



Call to the AGM

Contents

Officers

Structure of Pirelli Group at December 31, 2003

Pirelli & C. S.p.A. on the Stock Market

Selected Financial Data

Chairman's Letter

CALL TO THE ANNUAL GENERAL MEETING OF THE SHAREHOLDERS

The shareholders of Pirelli & C. Società per Azioni are called to the ordinary and extraordinary sessions of the shareholders' meeting to be held in Milan, Viale Sarca 214 at 10:30 A.M.

- Monday, May 10, 2004 in first call
 - Tuesday, May 11, 2004 in second call
- to pass resolutions on the following

ORDER OF BUSINESS

Ordinary session

- 1) The Board of Directors' Report on Operations, the Board of Statutory Auditors' Report, the financial statements at December 31, 2003 and the appropriation of net income.
- 2) Appointment of a director.
- 3) Proposal for the purchase and disposition procedures of treasury shares, after canceling the resolution voted by the shareholders' meeting of May 7, 2003 for the portion not used.
Inherent and consequent resolutions. Conferring of powers.
- 4) Determination of the compensation to be assigned to the members of the Supervisory Panel appointed pursuant to Legislative Decree No. 231 dated June 8, 2001.
- 5) Proposal for the adoption of Regulations for Shareholders' Meetings.

Extraordinary session

- 1) Amendments to the bylaws: articles 1 (name of the company), 2 (corporate business purpose), 3 (registered office), 4 (term), 5 (share capital), 6 (shares), 7 (shareholders' meetings), 8 (quorum for constituting a meeting and voting), 9 (conduct of the shareholders' meetings), 10 (administration of the company), 11 (functions of the Board of Directors), 12 (convening Board of Directors' meetings and majorities), 14 (compensation to directors) and 16 (Board of Statutory Auditors).
Inherent and consequent resolutions. Conferring of powers.
- 2) Delegation of powers to the directors, pursuant to article 2443 of the Italian Civil Code, for the right to increase, at one or more times, for a maximum amount of par value Euros 600 million, the share capital, through the issue of ordinary and/or savings shares, through a rights offering to the shareholders and convertible bondholders, with the possibility of exclusion of the rights offering, pursuant to the interpretation of art. 2441, last paragraph, of the Italian Civil Code and art. 134, paragraph 2, of Legislative Decree No. 58/1998, where the shares are offered for subscription to the employees of Pirelli & C. S.p.A. or companies controlled by it.
Powers delegated to the directors, pursuant to article 2420-ter of the Italian Civil Code, for the right to issue, at one or more times, for a maximum amount of face value Euros 1,000 million, bonds convertible into ordinary and/or savings shares or carrying warrants valid for the subscription of said shares to be offered through a rights offering to the shareholders and convertible bondholders.
Consequent further change to article 5 of the bylaws.
Inherent and consequent resolutions. Conferring of powers.

[Call to the AGM](#)
[Contents](#)
[Officers](#)
[Structure of Pirelli Group at December 31, 2003](#)
[Pirelli & C. S.p.A. on the Stock Market](#)
[Selected Financial Data](#)
[Chairman's Letter](#)

CONTENTS

Information on operations

	Page
Call to the Annual General Meeting of the Shareholders	1
Officers	3
Structure of Pirelli Group at December 31, 2003	4
Pirelli & C. S.p.A on the Stock Market	5
Five-Year Summary of Selected Consolidated Financial Data	6
Chairman's Letter	7

Directors' report on operations

Extraordinary Transactions	10
The Group	13
Energy Cables and Systems Sector	27
Telecom Cables and Systems Sector	44
Tyres Sector	55
Real Estate Sector	65
Pirelli & C. Ambiente	69
Information Systems	70
Ecology and the Environment	72
Human Resources	73
Proforma data	75
Related Party Disclosures	77
Equity Investments held by Directors, Statutory Auditor and General Managers	78
Stock Option Plans	79
Corporate Governance	83
International Accounting Standards	115
Pirelli & C. S.p.A. - Summary Data	116
Shareholders' Resolutions	119

Consolidated financial statements at December 31, 2003

Consolidated Balance Sheets	126
Consolidated Statement of Income	130
Notes to the Consolidated Financial Statements	131
Supplementary Information	157
Independent Auditors' Report	176

Extraordinary session of the shareholders' meeting

177

[Call to the AGM](#)
[Contents](#)
[Officers](#)
[Structure of Pirelli Group at December 31, 2003](#)
[Pirelli & C. S.p.A. on the Stock Market](#)
[Selected Financial Data](#)
[Chairman's Letter](#)

OFFICERS

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
Secretary to the Board	Carlo Montagna

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.

Note: The nature of the powers delegated to the Chairman, Managing Directors and General Managers is described on page 83 under Corporate Governance.

Call to the AGM

Contents

Officers

Structure of Pirelli Group at December 31, 2003

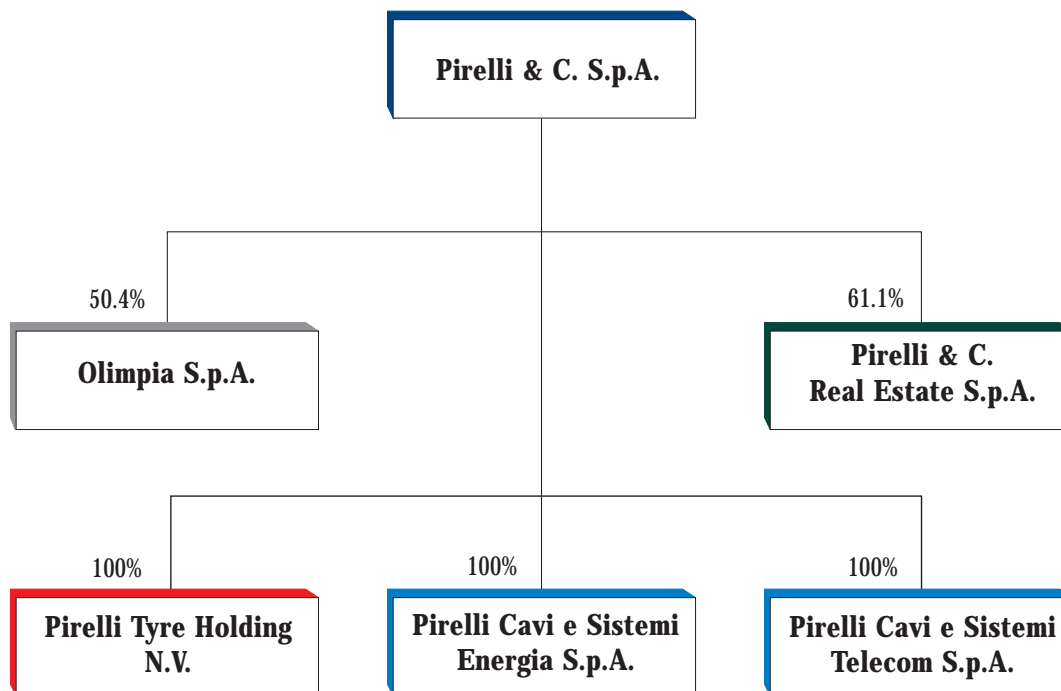
Pirelli & C. S.p.A.

on the Stock Market

Selected Financial Data

Chairman's Letter

STRUCTURE OF PIRELLI GROUP AT DECEMBER 31, 2003



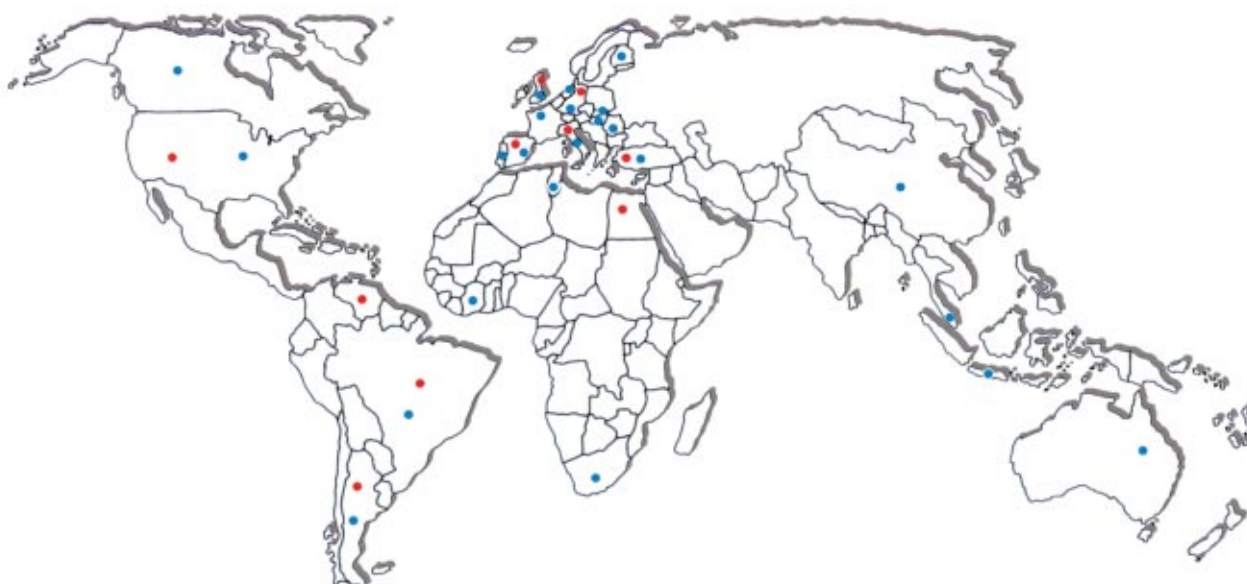
Cables and Systems

Argentina
Australia
Brazil
Canada
China
Finland
France
Germany
Holland
Hungary
Indonesia
Italy

Ivory Coast
Malaysia
Portugal
Romania
Slovak Republik
South Africa
Spain
Tunisia
Turkey
United Kingdom
United States

Tyres

Argentina
Brazil
Egypt
Germany
Italy
Spain
Turkey
United Kingdom
United States
Venezuela



Call to the AGM

Contents

Officers

Structure of Pirelli Group at December 31, 2003

Pirelli & C. S.p.A. on the Stock Market

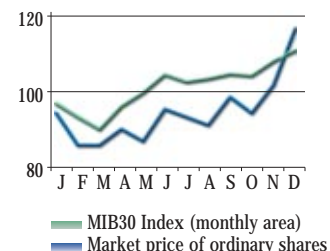
Selected Financial Data

Chairman's Letter

PIRELLI & C. S.P.A. ON THE STOCK MARKET

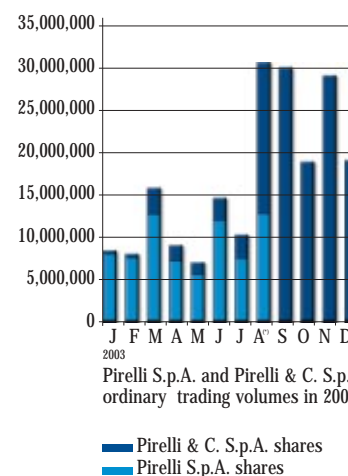
Pirelli & C. S.p.A. share capital movements since December 31, 2000

Date	Capital (thousands)	Transactions
December 2000	Euros 320,959	bond conversions
December 2001	Euros 325,409	bond conversions
December 2002	Euros 339,423	bond conversions
June 2003	Euros 272,083	exercise of the right of share withdrawal following the change in the company type and the corporate business purpose
July 2003	Euros 1,084,247	issue of shares cum warrants (1 warrant: 1 share) with rights offering (3 ordinary shares: 1 share of any class) at € 0.52
August 2003	Euros 1,799,400	share capital increase as a result of the merger by exchange
April 2004	Euros 1,799,909	warrant conversion



Market Trading on the Milan Stock Exchange

	Shares traded Volume	Amount (in millions of euros)
Pirelli & C. - Ordinary shares	2,646,884,007	1,873
Pirelli & C. - Savings shares	89,885,137	54



(*) Following the merger in Pirelli & C. SpA, in August, the Pirelli SpA stock was only listed in the August 1, 2003 trading session.

