies

The amount due beyond one year includes Euros 25,966 thousand payable after five years.

Trade and other payables

	(in thousands of euros)			
	6/30/2004		12/31/2003	
	within 1 year	beyond 1 year	within 1 year	beyond 1 year
. Advances from customers	146,577	42,539	97,845	36,224
. Trade	1,498,464	-	1,380,114	3
. Unconsolidated subsidiaries	137	-	487	-
. Associated companies	40,400	-	46,809	-
. Taxes	166,439	44,630	146,559	46,312
. Social security agencies	49,340	-	56,999	-
. Other payables	448,697	36,867	485,183	36,820
	2,350,054	124,036	2,213,996	119,359

MEMORANDUM ACCOUNTS

Memorandum accounts amount to Euros 5,037,533 thousand compared to Euros 5,405,446 thousand at December 31, 2003.

PERSONAL GUARANTEES

- **Sureties on behalf of other companies**

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

- **Other guarantees**

Other guarantees are mainly given against contractual commitments.

THIRD PARTY ASSETS HELD IN DEPOSIT

- **Securities held in deposit**

These include securities entrusted for administration.

ASSETS HELD BY THIRD PARTIES

- **Securities held as guarantees and sureties**

Securities held as guarantees and sureties include owned securities held by third parties in deposit as guarantees (mainly in reference to the pledged quotas of the companies Iniziative Immobiliare S.r.l., Trixia S.r.l., Dixia S.r.l. and Immobiliare Prizia S.r.l.), owned securities held in deposit for safe-keeping and sureties given by Pirelli & C. S.p.A. against commitments and contractual obligations.

COMMITMENTS AND CONTINGENCIES

- **Commitments for purchases of fixed assets**

This caption includes Euros 320,000 for the commitment undertaken by Pirelli & C. Real Estate S.p.A. to purchase part of the buildings owned by Imser 60 S.r.l..

It also comprises Euros 78,694 thousand for the commitment assumed by Pirelli & C. Real Estate S.p.A. to purchase buildings not sold by the associated company Bernini Immobiliare S.r.l. and Euros 50,009 thousand for the commitment by Centrale Immobiliare S.p.A. to purchase the properties of third parties that remained unsold at the end of the agency contract signed with Pirelli & C. Real Estate Agency S.p.A..

- **Commitments for purchases of investments**

These relate to the commitment undertaken by Pirelli & C. Real Estate S.p.A. for the option to purchase the quotas of the associated company Iniziative Immobiliari S.r.l. (Euros 22,690 thousand) and the commitment to the Peabody group, a shareholder with a 9.601 percent interest in the share capital of the associated company Iniziative Immobiliari S.r.l., for the forward purchase of its stake (Euros 15,369 thousand).

- **Nominal value of put options granted to third parties**

These include :

- the put options granted to the shareholders banks of Olimpia S.p.A., Banca Intesa S.p.A. and Unicredito Italiano S.p.A. (the “Banks”) under the shareholders’ agreement signed on September 14, 2001 and subsequently amended (“Banks’ Agreement”). These options can be exercised from September 2006, or before that date, in the case of irremediable dissent among the shareholders (so-called “Deadlock”) or in the case of withdrawal by Pirelli & C. from the Banks’ Agreement.

Under this Agreement, the put options can be exercised by the Banks at a price equal to the value of the economic capital of Olimpia plus a premium (the “Price”). This Price shall be determined by the parties and shall not be less than the outlays made by the banks (Floor) nor higher than such sum, less any dividends received, increased by an annual IRR, before income taxes, equal to 15 percent (Cap).

The valuation of the put options – at Euros 584,680 thousand for each Bank – was carried out, for Euros 520,000 thousand of that amount, by reference to the outlays effected by the Banks (Floor).

As for the remaining amount of Euros 64,680 thousand (outlays effected by each Bank for Olimpia’s capital increase in December 2003), the valuation was based – in accordance with what was agreed in one of the amendments to the Banks’ Agreement (specifically the amendment dated December 16, 2003) – on the exercise price of the put on the shares that came to the Banks from the aforementioned capital increase, determined in an amount equal to the higher of Euros 3.53 and the weighted average price of reference recorded by the Telecom Italia shares in the 30 days of trading prior to the request of sale, multiplied by 18,322,946 shares.

It should be mentioned that the six-months financial statements include a provision set aside for these commitments in the amount of Euros 233 million;

- the put option granted to Edizione Finance International S.A./Edizione Holding S.p.A. (Euros 1,080,272 thousand) (“Edizione”), under the shareholders’ agreement signed on August 7, 2001 and subsequently amended.

The put option in question can be exercised in the case of a (I) deadlock situation among the shareholders, (II) withdrawal on the part of Pirelli & C. S.p.A. from the shareholders’ agreements and (III) the occurrence of a substantial change in the controlling structure of Pirelli & C., by which is meant the exercise by parties other than those currently holding the determining power to nominate the majority of the components of the management board, with a consequent potential modification of the strategic guidelines.

The exercise price of the put option is equal to, respectively, under the assumptions (I) to the price equal to the value of the economic capital of Olimpia increased by a premium (the “Price”), (II) the Price increased by an amount equal to 50 percent of the Price and (III) the Price increased by an amount equal to 200 percent of the Price. In this case, however, there is no expectation of a Floor or Cap as in the Banks’ Agreement.

As for the valuation of the put option equal to Euros 1,080,272 thousand, since it is not possible to provide univocal valuations regarding the component of the Price consisting of the premium, this has been effected on the basis of the value of Edizione’s share (16.8 percent) of Olimpia’s net equity at June 30, 2004.

- **Sale of receivables due from the tax authorities**

These refer to the nominal value of the tax and accrued interest receivable from the tax authorities sold without recourse to Unicreditfactoring S.p.A. and Mediofactoring S.p.A..

OTHER MEMORANDUM ACCOUNTS

- **Forward securities purchases**

These refer to the commitment undertaken by Pirelli Finance (Luxembourg) S.A. for the forward purchase (expiration date of November 23, 2006) of 200,000,000 Telecom Italia S.p.A. 2001-2010 convertible bonds effected with Credit Agricole Lazard Financial Products Bank (Euros 200,000 thousand) and the commitment for the forward purchase of 47,155,300 Telecom Italia S.p.A. shares (expiration date of December 2006) subscribed with JP Morgan for an amount of Euros 142,100 thousand.

Furthermore, - on the basis of the shareholders' agreement between Hopa S.p.A. (Hopa), Pirelli & C, Edizione Finance S.A., Olimpia and the Banks (in February 2003) ("Hopa Agreement") - in the event of dissent over certain matters (such as, investments, trading, significant loans or resolutions changing the bylaws), Hopa shall have the right to obtain the spin-off of Olimpia and Olimpia shall have the consequent right to obtain the spin-off of Holinvest S.p.A..

In accordance with the terms and conditions of the Hopa Agreement, as amended, Hopa shall receive the proportional share of Olimpia instruments and Olimpia shall receive the proportional share of the instruments owned by Holinvest S.p.A..

Regardless, the spin-off can not take place until 36 months have passed since the Hopa Agreement came into force (May 2006), unless extraordinary events occur of unusual severity (such as, for example, Olimpia S.p.A. ceases to own the investment in Telecom Italia S.p.A. at a specific percentage as of the time of signing of the Hopa Agreement, or a resolution is passed to merge Olimpia or Telecom Italia S.p.A. with companies other than those controlled directly or indirectly, or if certain ratios are not met by Olimpia: 1:1 debt to equity ratio).

Under these assumptions, Hopa S.p.A. would have the right to obtain the execution of the spin-off of Olimpia at the earliest possible date and Olimpia would have the right to consequently obtain the spin-off of Holinvest S.p.A. at the earliest possible date.

Hopa would obtain payment of an amount corresponding to Euros 0.74 per Telecom Italia share or instrument included in its pro-rata share. In the event, afterwards, that a specific arbitration board recognizes the legitimacy of the dissent manifested by Hopa, the premium would be equal to Euros 1.27 per Telecom Italia share or instrument.

In the event the Hopa Agreement is not renewed, Hopa would have the right to obtain a premium per Telecom Italia share or instrument. This premium would be determined by the signers of the Hopa Agreement or, if agreement is not reached, by two investment banks, with the understanding that the premium would in any case be the higher of Euros 0.74 and the amount established by said investment banks.

Moreover, it should be mentioned that the six-months financial statements include a provision for this commitment in the amount of Euros 48 million.