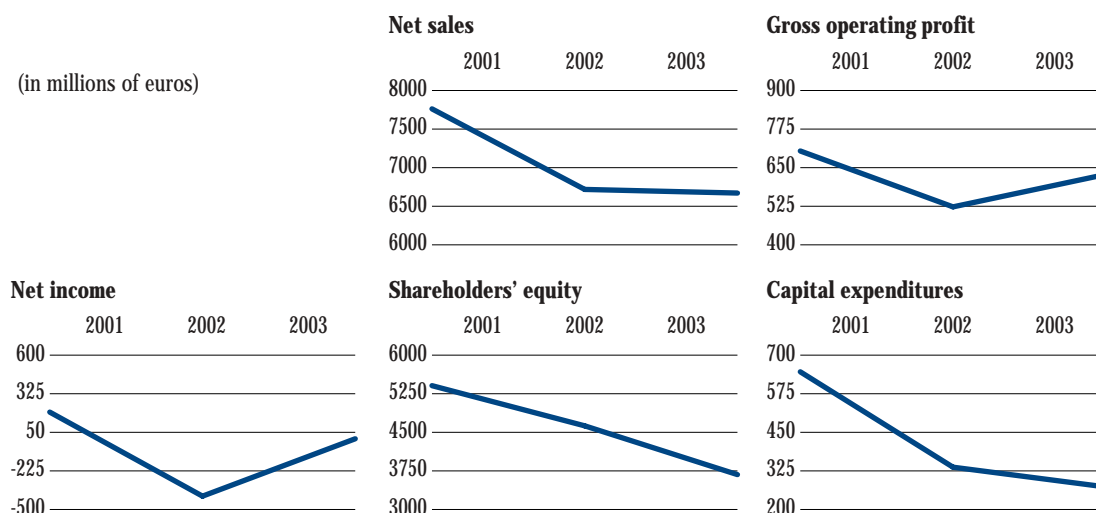
Call to the AGM
[Contents](#)
[Officers](#)
[Structure of Pirelli Group at December 31, 2003](#)
[Pirelli & C. S.p.A. on the Stock Market](#)
[Selected Financial Data](#)
[Chairman's Letter](#)

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

in millions of euros	2003	2002	2001	2000	1999
Net sales	6,671	6,718	7,762	7,697	6,654
Gross operating profit	628	523	704	850	699
Operating profit	268	118	297	432	322
Net income (loss)	4	(405)	194	3,759	293
Net income (loss) attributable to Pirelli & C. S.p.A.	(39)	(58)	125	1,405	86
Earnings per share (in euros)	(0.01)	(0.09)	0.20	2.28	0.14
Fixed assets	5,902	6,596	7,092	3,728	3,312
Net working capital	566	991	1,314	667	1,401
Net invested capital	6,468	7,587	8,406	4,395	4,713
Shareholders' equity	3,678	4,626	5,407	5,844	2,313
Provisions	1,045	911	970	1,186	803
Net financial (liquidity)/debt position	1,745	2,050	2,029	(2,635)	1,597
Net equity attributable to Pirelli & C. S.p.A.	3,429	1,933	2,119	2,171	809
Equity per share (in euros)	0.99	2.96	3.39	3.52	1.35
Free cash flows	564	476	26	176	96
R&D expenditures	204	219	237	213	200
Capital expenditures	273	337	646	570	476
Gross operating profit/Net sales	9.41%	7.79%	9.07%	11.04%	10.50%
Operating profit/Net sales	4.02%	1.76%	3.83%	5.61%	4.84%
Net income/Net equity*	0.1%	n.s.	3.59%	64.32%	12.67%
Operating profit/Net invested capital*	3.81%	1.56%	3.53%	9.83%	6.83%
Net financial position/Net equity	0.47	0.44	0.38	(0.45)	0.69
Pirelli & C. S.p.A. ordinary shares (No. in millions)	3,325.6	618.2	591.4	582.8	563.6
Pirelli & C. S.p.A. savings shares (No. in millions)	134.8	34.4	34.4	34.4	34.4
Total Pirelli & C. S.p.A. shares (No. in millions)	3,460.4	652.6	625.8	617.2	598.0
Treasury shares (No. in millions)	2.6	2.6	2.6	2.6	2.6
Factories (number)	77	79	84	87	87
Employees (at year-end)	36,337	37,350	39,771	42,509	40,369
Net sales per employee (in thousands of euros)	182	174	189	186	169

* Average amounts

(in millions of euros)



Call to the AGM

Contents

Officers

Structure of Pirelli
Group at December 31,
2003Pirelli & C. S.p.A.
on the Stock Market

Selected Financial Data

Chairman's Letter

CHAIRMAN'S LETTER

Dear Shareholders,

For Pirelli & C. Group, 2003 was a turning point which brought important changes both from the perspective of economic and industrial performance and from the standpoint of the company structure and corporate governance.

After a particularly difficult 2002 caused by the serious crisis in one of reference markets – telecommunications infrastructures – and the absence of a recovery in capital investments by utility companies in the power sector, the Group's performance in the industrial sector in 2003 brought a return to a profit position and a significant increase in operating profit, even though the panorama is still negatively affected by the economic scenario.

Free cash flows, in particular, grew more than Euros 1 billion in the two-year period 2002-2003 and the Group's financial exposure was kept in check; this was accomplished without having to reduce the priority commitment to research and technological innovations. Thanks to continuing investments, Pirelli has today reached a position of excellence in Italian and international innovation, borne out by the more than 400 patents filed in the last two years.

The performance of the Tyres Sector was particularly gratifying and the trend in growth in profitability and market share over the last few years has continued so that that Pirelli can now boast the leadership position in the high-performance range. The real estate business, too, which is headed by Pirelli & C. Real Estate, achieved the maximum targets forecast in the first year of its Three-year Plan 2003-2005 and further increased the portfolio of buildings under management (which now exceeds Euros 10 billion), with real estate trading at Euros 3.6 billion.

On the corporate front, 2003 saw the completion of the rationalization of the Group's structure through the merger of Pirelli S.p.A. and Pirelli & C. Luxembourg S.A. in Pirelli & C. S.p.A.. The transfer of all the major businesses under just one operating holding company – including Pirelli & C. Real Estate's operations – besides maximizing the Group's market capitalization and optimizing economic and financial flows, also meant a deep-seated revision of corporate governance: from the adoption of the Code of Ethics to improvements in a rigorous internal control system and in a system of environmental management and corporate social responsibility that is one of the most forward-looking, all the way up to the decision to propose a series of amendments to the bylaws to the shareholders' meeting in order to further encourage the participation of all shareholders in the life of the company.



Call to the AGM

Contents

Officers

Structure of Pirelli
Group at December 31,
2003Pirelli & C. S.p.A.
on the Stock Market

Selected Financial Data

Chairman's Letter

Among these changes, in particular, is the introduction of voting slates for the appointment of the Board of Directors.

Our objective is to render the Group increasingly more competitive from the industrial standpoint and transparent in its rules for the control and governing of the company, in the conviction that a well-informed shareholder is in a better position to knowledgeably participate in the decisions that can shape the success of the company. The rationalization of the industrial activities that were brought to a close in 2002-2003 confirm the high ethical and professional quality of Pirelli Group's management team which unquestionably deserves the merit of having had the wherewithal to react effectively and promptly to face the huge difficulties and challenges posed by the negative international economic situation in our reference markets.

All this places Pirelli in the position of being able to seize any benefits deriving from a recovery in the energy and telecommunications sectors and reach new important goals in terms of profitability, market share and the launch of new products, affirming its position as the leader in technology and innovation.

Introduction

Extraordinary Transactions

The Group

Energy Cables and Systems Sector

Telecom Cables and Systems Sector

Tyres Sector

Real Estate Sector

Pirelli & C. Ambiente

Information Systems

Ecology and the Environment

Human Resources

Proforma data

Related Party Disclosures

Equity Investments held by Directors, Statutory Auditor and General Managers

Stock Option Plans

Corporate Governance

International Accounting Standards

Pirelli & C. S.p.A. - Summary Data

Shareholders' Resolutions

DIRECTORS' REPORT ON OPERATIONS

Dear Shareholders,

The year 2003 marks the fundamental completion of the far-reaching actions aimed, on the one hand, at simplifying and strengthening the Group financially through the merger of the subsidiaries Pirelli S.p.A. and Pirelli & C. Luxembourg S.p.A. in Pirelli & C. S.p.A. and, on the other, at drastically adapting the industrial production structures to reflect the radical change in the market conditions of the Energy and Telecom Cables and Systems Sectors, while confirming the anticipated growth of the real estate business.

The year ended with a net income of Euros 4 million compared to a loss of Euros 405 million in 2002.

The result attributable to Pirelli & C. S.p.A. was a loss of Euros 39 million compared to a loss of 58 million in the prior year.

That result was negatively affected by Euros 100 million for the valuation of the investment in Olimpia S.p.A. using the equity method.

It should be recalled that Olimpia, after the merger of Telecom Italia S.p.A. in Olivetti S.p.A., next year, will benefit from the receipt of cash dividends, thus assuring itself of economic and financial equilibrium.

The net result, excluding the effect of Olimpia, would have been a net income of Euros 104 million, compared to a loss of Euros 255 million in 2002.

Net sales amount to Euros 6,671 million, a figure basically in line with Euros 6,718 million reported in 2002. On a comparable consolidation and exchange rate basis, net sales would have increased by 7.0 percent.

Operating profit rose from Euros 118 million in 2002 (1.8 percent of net sales) to Euros 268 million this year (4 percent of net sales).

The net debt position decreased from Euros 2,050 million at December 31, 2002 to Euros 1,745 million at December 31, 2003.

Total shareholders' equity of the Group went from Euros 4,626 million at December 31, 2002 to Euros 3,678 million at December 31, 2003; the shareholders' equity attributable to Pirelli & C. S.p.A. is equal to Euros 3,429 million, with an increase from Euros 1,933 million at December 31, 2002.

The net result of the parent company, Pirelli & C. S.p.A. for the year 2003, including the economic effects deriving from the merger of Pirelli & C. Luxembourg S.p.A. and Pirelli S.p.A. in Pirelli & C. S.p.A., shows a net income of Euros 138 million, compared to a net income of Euros 60 million for the year 2002.

For purposes of the organization of the work of the shareholders' meetings, especially with reference to the preparation of the documentation for preliminary filings as set forth in art. 2429 of the Italian Civil Code, the shareholders' meeting to examine the annual financial statements will not be called by the end of April. This will avoid convening the shareholders' meeting - among other things - during a period when there is a particularly high concentration of meetings by listed companies.

However, the postponement is minimal, given that the Annual General Shareholders' Meeting is called for May 10 and 11, 2004.



The Pirelli Labs are a point of reference for all the Group's research activities.

Introduction

Extraordinary Transactions

The Group

Energy Cables and Systems Sector

Telecom Cables and Systems Sector

Tyres Sector

Real Estate Sector

Pirelli & C. Ambiente

Information Systems

Ecology and the Environment

Human Resources

Proforma data

Related Party Disclosures

Equity Investments held by Directors, Statutory Auditor and General Managers

Stock Option Plans

Corporate Governance

International Accounting Standards

Pirelli & C. S.p.A. - Summary Data

Shareholders' Resolutions

EXTRAORDINARY TRANSACTIONS

On May 5, and May 7, 2003, the extraordinary shareholders' meeting of Pirelli S.p.A. and Pirelli & C. A.p.A. approved the project for transactions of an extraordinary nature directed towards simplifying and strengthening the corporate structure. The shareholders' meeting of Pirelli & C. A.p.A. specifically passed resolutions on:

1. the transformation of the company from a limited partnership company (Società da Accomandita per Azioni) to a corporation (Società per Azioni), thus assuming a new corporate structure so that all the shareholders could take a more important part in the decision-making process;
2. the change in the corporate business purpose of the Company so that more information could be provided about the role conducted by Pirelli & C. S.p.A., namely, that of an investment holding company with the function of directing and governing the companies of the Group. As a result of modifying the Company type and the corporate business purpose, the shareholders of Pirelli & C. S.p.A. were able to exercise the right of withdrawal in the manner and within the time frame established by law. Overall, the withdrawals affected 116,266,313 ordinary shares for a gross reimbursement of Euros 1.264 per share and 13,233,848 savings shares for a gross reimbursement of Euros 1.184 per share. The total equivalent amount of the reimbursements, before income taxes, was equal to Euros 162.6 million;
3. an increase in share capital through the issue of ordinary shares with the same number of free warrants attached, both of which can be traded separately, to be offered to the ordinary and savings shareholders (after exercise of withdrawal rights) in a ratio of 3 new ordinary shares cum warrants for every 1 share of any class of stock held at a price of Euros 0.52 per share, equal to par value. The offer was executed between June 9, and June 27, 2003 inclusive, at the end of which 1,557,159,063 shares with the same number of warrants attached had been subscribed. The unexercised 1,565,421 rights corresponding to 4,696,263 shares were offered by the company on the stock market, pursuant to art. 2441, paragraph 3 of the Italian Civil Code, in the trading sessions between July 7, and July 11, 2003 inclusive, at the end of which 4,696,263 shares were subscribed. The offer therefore ended with the full subscription of the 1,561,855,326 ordinary shares with the same number of warrants attached, at a price of Euros 0.52 each for a total equivalent amount of Euros 812.2 million, without the intervention of the underwriting syndicate;
4. the merger by incorporation in Pirelli & C. S.p.A. of Pirelli & C. Luxembourg S.p.A. (a wholly-owned subsidiary) through the cancellation of shares and of Pirelli S.p.A. through the exchange of 4 new ordinary shares and 10 new savings shares of Pirelli & C. S.p.A., respectively, for every 3 ordinary shares and for every 7 savings shares of Pirelli S.p.A. held, with dividend rights from January 1, 2003.

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



Pirelli were the tyres ranked highest by American motorists in 2003, according to the J.D. Power and Associates research institute.

Introduction

Extraordinary Transactions

The Group

Energy Cables and Systems Sector

Telecom Cables and Systems Sector

Tyres Sector

Real Estate Sector

Pirelli & C. Ambiente Information Systems

Ecology and the Environment

Human Resources

Proforma data

Related Party

Disclosures

Equity Investments held by Directors, Statutory Auditor and General Managers

Stock Option Plans

Corporate Governance

International Accounting Standards

Pirelli & C. S.p.A. - Summary Data

Shareholders' Resolutions

Effects on the consolidated financial statements

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

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

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

	(in millions of euros)
• Intangible assets	27.1
• Property, plant and equipment	124.9
• Investments in jointly controlled subsidiaries	700.0
• Investments in other companies	35.4
• Provisions	387.9
• Other	29.1
Total	1,304.4

Compared to the data published in the report for the first half ending June 30, 2003, certain reclassifications have been made in order to better represent the value of the assets and liabilities to which the merger surplus was allocated.

The effects of such adjustments on the 2003 statement of income are represented by lower amortization of intangible assets and lower depreciation of property, plant and equipment for an amount of Euros 29 million.

Effects on the statutory financial statements

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

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



The Teatro degli Arcimboldi, temporary home of La Scala theatrical activities.

Introduction

Extraordinary Transactions

The Group

Energy Cables and Systems Sector

Telecom Cables and Systems Sector

Tyres Sector

Real Estate Sector

Pirelli & C. Ambiente

Information Systems

Ecology and the Environment

Human Resources

Proforma data

Related Party Disclosures

Equity Investments held by Directors, Statutory Auditor and General Managers

Stock Option Plans

Corporate Governance

International Accounting Standards

Pirelli & C. S.p.A. - Summary Data

Shareholders' Resolutions

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

The adjustments can be summarized as follows:

	in millions of euros
• Intangible assets	8.1
• Property, plant and equipment	7.1
• Investments in subsidiaries	346.3
• Investments in jointly controlled subsidiaries	869.3
• Investments in other companies	23.0
• Provisions	280.9
Total	1,534.7

Compared to the data published in the report for the first half ending June 30, 2003, certain reclassifications have been made in order to better represent the value of the assets and liabilities to which the merger surplus was allocated.

The effects of such adjustments on the 2003 statement of income are represented by lower amortization of intangible assets and lower depreciation of property, plant and equipment for an amount of Euros 4.5 million.



The homologation of the Pirelli Tyre Sector's "top-of-the-range" products is one of the main reasons for its success.

The Group

2003 economic and financial review

Major events in 2003

Pirelli Group: summary data

Subsequent events

Outlook for the current year

THE GROUP

2003 ECONOMIC AND FINANCIAL REVIEW

The performance of the Group in 2003 was affected by the aforementioned almost completely concluded far-ranging process to streamline the organization and strengthen the finances of the Group. This also included measures to rationalize the industrial production structure to align it to market conditions, principally in the Energy and Telecom Cables and Systems Sectors.



The new Bicocca headquarters of Pirelli & C. Real Estate.

The **industrial operations** of the Group registered an increase in operating profit despite the fact that the economic environment was not positive, especially for Cables and Systems.

Demand for telecommunications infrastructures, where volumes remained at low levels, drove prices down even further. In the Energy Sector, investments in Utilities were still stagnant, especially in Europe in the low and medium voltage categories and pressure on prices continued in the general market sector.

The improvement in the operating profit demonstrates the positive effects of the measures taken to recover efficiency that were put into place by management of the Group in the Energy and Telecom Cables and Systems Sectors. The value of efficiency achieved in 2003 exceeds Euros 170 million, in addition to those achieved in 2002 of Euros 199 million.

The operating profit of the Energy Cables & Systems Sector jumped 51 percent, and, although the figure for the Telecom Cables & Systems Sector is still negative, significant gains have been made in the right direction.

The Tyres Sector, in a generally positive market, again recorded operating profit in expansion, with a growth of 15 percent. This was achieved by continuing to focus on high-quality products with a high level of technological content combined with the policy of de-localizing production.

In terms of cash flows, following further measures to improve efficiency with regard to working capital and a selective investment policy, cumulative industrial operations reported a positive free cash flow of Euros 464 million, which, added to the amount generated in 2002, brings the cash provided over the two-year period to approximately Euros 1,000 million.

The restructuring carried out in 2002-2003 puts Pirelli in the position of being able to maximize the benefits deriving from a possible upturn in the energy and the telecom infrastructures sectors. It also means that the Group can set new targets in terms of profitability, market share and the launch of new products, confirming its reputation as world leader in technology and innovation.

In confirmation of this, R&D achieved important successes in various sectors. New products, in particular, were launched on the market which were entirely conceived and developed by Pirelli Labs and the Pirelli Telecom Systems structure, and then validated by international operators such as British Telecom, FastWeb, Telecom Italia and Alcatel.

In the **Real Estate** area, represented by the Pirelli & C. Real Estate Group, 2003 proved to be a particularly significant year. Pirelli & C. Real Estate achieved all of its goals in terms of economic targets and profitability, reporting a 25 percent increase in operating profit, including the share of earnings (losses) of equity investments. It also met its development objectives in new sectors as set by the Three-year Plan 2003-2005.

The Group

2003 economic and financial review

Major events in 2003

Pirelli Group: summary data

Subsequent events

Outlook for the current year

The net profit from real estate activities was Euros 102.1 million, compared to Euros 82.6 million in 2002, with an increase of 24 percent. In 2002, there had also been other profit components unrelated to real estate, mostly connected with the sale of securities that came from the Unim portfolio, for a total of Euros 42.7 million.

Holding and coordination activities benefited both from the settlement of the dispute with Ciena over the use of our patents, and improvements in efficiency achieved in corporate structure costs.



The earnings of the Energy Cables and Systems Sector grew substantially in 2003.

As for the **investment in Olimpia S.p.A.**, in 2003, the Group strengthened the structure with a commitment of Euros 388 million. Beginning in 2004, following the merger of Telecom Italia S.p.A. in Olivetti S.p.A., Olimpia will be able to count on cash dividends that will give it economic and financial equilibrium.

MAJOR EVENTS IN 2003

The major events which occurred in 2003 are described below:

- On March 10, 2003, based upon agreements reached by the two groups in March 1998, BZ Group exercised the second sales option relating to a number of Pirelli S.p.A. ordinary shares equal to 2.5 percent of share capital with voting rights, at a price calculated – in compliance with the agreements – at the average market price of the stock in the 90 trading days prior to the exercise date, for a total amount of some Euros 43 million (equal to a price per share of Euros 0.90).
- On May 5, 2003, the deed of merger was signed for the incorporation of Holy S.r.l. (a subsidiary of Hopa S.p.A.) in Olimpia S.p.A.. This merger became effective, with the merged company ceasing to exist, on May 9, 2003. Therefore 297,637,360 new Olimpia shares were issued in exchange for the entire share capital of Holy. After these transactions, the share capital of Olimpia S.p.A., equal to 1,860,233,510 shares of par value Euros 1, was held as follows: Pirelli & C. S.p.A. 50.4 percent, Edizione Finance International S.A. 16.8 percent, Hopa S.p.A. 16 percent, Banca Intesa S.p.A. 8.4 percent and Unicredito S.p.A. 8.4 percent.
- On July 16, 2003, Popoy Holding BV, a joint venture between Pirelli & C. Real Estate (25 percent) and Morgan Stanley Real Estate Funds IV (75 percent) won the bid for the purchase of a part of the non-essential real estate properties of the Fondiaria-SAI group for Euros 980 million. The portfolio in question consists of 87 buildings mainly used by the services sector for an area of about 460,000 m² located mainly in Milan, Florence and Rome. At the beginning of August, the joint venture signed an agreement with Alerion Industries for the sale of approx. 20 percent of the real estate portfolio purchased, which consisted of 19 buildings located mainly in Milan and Rome worth some Euros 200 million. On October 31, the joint venture formally purchased all the quotas of Ganimede S.r.l., a company holding 68 properties with a net book value of Euros 780 million, of which Euros 684.6 million is mainly used in the services sector. The closing of the FONSAI deal was finalized on October 31, 2003.

The Group

2003 economic and financial review

Major events in 2003

Pirelli Group: summary data

Subsequent events

Outlook for the current year

- Between July and September, Pirelli & C. Real Estate Agency S.p.A. finalized two important contracts for the sale of properties totaling approx. Euros 650 million:
 - the first, on July 30, under a Temporary Business Association (70 percent Pirelli & C. Real Estate S.p.A. and 30 percent Ipi), concerns the commission to sell 29 mainly residential properties located in Rome and owned by Initium (a joint venture between Generali Properties and Lehman Brothers) for a total sales value of about Euros 350 million;
 - the second, on September 17, regards the mandate received from Investire Immobiliare S.g.r. S.p.A. to sell 14 properties of the Fondo Investire Residenziale 2 for a sales value of about Euros 300 million.



The President of Brazil, Lula da Silva, inaugurated the new tyre factory at Feira de Santana in September 2003.

- On July 25, the consortium headed by Pirelli & C. Real Estate S.p.A. was pre-qualified for the international bid for the sale and redevelopment of the Milan Trade Fair complex. The project was assigned to Renzo Piano.
- On September 12, 2003, at Feira de Santana in the Brazilian state of Bahia, Pirelli inaugurated a new factory for the production of high-performance radial tyres. The outcome of an initial investment of some U.S. \$120 million and situated on 32 thousand square meters, the new plant facilities will initially manufacture 2,500 tyres a day, destined for the domestic market and the Latin American region as well as the North American and European markets.
- In September, J.D. Power and Associates, one of the most important US market analysis institutes, announced the results of a survey in which American motorists chose Pirelli tyres as the best on the market. In the annual survey rating original equipment tyres, conducted with 30,400 new car owners for at least two years, Pirelli obtained the highest rating for adherence, driving, quality of design and handling.
- During all of 2003, 41,930,000 Capitalia S.p.A. shares (equal to 1.9 percent of share capital) were bought at an average per share price of Euros 1.89 for Euros 79.4 million. Such shares were later contributed to a voting trust for the period October 22, 2003 to October 22, 2006.
- On October 3, the Pirelli Real Estate Franchising brand made its debut. This new initiative by Pirelli & C. Real Estate is directed to establishing a network of real estate agencies that will provide the retail market with real estate, financial and insurance products and services (mortgages, leasing and insurance). The network is the strategic outgrowth of the Pirelli & C. Real Estate business model and aims to become the benchmark for quality and innovation in services and for the expertise and professionalism of its affiliate agencies. By December 31, 2003, 258 franchising contracts had been signed and an agreement was reached with leading banks and insurance companies for the marketing of integrated real estate/financial services. The development plan calls for signing up 500 affiliates by the end of 2004, 1,000 by the end of 2005 and 1,500 by the end of 2006, for a total investment of approx. Euros 20 million, with breakeven in 2005.



December 2003: the Tecla Fondo Uffici, the first real estate contribution fund of Pirelli&C. Real Estate, made its debut.

The Group

2003 economic and financial review

Major events in 2003

Pirelli Group: summary data

Subsequent events

Outlook for the current year

- On October 22, Pirelli & C. Real Estate Societa' di Gestione del Risparmio S.p.A. secured Banca d'Italia's approval for the regulations of the private investment fund, by contribution, Tecla Fondo Uffici (Tecla Offices Fund). On October 23, a request was made to Borsa Italiana to list the fund and, on the same date, the relative prospectus was filed with Consob to obtain approval for publication. On December 12, Consob authorized publication of the prospectus, concluding the bureaucratic approval procedures for the public sale offer and the official listing of Pirelli & C. Real Estate S.p.A.'s real estate fund, by contribution. Admission of the Tecla Fondo Uffici to official listing was voted by Borsa Italiana S.p.A. on December 3, 2003. The Tecla Fondo Uffici was set up with 65 properties which are mainly used in the services sector or can be converted for use in that sector, for a market value of Euros 926 million, plus Euros 25 million in cash.
- On October 24, 2003, the Consortium set up by Pirelli Cavi e Sistemi Energia S.p.A. and Nexans was awarded a contract worth Euros 100 million for the turn-key supply and installation, on behalf of the National Electricity and Gas Board STEG – Société Tunisienne de l'Electricité et du Gaz, – of underground power transmission cables and high-voltage accessories to expand and extend the Tunisian power transmission grid.
- Pirelli Cables Ltd signed a contract with the Ministry of Electricity and Water of Kuwait to supply 39 km of 132 kV high-voltage oil-filled cables. The contract, worth about Euros 8 million, is part of a project to rebuild and expand the power grid in the south of Kuwait.
- On November 9, the Norwegian driver Petter Solberg, at the wheel of a Subaru Impreza equipped with Pirelli tyres, triumphed in the U.K. rally, winning the World Rally Drivers Championship title. For Pirelli, the exclusive supplier of tyres to Team Subaru, this is its 19th world rally championship title.
- In December, Pirelli & C S.p.A. paid its share of the capital increase voted by the Olimpia S.p.A. shareholders' meeting on November 13, 2003 for a total of Euro 388 million, in two installments: the first on December 17, for Euros 353 million and the second on December 29, for Euros 35 million.
- On December 23, 2003, Generali Properties, Pirelli & C. Real Estate and Lehman Brothers purchased, through Continuum S.r.l., a portfolio of 43 buildings located mainly in Milan and Rome and part of the properties owned by Assitalia, for Euros 158 million, for a total of approx. 106,000 m². Continuum S.r.l. is owned 40 percent each by Generali Properties and Pirelli & C. Real Estate and 20 percent by Lehman Brothers. The mostly residential buildings, after increasing their value, will be sold in the short to medium term.
- On December 23, Pirelli & C. S.p.A. signed a contract for a 5-year Euros 1 billion committed revolving line of credit with leading international banking institutions. The banks which equally made the sum available are: Barclays Capital, BNP Paribas, HSBC Bank plc, J.P. Morgan plc and The Royal Bank of Scotland plc. This transaction allows the Pirelli Group to further improve its financial structure while increasing its flexibility.



The Pirelli Scorpion Zero on a Dodge RAM SRT-10, America's most powerful pick-up.



A contract worth 100 million Euros for Pirelli Cables and Energy Systems in Tunisia, in consortium with Nexans.

The Group

2003 economic and financial review

Major events in 2003

Pirelli Group: summary data

Subsequent events

Outlook for the current year

- At the end of 2003, Centrale Immobiliare S.p.A. (100 percent-owned by Pirelli & C. Real Estate S.p.A.) purchased nine office buildings for Euros 85 million from Banca di Roma – Capitalia Group. The properties are located in Florence, Bologna, Rome, Naples, Bari, Ancona, Palermo and Mestre.
- Towards the very last days of 2003, a group of Tuscan investors headed by the businessman Arduino Casprini (Pirelli & C. Real Estate S.p.A. 30 percent, other shareholders 70 percent) purchased an industrial complex from Italtel for office use and land to be developed in the suburbs of Milan, for Euros 80 million. The agreement also calls for the possible purchase, at a later date, of the Italtel industrial complex at Settimo Milanese (MI).