COMMENTS ON THE CONSOLIDATED STATEMENTS OF INCOME

A) PRODUCTION VALUE

- Revenues from sales and services

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

	(in thousands of euros)			
	1 st half 2004		1 st half 2003	
Geographical area				
Europe:				
. Italy	785,948	22.00%	871,291	26.42%
. Other European countries	1,581,878	44.27%	1,291,399	39.16%
North America	339,439	9.50%	310,467	9.42%
Central and South America	483,075	13.52%	393,786	11.94%
Oceania, Africa and Asia	382,785	10.71%	430,634	13.06%
	3,573,125	100.00%	3,297,577	100.00%
Sector				
Energy Cables and Systems	1,448,524	40.54%	1,311,955	39.79%
Telecom Cables and Systems	204,698	5.73%	228,348	6.92%
Tyres	1,645,771	46.06%	1,508,777	45.75%
Real Estate	291,266	8.15%	280,534	8.51%
Others and inter-elimination	(17,134)	(0.48%)	(32,037)	(0.97%)
	3,573,125	100.00%	3,297,577	100.00%

B) PRODUCTION COSTS

- Personnel costs

Personnel costs consist of the following:

	(in thousands of euros)	
	1 st half 2004	1 st half 2003
. Salaries and wages	551,487	518,747
. Social security costs	129,229	121,870
. Leaving indemnity	21,501	29,238
. Pension and similar costs	13,336	9,311
. Other costs	11,781	8,735
	727,334	687,901

- Depreciation of property, plant and equipment

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

	(in thousands of euros)	
	1 st half 2004	1 st half 2003
. Buildings	14,443	8,945
. Plant and machinery	84,695	91,995
. Commercial and industrial equipment	22,465	22,510
. Other assets	13,819	15,888
	135,422	139,338

C) **FINANCIAL INCOME AND EXPENSES**

- **Investment income**

(in thousands of euros)		
	1st half 2004	1st half 2003
. Dividends from unconsolidated subsidiaries	12	1,063
. Dividends from associated companies	-	106
. Dividends from other companies	13,960	2,527
. Other income	33	-
	14,005	3,696

- **Other financial income**

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

(in thousands of euros)		
	1st half 2004	1st half 2003
. Interest from unconsolidated subsidiaries	-	416
. Interest from associated companies	245	1,169
. Bank interest and other interest	12,976	20,147
. Other financial income from associated companies	236	-
. Miscellaneous financial income	12,794	19,943
. Gains on exchange	190,070	93,557
	216,321	135,232

- **Interest and other financial expenses**

These expenses include:

	(in thousands of euros)	
	1 st half 2004	1 st half 2003
. Interest to associated companies	7	32
. Bond interest	32,065	31,506
. Bank interest and interest to other financial companies	51,240	62,168
. Miscellaneous financial expenses	29,082	27,786
. Losses on exchange	191,450	100,318
	303,844	221,810

D) VALUATION ADJUSTMENTS TO FINANCIAL ASSETS

- **Revaluations**

Revaluations amount to Euros 96,663 thousand and mainly refer to the share of earnings of the associated companies of Pirelli & C. Real Estate S.p.A. accounted for using the equity method (Euros 44,134 thousand), and Olimpia S.p.A., accounted for using the equity method (Euros 52,083 thousand).

- **Writedowns**

Writedowns of investments of Euros 19,790 thousand include the writedown of the investments in F.C. Internazionale Milano S.p.A. (Euros 10,000 thousand), Eurofly Service S.p.A. (Euros 2,467 thousand) and GIM S.p.A. (Euros 2,598 thousand) and the share of losses of the associated companies of Pirelli & C. Real Estate S.p.A. accounted for using the equity method (Euros 4,128 thousand).

E) **EXTRAORDINARY ITEMS**

- **Extraordinary income**

Extraordinary income went from Euros 44,161 thousand in the first half of 2003 to Euros 3,155 thousand and can be analyzed as follows:

	(in thousands of euros)	
	1st half 2004	1st half 2003
. Gains on disposals	1,337	16,401
. Miscellaneous	1,818	27,760
	3,155	44,161

“**Gains on disposals**” amount to Euros 1,337 thousand compared to Euros 16,401 thousand in the first half of 2003 and refer to gains on the sale of investments by the real estate sector.

Last year the caption had basically included Euros 8,769 thousand for the sale of a portion of the Energy Cables and System Sector’s land in the Bicocca area to Kappa S.r.l..

“**Miscellaneous**” in the first half of 2004 amounts to Euros 1,818 thousand compared to Euros 27,760 thousand in the first half of 2003.

Last year the caption had mainly included Euros 14,000 thousand for the consideration paid to the Tyres Sector under the “Milan-Turin High-Speed Train Project” with regard to the factory in Settimo Torinese.

- **Extraordinary expenses**

Extraordinary expenses amount to Euros 10,204 thousand, compared to Euros 46,309 thousand for the first half of 2003, and may be analyzed as follows:

(in thousands of euros)		
	1st half 2004	1st half 2003
. Losses on disposals	617	469
. Miscellaneous	9,587	45,840
	10,204	46,309

“**Miscellaneous**” for the first half of 2004 mainly includes Euros 5,838 thousand of expenses for incentives for employee cutbacks recorded by the real estate sector.

In the corresponding period of the prior year, this caption had included Euros 17,984 thousand deriving from the costs of the merger incurred by Pirelli & C. S.p.A., Euros 4,478 thousand for the tax amnesty and Euros 4,000 thousand for the costs connected with the “Milan-Turin High-Speed Train” project relative to the Settimo Torinese factory.

OTHER INFORMATION

Employees

The average number of employees in the companies included in consolidation in the first half of 2004, by category, is as follows:

Senior executives/staff	10,455
Blue-collar	23,297
Temporary employment	2,970
	36,722

Exchange rates

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

	(local currency against euros)					
	Period-end		Change in	Average		Change in
	6/30/2004	12/31/2003	%	1 st half 2004	1 st half 2003	%
Europe						
British pound	0.6708	0.7048	(4.83%)	0.6735	0.6856	(1.76%)
Swiss franc	1.5242	1.5579	(2.16%)	1.5531	1.4921	4.09%
Hungarian forint	251.6000	262.5000	(4.15%)	256.1126	247.2468	3.59%
Slovakian koruna	39.8750	41.1700	(3.15%)	40.3176	41.5037	(2.86%)
North America						
American dollar	1.2155	1.2630	(3.76%)	1.2273	1.1050	11.07%
Canadian dollar	1.6343	1.6234	0.67%	1.6428	1.6047	2.38%
South America						
Brazilian real	3.7772	3.6491	3.51%	3.6464	3.5782	1.91%
Venezuela bolivar	2333.7600	2020.8000	15.49%	2271.4013	1791.5807	26.78%
Argentine peso	3.5955	3.7006	(2.84%)	3.5677	3.3261	7.26%
Oceania						
Australian dollar	1.7554	1.6802	4.48%	1.6620	1.7919	(7.25%)
Asia						
Chinese yuan RMB	10.0602	10.4535	(3.76%)	10.1587	9.1464	11.07%
Singapore dollar	2.0901	2.1450	(2.56%)	2.0851	1.9297	8.05%
Indonesian rupiah	11419.6225	10621.8300	7.51%	10723.2329	9598.5662	11.72%
Africa						
Egyptian pound	7.5118	7.7675	(3.29%)	7.5755	6.1914	22.35%
Ivory Coast franc	655.9570	655.9570	0.00%	655.9570	655.9570	0.00%

Net financial position

The composition of the net financial position, which shows an increase of Euros 302 million compared to December 31, 2003, is the following:

	(in millions of euros)		
Net financial position	6/30/2004	6/30/2004	12/31/2003
. Short-term financial payables	1,244	922	902
. Accrued interest expenses	41	45	50
. Cash and banks	(268)	(512)	(264)
. Other short-term securities	(309)	(236)	(284)
. Short-term financial receivables	(44)	(114)	(60)
. Accrued interest income	(15)	(19)	(14)
Net short-term (liquidity)/debt	649	86	330
. Medium/long-term financial payables	1,695	1,772	1,695
. Medium/long-term financial receivables	(293)	(254)	(276)
. Other securities	(4)	(6)	(4)
Net medium-term (liquidity)/debt	1,398	1,512	1,415
Net (liquidity)/debt position	2,047	1,598	1,745