PIRELLI GROUP: SUMMARY DATA

The highlights of the consolidated financial statements can be summarized as follows:

(in millions of euros)	2003 (excluding Olimpia)	2003	2002
• Net sales	6,671	6,671	6,718
• Gross operating profit	628	628	523
% of net sales	9.4%	9.4%	7.8%
• Operating profit	268	268	118
% of net sales	4.0%	4.0%	1.8%
• Share of earnings (losses) of equity investments	49	(51)	(175)
• Operating profit (loss) incl. share of earnings (losses) of equity invest.	317	217	(57)
• Financial income (expenses)	(134)	(134)	(178)
• Extraordinary items	(9)	(9)	(83)
• Income taxes	(70)	(70)	(87)
• Net income (loss)	104	4	(405)
% of net sales	1.6%	0.1%	n.s.
• Net loss attributable to Pirelli & C. S.p.A.		(39)	(58)
• Earnings per share (in euros)		(0.01)	(0.09)
• Shareholders' equity		3,678	4,626
• Net equity attributable to Pirelli & C. S.p.A.		3,429	1,933
• Equity per share (in euros)		0.99	2.96
• Net financial (liquidity)/debt position		1,745	2,050
• Capital expenditures		273	337
• R&D expenditures		204	219
• Employees (at year-end)		36,337	37,350
• Factories (number)		77	79
• Pirelli & C. S.p.A. ordinary shares (No. in millions)		3,325.6	618.3
• Pirelli & C. S.p.A. savings shares (No. in millions)		134.8	34.4
• Total Pirelli & C. S.p.A. shares (No. in millions)		3,460.4	652.7

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

The Group

2003 economic and financial review

Major events in 2003

Pirelli Group: summary data

Subsequent events

Outlook for the current year

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

(in millions of euros)	Energy Cables & Syste.		Telecom Cables & Syste.		Tyres		INDUS. AGGREG.	
	2003	2002	2003	2002	2003	2002	2003	2002
• Net sales	2,637	3,021	427	468	2,970	2,857	6,034	6,346
• Gross operating profit (loss)	169	158	(1)	(22)	399	365	567	501
% of net sales	6.4%	5.2%	n.s.	n.s.	13.4%	12.8%	9.4%	7.9%
• Operating profit (loss)	83	55	(39)	(84)	220	191	264	162
% of net sales	3.1%	1.8%	n.s.	n.s.	7.4%	6.7%	4.4%	2.6%
• Share of earnings (losses) of equity investments	-	-	(2)	(35)	-	-	(2)	(35)
• Op. profit (loss) incl. share of earnings (losses) of eq. inv.	83	55	(41)	(119)	220	191	262	127
• Financial income (expenses)	(23)	(44)	(18)	(19)	(45)	(55)	(86)	(118)
• Extraordinary items	(5)	(121)	4	(121)	(1)	(11)	(2)	(253)
• Income taxes	(16)	(10)	(1)	(4)	(45)	(47)	(62)	(61)
• Net income (loss)	39	(120)	(56)	(263)	129	78	112	(305)
% of net sales	1.5%	n.s.	n.s.	n.s.	4.3%	2.7%	1.9%	n.s.
• Net financial (liquidity)/debt position	354	373	302	431	317	492	973	1,296

(in millions of euros)	Industrial Aggregate		Pirelli & C. Real Estate		Other		TOTAL	
	2003	2002	2003	2002	2003	2002	2003	2002
• Net sales	6,034	6,346	645	424	(8)	(52)	6,671	6,718
• Gross operating profit (loss)	567	501	79	52	(18)	(30)	628	523
% of net sales	9.4%	7.9%	-	-	-	-	9.4%	7.8%
• Operating profit (loss)	264	162	61	42	(57)*	(86)	268	118
% of net sales	4.4%	2.6%	-	-	-	-	4.0%	1.8%
• Share of earnings (losses) of equity invest.	(2)	(35)	67	60	(116)**	(200)	(51)	(175)
• Op. profit (loss) incl. share of earnings (losses) of eq. inv.	262	127	128	102	(173)	(286)	217	(57)
• Financial income (expenses)	(86)	(118)	1	(2)	(49)	(58)	(134)	(178)
• Extraordinary items	(2)	(253)	(6)	50	(1)	120	(9)	(83)
• Income taxes	(62)	(61)	(21)	(24)	13	(2)	(70)	(87)
• Net income (loss)	112	(305)	102	126	(210)	(226)	4	(405)
% of net sales	1.9%	n.s.	-	-	-	-	0.1%	n.s.
• Net financial (liquidity)/debt position	973	1,296	9	(12)	763	766	1,745	2,050

* of which, goodwill amortization on purchases of Pirelli S.p.A. shares, Euros 25 million (Euros 29 million in 2002)

** accounting for Olimpia S.p.A. using the equity method, Euros 100 million (Euros 150 million in 2002)

Net sales

Net sales are equal to Euros 6,671 million and recorded a reduction of 0.7 percent compared to the prior year (Euros 6,718 million).

Excluding the foreign exchange effect (- 5.9 percent), the equilibrium in metal prices in the Energy business (-0.3 percent) and the change in the scope of consolidation due to the sale of the Enameled Wires business (-1.5 percent), the effective change is equal to +7.0 percent.



Pirelli became 2003 World Rally Champions with the Norwegian driver Petter Solberg and Subaru.

The Group

2003 economic and financial review

Major events in 2003

Pirelli Group: summary data

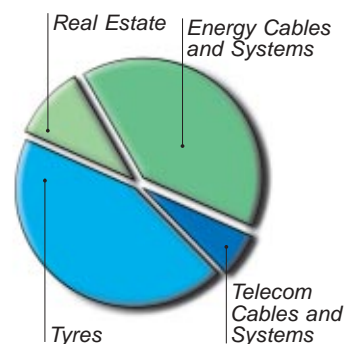
Subsequent events

Outlook for the current year

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

Sector	2003	2002
Energy Cables and Systems	40%	45%
Telecom Cables and Systems	6%	7%
Tyres	44%	42%
Real Estate	10%	6%

Geographical area	2003	2002
Italy	22.3%	22.9%
Other European countries	43.1%	41.1%
North America	9.4%	10.9%
Central and South America	12.3%	11.6%
Australia, Africa and Asia	12.9%	13.5%



Group sales in 2003 by Sector and geographical area.

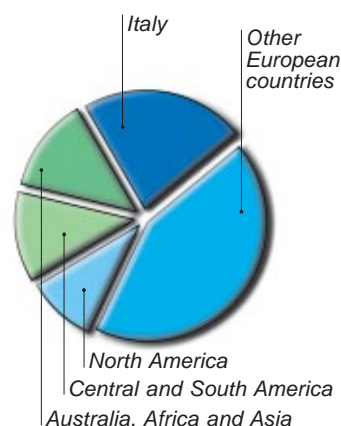
Operating profit

Operating profit is equal to Euros 268 million compared to Euros 118 million in 2002. The percentage of operating profit to net sales is 4 percent (1.8 percent in 2002).

The aggregate of the industrial businesses recorded an operating profit of Euros 264 million (including Euros 22 million coming from the effects of the allocation of the merger surplus), equal to 4.4 percent of net sales, compared to Euros 162 million in 2002 (2.6 percent of net sales).

The Real Estate area shows an operating profit of Euros 61 million, with an increase from Euros 42 million in 2002. However, it should be borne in mind that, on the basis of its business model, a better indicator of activities is the operating profit including income generated by equity investments, which is equal to Euros 128 million, up 25 percent from last year.

Operating profit for the year 2003 also comprises the impact of the settlement with Ciena relating to the dispute over the use of patents by the latter (Euros 10 million) and, in the Energy Cables and Systems Sector, the change in the valuation criteria for strategic metals inventories from the LIFO to the FIFO method (Euros 6 million) and the loss caused by the bankruptcy of a distributor (Euros 4 million). Last year, the operating profit had included the positive effect of the contract awarded for submarine power cables (Euros 10 million) and insurance compensation for damages to the Battipaglia factory of Fibre Ottiche Sud for Euros 6 million.



Submarine energy cables, used on offshore platforms.

The Group

2003 economic and financial review

Major events in 2003

Pirelli Group: summary data

Subsequent events

Outlook for the current year

The change can be summarized as follows:

	(in millions of euros)
Operating profit 2002	118
• Currency exchange effect	(25)
• Prices (excluding metals)/Mix	17 (*)
• Volumes	73
• Production factors per unit cost	(72) (**)
• Labor per unit cost	(75)
• Efficiencies	183
• Depreciation	12
• Merger effect	29
• Other	8
	150
Operating profit 2003	268

(*) including South America for + Euros 111 million

(**) including South America for Euros - 70 million

Share of earnings (losses) of equity investments

The share of the earnings (losses) of equity investments is a negative balance of Euros 51 million compared to a negative balance of Euros 175 million in 2002 and includes the effect of the earnings (losses) of the companies accounted for using the equity method.

It specifically includes the share of the loss of Olimpia S.p.A. of Euros 100 million (Euros 150 million in 2002) whereas the results of the companies in the Real Estate area (Pirelli & C. Real Estate Group) show earnings of Euros 67 million (Euros 60 million in 2002).

As already stated, Olimpia S.p.A.'s result does not include dividends that will be recorded in the statement of income on the cash basis when they are received, sometime during 2004.

The figure also include the writedown of the investments in F.C. Internazionale Milano S.p.A. (Euros 6 million), Gemina S.p.A. (Euros 4 million) and Euroqube S.A. (Euros 4 million).

Extraordinary items

Extraordinary items show an expense balance of Euros 9 million compared to an expense balance of Euros 83 million in 2002.

Extraordinary items refer to expenses connected with the merger of the parent company for Euros 16 million, income connected with the "High-speed Train" project at the tyre factories in the Turin area for Euros 10 million, the costs to take advantage of the tax amnesty by some Italian companies for Euros 14 million and gains on the sale of properties for Euros 17 million.

Last year, extraordinary items had included the accrual for industrial restructuring expenses (Euros 247 million), which had been partly offset by the gain on the placement of Pirelli & C. Real Estate S.p.A. shares on the market (Euros 149 million) and the gain realized by Pirelli & C. Real Estate S.p.A. on the sale on the last portion of the securities in the ex-Unim portfolio (Euros 51 million).

The Group

2003 economic and financial review

Major events in 2003

Pirelli Group: summary data

Subsequent events

Outlook for the current year

Net income (loss)

The net result is a net income of Euros 4 million (after income tax expenses of Euros 70 million) compared to a net loss of Euros 405 million in 2002 (after income tax expenses of Euros 87 million).

Excluding the impact of Olimpia's loss for the year to December 31, 2003, the result would have been a net income of Euros 104 million.

The net loss attributable to Pirelli & C. S.p.A. for the year to December 31, 2003 is Euros 39 million compared to a net loss of Euros 58 million in 2002.

Shareholders' equity

Total shareholders' equity went from Euros 4,626 million at December 31, 2002 to Euros 3,678 million at December 31, 2003.

Such reduction can be analyzed as follows:

(in millions of euros)	
• Translation adjustments	(50)
• Net income for the year	4
• Dividends to third parties paid by:	(64)
- Pirelli & C. S.p.A./Pirelli S.p.A.	(45)
- Pirelli & C. Real Estate S.p.A.	(18)
- Other Group companies	(1)
• Purchase/sale of other minority holdings	(181)
• Capital increase	812
• Withdrawal by shareholders	(163)
• Allocation of merger surplus	(1.304)
• Other changes	(2)
	(948)

Shareholders' equity attributable to Pirelli & C. S.p.A. at December 31, 2003 is equal to Euros 3,429 million. This is an increase from Euros 1,933 million at December 31, 2002 as a result of the transactions connected with the merger (capital increase for cash and capital increase by exchange).

Net financial position

The net financial position is a net indebtedness position of Euros 1,745 million, with a reduction of Euros 305 million compared to Euros 2,050 million at December 31, 2002.

Positive cash flows from ordinary operations of Euros 239 million contributed to this reduction.

The net debt position also reflects the effects associated with the capital increase by Pirelli & C. S.p.A., quantifiable in Euros 649 million, the subscription of Olimpia S.p.A.'s capital increase for Euros 388 million, the payment of dividends for a total of Euros 64 million, in addition to nonrecurring events such as the posting of the liability for the exercise of the put option by Cisco on the investment in Pirelli Submarine Telecom for Euros 61 million and a net negative balance between purchases and sale of equity investments for Euros 48 million.

The Group

2003 economic and financial review

Major events in 2003

Pirelli Group: summary data

Subsequent events

Outlook for the current year

The change of Euros 305 million can be explained by the following analysis of cash flows:

(in millions of euros)		
• Operating profit		268
• Depreciation and amortization		361
• Net investments:		(391)
- intangible assets and property, plant and equipment	(332)	
- financial assets	(59)	
• Change in working capital		340
• Change in provisions and other		(14)
• Free cash flows		564
• Extraordinary items		(9)
• Financial income (expenses)		(148)
• Income taxes		(70)
• Restructuring expenses		(107)
• Other changes		9
• Net cash flows from ordinary operations		239
• Purchase of other minority holdings		(104)
• Olimpia S.p.A. capital increase		(388)
• Balance of purchases/sales of equity investments		(48)
• Dividends paid		(64)
• Net cash flows		(365)
• Changes in shareholders' equity		
- capital increase		812
- withdrawal by shareholders		(163)
• Total changes in shareholders' equity		649
• Translation adjustments		21
• Change in net financial position		305

Employees

Employees number 36,337 at December 31, 2003 (of which 2,417 have temporary contracts), compared to 37,350 at December 31, 2002 (of which 2,257 with temporary contracts), with a net decrease of 1,013 persons.

The change is mainly due to a headcount reduction of 1,846 employees in industrial operations, an increase of 336 in the Pirelli & C. Real Estate Group and the increase connected with the consortium for the management of integrated IT services set up with Telecom Italia (443).

Factories

The number of factories went from 79 at December 31, 2002 to 77 at December 31, 2003. The reduction is in the Energy Cables and Systems Sector as a result of the closing of three production plants (Erith-U.K., Colusa-USA, Budapest-Hungary) following the announcement of restructuring plans, while the factory in Tunisia in the automotive cables business was added to the scope of consolidation.

The Group

2003 economic and financial review

Major events in 2003

[Pirelli Group: summary data](#)

Subsequent events

Outlook for the current year

Capital expenditures

Capital expenditures total Euros 273 million in 2003 compared to Euros 337 million in 2002. The ratio of capital expenditures to depreciation is 0.98 (1.05 in 2002).

R&D expenditures

R&D expenditures borne by the Group and completely expensed in the statement of income went from Euros 219 million in 2002 to Euros 204 million in 2003. R&D as a percentage of industrial aggregate net sales is 3.4 percent, in line with the prior year. Euros 48 million of the total refers to personnel employed in the Milan area. The information is also provided pursuant to Law 140/97, art. 13.

Pirelli Labs

Pirelli Labs was established in 2001, covers an area of 13,000 m² in Milan Bicocca and is the Group's cutting-edge hi-tech research center.

As far as Materials Innovation is concerned, activities concentrated on research in the field of materials science for applications in Pirelli's traditional areas of business, on distributed power generation, as well as basic research work.

With regards to Optical Innovation, work focuses mainly on research in the field of nanotechnologies applied to photonics, and the development of devices and modules for telecommunications applications. Pirelli Labs is the benchmark for all the Pirelli Group's research activities throughout the world and, thanks to a series of agreements and consortiums, is directly linked to important private and university research centers in Italy and worldwide.

Since the beginning of 2002, there has been intensive and highly successful collaboration on joint projects between Pirelli Labs and Telecom Italia Lab, the research center of the Telecom Italia Group. This kind of collaboration is of reciprocal advantage to both groups: Pirelli will gain access to information about the future development of telecommunications networks/services and, as a result, will better be able to direct the development of equipment and subsystems to sell on the market to potential suppliers of telecommunications operators; similarly, Telecom Italia will gain access to information about the evolution of innovative enabling technologies for the development of innovative networks and services.

Through Pirelli Labs, the Pirelli Group intends to become a "Knowledge company" in its own right, a company that will evolve and create value by developing innovative know-how and technologies. The technological center, which is equipped with hi-tech laboratories, is the Group's hub of technological excellence. Here, new ideas and technologies are developed for the products of the next generation which will emerge in the short, medium and long term.



In 2003, collaboration on joint projects intensified between Pirelli Labs and Telecom Italia.

The Group

2003 economic and financial review

Major events in 2003

Pirelli Group: summary data

Subsequent events

Outlook for the current year

Pirelli Labs Materials Innovation

In pursuing the strategic objectives of PLMI, research activities involve three main areas.

It is a short term aim to identify and develop innovative solutions, mainly in the field of materials sciences, which can be immediately used in Pirelli's traditional areas of business. One project in this category concerns the development of the CCM (Continuous Compound Mixing) process, used to obtain innovative compounds for tyres.



A phase in the CCM (Continuous Compound Mixing) process for the automated production of tyre compounds.

Particularly spectacular results were achieved in terms of the high level of reproducibility of the critical parameters of the compounds.

With regards to the activities of Pirelli Energy Cables and Systems, an interesting new solution is being developed which uses recycled material to produce sheaths for low and medium voltage cables. If the industrialization process is successful, this will mean a significant reduction in production costs.

Another short-term objective is the research work being conducted with Telecom Italia. The most important projects concern "Cryogenic RFE" and telemonitoring.

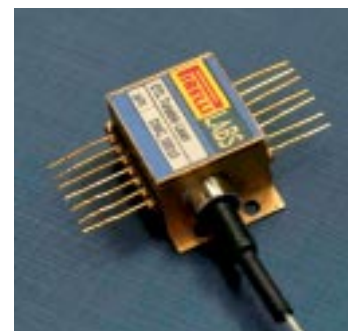
The second area of research involves projects with medium term goals. They include the Fuel Cells project. In this context, Pirelli has established contacts with a number of prestigious companies with the aim of identifying partners whose collaboration will accelerate the development of applications for the innovative solutions developed and patented by Pirelli: the SOFC (Solid Oxide Fuel Cell) for power applications and PEM (Polymer Electrolyte Membranes) for portable electronics.

The third main area of research is geared to exploring innovative proposals for the Cyber Tyre project and continuing research into the physics of matter in a condensed state.

Pirelli Labs Optical Innovation

With regard to telecommunications, the efforts of the new laboratories have concentrated on photonics and the development of fiber optic equipment based on new technologies (particularly nanotechnologies), and also on innovative systems and subsystems destined mainly for applications in metropolitan and access networks.

Since the technological platform was completed at the beginning of 2002, activities have concentrated on the development of innovative equipment which will mature into products over the coming years, with effect from the second half of 2003. Major projects in the short/medium term include a tuneable laser for long-distance and regional fiber optic network applications. The first prototypes of this device were evaluated by some of Pirelli's customers in 2003. In 2004, the device will be passed on to Pirelli Telecom Systems so that it can be marketed. Meanwhile, technological development continues of the completely fiber optic routing device based on nanotechnologies, which constitutes the first example of an integrated fiber optic circuit.



Created in the Pirelli Labs Optical Innovation, a tuneable laser for optical systems used in metropolitan and long distance transmissions.

The Group

2003 economic and financial review

Major events in 2003

Pirelli Group: summary data

Subsequent events

Outlook for the current year

The development of a Radio over Fiber system to carry mobile signals on optical cables in the context of third-generation mobile networks (UMTS) has been completed. Pirelli Telecom Systems has signed a supply contract for the system with a mobile network equipment manufacturer.

As far as broadband access solutions are concerned, an innovative residential ADSL access terminal is being developed which will make it possible to introduce broadband applications to the domestic sphere that are controlled by smart cards and which eliminate the use of personal computers.

Furthermore, work has started to develop a Set Top Box for videocommunications applications.

Again with reference to access solutions, a project has been started to develop optical access networks based on passive architecture. The key component of this device is a very inexpensive integrated optical chip for optical applications in residential areas.

SUBSEQUENT EVENTS

- In January, 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, Pirelli won two important supply contracts, through the system integrator TCIL (Telecommunications Consultants of India), for 4,000 km of OPGW (Optical Ground Wire) cables and services to the Algerian utilities company Sonelgaz. These two projects will enable Sonelgaz to build a new broadband telecommunications network for voice, data and multimedia services that will further the development of Algeria.
- In March, Pirelli Cables Ltd – a British associated company 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 early months of 2004, Pirelli & C. S.p.A. 2003-2006 warrants totaling 3,917,896 (equal to 0.25 percent of those issued) were exercised; accordingly 979,474 ordinary shares were issued.
- 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.



An agreement was reached between United Kingdom's Pirelli Cables and Holland's Draka for the supply of low voltage cables to the British market.

The Group

2003 economic and financial review

Major events in 2003

Pirelli Group: summary data

Subsequent events

Outlook for the current year

OUTLOOK FOR THE CURRENT YEAR

As described earlier, the restructuring measures undertaken over the last two years have put the Group in a position where it can take full advantage of any recovery of the markets.

In particular, for **industrial activities**, a further increase in profitability is anticipated in the sectors where the Group operates.

In the Tyres Sector, in a growing market, Pirelli expects to improve its results further by promoting the selection of high-performance products, continuing with the process of de-localization and encouraging growth on the American market.

In the Energy Cables and Systems Sector, in anticipation of a partial recovery of the market, Pirelli intends to consolidate the gain in profitability by focusing on the highest-margin products.

In the Telecom Cables and Systems Sector, where the market remains depressed, Pirelli is aiming to achieve breakeven, thanks particularly to the spread of its new access products.

With the regard to the **real estate area**, on the basis of available information, it seems reasonable to expect that, in 2004, there will be an increase in the operating profit including the share of the earnings (losses) of the equity investments in line with the Three-year Plan 2003-2005.

The improvement in the values of **Olimpia** will also have a beneficial effect on the result, which, following the transactions entered into during the year, should reach economic equilibrium.

All things considered, a significant improvement is expected in all the Group activities at every level of result.



Intensive collaboration continues between Pirelli and Maserati on the development of the FIA GT racing car.

Energy cables and systems sector

Energy sector holding company

Performance by geographical area

Markets

Performance of the main companies in the energy sector

Outlook for the current year

ENERGY CABLES AND SYSTEMS SECTOR

The highlights of the consolidated financial statements of the Energy Cables and Systems Sector can be summarized as follows:

in millions of euros	2003	2002
• Net sales	2,637	3,021
• Gross operating profit	169	158
% of net sales	6.4%	5.2%
• Operating profit	83	55
% of net sales	3.1%	1.8%
• Financial income (expenses)	(23)	(44)
• Extraordinary items	(5)	(121)
• Income taxes	(16)	(10)
• Net income (loss)	39	(120)
% of net sales	1.5%	n.s.
• Net financial (liquidity)/debt position	354	373
• Capital expenditures	68	75
• R&D expenditures	33	44
• Employees (at year-end)	10,746	12,479
• Factories (number)	48*	50

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

Net sales

Net sales amount to Euros 2,637 million and present a decrease of 12.7 percent from the prior year. On a comparable basis (excluding the effects of foreign exchange, metal prices and the change in the scope of consolidation) the effective change is a decrease of 4.4 percent.

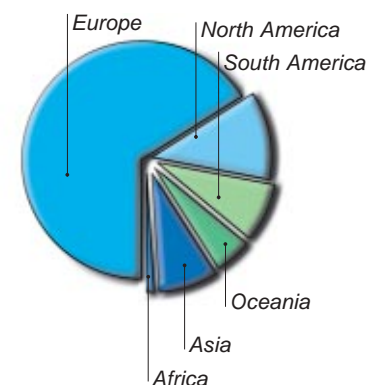
The change in net sales is the result of the following:

• Currency exchange effect	- 4.6%
• Metal prices	- 0.4%
• Change in the scope of consolidation (Invex)	- 3.3%
• Volumes	- 1.7%
• Prices/Mix	- 2.7%
	- 12.7%

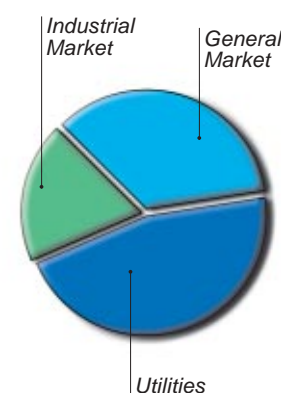
The distribution of net sales is as follows:

Geographical area	2003	2002
Europe (of which Italy 10%)	66%	65%
North America	12%	14%
South America	8%	7%
Oceania	5%	4%
Asia	8%	9%
Africa	1%	1%

Product category	2003	2002
General Market	35%	34%
Utilities	46%	46%
Industrial Market	19%	20%



Energy Cables and Systems: 2003 sales by geographical area and product category.



Energy cables and systems sector

Energy sector holding company

Performance by geographical area

Markets

Performance of the main companies in the energy sector

Outlook for the current year

Operating profit

Operating profit is Euros 83 million (3.1 percent of net sales). This is a marked improvement compared to Euros 55 million in the prior year (1.8 percent of net sales).

The result for 2003 includes the positive effects from the change in the method of valuing strategic metals inventories from LIFO to FIFO (Euros 6 million) and the loss connected with the bankruptcy of a distributor (Euros 4 million). It should also be mentioned that the operating profit last year had included the positive effect deriving from a contract won for the supply of submarine power cables (Euros 10 million).

The change can be summarized as follows:

	(in millions of euros)
Operating profit 2002	55
• Currency exchange effect	(6)
• Prices (excluding metals)/Mix	(35) (*)
• Volumes	(12)
• Production factors per unit cost	(17) (**)
• Efficiencies	98
• Depreciation	14
• Merger effect	3
• Other	(17)
	28
Operating profit 2003	83

(*) including South America for + Euros 6 million

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

Employees

At December 31, 2003, employees in the Energy Sector number 10,746 (including 502 employees with temporary contracts).

Compared to December 31, 2002, there was a reduction of 1,733 (including 181 employees with temporary contracts).

At December 31, 2003, the workforce (excluding employees with temporary contracts) may be analyzed as follows:

	2003	2002
Senior executives	1.2%	1.4%
Staff	26.7%	27.2%
Blue-collar	72.1%	71.4%

Net income

The net result is a net income of Euros 39 million compared to a net loss of Euros 120 million in the prior year. Last year had mainly been affected by expenses connected to the restructuring programs totaling Euros 120 million.



Testing high voltage energy cables.

Net financial position

The net financial position is a net indebtedness position of Euros 354 million compared to Euros 373 million at December 31, 2002.

The improvement of Euros 19 million is attributable to actions taken to optimize working capital, principally in terms of collecting overdue receivables.

Energy cables and systems sector

Energy sector holding company

Performance by geographical area

Markets

Performance of the main companies in the energy sector

Outlook for the current year

In 2003, the rationalization project continued with regard to human resources working in the Group's factories. Work procedures and workforce saturation levels were analyzed in 22 factories. During the first half of 2004, 11 more factories will be assessed in a similar way.

Coherent internal reorganization and training initiatives have been started to allow the new working models to function effectively and with the aim of achieving significant improvements in production efficiency.

In 2003, two important training projects were completed:

- Empowering Manufacturing
- Sales Academy

Thanks to the Empowering Manufacturing project, a group of young employees was trained at international level through goal-oriented training courses and specific work experience. At the end of the project, most of the participants were placed in organizational positions of responsibility which will encourage professional growth.

In 2004, another manufacturing training project will be proposed.

The young people who participated in the sales project constitute the spearhead of a project of organizational change being implemented throughout the Sector which, in 2004, will have important developments in terms of organization and professional behavior.

Factories

At year-end 2003, there were 48 factories operating in the Energy Cables and Systems Sector (4 of which are shared with the Telecom Cables and Systems Sector), compared to 50 in December 2002.

During 2003, the factories in Erith (U.K.), Colusa (USA) and Budapest (Hungary) were closed while the Tunisia factory for the automotive business was added to the scope of consolidation.

Geographically, the factories are distributed as follows: 33 in Europe, 3 in North America, 6 in South America and 6 in Australia, Asia and Africa.

Capital expenditures

New capital expenditures amount to Euros 68 million. The ratio of capital expenditures to depreciation is 0.9 percent.

The main projects include:

- increased production capacity for paper-insulated submarine cables;
- re-location of the new Cavimar factory in Spain;
- increased capacity for Automotive Cables (Tunisia), Enameled Wires (Brazil), MV and HV cables (China), Special Cables (Germany, Italy) and Accessories;
- machinery upgrading for production and technological requirements (new products);
- increased production efficiency (by reducing materials consumption and improving work efficiency).