PIRELLI GROUP
SUPPLEMENTARY INFORMATION

CONSOLIDATED STATEMENTS OF CASH FLOWS		(in thousands of euros)
	1st half 2004	Year 2003
NET DEBT, AT BEGINNING OF YEAR	(1,745,363)	(2,050,385)
Translation adjustments	(747)	20,568
Operating profit	190,229	267,680
Depreciation and amortization	173,895	360,553
Increase in intangible assets	(19,258)	(88,549)
Increase in property, plant and equipment	(113,362)	(273,475)
Increase in financial assets	(50,367)	(69,027)
Disposal of intangible assets	2,800	16,705
Disposal of property, plant and equipment	6,855	13,799
Disposal of financial assets	3,741	10,427
Net investments	(169,591)	(390,120)
Changes in inventories	(52,397)	29,288
Changes in trade and other accounts receivable/payable	(35,596)	310,607
Changes in working capital	(87,993)	339,895
Changes in employee-related provisions and other provisions	(7,560)	3,165
Other changes	1,895	(17,253)
FREE CASH FLOWS	100,875	563,920
Extraordinary items, net	(7,049)	(8,900)
Financial expenses, net	(55,352)	(148,369)
Income taxes, net	(74,075)	(70,202)
Olimpia S.p.A. capital increase	-	(388,080)
Purchase of Capitalia shares	-	(79,449)
Purchase of Telecom Italia shares	(109,670)	-
Purchase of other minority holdings	-	(103,800)
Other changes	(24,008)	(66,327)
Net cash flows before dividends	(169,279)	(301,207)
Dividends paid	(132,280)	(63,772)
NET CASH FLOWS	(301,559)	(364,979)
Share capital increase of Pirelli & C S.p.A.	-	812,165
Reimbursement of share capital and reserves due to share withdrawals	-	(162,629)
Share capital increase of Pirelli & C Real Estate S.p.A.	-	-
Share capital increase minority interest	602	(103)
Changes in share capital	602	649,433
NET CHANGE IN CASH (BORROWINGS) (*)	(301,704)	305,022
NET DEBT, AT END OF PERIOD	(2,047,067)	(1,745,363)
(*) Financed by:		
Increase (decrease) in long-term loans	(16,856)	(210,622)
Increase (decrease) in short-term loans	347,301	(131,259)
Decrease (increase) in cash and banks and cash equivalents	(28,741)	36,859
	301,704	(305,022)

(in thousands of euros)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY						
	Share capital	Share premium reserve	Legal reserve	Cumulative translation adjustments	Other reserves, retained earnings net income (loss) (*)	Total
BALANCE AT DECEMBER 31, 2002	339,423	549,674	67,880	(193,630)	1,169,591	1,932,938
Profit distribution, as per resolution of May 7, 2003 - dividends to shareholders - appropriation to legal reserve			4		(41,871) (4)	(41,871) -
Share capital increase	812,164					812,164
Share capital increase from share exchange	715,152				220,047	935,199
Reimbursement of share capital and reserves	(67,340)	(49,383)			(45,906)	(162,629)
Replenishment of reserves of former merged companies					45,824	45,824
Adjustment from translation of foreign currency financial statements				(53,701)		(53,701)
Net loss for the year					(39,357)	(39,357)
BALANCE AT DECEMBER 31, 2003	1,799,399	500,291	67,884	(247,331)	1,308,324	3,428,567
Profit distribution, as per resolution of May 11, 2004 - dividends to shareholders - allocation to legal reserve			6,888		(108,623) (6,888)	(108,623) -
Exercise of warrants 2003 - 2006	587					587
Adjustment from translation of foreign currency financial statements				9,968		9,968
Net income for the period					112,370	112,370
BALANCE AT JUNE 30, 2004	1,799,986	500,291	74,772	(237,363)	1,305,183	3,442,869

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

RECONCILIATION OF THE NET RESULTS AND SHAREHOLDERS' EQUITY OF PIRELLI S.p.A. AND THE CORRESPONDING CONSOLIDATED FIGURES AT JUNE 30, 2004

(in thousands of euros)

	Share Capital	Reserves	Net income (loss)	Total
Pirelli & C S.p.A. financial statements	1,799,986	1,447,070	(54,701)	3,192,355
Earnings (losses) for the period of consolidated companies (before consolidation adjustments)			121,202	121,202
Capital and reserves of consolidated companies (before consolidation adjustments)		2,055,612		2,055,612
Consolidation adjustments:				
- carrying value of investments in consolidated companies		(2,074,268)		(2,074,268)
- intragroup dividends		15,000	(15,000)	-
- other		87,099	60,869	147,968
Group	1,799,986	1,530,513	112,370	3,442,869

Companies consolidated using the full consolidation method

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Europe						
Austria						
Pirelli Gesellschaft mbH	Tyre	Vienna	Euro	726.728	100,00%	Pirelli Tyre (Europe) S.A.
Pirelli-Oekw GmbH	Energy Cables and Systems	Vienna	Euro	2.071.176	100,00%	Pirelli Cable Holding N.V.
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700.000	100,00%	Pirelli Tyre (Europe) S.A.
Finland						
Pirelli Cables and Systems OY	Energy Cables and Systems	Helsinki	Euro	10.000.000	100,00%	Pirelli Cable Holding N.V.
France						
Eurelectric S.A.	Energy Cables and Systems	La Bresse	Euro	4.036.500	100,00%	Pirelli Energie Câbles et Systèmes France S.A.
Pirelli Energie Câbles et Systèmes France S.A.	Energy Cables and Systems	Paron de Sens	Euro	136.800.000	100,00%	Pirelli Cable Holding N.V.
Pirelli Telecom Câbles et Systèmes France S.A.	Telecom Cables and Systems	Chavanoz Pont de Cheruy Cedex	Euro	16.295.000	100,00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pneus Pirelli S.A.S	Tyre	Roissy en France	Euro	1.515.858	100,00%	Pirelli Tyre (Europe) S.A.
Project Saint Maurice S.A.	Real Estate	Paris	Euro	38.200	100,00%	Pirelli & C. Real Estate S.p.A.
Supernet Bis France S.A.	Energy Cables and Systems	Marne la Vallée	Euro	40.000	100,00%	Pirelli Energie Câbles et Systèmes France S.A.
Germany						
Bergmann Kabel und Leitungen GmbH	Energy Cables and Systems	Schwerin	Euro	1.022.600	100,00%	Pirelli Kabel und Systeme Holding GmbH
Deutsche Pirelli Reifen Holding GmbH	Financial	Breuberg/Odenwald	Euro	7.694.943	100,00%	Pirelli Tyre Holding N.V.
Driver Fleet Solution GmbH (former Materialverwertungsgesellschaft Breuberg GmbH)	Tyre	Breuberg/Odenwald	Euro	26.000	100,00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Deutschland A.G.	Tyre	Breuberg/Odenwald	Euro	26.334.088	100,00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Kabel Grundstücksverwaltungs GmbH	Energy Cables and Systems	Berlin	Euro	25.600	100,00%	Pirelli Kabel und Systeme Holding GmbH
Pirelli Kabel und Systeme Holding GmbH	Energy Cables and Systems	Berlin	Euro	26.000	99,00%	Pirelli Cable Holding N.V.
					1,00%	Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Kabel und Systeme GmbH	Energy Cables and Systems	Berlin	Euro	50.000	100,00%	Pirelli Kabel und Systeme Holding GmbH
Pirelli Telekom Kabel und Systeme Deutschland GmbH	Telecom Cables and Systems	Berlin	Euro	25.000	100,00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pneumobil GmbH	Tyre	Breuberg/Odenwald	Euro	259.225	99,62%	Deutsche Pirelli Reifen Holding GmbH
Greece						
Elastika Pirelli S.A.	Tyre	Athens	Euro	785.370	99,90%	Pirelli Tyre (Europe) S.A.
					0,10%	Pirelli Pneumatici S.p.A.
Pirelli Hellas S.A. (in liquidation)	Tyre	Athens	US \$	22.050.000	79,86%	Pirelli Tyre Holding N.V.
Hungary						
Kabel Keszletertesito BT.	Energy Cables and Systems	Budapest	Hun. Forint/000	1.239.841	100,00%	MKM Magyar Kabel Muvek Rt.
MKM Magyar Kabel Muvek RT.	Energy Cables and Systems	Budapest	Hun. Forint/000	6.981.070	100,00%	Pirelli Cable Holding N.V.
Pirelli Construction Hungary Ltd (in liquidation)	Energy Cables and Systems	Budapest	Hun. Forint/000	3.000	100,00%	Pirelli Cable Holding N.V.
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint/000	3.000	100,00%	Pirelli Tyre (Europe) S.A.
Ireland						
Pirelli Reinsurance Company Ltd	Reinsurance	Dublin	US \$	7.150.000	100,00%	Pirelli Finance (Luxembourg) S.A.
Italy						
Acquario S.r.l. (in liquidation)	Real Estate	Genoa	Euro	255.000	100,00%	Pirelli & C. Real Estate S.p.A.
Agorà S.r.l.	Real Estate	Genoa	Euro	10.000	100,00%	Pirelli & C. Real Estate S.p.A.
Alfa S.r.l.	Real Estate	Milan	Euro	2.600.000	100,00%	Pirelli & C. Real Estate S.p.A.
Alfa Due S.r.l.	Real Estate	Milan	Euro	1.300.000	100,00%	Pirelli & C. Real Estate S.p.A.
Altofin S.r.l.	Real Estate	Milan	Euro	78.000	100,00%	Pirelli & C. S.p.A.
Casaclick S.p.A.	Real Estate	Milan	Euro	425.455	99,08%	Pirelli & C. Real Estate Agency S.p.A.
					0,27%	Pirelli & C. S.p.A.
Centrale Immobiliare S.p.A.	Real Estate	Milan	Euro	5.200.000	100,00%	Pirelli & C. Real Estate S.p.A.
Centro Servizi Amministrativi Pirelli S.r.l.	Services	Milan	Euro	51.000	100,00%	Pirelli & C. S.p.A.
Driver Italia S.p.A.	Commercial	Milan	Euro	200.000	62,49%	Pirelli Pneumatici S.p.A.
Edilnord Gestioni S.p.A.	Real Estate	Milan	Euro	517.000	100,00%	Pirelli & C. Real Estate S.p.A.
Edilnord Progetti S.p.A.	Real Estate	Milan	Euro	250.000	100,00%	Pirelli & C. Real Estate S.p.A.
Elle Uno Società Consortile a.r.l.	Real Estate	Milan	Euro	100.000	60,00%	Edilnord Gestioni S.p.A.