Capital expenditures can be analyzed by geographical area as follows:

Geographical Area	2003	2002
Europe	75%	78%
South America	6%	10%
North America	11%	5%
Rest of the world	8%	7%

Energy cables and systems sector

Energy sector holding company

Performance by geographical area

Markets

Performance of the main companies in the energy sector

Outlook for the current year

R&D expenditures

In 2003, R&D activities involved 317 people and expenditures totaled Euros 33 million, representing 1 percent of total sales.

In the field of Energy R&D, research involved two main areas: reducing product costs and introducing breakthrough technologies to segments with high added value (HV, EHV, Submarine, Special & Industrial segments).

The way R&D is currently organized - Power Networking (P-Networking), Experimental Electric Laboratories, Multi-functional Modules, Extruded Systems Technologies and Stratified and Submarine Technologies - has made it possible to focus more on individual projects, and achieve considerable results in a short time. In 2003, the Sector filed 11 patents and obtained the concession for 22 patents, of which 13 in the United States and 9 in Europe. Collaboration continued on some research topics with both University Organizations/Consortiums (the Milan Politecnico, the University of Bologna, the University of Naples), and with various R&D centers belonging to the Group.



In Madrid, Pirelli Energy Cables replaced the Barajas Airport's aerial lines with underground cables.

The most important projects include those conducted by the P-Networking center: Optopower: this refers to the development of systems to monitor and manage transmission networks (for example, Barajas, Basslink, Isle of Man and China Light & Power). Pit-Stop-EMC cable system: this mainly involves the development of a screening system for magnetic fields produced by underground HV cables. Some of the research refers to the PSEG and Wienstrom links, whereas the applications refer to the main links of Lettere-Castellammare, Florence and Padua.

Network Technologies: these have made it possible to enter more directly into the problems associated with the management and control of transmission networks. In particular, researchers studied the black-outs which occurred last year, in Italy and abroad, with the aim of starting a joint project with GRTN. The aim is to make a detailed study with a view to introducing underground cables to the Italian HV and EHV transmission network, a project scheduled to begin in January 2004.

Network components: ongoing construction of cables, joints and terminations for the 400-kV Madrid Airport - Barajas project to replace existing overhead lines with highly reliable underground Compact™ Cable Systems.

For the Experimental Electric Laboratories, the main business support activities - qualifications, homologations and certifications included: the qualification of the 220-kV XLPE cable system for the Chinese market at the Wuhan High Voltage Research Institute (China), completion of the first phase of qualification for the "Basslink" system, and certification of the Enel Terna product for the 1 x 2,500 mm², 400-kV XLPE system and relative external terminals.

In addition, the Electrical Laboratories at Eastleigh (U.K.) started the qualification process for the 200-kV extruded insulator HVDC system. In this context, the main new research and development technologies activities were:

- the definition of parameters for testing and acquiring hardware, with the aim of promoting Pirelli as a European leader in the market of post-installation testing and service;
- monitoring and condition assessment techniques for HV and EHV circuits, measuring electric parameters, such as partial discharges and the tangent delta, which can be performed on-line and off-line;
- the study of new transmission techniques, data for monitoring electric parameters to make diagnostic systems totally flexible and capable of responding to different logistical and geographical requirements;

Energy cables and systems sector

Energy sector holding company

Performance by geographical area

Markets

Performance of the main companies in the energy sector

Outlook for the current year

- new customized offerings for projects that have been acquired or are in the process of being acquired (Barajas, Wienstrom, Dubai, Abu Dhabi) and support for specific initiatives (Besos, Chivasso, Rondissone, Singapore, Scotland).

At the Multi-functional Modules center, the main development activities involved the Industrial and Special cables markets, and the following projects:

- Mud Resistant LSOH protection for use at -25°C with DNV approval, flexible LSOH protection at low temperatures (-40°C) for the markets in the Siberian area and Northern Canada;
- development of in-house semi-conductive compounds used on insulation modules as internal (bonded) and external (both bonded and easy stripping) layers, mainly for the Utilities and Industrial markets.

In the area of Airbag and Pitstop-SR technologies, the Extruded Systems Technologies center has turned its attention to the following development activities:

- the application of Airbag technology to the new Industrial and Special segments;
- development of the ABC (Composite Air-Bag), which is resistant to oils and mechanical stresses, and destined for the petrochemical markets in the U.S.A. and South America;
- definition and creation of molds with controlled elastic deformation, as part of the Pitstop-SR (Self Repairing System) project, to optimize the reliability of the SuperSeal-SR cable production process at Abbeville;
- development of a variable-axis optical cable system (RoundFlat) made with materials that do not contain halogens and produce low levels of smoke in the event of fire (Low Smoke Zero Halogen);
- development of the Power Plus project, introducing new injection technologies.

At the Stratified and Submarine Technology center, the following main development projects were completed:

- production of enamelled and water blocked Milliken conductors for large cable sizes;
- industrialization of new processes for submarine cables at Arcofelice;
- start-up and qualification of FF production lines at Eastleigh;
- development of new technologies for AT long-range submarine cables;
- completion of cable-laying trials at sea for the Basslink submarine cable using the cable-laying vessel ("Giulio Verne"), conducted in real-life conditions on a real scale in part of the Bay of Naples;
- development of new dielectrics for stratified cable systems, to increase power transmission capacity.



Sea trials were completed in 2003 of the Basslink submarine cable that connects the Australian states of Victoria and Tasmania.

Energy cables and systems sector

Energy sector holding company

Performance by geographical area

Markets

Performance of the main companies in the energy sector

Outlook for the current year

Industrial operations

During 2003, production was equal to that in 2002, but with a more favorable mix: production of flexible, special and high-voltage cables was higher in comparison to the prior year.

During the first half of the year, the closing of the factories at Colusa (U.S.A.) and Erith (U.K.) was completed. At the same time, a start was made on expanding the factories at St. Jean/Prescott (Canada), Abbeville (United States) and also the production capacity of Submarine Cables (paper-insulated and extruded technology) at the Arco Felice factory (Italy).

During the second half of the year, in Spain, construction of buildings at the new site of the Cavimar factory was completed. The transfer is scheduled to begin in the first quarter of 2004.

In parallel, with regard to efficiency, thanks to a specific plan to improve work efficiency (reduction of the average number of employees by 16 percent) and materials usage efficiency (scrap, usage/over-usage), a significant reduction of transformation costs was achieved (-9 percent).

These programs will continue with the same level of intensity in 2004.

The program to obtain ISO 14001 certification for the corporate Environmental Management System for production facilities proceeded as planned. In 2003, certification was awarded to 46 factories.



The Saint Jean plant in Canada was expanded by Pirelli Energy Cables and Systems in 2003.

Materials

As far as the trend of raw materials prices for power cables is concerned, in 2003, the following took place:

- in 2003, non-ferrous metals quoted on the LME registered an increase in prices compared to 2002: the price of copper and lead increased by 14 percent, while the price of aluminum rose by 6 percent. The rise in prices was particularly dynamic in the last quarter of 2003, confirming the strong demand from China and the Far East and signs of a recovery in North America. In 2004, there is expected to be a further increase in prices. There are already signs of this happening in the case of copper and lead, partly due to the scarcity of the minerals, and partly because of the reasons already described;
- in 2003, the average prices of commodities reported a slight reduction compared to the prior year, with one exception. In North America, prices increased substantially in the first half of the year as a result of the dramatic rise in the price of natural gas.

The forecast for 2004 is for higher prices due to a recovery in demand, particularly in the Asia Pacific area, the restructuring of production capacity achieved in recent years by leading producers and the price of crude oil, which should remain stable at medium-high values;

- with regard to specialties, there was a further weakening of prices compared to 2002, in many cases reaching the lowest level recorded in the last few years. In 2004, prices are expected to remain stable during the first half of the year, with possible price increases in the second half due to the recovery in demand.



A high voltage Air Bag cable system for the American petrochemical market.

Energy cables and systems sector

Energy sector holding company

Performance by geographical area

Markets

Performance of the main companies in the energy sector

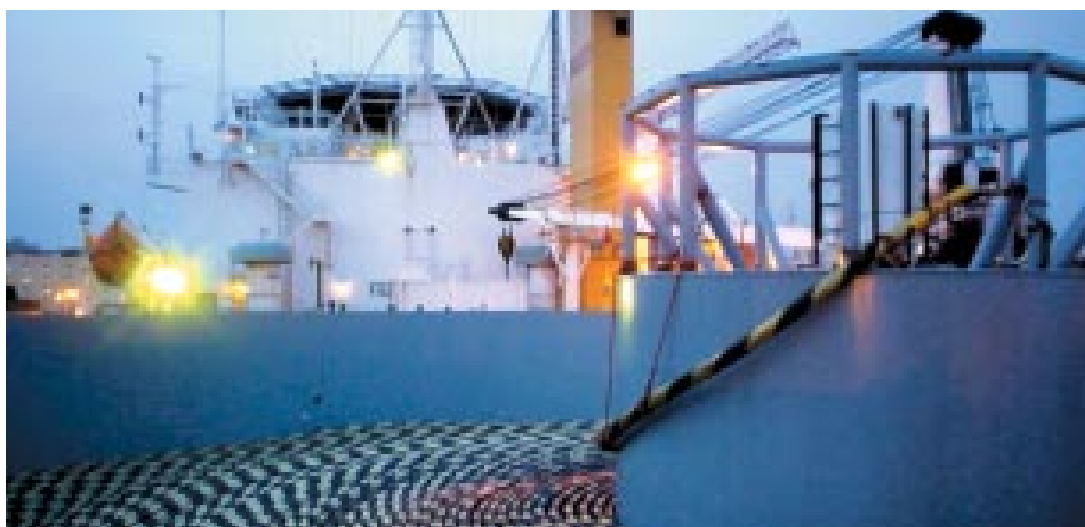
Outlook for the current year

ENERGY SECTOR HOLDING COMPANY

The statutory financial statements of Pirelli Cavi e Sistemi Energia S.p.A. for the year ended December 31, 2003 are summarized in the following balance sheet and statement of income:

(in millions of euros)		
Balance sheet	2003	2002
Intangible assets	3.0	4.2
Property, plant and equipment, net	7.4	15.1
Financial assets	766.6	780.3
Net working capital	(21.4)	(28.0)
	755.6	771.6
Shareholders' equity	361.7	399.1
Provisions	13.4	17.3
Net financial position	380.5	355.2
	755.6	771.6

(in millions of euros)		
Statement of income	2003	2002
Production value	149.4	158.1
Production costs:		
- raw materials and services	(123.7)	(138.9)
- personnel	(25.7)	(28.7)
- depreciation and amortization	(4.2)	(5.3)
- other	(5.2)	(5.4)
Operating profit	(9.4)	(20.2)
Financial income (expenses)	(10.3)	(13.2)
Share of earnings (losses) of equity investments	(18.5)	23.1
Loss before extraordinary items and income taxes	(38.2)	(10.3)
Extraordinary items	8.1	(18.3)
Income taxes	(7.3)	(5.1)
Net loss	(37.4)	(33.7)



The Giulio Verne cable laying ship is employed on the most important submarine connections projects.

Energy cables and systems sector

Energy sector holding company

Performance by geographical area

Markets

Performance of the main companies in the energy sector

Outlook for the current year

PERFORMANCE BY GEOGRAPHICAL AREA

Italy

Pirelli Cavi e Sistemi Energia Italia S.p.A. operates in Italy.

In general, the year 2003 was marked by strong pressure on prices, the average level of which was 1 percent lower than in the prior year, excluding the effect of variations in the prices of non-ferrous metals (copper and aluminum). In particular, the price of copper reported a falling trend during the first half of the year, then rose decisively in the second half.

In the second part of the year, exports were also affected by the negative effects of the weak U.S. dollar, particularly exports destined for the Middle and Far East.

With regard to the performance of the main raw materials, there was a dramatic average reduction in per unit costs compared to the prior year, both for metals and other important direct materials, such as compounds and ingredients.

The year 2003 was marked by the following performance in the various business areas:

- in the **General Market**, the increase of the coverage of the distribution market of electrical material has continued. Promotion activities were stepped up throughout Italy. In addition, the introduction of the Afumex range was consolidated for all applications, from Low to Medium Voltage;
- in terms of volumes, the market for Medium and Low Voltage **Power Cables** reported a significant reduction due to a slump in demand from Important Customers. On the other hand, high voltage cables and systems reported a positive performance, especially in the EHV segment, where some important initiatives involving repowering or the building of new generation power stations produced high sales volumes. There was strong pressure on prices which led to considerable reductions, especially in Low Voltage cables for Utilities;
- in 2003, the **Accessories** market remained fairly stable. In Low and Medium Voltage accessories, there was a reduction in volumes for the second consecutive year. High Voltage accessories benefited from large supply contracts for 400-kV OF plants in Italy. Exports of High Voltage accessories remained stable at the levels of the prior year;
- in 2003, sales volumes of **Special Cables** increased (+5 percent) compared to the prior year, with pressure on prices (-3 percent) owing partly to the reduced cost of metal in the first half of the year. Exports of special cables remained higher than 40 percent and were generated by the Oil & Gas sector (cables for underwater pumps and off-shore platforms), petrochemical plants and railway systems dedicated to new technologies (also in Italy), with prospects of a further increase in business. Important contracts were signed for the Middle East and Caucasus regions. On the domestic market, while investments in infrastructures remained stable, industrial investments fell sharply (machine tools, industrial automation, industrial electronics). There were problems of insolvency on the market, which were handled with the utmost care and caution.



Important contracts were also signed in 2003 for the installation of Pirelli Energy Cables in mines.

Energy cables and systems sector

Energy sector holding company

Performance by geographical area

Markets

Performance of the main companies in the energy sector

Outlook for the current year

At year-end 2003, there were 7 factories operating: 3 in Northern Italy (at Quattordio, San Giuliano Milanese and Merlino), 2 in Central Italy (at Livorno and Ascoli Piceno) and 2 in the South of Italy (at Giovinazzo and Pignataro Maggiore).

Special Cables production in Italy is undergoing a far-reaching restructuring project, with an increase in production capacity at the factories at Merlino (Lodi) and Ascoli Piceno.