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Emmegiesse S.p.A.	Real Estate	Milan	Euro	250.000	51,00%	Pirelli & C. Real Estate Facility Management S.p.A.
Erato Finance S.r.l.	Real Estate	Milan	Euro	500.000	53,85%	Pirelli & C. Real Estate S.p.A.
Fibre Ottiche Sud - F.O.S. S.p.A.	Optical fibers	Battipaglia (SA)	Euro	47.700.000	100,00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Iota S.r.l.	Real Estate	Milan	Euro	93.600	100,00%	Pirelli & C. Real Estate S.p.A.
Lambda S.r.l.	Real Estate	Milan	Euro	578.760	100,00%	Pirelli & C. Real Estate S.p.A.
Maristel S.p.A.	Telecom Cables and Systems	Milan	Euro	1.020.000	100,00%	Pirelli Cavi e Sistemi Telecom S.p.A.
NewCo RE 1 S.r.l.	Real Estate	Milan	Euro	30.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 2 S.r.l.	Real Estate	Milan	Euro	10.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 3 S.r.l.	Real Estate	Milan	Euro	10.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 4 S.r.l.	Real Estate	Milan	Euro	10.000	100,00%	Pirelli & C. Real Estate S.p.A.
Parccheggi Bicocca S.r.l.	Real Estate	Milan	Euro	1.500.000	75,00%	Pirelli & C. Real Estate S.p.A.
Partecipazioni Real Estate S.p.A.	Real Estate	Milan	Euro	1.360.280	100,00%	Pirelli & C. Real Estate S.p.A.
PBS S.c.a.r.l.	Real Estate	Milan	Euro	100.000	60,00%	Edilnord Gestioni S.p.A.
Pirelli & C. Ambiente S.p.A.	Environment	Milan	Euro	3.060.000	100,00%	Pirelli & C. S.p.A.
Pirelli & C. Opere Generali S.p.A.	Real Estate	Milan	Euro	104.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate S.p.A.	Real Estate	Milan	Euro	20.302.491	61,14%	Pirelli & C. S.p.A.
				5,38%	0,00%	Pirelli & C. Real Estate S.p.A.
				0,62%	0,00%	
Pirelli & C. Real Estate Agency S.p.A.	Real Estate	Milan	Euro	832.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Credit Servicing S.p.A.	Financial	Milan	Euro	2.000.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Energy S.p.A.	Real Estate	Milan	Euro	120.000	100,00%	Pirelli & C. Real Estate Facility Management S.p.A.
Pirelli & C. Real Estate Facility Management S.p.A.	Real Estate	Milan	Euro	5.561.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Franchising Agenzia Assicurativa S.r.l.	Real Estate	Milan	Euro	10.000	100,00%	Pirelli & C. Real Estate Franchising Holding S.r.l.
Pirelli & C. Real Estate Franchising Holding S.r.l.	Real Estate	Milan	Euro	10.200	70,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Project Management S.p.A.	Real Estate	Milan	Euro	520.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Property Management S.p.A.	Real Estate	Milan	Euro	114.400	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Franchising S.p.A. (former Pirelli & C. Real Estate Servizi di Rete S.p.A.)	Real Estate	Milan	Euro	500.000	100,00%	Pirelli & C. Real Estate Franchising Holding S.r.l.
Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A.	Real Estate	Milan	Euro	8.225.000	90,00%	Pirelli & C. Real Estate S.p.A.
Pirelli Cavi e Sistemi Energia S.p.A.	Energy Cables and Systems holding company	Milan	Euro	100.000.000	98,75%	Pirelli & C. S.p.A.
				1,25%		Pirelli Finance (Luxembourg) S.A.
Pirelli Cavi e Sistemi Energia Italia S.p.A.	Energy Cables and Systems	Milan	Euro	110.000.000	100,00%	Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Cavi e Sistemi Telecom S.p.A.	Telecom Cables and Systems holding company	Milan	Euro	70.000.000	98,75%	Pirelli & C. S.p.A.
				1,25%		Pirelli Finance (Luxembourg) S.A.
Pirelli Cavi e Sistemi Telecom Italia S.p.A.	Telecom Cables and Systems	Milan	Euro	41.000.000	100,00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli Cultura S.p.A.	Sundry	Milan	Euro	1.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Labs S.p.A.	Research and Development	Milan	Euro	10.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Nastri Tecnici S.p.A. (in liquidation)	Sundry	Milan	Euro	384.642	100,00%	Pirelli & C. S.p.A.
Pirelli Pneumatici S.p.A.	Tyre	Milan	Euro	256.820.000	100,00%	Pirelli Tyre Holding N.V.
Pirelli Servizi Finanziari S.p.A.	Financial	Milan	Euro	1.976.000	100,00%	Pirelli & C. S.p.A.
Pirelli Submarine Telecom Systems Italia S.p.A.	Telecom Cables and Systems	Milan	Euro	50.000.000	100,00%	Pirelli Submarine Telecom Systems Holding B.V.
PIT - Promozione Imprese e Territorio S.c.r.l.	Real Estate	Pozzuoli	Euro	25.823	100,00%	Pirelli & C. Real Estate Facility Management S.p.A.
Polo Viaggi S.r.l.	Travel agency	Milan	Euro	46.800	100,00%	Pirelli & C. S.p.A.
Progetto Ambiente Alfa S.r.l.		Milan	Euro	25.500	100,00%	Pirelli & C. Ambiente S.p.A.
Progetto Ambiente Beta S.r.l.	Environment	Milan	Euro	25.500	100,00%	Pirelli & C. Ambiente S.p.A.
Progetto Ambiente Gamma S.r.l.	Environment	Milan	Euro	25.500	100,00%	Pirelli & C. Ambiente S.p.A.
Progetto Bicocca Esplanade S.p.A.	Real Estate	Milan	Euro	2.500.000	100,00%	Pirelli & C. Real Estate S.p.A.
Progetto Grande Bicocca S.r.l.	Real Estate	Milan	Euro	93.600	100,00%	Pirelli & C. Real Estate S.p.A.
Progetto Grande Bicocca Multisala S.r.l.	Real Estate	Milan	Euro	1.530.000	100,00%	Pirelli & C. Real Estate S.p.A.
Progetto Moncalieri S.r.l.	Real Estate	Milan	Euro	90.000	100,00%	Pirelli & C. Real Estate S.p.A.
Progetto Salute Bollate S.r.l.	Real Estate	Milan	Euro	100.000	100,00%	Pirelli & C. Real Estate S.p.A.
Repeg Italian Finance S.r.l.	Real Estate	Milan	Euro	500.000	100,00%	Partecipazioni Real Estate S.p.A.
Rofau S.r.l.	Real Estate	Milan	Euro	10.000	100,00%	Altifim S.r.l.
Shared Service Center s.c.r.l.	Information Systems	Milan	Euro	1.144.000	50,00%	Pirelli & C. S.p.A.
Servizi Amministrativi Real Estate S.p.A.	Real Estate	Milan	Euro	520.000	100,00%	Pirelli & C. Real Estate S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104.000	94,00%	Pirelli & C. S.p.A.
				0,50%		Pirelli Cavi e Sistemi Energia S.p.A.
				0,50%		Pirelli Cavi e Sistemi Telecom S.p.A.
				2,00%		Pirelli Pneumatici S.p.A.
				1,00%		Polo Viaggi S.r.l.
				1,00%		Alfa Due S.r.l.
				1,00%		Pirelli & C. Real Estate S.p.A.
Somogi S.r.l.	Real Estate	Milan	Euro	90.000	88,00%	Pirelli & C. Real Estate Facility Management S.p.A.
Stella Polare S.r.l. (in liquidation)	Real Estate	Milan	Euro	289.215	100,00%	Pirelli & C. Real Estate S.p.A.
Tintoretto S.r.l.	Real Estate	Milan	Euro	10.000	100,00%	Partecipazioni Real Estate S.p.A.
Trefin S.r.l.	Financial	Milan	Euro	4.242.476	100,00%	Pirelli & C. S.p.A.