With the expansion of high margin production destined for exports and the planned closing of the factory at San Giuliano Milanese, where most of the employees will be re-absorbed by the Merlino factory, this project will generate important efficiencies.

The Enameled Wires business was sold to institutional investors, freeing up resources to develop other areas of business.



Considerable development work has been carried out on Afumex low smoke zero halogen cables in the Spanish market.

France

For the second consecutive year, **Pirelli Energie Câbles et Systèmes S.A.** was forced to operate in a market with a highly erratic trend marked by a contraction of the demand and a sharp fall in prices.

Despite the unfavorable market conditions, the company succeeded in achieving its planned objectives thanks to far-reaching measures to improve efficiency.

In the **General Market**, there was a sharp fall in prices, but volumes were higher than in the prior year.

In the **Special Cables**, the market remained stable and results improved compared to 2002, thanks to measures to improve industrial efficiency.

Volumes generated by the **Power Cables** declined, mainly as a result of a reduction in orders from EDF.

In the last quarter of 2003, in the **High Voltage**, an important new contract was started with STEG in Tunisia. Sales on the domestic market increased by 44 percent compared to the prior year.

Despite a fall in prices, the **Automotive** reported an increase in sales and margins. The three key factors behind this improvement are the program to raise industrial efficiency, the improvement in the product mix and the start-up of the new factory in Tunisi.

Spain

Throughout 2003, the Spanish economy maintained a positive performance compared to other European countries, enabling **Pirelli Cables y Sistemas S.A.** to achieve satisfactory results.

Despite the fact that margins continued to be eroded by fierce competition, the **General Market** reported a positive trend due to the recovery of real estate activities.

In the development of the LSOH (Low Smoke Zero Halogen) market, new rules were introduced for installing low voltage cables, focusing on sales of "Afumex" cables.

Energy cables and systems sector

Energy sector holding company

Performance by geographical area

Markets

Performance of the main companies in the energy sector

Outlook for the current year

In the **Utilities** market, the company undertook two important projects: "Barajas Airport" near Madrid and the "Besos River-Forum 2004" in Barcelona. In 2004, the company anticipates more opportunities in this business area, where it is securing a strong market position.

At year-end 2003, 50 percent of the land of the Cavimar factory was sold and the new Cavinova factory, also at Villanueva y la Geltrú, is scheduled for completion in 2004.



Spain's *Pirelli Cables y Sistemas* completed the "Besos River-Forum 2004" project in Barcelona.

United Kingdom

In 2003, **Pirelli Cables Limited** continued the process of integrating its business and reducing costs, thus generating a significant increase in profitability.

The **General Market** was again influenced by the difficult market conditions in the Far East. However, the introduction of new customers on the domestic market, the continuing innovation of high-performance products and a reduction in costs relating to materials and the workforce generated an improvement in results.

In the **High Voltage Cables** market, as expected, there were benefits from the integration of the installation activities previously operated by Pirelli Construction Company Ltd. and from the restructuring of manufacturing activities. This involved the conversion of the Eastleigh factory and the closing of the submarine cable and High Voltage cable production at Erith.

Despite the fact that opportunities on international markets remained limited, the market share and the results generated by the domestic market exceeded expectations.

In **Power Distribution**, the company continues to be the main supplier for the domestic market. Here, thanks to a reduction in manufacturing and logistical costs, results improved in 2003.

Germany

In 2003, **Pirelli Kabel und Systeme Holding GmbH**, the German company for the sector, again had to face a persistently difficult economic situation in the country and was forced to operate in a domestic market which has been declining consistently for 8 years. Despite reporting a decline in sales (approximately 7 percent), both in volumes and prices, the company succeeded in maintaining its market position thanks to a far-reaching restructuring project. These efforts generated a significant increase in the operating result and, for the first time since the acquisition, reported a net profit.

In the **General Market**, despite strong pressure on prices, sales volumes increased and profitability improved.

Utilities was marked by a fall in demand and strong competition with regard to prices. The decline in sales was partly compensated by a reduction in costs, which generated a slight improvement in the results.

Sales in **Special Cables** decreased on the domestic market due to the persisting difficulties of the German economy and the reduction in investments of most of its important customers.



A Low Smoke Zero Halogen (LSOH) cable destined for the real estate sector.

Energy cables and systems sector

Energy sector holding company

Performance by geographical area

Markets

Performance of the main companies in the energy sector

Outlook for the current year

Holland

Despite the difficulties prevailing on the market, **Pirelli Cables and Systems N.V.**, achieved its planned results.

On the domestic market volumes contracted in the area of Utilities and the Industrial Market, whereas volumes remained constant in **High Voltage** thanks to two important customers.

With regard to international markets, positive sales volumes were recorded in **High Voltage Accessories** in the United States and the United Kingdom. However, the distribution of cables shows a fall in volumes due mainly to the lower level of investments.

The **General Market**, which is still heavily influenced by the global crisis, still succeeded in increasing its market share. There was a contraction in the sales volumes of **Special Cables**, whereas the mix ensured positive margins.

Finland

Pirelli Cables and Systems OY operates in the field of energy in Finland and, through its affiliates, also in Sweden and Norway.

Compared to the prior year, there was a contraction of sales volumes on both the domestic and international markets. This decline was due to the lower level of growth of the economy and low levels of investment in the main market areas.

In the **Utilities** market, the demand for High Voltage cables decreased in the United States, whereas the demand increased in Spain, the Middle East and the Far East. The company also succeeded in penetrating new segments of the High Voltage cables market.

In **Power Distribution**, the company maintained its market position in Finland and the Baltic States, achieving significant improvements in exports, particularly in Russia.

General Market was marked by a decline in volumes in all of the Northern Scandinavian countries, while the **Industrial and Special Cables** areas continued to show a fall in demand.

Overall, the results of the company increased compared to the prior year.



In Finland, Pirelli Cables and Systems OY operates with profit, exporting to Russia.

Austria

In Austria, in 2003, despite the unfavorable market situation, **Pirelli-OEKW GmbH** again succeeded in maintaining its leadership position in the **Utilities** sector.

Measures taken to improve logistics and to rationalize fixed overheads resulted in an increase in the operating result compared to the prior year.

In 2003, OEKW secured a contract for two new very high voltage underground links (380 kV) for Vienna, to strengthen and to expand the electricity transmission network in the Austrian capital.

Slovakia

In 2003, **KABLO Bratislava Spol. S.R.O.**, the Slovak affiliate, confirmed the positive trend of recent years. By rationalizing costs, it succeeded in compensating the growing pressure on prices, strengthening its position on the domestic market and also its place in the Czech Republic.

Energy cables and systems sector

Energy sector holding company

Performance by geographical area

Markets

Performance of the main companies in the energy sector

Outlook for the current year

Hungary

In Hungary, Pirelli operates in the Energy Sector through **MKM Magyar Kabel Muvek RT**, which, in 2003, despite price pressures and volume reductions on the domestic market, succeeded in maintaining its leadership position, both in the **General Market** and **Utilities** sectors. In fact, sales on the domestic market increased by approximately 12 percent compared to the prior year. Furthermore, despite huge inflationary pressure, the company succeeded in reducing fixed overheads by 9 percent compared to 2002.



Pirelli is the leader in the Hungarian energy market, through Magyar Kabel Muvek (MKM).

Romania

In Romania, where **S.C. Pirelli Romania Cabluri si Sisteme S.A.** operates, performance suffered not only from the uncertainty of the domestic market and the legislative instability which have prevailed in the country for a number of years, but also, in 2003, from the restructuring process which involved the company's main customers, Electrica and RomTelecom.

The company confirmed its market share in the Energy and Telecom business and endeavored to be more competitive in the international market.

Despite the general state of the economy, results were satisfactory.

Turkey

The difficult economic development regulated by the "stabilizing" program continued to affect demand on the domestic market. During 2003, inflation again fell sharply to 14 percent (31 percent in 2002), whereas the Turkish lira weakened against the euro by 2.4 percent (34 percent in 2002).

Turk Pirelli Kablo ve Sistemleri A.S. continued to improve its results both from a financial and commercial point of view. Despite a decline in sales volumes, there was an increase in results.

North America

The North America Energy activity, operated by **Pirelli Power Cables and Systems USA LLC** and by **Pirelli Power Cables and Systems Canada Ltd**, improved both its results and liquidity, despite having to operate in a continuously changing market.

The contraction of volumes and the decline in prices were limited by continuous but effective action to reduce fixed and variable overheads.

Cost efficiency was also pursued through organizational restructuring fact, the transfer of the production capacity of the Colusa factory to the factories at St. Jean (Canada), Prescott (Canada) and Abbeville (U.S.A.) was completed.

The **Installations** activity had an excellent year, reporting healthy profits as a result of large contracts such as Exelon (High Voltage) and the NYPA Repair Project (Submarine).

Brazil

2003 was the first year under a new government, which kept inflationary pressure in check but produced very high social costs, high interest rates, increased unemployment and a fall in investments.

However, from a macroeconomic point of view, there are signs of a recovery.

Energy cables and systems sector

Energy sector holding company

Performance by geographical area

Markets

Performance of the main companies in the energy sector

Outlook for the current year

In 2003, **Pirelli Energia Cabos e Sistemas do Brasil S.A.** reported an increase in sales (approximately 10 percent compared to 2002), especially in the **General Market, Enameled Wires and Special Cables**.

The result shows a significant improvement compared to the prior year, partly due to restructuring measures.



Among the 2003 projects completed by Pirelli Power Cables and Systems LLC in the USA was the Exelon high voltage cables contract.

Argentina

In 2003, in Argentina, where **Pirelli Energia Cables y Sistemas de Argentina S.A.** operates, the economic situation was marked by a stable exchange rate, lower inflation (3.7 percent) and a general recovery of the economy based on a contraction of imports and an increase in exports. Especially in the second half of the year, the results of the company were affected by an increase in volumes in the real estate sector, despite the fact that the sector in question is still seriously impacted by the repercussions of the crisis of 2001. Companies tended not to make new investments and volumes referred only to maintenance work on existing structures. In the **General Market**, there was a dramatic recovery in prices and the market share increased. However, in the **Industrial and Special** segments and in **Utilities** there was a fall in volumes.

New products were developed, especially for the export market, mainly Chile, Uruguay, Mexico (particularly the development and sale of a 160-kV HV cable) and Costa Rica.

Australia

In 2003, **Pirelli Power Cables & Systems Australia Pty Ltd.** reported significant growth in the **General Market, Utilities and Special Cables** markets, as a result of far-reaching measures to improve efficiency.

With regard to future operations, there is expected to be a recovery of the real estate market, which, as a result of the rapid gain in value of the Australian dollar, reported a decline in activities during the year. However, the structure of the company is solid enough to withstand these changes and ensure better results in 2004.

Indonesia

P.T. Pirelli Cable Indonesia continued to improve profitability levels in 2003. The company successfully completed two important contracts in the telecommunications sector for PT Telkom and PT Indosat.

Sales volumes increased with the development of Airbag cables for the customer Power Grid, and the contracts for DES Brunei and Hanoi Power in Vietnam.

High Voltage at last reported significant growth in the domestic market through contracts with IPP (Private Utility), and achieved the planned results.



The DES Brunei contract contributed to the improvement in the results of Pirelli Cable Indonesia.

Energy cables and systems sector

Energy sector holding company

Performance by geographical area

Markets

Performance of the main companies in the energy sector

Outlook for the current year

China

Despite the fact that the SARS epidemic generated negative pressure on the Asian markets, **Tianjin Pirelli Power Cables Co. Ltd.** maintained excellent levels of volumes in the extremely dynamic market of **Utilities**, and even succeeded in increasing its market share on the domestic market.

During the last quarter of 2003, there was a contraction of margins due mainly to the rise in the price of copper and other raw materials.

However, the company achieved the best results ever in terms of sales and profits, creating the conditions to expand its production capacity and develop new products.

Pirelli Baosheng Cable Co. Ltd. is the most important company in China operating in **High Voltage**.

Here again, in 2003, results were satisfactory despite difficult market conditions, and market share was maintained.



In 2003, Pirelli Energy Cables and Systems achieved its best results in China since the foundation of Tianjin Pirelli Power Cables.

MARKETS

General Market

In 2003, there was a decrease in demand worldwide compared to 2002, except in the Asia Pacific region and in South America. This was accompanied by strong pressure on prices, which fell by approximately -10 percent. In this context, Pirelli achieved an increase in volumes of approximately 4 percent, recovering its market share, especially in Europe.

Utilities

Net sales were slightly lower than in 2002 and, in particular:

- in **High Voltage Systems**, overall, volumes declined compared to the prior year, since some export projects in the terrestrial sector failed to materialize. However, by paying closer attention to the needs of the domestic markets and supplying a wide range of services, it proved possible to partly compensate the reduction in volumes and ensure higher profitability;
- in **Power Distribution**, there was a further contraction of volumes which involved all the areas except the Asian Pacific markets. This was the result of the slump in investment projects of the main Central European and South American utilities companies, which requested products with lower added value than in the past. Conversely, the level of prices remained stable in countries such as Germany, Holland and Italy, or increased slightly, as in the U.K.;
- sales in **Accessories** increased slightly compared to the prior year, thanks to measures taken to promote products and expand the range of solutions supplied to customers for High Voltage projects. Price levels deteriorated slightly.

Energy cables and systems sector

Energy sector holding company

Performance by geographical area

Markets

Performance of the main companies in the energy sector

Outlook for the current year

Industrial Markets

The Industrial Markets reported a contraction of sales compared to the prior year following the sale of the Enameled Wires business, whereas sales in other segments remained virtually unchanged. In particular:

- **Industry and Specials Cables** sales remained at levels similar to those in 2002, despite falling prices. This was due particularly to the expanded product mix offered to the Original Equipment Manufacturer channel in Europe and the recovery of investment projects in South America and Australia in the Contractors channel.
- **Enameled Wires**, with regard to South America, where the group is still present, reported a recovery of both volumes and profitability compared to the prior year.
- **Automotive Cables** remained virtually unchanged compared to the prior year. Production operations in Tunisia made it possible to recover margins to an extent that more than compensated the fall in prices.
- **Branchement** was affected by a considerable contraction of demand compared to the prior year and by pressure on prices.