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Luxembourg						
Pirelli Finance (Luxembourg) S.A.	Financial	Luxembourg	Euro	270.228.168	100,00%	Pirelli & C. S.p.A.
Pirelli International Finance S.A.	Insurance	Luxembourg	Euro	35.000	100,00%	Pirelli Finance (Luxembourg) S.A.
Norway						
Pirelli Kabler og Systemer AS	Energy Cables and Systems	Ski	Nor. Krone	100.000	100,00%	Pirelli Cables and Systems OY
Poland						
Driver Polska Sp.ZO.O	Tyre	Warsaw	Pol. Zloty/mil.	100.000	99,00%	Pirelli Polska Sp.ZO.O.
					1,00%	Pirelli Tyre (Europe) S.A.
Pirelli Polska Sp.ZO.O	Tyre	Warsaw	Pol. Zloty/mil.	625.771	100,00%	Pirelli Tyre (Europe) S.A.
Portugal						
Desco Fabrica Portuguesa de Material Electrico e Electronico S.A.	Energy Cables and Systems	Arcozelo Vngaia	Euro	1.545.000	70,93%	Pirelli Energie Câbles et Systèmes France S.A.
					29,07%	Eurelectric S.A.
Romania						
S.C. Pirelli Romania Cabluri si Sisteme S.A.	Energy Cables and Systems	Slatina	Rom. Leu/000	208.927.700	100,00%	Pirelli Cable Holding N.V.
Russia						
OOO Pirelli Tyre Russia	Commercial	Moscow	Russian Rouble	950.000	95,00%	Pirelli Tyre (Europe) S.A.
					5,00%	Pirelli Tyre Holding N.V.
Slovakia						
Kablo Bratislava Spol. S.R.O.	Energy Cables and Systems	Bratislava	Slov. Koruna	523.334.000	100,00%	Pirelli Cable Holding N.V.
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Slov. Koruna	200.000	100,00%	Pirelli Tyre (Europe) S.A.
Spain						
Euro Driver Car S.L.	Tyre	Barcelona	Euro	600.000	25,00%	Pirelli Neumaticos S.A.
		Barcelona	0		26,00%	Proneus S.L.
Fercable S.A.	Energy Cables and Systems	Barcelona	Euro	3.606.073	100,00%	Pirelli Cables y Sistemas S.A.
Omnia Motor S.A.	Tyre	Barcelona	Euro	1.502.530	100,00%	Pirelli Neumaticos S.A.
Pirelli Cables y Sistemas S.A.	Energy Cables and Systems	Barcelona	Euro	24.000.000	100,00%	Pirelli Cable Holding N.V.
Pirelli Neumaticos S.A.	Tyre	Barcelona	Euro	45.075.908	100,00%	Pirelli Tyre Holding N.V.
Pirelli Telecom Cables y Sistemas Espana S.L.	Telecom Cables and Systems	Barcelona	Euro	12.000.000	100,00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Proneus S.L.	Tyre	Barcelona	Euro	3.005	51,00%	Pirelli Neumaticos S.A.
Sweden						
Pirelli Kablar och System AB	Energy Cables and Systems	Hoganas	Swed. Krona	100.000	100,00%	Pirelli Cables and Systems OY
Pirelli Tyre Nordic AB	Tyre	Bromma	Swed. Krona	950.000	100,00%	Pirelli Tyre (Europe) S.A.
Switzerland						
Agom S.A.	Tyre	Conthey	Swiss Franc	50.000	80,00%	Pirelli Tyre (Europe) S.A.
Agom S.A. Bioggio	Tyre	Bioggio	Swiss Franc	590.000	100,00%	Pirelli Tyre (Europe) S.A.
Pirelli Cables and Systems S.A.	Energy Cables and Systems	Basel	Swiss Franc	500.000	100,00%	Pirelli Cable Holding N.V.
Pirelli Société de Services S.a.r.l.	Financial	Basel	Swiss Franc	50.000	100,00%	Pirelli Société Générale S.A.
Pirelli Société Générale S.A.	Financial	Basel	Swiss Franc	28.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Tyre (Europe) S.A.	Tyre	Basel	Swiss Franc	1.000.000	100,00%	Pirelli Tyre Holding N.V.
The Netherlands						
Pirelli Cables and Systems N.V.	Energy Cables and Systems	Delft	Euro	5.000.000	100,00%	Pirelli Cable Holding N.V.
Pirelli Cable Holding N.V.	Energy Cables and Systems holding company	Delft	Euro	272.515.065	100,00%	Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Cable Overseas N.V.	Telecom Cables and Systems	Delft	Euro	10.000.000	100,00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli Submarine Telecom Systems Holding B.V.	Telecom Cables and Systems	Delft	Euro	4.500.000	100,00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli Tyre Holding N.V.	Tyre holding company	Heinenoord	Euro	250.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Breukelen	Euro	18.152	100,00%	Pirelli Tyre (Europe) S.A.
Sipir Finance N.V.	Financial	Rotterdam	Euro	13.021.222	100,00%	Pirelli & C. S.p.A.

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Turkey						
Celikord A.S.	Tyre	Istanbul	Turk. Lira/mil.	28.000.000	50,466%	Pirelli Tyre Holding N.V.
					0,27%	Pirelli Pneumatici S.p.A.
					0,27%	Pirelli Deutschland A.G.
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	Turk. Lira/mil.	136.000.000	62,45%	Pirelli Tyre Holding N.V.
					0,23%	Pirelli Deutschland A.G.
					0,08%	Pirelli UK Tyres Ltd
					0,15%	Pirelli Pneumatici S.p.A.
					0,08%	Pirelli Tyre (Europe) S.A.
					0,08%	Pirelli Neumaticos S.A.
Türk Pirelli Kablo ve Sistemleri A.S.	Energy Cables and Systems	Mudania / Bursa	Turk. Lira/mil.	39.312.000	83,75%	Pirelli Cable Holding N.V.
Zalsan Zirai Arac Lastikleri A.S.	Tyre	Istanbul	Turk. Lira/mil.	3.283.000	70,00%	Turk-Pirelli Lastikleri A.S.
United Kingdom						
Aberdare Cables Ltd	Energy Cables and Systems	London	British Pound	609.654	100,00%	Pirelli General plc
Cable Makers Properties and Services Ltd	Energy Cables and Systems	East Molesey	British Pound	33	63,53%	Pirelli General plc
Central Tyre Ltd	Tyre	London	British Pound	100.000	100,00%	Pirelli UK Tyres Ltd
Comergy Ltd	Energy Cables and Systems	London	British Pound	1.000.000	100,00%	Pirelli Cable Holding N.V.
Courier Tyre Company Ltd	Tyre	London	British Pound	10.000	100,00%	Pirelli UK Tyres Ltd
CPK Auto Products Ltd	Tyre	London	British Pound	10.000	100,00%	Pirelli UK Tyres Ltd
CTC 1994 Ltd	Tyre	London	British Pound	984	100,00%	Central Tyre Ltd
Pirelli & C. Real Estate Ltd.	Real Estate	London	Euro	100.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli Cables (2000) Ltd	Energy Cables and Systems	London	British Pound	118.653.473	100,00%	Pirelli General plc
Pirelli Cables (Industrial) Ltd	Energy Cables and Systems	London	British Pound	9.010.935	100,00%	Pirelli General plc
Pirelli Cables (Supertention) Ltd	Energy Cables and Systems	London	British Pound	5.000.000	100,00%	Pirelli General plc
Pirelli Cables and Systems International Ltd	Energy Cables and Systems	London	Euro	100.000	100,00%	Pirelli Cable Holding N.V.
Pirelli Cables Ltd	Energy Cables and Systems	London	British Pound	100.000	100,00%	Pirelli General plc
Pirelli Construction Company Ltd	Energy Cables and Systems	London	British Pound	8.000.000	100,00%	Pirelli General plc
Pirelli Focom Ltd	Energy Cables and Systems	London	British Pound	6.447.000	100,00%	Pirelli General plc
Pirelli General plc	Cables and Systems	London	British Pound	144.139.360	100,00%	Pirelli UK plc "B1"/"B2"
Pirelli International Ltd	Financial	London	Euro	250.000.000	100,00%	Pirelli Finance (Luxembourg) S.A.
Pirelli Metals Ltd	Energy Cables and Systems	London	British Pound	100.000	100,00%	Pirelli General plc
Pirelli Telecom Cables and Systems UK Ltd	Telecom Cables and Systems	London	British Pound	100.000	100,00%	Pirelli General plc
Pirelli Tyres Ltd	Tyre	London	British Pound	16.000.000	100,00%	Pirelli UK Tyres Ltd
Pirelli UK Employee Share Trustee Ltd	Financial	London	British Pound	2	100,00%	Pirelli UK plc "C"
Pirelli UK Finance Ltd	Financial	London	British Pound	6.969.280	100,00%	Pirelli UK plc "C"
Pirelli UK plc "A"	Tyre holding company	London	British Pound	85.535.300	100,00%	Pirelli Tyre Holding N.V.
Pirelli UK plc "B1"	Energy Cables and Systems holding company	London	British Pound	69.188.889	100,00%	Pirelli Cable Holding N.V.
Pirelli UK plc "B2"	Telecom Cables and Systems holding company	London	British Pound	27.149.529	100,00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli UK plc "C"	Finance holding company	London	British Pound	11.625.978	100,00%	Pirelli & C. S.p.A.
Pirelli UK Tyres Ltd	Tyre	London	British Pound	85.000.000	100,00%	Pirelli UK plc "A"

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by	
North America							
Canada							
Pirelli Power Cables and Systems Canada Ltd	Energy Cables and Systems	Saint John (New Brunswick)	Can. \$	40.000.000	100,00%	Pirelli Cable Holding N.V.	
Pirelli Tire Inc.	Tyre	Frederic Town (New Brunswick)	Can. \$	6.000.000	100,00%	Pirelli Tyre (Europe) S.A.	
U.S.A.							
Pirelli Communications Cables and Systems USA LLC	Telecom Cables and Systems	Wilmington (Delaware)	US \$	10	100,00%	Pirelli North America Inc. "B1"	
Pirelli Communications Cables Corporation	Commercial	Wilmington (Delaware)	US \$	1	100,00%	Pirelli Communications Cables and Systems USA LLC	
Pirelli Construction Services Inc.	Energy Cables and Systems	Dover (Delaware)	US \$	1.000	100,00%	Pirelli Power Cables and Systems USA LLC	
Pirelli North America Inc. "A"	Tyre	Wilmington (Delaware)	US \$	3,15	100,00%	Pirelli Tyre Holding N.V.	
Pirelli North America Inc. "B1"	Telecom Cables and Systems	Wilmington (Delaware)	US \$	5,75	100,00%	Pirelli Cavi e Sistemi Telecom S.p.A.	
Pirelli North America Inc. "B2"	Energy Cables and Systems	Wilmington (Delaware)	US \$	1,10	100,00%	Pirelli Cavi e Sistemi Energia S.p.A.	
Pirelli Power Cables and Systems USA LLC	Energy Cables and Systems	Wilmington (Delaware)	US \$	10	100,00%	Pirelli North America Inc. "B2"	
Pirelli RNC Inc.	Commercial	Wilmington (Delaware)	US \$	1	100,00%	Pirelli Tyre Holding N.V.	
Pirelli Tire LLC	Tyre	Wilmington (Delaware)	US \$	1	100,00%	Pirelli North America Inc. "A"	
Central/South America							
Argentina							
Fipla S.A.	Energy Cables and Systems	Buenos Aires	Arg. Peso	1	66,97%	Pirelli Consultora Conductores e Instalaciones S.A.I.C.	
Pirelli Argentina de Mandatos S.A.	Services	Buenos Aires	Arg. Peso	500.000	100,00%	Pirelli Societé Générale S.A.	
Pirelli Consultora Conductores e Instalaciones S.A.I.C.	Energy Cables and Systems	Buenos Aires	Arg. Peso	2.227	99,996%	Pirelli Cable Holding N.V.	
Pirelli Energia Cables y Sistemas de Argentina S.A.	Energy Cables and Systems	Buenos Aires	Arg. Peso	44.509.458	74,91%	Pirelli Consultora Conductores e Instalaciones S.A.I.C.	
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	19.016.500	99,02%	Pirelli Tyre Holding N.V.	
Pirelli Telecomunicaciones Cables y Sistemas de Argentina S.A.	Telecom Cables and Systems	Buenos Aires	Arg. Peso	12.000	100,00%	Pirelli Pneumatici S.p.A.	
Tel 3 S.A.	Energy Cables and Systems	Buenos Aires	Arg. Peso	7.822.000	51,00%	Pirelli Cable Holding N.V.	
Brazil							
Cordas Metalicas do Brasil Ltda	Tyre	Sumarè	Bra. Real	1.000	99,90%	Pirelli Pneus S.A.	
Muriaè Ltda	Financial	Santo André	Bra. Real	80.000.000	0,10%	Muriaè Ltda	
Novacorp Consultora e Serviços Corporativos Ltda	Holding	Santo André	Bra. Real	6.000	100,00%	Pirelli Pneus S.A.	
Pirelli & C. Real Estate Ltda	Information Systems	Santo André	Bra. Real	2.000.000	99,98%	Pirelli S.A.	
Pirelli Energia Cabos e Sistemas do Brasil S.A.	Energy Cables and Systems	Santo André	Bra. Real	106.824.993	30,00%	Pirelli & C. Real Estate S.p.A.	
Pirelli Pneus Nordeste Ltda	Tyre	Feira de Santana	Bra. Real	87.202%	88,783%	Pirelli Cavi e Sistemi Energia S.p.A.	
Pirelli Pneus S.A.	Tyre	Santo André	Bra. Real	29.991.402	12,230%	10,370%	Pirelli S.A.
Pirelli Produtos Especiais Ltda	Energy Cables and Systems	Cerquilho	Bra. Real	29.991.402	100,00%	Pirelli Pneus S.A.	
Pirelli S.A.	Financial	Santo André	Bra. Real	342.085.095	96,05%	98,77%	Pirelli Pneumatici S.p.A.
Pirelli Telecomunicações Cabos e Sistemas do Brasil S.A.	Telecom Cables and Systems	Sorocaba	Bra. Real	81.288.046	3,67%	0,79%	Pirelli S.A.
Pneuc Comercial e Importadora Ltda	Tyre	San Paolo	Bra. Real	43.143.421	100,00%	Pirelli Energia Cabos e Sistemas do Brasil S.A.	
				45.848.684	100,00%	Pirelli & C. S.p.A.	
				81.288.046	90,23%	91,43%	Pirelli Cavi e Sistemi Telecom S.p.A.
					9,33%	7,92%	Pirelli S.A.
				12.913.526	100,00%	Pirelli Pneus S.A.	
Chile							
Pirelli E y T S.A.	Energy Cables and Systems	Santiago	Chile Peso/000	3.072.471	99,82%	Pirelli Instalaciones Chile S.A.	
Pirelli Instalaciones Chile S.A.	Energy Cables and Systems	Santiago	Chile Peso/000	918.707	90,00%	Pirelli Consultora Conductores e Instalaciones S.A.I.C.	
Pirelli Neumaticos Chile Limitada	Tyre	Santiago	US \$	1.918.451	10,00%	Cite S.A.	
					99,98%	Pirelli Pneus S.A.	
					0,02%	Pneuc Comercial e Importadora Ltda	
Colombia							
Pirelli de Colombia S.A.	Tyre	Santa Fe De Bogota	Col. Peso/000	3.315.069	92,91%	Pirelli Pneus S.A.	
					2,28%	Pirelli de Venezuela C.A.	
					1,60%	Muriaè Ltda	
					1,60%	Pirelli Pneus Nordeste Ltda	
					1,60%	Pneuc Comercial e Importadora Ltda	

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	35.098.600	99,98%	Pirelli Pneus S.A.
Servicios Pirelli Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	50.000	99,00%	Pneuc Comercial e Importadora Ltda
					1,00%	Pirelli Pneus S.A.
						Pneuc Comercial e Importadora Ltda
Uruguay						
Cite S.A.	Energy Cables and Systems	Montevideo	Urug. Peso	59.652.230	100,00%	Pirelli Energia Cabos e Sistemas do Brasil S.A.
Venezuela						
Pirelli de Venezuela C.A.	Tyre	Valencia	Ven. Bolivar/000	10.062.679	96,22%	Pirelli Tyre Holding N.V.
Africa						
Egypt						
Alexandria Tire Company S.A.E.	Tyre	Alexandria	Egy. Pound	393.000.000	86,79%	Pirelli Pneumatici S.p.A.
International Tire Company Ltd	Tyre	Alexandria	Egy. Pound	50.000	96,00%	Pirelli Tyre (Europe) S.A.
						Alexandria Tire Company S.A.E.
Ivory Cost						
SICABLE - Soci�t� Ivoirienne de Cables S.A.	Energy Cables and Systems	Abidjan	Cfa Franc	740.000.000	51,00%	Pirelli Energie Cables et Syst�mes France S.A.
South Africa						
Pirelli Cables & Systems (Proprietary) Ltd	Commercial	Woodmead, S.A.	S.A. Rand	100	100,00%	Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Tyre (Pty) Ltd	Tyre	Sandton	S.A. Rand	1	100,00%	Pirelli Tyre (Europe) S.A.
Tunisia						
Auto Cables Tunisie S.A.	Energy Cables and Systems	Tunis	Tun. Dinar	4.450.000	51,00%	Pirelli Energie Cables et Syst�mes France S.A.
Oceania						
Australia						
Pirelli Power Cables & Systems Australia Pty Ltd	Energy Cables and Systems	Liverpool - N.S.W.	Aus. \$	15.000.000	100,00%	Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Telecom Cables & Systems Australia Pty Ltd	Telecom Cables and Systems	Liverpool - N.S.W.	Aus. \$	38.500.000	100,00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli Tyres Australia Pty Ltd	Tyre	Pymble - N.S.W.	Aus. \$	150.000	100,00%	Pirelli Tyre (Europe) S.A.
New Zealand						
Pirelli Power Cables & Systems New Zealand Ltd	Energy Cables and Systems	Auckland	N.Z. \$	10.000	100,00%	Pirelli Power Cables & Systems Australia Pty Ltd
Pirelli Telecom Cables & Systems New Zealand Ltd	Telecom Cables and Systems	Auckland	N.Z. \$	10.000	100,00%	Pirelli Telecom Cables & Systems Australia Pty Ltd
Pirelli Tyres (NZ) Ltd	Tyre	Wellington	N.Z. \$	100	100,00%	Pirelli Tyres Australia Pty Ltd
Asia						
China						
Pirelli Baosheng Cable Co. Ltd	Energy Cables and Systems	Jiangsu	US \$	19.500.000	67,00%	Pirelli Cables Asia-Pacific Pte Ltd
Pirelli Cables (Shanghai) Trading Co. Ltd	Energy Cables and Systems	Shanghai	US \$	200.000	100,00%	Pirelli Cables Asia-Pacific Pte Ltd
Pirelli Telecom Cables Co. Ltd Wuxi	Telecom Cables and Systems	Xuelang Town	US \$	29.941.250	86,709%	Pirelli Cable Overseas N.V.
Tianjin Pirelli Power Cables Co. Ltd	Energy Cables and Systems	Tianjin Municipality	US \$	13.100.000	67,000%	Pirelli Cable Holding N.V.
India						
Pirelli Cables (India) Private Ltd	Energy Cables and Systems	New Delhi	India Rupee	10.000.000	99,996%	Pirelli Cable Holding N.V.
Japan						
P & A K.K.	Tyre	Tokyo	Jap. Yen	2.700.000.000	100,00%	Pirelli Tyre Holding N.V.
Pirelli K.K.	Tyre	Tokyo	Jap. Yen	40.000.000	100,00%	Pirelli Tyre (Europe) S.A.

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Indonesia						
P.T. Pirelli Cables Indonesia	Energy Cables and Systems	Jakarta	US \$	67.300.000	99,48% 0,52%	Pirelli Cable Holding N.V. Pirelli Cavi e Sistemi Energia S.p.A.
Malaysia						
BICC (Malaysia) Sdn Bhd	Energy Cables and Systems	Kuala Lumpur	Mal. Ringgit	100.000	100,00%	Pirelli Cables Asia-Pacific Pte Ltd
Submarine Cable Installation Sdn Bhd	Energy Cables and Systems	Kuala Lumpur	Mal. Ringgit	10.000	100,00%	Pirelli Cavi e Sistemi Energia S.p.A.
Singapore						
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. \$	2	100,00%	Pirelli Tyre (Europe) S.A.
Pirelli Cable Systems Pte Ltd	Energy Cables and Systems	Singapore	Sing. \$	25.000	50,00% 50,00%	Pirelli General plc Pirelli Cable Holding N.V.
Pirelli Cables Asia-Pacific Pte Ltd	Energy Cables and Systems	Singapore	Sing. \$	213.324.290	100,00%	Pirelli Cable Holding N.V.
Trans-Power Cables Pte Ltd	Energy Cables and Systems	Singapore	Sing. \$	1.500.000	100,00%	Pirelli Cable Holding N.V.

Companies consolidated using the proportional method

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

Investments accounted for using the equity method

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Jointly controlled companies						
Europe						
Italy						
Olimpia S.p.A.	Industrial holding company	Milan	Euro 2.630.233.510	50,40%		Pirelli & C. S.p.A.
Subsidiaries						
Europe						
Germany						
Drahtcord Saar Geschäftsführungs GmbH	Tyre	Merzig	Deut. Mark 60.000	50,00%		Pirelli Deutschland A.G.
Drahtcord Saar GmbH & Co. K.G.	Tyre	Merzig	Deut. Mark 30.000.000	50,00%		Pirelli Deutschland A.G.
Kabeltrommel Gesellschaft mbH & Co K.G.	Energy Cables and Systems	Cologne	Deut. Mark 10.225.838	27,48%		Pirelli Kabel und Systeme GmbH
Italy						
Altair Zander Italia S.r.l.	Real Estate	Milan	Euro 10.330	50,00%		Pirelli & C. Real Estate Facility Management S.p.A.
Aree Urbane S.r.l.	Real Estate	Milan	Euro 307.717	10,75%		Pirelli & C. Real Estate S.p.A.
				0,28%		Pirelli & C. S.p.A.
Bernini Immobiliare S.r.l.	Real Estate	Milan	Euro 500.000	14,00%		Pirelli & C. Real Estate S.p.A.
Beta S.r.l.	Real Estate	Milan	Euro 26.000	47,00%		Partecipazioni Real Estate S.p.A.
Bicocca Center S.r.l.	Real Estate	Milan	Euro 51.000	25,00%		Pirelli & C. Real Estate S.p.A.
CFT Finanziaria S.p.A.	Real Estate	Florence	Euro 10.010.000	46,98%		Partecipazioni Real Estate S.p.A.
Continuum S.r.l.	Real Estate	Milan	Euro 500.000	40,00%		Pirelli & C. Real Estate S.p.A.
Delta S.p.A.	Real Estate	Milan	Euro 153.000	47,50%		Pirelli & C. Real Estate S.p.A.
Dixia S.r.l.	Real Estate	Milan	Euro 2.500.000	30,00%		Pirelli & C. Real Estate S.p.A.
Domogest S.r.l.	Real Estate	Florence	Euro 1.050.000	50,00%		Centrale Immobiliare S.p.A.
Elle Dieci Società Consortile a.r.l.	Real Estate	Milan	Euro 100.000	40,00%		Pirelli & C. Real Estate Property Management S.p.A.
Elle Nove Società Consortile a.r.l.	Real Estate	Milan	Euro 100.000	34,90%		Edilnord Gestioni S.p.A.
Elle Tre Società Consortile a.r.l.	Real Estate	Milan	Euro 100.000	40,00%		Pirelli & C. Real Estate Property Management S.p.A.
Esedra S.r.l.	Real Estate	Milan	Euro 2.376.234	35,00%		Pirelli & C. Real Estate S.p.A.
Eurofly Service S.p.A.	Services	Caselle Torinese	Euro 8.275.000	24,55%		Pirelli & C. S.p.A.
Eurostazioni S.p.A.	Holding	Rome	Euro 160.000.000	32,71%		Pirelli & C. S.p.A.
FIM - Fabbrica Italiana di Mediazione S.r.l.	Real Estate	Milan	Euro 100.000	33,00%		Pirelli & C. Real Estate Agency S.p.A.
Geolidro S.p.A.	Real Estate	Naples	Euro 3.099.096	49,00%		Centrale Immobiliare S.p.A.
Holdim S.r.l.	Real Estate	Milan	Euro 1.000.000	30,00%		Pirelli & C. Real Estate S.p.A.
Idea Granda S. Consortile r.l.	Environment	Cuneo	Euro 1.292.500	49,00%		Pirelli & C. Ambiente S.p.A.
Immobiliare le Ghirlande S.r.l.	Real Estate	Milan	Euro 10.000	35,00%		Pirelli & C. Real Estate S.p.A.
Immobiliare Prizia S.r.l.	Real Estate	Milan	Euro 469.000	36,00%		Pirelli & C. Real Estate S.p.A.
Induxia S.r.l.	Real Estate	Milan	Euro 836.300	18,00%		Pirelli & C. Real Estate S.p.A.
Iniziative Immobiliari S.r.l.	Real Estate	Gavirate (VA)	Euro 5.000.000	37,07%		Pirelli & C. Real Estate S.p.A.
Localto S.p.A.	Financial	Milan	Euro 5.200.000	35,00%		Partecipazioni Real Estate S.p.A.
LSF Italian Finance Company S.p.A.	Financial	Milan	Euro 10.000	33,00%		Partecipazioni Real Estate S.p.A.
Moncalieri Center S.r.l.	Real Estate	Milan	Euro 22.000	25,00%		Pirelli & C. Real Estate S.p.A.
Orione Immobiliare Prima S.p.A.	Real Estate	Milan	Euro 104.000	35,00%		Pirelli & C. Real Estate S.p.A.
Progetto Bicocca la Piazza S.r.l.	Real Estate	Milan	Euro 3.151.800	26,00%		Pirelli & C. Real Estate S.p.A.
Progetto Corsico S.r.l.	Real Estate	Milan	Euro 100.000	49,00%		Pirelli & C. Real Estate S.p.A.
Progetto Fontana S.r.l.	Real Estate	Milan	Euro 500.000	23,00%		Pirelli & C. Real Estate S.p.A.
Progetto Gioberti S.r.l.	Real Estate	Milan	Euro 100.000	50,00%		Pirelli & C. Real Estate S.p.A.
Progetto Lainate S.r.l.	Real Estate	Milan	Euro 25.500	25,00%		Pirelli & C. Real Estate S.p.A.
Regus Business Centres Italia S.p.A.	Real Estate	Milan	Euro 661.220	35,00%		Pirelli & C. Real Estate S.p.A.
SMP Melfi S.r.l.	Tyre	Melito (NA)	Euro 3.511.906	50,00%		Pirelli Pneumatici S.p.A.
Solaris S.r.l.	Real Estate	Milan	Euro 20.000	40,00%		Pirelli & C. Real Estate S.p.A.
Telepost S.p.A.	Real Estate	Milan	Euro 120.000	20,00%		Pirelli & C. Real Estate Facility Management S.p.A.
Trixia S.r.l.	Real Estate	Milan	Euro 1.209.700	36,00%		Pirelli & C. Real Estate S.p.A.
Verdi S.r.l.	Real Estate	Milan	Euro 20.000	43,74%		Pirelli & C. Real Estate S.p.A.
Vindex S.r.l.	Real Estate	Brescia	Euro 12.000	16,00%		Partecipazioni Real Estate S.p.A.
Luxembourg						
IN Holdings I S.a.r.l.	Real Estate	Luxembourg	Euro 4.595.725	20,50%		Pirelli & C. Real Estate S.p.A.
Inimm Due S.a.r.l.	Real Estate	Luxembourg	Euro 240.950	25,00%		Pirelli & C. Real Estate S.p.A.
M.S.M.C. Solferino S.a.r.l.	Real Estate	Luxembourg	Euro 136.700	31,25%		Pirelli & C. Real Estate S.p.A.

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Spain						
Optiwire S.L.	Energy Cables and Systems	Barcelona	Euro	6.010	50,00%	Pirelli Cables y Sistemas S.A.
The Netherlands						
M.S.M.C. Italy Holding B.V.	Real Estate	Amsterdam	Euro	20.000	25,00%	Pirelli & C. Real Estate S.p.A.
Masseto I B.V.	Real Estate	Amsterdam	Euro	19.000	33,00%	Pirelli & C. Real Estate S.p.A.
Popoy Holding B.V.	Financial	Rotterdam	Euro	26.550	25,05%	Pirelli & C. Real Estate S.p.A.
Spazio Industriale B.V.	Real Estate	Amsterdam	Euro	763.077	25,00%	Pirelli & C. Real Estate S.p.A.
United Kingdom						
Rodco Ltd	Energy Cables and Systems	Gravesend	British Pound	5.000.000	40,00%	Pirelli General plc
North America						
U.S.A.						
Sci Roev Texas Partners L.P.	Real Estate	Dallas	US \$	12.000.000	10,00%	Pirelli & C. Real Estate S.p.A.
Central/South America						
Argentina						
Lineas de Transmision de Buenos Aires S.A. (in liquidation)	Energy Cables and Systems	Buenos Aires	Arg. Peso/000	12.000	20,00%	Pirelli Argentina de Mandatos S.A.
Brazil						
K.M.P. Cabos Especiais e Sistemas Ltda	Energy Cables and Systems	San Paolo	Bra. Real	6.600.916	40,00%	Pirelli Energia Cabos e Sistemas do Brasil S.A.
Asia						
Saudi Arabia						
Sicew-Saudi Italian Co. for Electrical Works Ltd	Energy Cables and Systems	Jeddah	S. Arab. Riyal	1.000.000	34,00%	Pirelli Cable Holding N.V.

Other investments in subsidiaries and associated companies

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Europe						
Austria						
Pirelli Kabelwerke und Systeme GmbH (*)	Energy Cables and Systems	Vienna	Euro	36.336	100,00%	Pirelli Cavi e Sistemi Energia S.p.A.
Germany						
Industriekraftwerk Breuberg GmbH	Cogeneration	Hoechst/Odenwald	Euro	1.533.876	26,00%	Pirelli Deutschland AG
Hungary						
Ipoly Kábeldob KFT. (in liquidation)	Energy Cables and Systems	Szecsény	Hun. Forint/000	36.350	25,17%	MKM Magyar Kábel Művek Rt.
Africa						
South Africa						
AFCAB Holdings (Proprietary) Ltd (*)	Energy Cables and Systems	Sandton	S.A. Rand	4.000	50,00%	Pirelli Cable Holding N.V.
African Cables Ltd (*)	Energy Cables and Systems	Vereeniging	S.A. Rand	9.886.098	100,00%	AFCAB Holdings (Proprietary) Ltd
Zimbabwe						
BICC CAFCA Ltd (*)	Energy Cables and Systems	Harare	Zimbabwe \$	15.706.000	73,46%	African Cables Ltd
BICC (CENTRAL AFRICA) (Private) Ltd (*)	Energy Cables and Systems	Harare	Zimbabwe \$	200.000	100,00%	BICC CAFCA Ltd
Zimbabwe Cables (Pte) Ltd (*)	Energy Cables and Systems	Harare	Zimbabwe \$	2	100,00%	BICC CAFCA Ltd
Asia						
Malaysia						
Power Cables Malaysia Sdn Bhd	Energy Cables and Systems	Selangor Darul Ehsan	Mal. Ringgit	8.000.000	40,00%	Pirelli Cables Asia - Pacific Pte Ltd

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

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Australia						
Optix Australia Ltd	Telecom Cables and Systems	Tottenham (Victoria)	Aus. \$ 4.000.000	15,00%		Pirelli Telecom Cables & Systems Australia Pty Ltd
Belgium						
Euroqube S.A.	Services	Brussels	Euro 84.861.116	17,79%		Pirelli & C. S.p.A.
France						
Aliapur S.A.	Tyre	Lion	Euro 262.500	14,29%		Pirelli Pneumatici S.p.A.
Italy						
F.C. Internazionale Milano S.p.A.	Sport	Milan	Euro 66.831.250	19,49%		Pirelli & C. S.p.A.
Fin. Priv. S.r.l.	Financial	Milan	Euro 20.000	14,29%		Pirelli & C. S.p.A.
Servizio Titoli S.p.A.	Services	Turin	Euro 126.000	12,38%		Pirelli & C. S.p.A.
Tecnocittà S.r.l. (in liquidation)	Real Estate	Milan	Euro 547.612	12,00%		Pirelli & C. Real Estate S.p.A.
Poland						
Centrum Utylizacji Opon Organizacja Odzyseu S.A.	Tyre	Warsaw	Pol. Zloty 1.008.000	14,00%		Pirelli Polska Sp.z.o.o.
Switzerland						
Voltimum S.A.	Energy Cables and Systems	Meyrin	Swiss Franc 2.968.970	13,71%		Pirelli Cavi e Sistemi Energia S.p.A.
The Netherlands						
MB Venture Capital Fund I Participating Company G N.V.	Financial	Amsterdam	Euro 50.000	14,00%		Pirelli Finance (Luxembourg) S.A.
Tunisia						
Société Tunisienne des Industries de Pneumatiques S.A.	Tyre	Tunis	Tun. Dinar 42.078.240	15,83%		Pirelli Pneumatici S.p.A.
Turkey						
Izetek Elektrik Uretim (former Turk Edison Enerji)	Cogeneration	Istanbul	Turk. Lira/mil. 37.191	10,63%	3,80%	Türk-Pirelli Lastikleri A.S. Celikord A.S.

AUDITORS REPORT ON THE LIMITED REVIEW OF INTERIM FINANCIAL
REPORTING FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2004

To the Shareholders of
Pirelli & C. SpA

- 1 We have performed a limited review of the interim financial reporting of Pirelli & C. SpA for the six months period ended 30 June 2004, consisting of consolidated balance sheet, income statement and related comments notes and balance sheet and income statement for holding company. We have also ensured that the management discussion and analysis is consistent with other information in the interim financial reporting.
- 2 Our work was carried out in accordance with the procedures for a limited review recommended by the National Commission for Companies and the Stock Exchange (CONSOB) with deliberation n° 10867 of 31 July 1997. The limited review consisted principally of inquiries of company personnel about the information reported in the interim financial reporting and about the consistency of the accounting principles utilised therein with those applied at year end as well as the application of analytical review procedures on the data contained in the interim financial reporting. The limited review excluded certain auditing procedures such as compliance testing and verification or validation tests of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike an audit on the annual statutory and consolidated financial statements, we do not express a professional audit opinion on the interim financial reporting.
- 3 Regarding the comparative data of the company financial statements and the consolidated financial statements of the prior year, reference should be made to our reports dated respectively 23 April 2004 and on 8 September 2003.

- 4 Based on our review no significant changes or adjustments came to our attention that should be made to the interim financial reporting identified in paragraph 1 of this report, in order to make them consistent with the criteria for the preparation of interim financial reporting established by article 81 “half yearly report” of CONSOB Regulation approved by Resolution n° 11971 of 14 May 1999 and subsequent modifications.

Milan, 13 September 2004

PricewaterhouseCoopers SpA



Fabio Facchini
(Partner)

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