The supply of offshore cables to the Persian Gulf market continues.

Submarine Power Systems

In 2003, the operations of the Submarine Power System operations focused on production of the cable for the Basslink project (interconnection system between Australia and Tasmania).

The project involves the production of 295 km of paper-insulated cable and 195 km of extruded cable at the Arco Felice (Naples) factory. Installation operations will be conducted in 2004 and 2005 by the Pirelli cable-laying vessel "Giulio Verne". The overall value of the contract is approximately Euros 173 million.

Furthermore, the submarine power systems activities in 2003 included supplies of off-shore cables for the market in the Persian Gulf (Ras Gas and Zakum off-shore fields), the completion of the installation of the cable for Exxon Santa Ynez and the repair of the NYPA cable which, thanks to the cable-laying vessel "Giulio Verne", restored the 345-kV submarine link between Long Island and New York in record time.

A contract was acquired, signed and completed with BC Hydro, Vancouver, to supply and install 5 km of 300-kV submarine d.c. power cable to connect the island of Galliano to the mainland. For Pirelli, the overall value of the contract is approximately Euros 3.5 million.

Finally, a contract was acquired, through a consortium with the Norwegian company Nexans for the submarine link between Spain and Morocco. For Pirelli this involves the supply and installation of an interconnection system between the two countries which will allow power transmission of approximately 700 mW.



A contract worth 60 million Euros was signed with Norway's Nexans for the submarine link between Spain and Morocco.

Energy cables and systems sector

Energy sector holding company

Performance by geographical area

Markets

Performance of the main companies in the energy sector

Outlook for the current year

The project involves the production of 2 submarine power cables for a total length of 57 km of 400-kV oil filled paper-insulated power cables at the Arco Felice factory and an optical cable, as well as installation. The cables will be installed in 2005 by the cable-laying vessel "Giulio Verne".

For Pirelli, the overall value of the contract is approximately Euros 60 million.

PERFORMANCE OF THE MAIN COMPANIES IN THE ENERGY SECTOR

Key data as they appear in the financial statements prepared by the boards of Directors and approved or in the process of approval by the respective shareholders' meetings is given below.

All amounts are expressed in local currency and compared to the prior year.

	2003	2002
Pir.Energie Câbles et Systèmes France S.A. - France (in thousands of euros)		
• Net sales	318,880	352,275
• Net income (loss)	20	(15,055)
• Net financial (liquidity)/debt position	(38,441)	(15,701)
• Shareholders' equity	136,571	136,277
Pir. Cables y Systemas S.A. (consolidato) - Spain (in thousands of euros)		
• Net sales	209,979	205,570
• Net income	8,794	8,779
• Net financial (liquidity)/debt position	7,206	4,690
• Shareholders' equity	42,234	40,041
Pir. General plc - U.K. - "B1" - United Kingdom (in thousands of £)		
• Net sales	353,455	323,621
• Net loss	(1,694)	(41,188)
• Net financial (liquidity)/debt position	24,734	60,534
• Shareholders' equity	92,853	80,959
Pir. Kabel und Systeme Holding GmbH (consolidated) - Germany (in thousands of euros)		
• Net sales	259,893	279,439
• Net loss	(4,466)	(3,168)
• Net financial (liquidity)/debt position	(46,115)	(41,731)
• Shareholders' equity	116,312	39,602
Pir. Power Cables and Systems USA LLC - United States (in thousands of U.S. \$)		
• Net sales	277,178	299,862
• Net income (loss)	8,383	(11,303)
• Net financial (liquidity)/debt position	(53,631)	(32,074)
• Shareholders' equity	77,820	68,590
Pirelli Power Cables and Systems Canada Ltd - Canada (in thousands of Canadian \$)		
• Net sales	189,890	179,790
• Net income	10,561	4,400
• Net financial (liquidity)/debt position	(18,349)	(23,493)
• Shareholders' equity	53,476	47,315
Pir. Energia Cables y Sistemas de Argentina S.A. (consol.) - Argentina (in thousands of Argentine pesos)		
• Net sales	42,372	31,169
• Net loss	(5,365)	(21,776)
• Net financial (liquidity)/debt position	(2,911)	(4,877)
• Shareholders' equity	24,186	25,309

[Energy cables and systems sector](#)
[Energy sector holding company](#)
[Performance by geographical area](#)
[Markets](#)
[Performance of the main companies in the energy sector](#)
[Outlook for the current year](#)

	2003	2002
Pir. Energia Cabos e Sistemas do Brasil S.A. (consolidated) - Brazil (in thousands of Brazilian real)		
• Net sales	554,470	501,973
• Net income	16,601	15,824
• Net financial (liquidity)/debt position	18,019	(86,485)
• Shareholders' equity	178,285	164,073
Pir. Power Cables & Systems Australia PTY Ltd (consolidated) - Australia (in thousands of Australian \$)		
• Net sales	205,100	205,450
• Net income (loss)	1,783	(5,217)
• Net financial (liquidity)/debt position	41,852	38,766
• Shareholders' equity	8,601	6,818

OUTLOOK FOR THE CURRENT YEAR

The forecast for the current year is for fairly stable market conditions without any particular signs of a recovery, especially in Europe. Improvements are expected in North America and South America.

Actions to restructure and improve the efficiency of the industrial structure and human resources will continue, albeit on a more limited scale compared with recent years, generating benefits which will help to improve the profitability of the sector.

Telecom cables and systems sector

Telecom sector holding company

Performance by geographical area

Operations

Performance of the main companies in the telecom sector

Outlook for the current year

TELECOM CABLES AND SYSTEMS SECTOR

The highlights of the consolidated financial statements of the Telecom Cables and Systems Sector can be summarized as follows:

in millions of euros	2003	2002
• Net sales	427	468
• Gross operating loss	(1)	(22)
% of net sales	n.s.	n.s.
• Operating loss	(39)	(84)
% of net sales	n.s.	n.s.
• Financial income (expenses)	(20)	(54)
• Extraordinary items	4	(121)
• Income taxes	(1)	(4)
• Net loss	(56)	(263)
% of net sales	n.s.	n.s.
• Net financial (liquidity)/debt position	302	431
• Capital expenditures	22	78
• R&D expenditures	34	45
• Employees (at year-end)	2,218	2,546
• Factories (number)	11 *	11

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

Net sales

Net sales amount to Euros 427 million and show a decrease of 8.8 percent in comparison to the prior year.

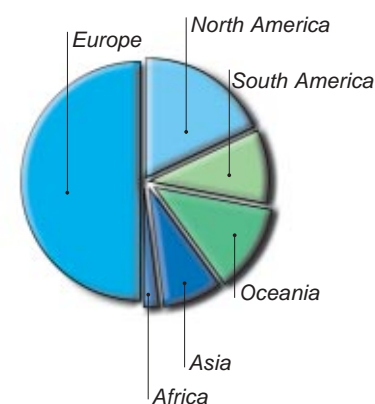
Excluding the foreign currency exchange effect, the effective change is a reduction of 3.2 percent. The change is due to:

• Currency exchange effect	- 5.6%
• Volumes	+ 18.3%
• Prices/Mix	- 21.5%
	- 8.8%

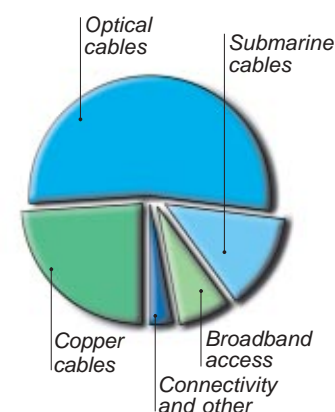
The distribution of net sales is as follows:

Geographical area	2003	2002
Europe (of which Italy 20%)	50%	49%
North America	18%	22%
South America	10%	6%
Oceania	12%	12%
Asia	8%	8%
Africa	2%	3%

Product category	2003	2002
Copper cables	24%	20%
Optical cables	53%	70%
Submarine cables	13%	4%
Broadband access	7%	2%
Connectivity and other	3%	4%



Telecom Cables and Systems: 2003 sales by geographical area and product category.



**Telecom cables
and systems sector**

 Telecom sector holding
company

 Performance by
geographical area

Operations

 Performance of
the main companies
in the telecom sector

 Outlook for the
current year

Operating loss

The operating loss is Euros 39 million compared to an operating loss of Euros 84 million in the prior year.

Last year, the operating loss had included insurance compensation for damages to the Fibre Ottiche Sud S.p.A. factory totaling Euros 6 million.

The change can be summarized as follows:

	(in millions of euros)
Operating loss 2002	(84)
• Currency exchange	7
• Prices (excluding metals)/Mix	(79) (*)
• Volumes	5
• Production factors per unit cost	30
• Efficiencies	55
• Depreciation	6
• Merger effect	14
• Other	7
	45
Operating loss 2003	(39)

(*) including South America for - Euros 4 million

Net loss

The net loss is Euros 56 million compared to a net loss of Euros 263 million in 2002. Last year, the net loss had included Euros 121 million of extraordinary expenses particularly in connection with restructuring plans and Euros 35 million for the writedown of the investment in e.Biscom.

Net financial position

The net financial position is a net indebtedness position of Euros 302 million compared to Euros 431 million at December 31, 2002. The change reflects the cash raised by Pirelli & C. S.p.A.'s capital increase for Euros 150 million, posting of the liability for the exercise of the put option by Cisco on the investment in Pirelli Submarine Telecom for Euros 61 million and benefits obtained from actions to control working capital.

Employees

At December 31, 2003, total employees in the Telecommunications Sector number 2,218 (including 46 employees with temporary contracts). Compared to December 31, 2002, there was a reduction of 328. At December 31, 2003, the workforce (excluding employees with temporary contracts) may be analyzed as follows:

	2003	2002
Senior executives	1.8%	2.7%
Staff	28.6%	32.5%
Blue-collar	69.6%	64.8%

In response to the absence of a market recovery, the Telecom Cables and Systems Sector continued to implement efficiency measures begun in the previous years.

The challenge for the Telecom Sector rests in the ability to satisfy the continuous search for efficiency while maintaining high motivational levels in those persons responsibility for bringing the Sector back into a profit position.

Communication and shared objectives have made it possible not to lose the key persons in the business.

Telecom cables and systems sector

Telecom sector holding company

Performance by geographical area

Operations

Performance of the main companies in the telecom sector

Outlook for the current year

Factories

At year-end 2003, there were 11 factories, unchanged compared to 2002. Of the 11 factories, 4 are shared with the Energy Cables and Systems Sector. Geographically, the factories are distributed as follows: 7 in Europe, 1 in North America, 1 in South America, 2 in Australia and Asia.

Capital expenditures

New capital expenditures in property, plant and equipment amount to Euros 22 million. The ratio of capital expenditures to depreciation is 0.6.

Capital expenditures can be analyzed by geographical area as follows:

Area Geografica	2003	2002
Europe	91%	94%
South America	2%	1%
North America	-	2%
Rest of the world	7%	3%

R&D expenditures

R&D is conducted by an integrated structure of research centers and development and engineering units in various countries.

A total of 140 persons were engaged in R&D, and expenditures totaled Euros 34 million, equal to 8 percent of net sales. The main projects include:

in the field of fiber opticts

- MagniLight™ fiber: the new MagniLight™ fiber has been developed using Outside Vapor Deposition (OVD) technology. Low attenuation at 1383nm wavelength represents its key characteristic. The attenuation around such wavelength, commonly identified as "OH peak", is, in fact, caused by the presence of OH groups within the glass structure. This presence is due to contamination from water vapor at levels of part per million (ppm) during some phases of the manufacturing process.

A significant reduction of the OH peak allows the enlargement of the transmission window in the region of lower wavelengths allowing a bandwidth increase;

- FreeLight™ (Easy Splice) fiber: production of the new fiber started successfully, generating sales volumes of approximately 5 percent of the total volume of fiber produced and 52 percent of the volume of fiber for high-performance systems, particularly DWDM systems;
- NZD TPlus fiber: as for the last product, production of this fiber started successfully generating sales volumes of approximately 4.6 percent of the total volume of fiber produced and 48 percent of the volume of fiber for high-performance systems, particularly OPGW systems;
- SMLight fiber: this is a version of the SMR (ITU-T G.652) fiber with very low geometrical parameters in PMD (Polarization Mode Dispersion) values and attenuation values. Premium performance in resistance to microbending as a result of improved geometric features and, to an even greater extent, to the new Pirelli NEON™ Plus coating, which has also gone into production.

The coming-on-line of these new products brought sales volumes to represent 4.2 percent of the total fiber produced;



The new SMLight™ fiber also took into production the new Pirelli NEON Plus coating.

Telecom cables and systems sector

Telecom sector holding company

Performance by geographical area

Operations

Performance of the main companies in the telecom sector

Outlook for the current year

- NEON™ Plus Coating: the new coating "NEON™ Plus" has also come into production in the version "Color Secondary". This type of dual layer coating structure, mass colored, allows removing an off-line manufacturing step represented by ink application. Color application either by ink or by color secondary is indispensable for identification of the fibers within the cable. A slight reduction of the diameter of the coated fiber is another benefit of the color secondary. That is particularly appreciated in the manufacturing of cables with reduced diameter. This new coating structure has been initially applied to a part of the more conventional fibers (SMR) up to a volume percentage of 11%;

in the field of cables

- Micro-optic cables: completion of the production range of micro-optic cables with smaller diameters suitable for pneumatic installation methods in small tubes with an internal diameter of 8 mm. Two new types of micro-optical cables have been developed and put into industrial production with the following characteristics:
 - a 24-fiber count optical cable, with an external diameter of 4.5 mm, a central tube structure and a high-density polythene sheath;
 - a 60-72 fiber count optical cable, with an external diameter of 6.0 mm, a multi-tube structure and a graphitized nylon sheath, as for the cables supplied to Greece and Slovakia.
 Both types of cable were produced using fibers with a color secondary NEON™ coating and, successively, NEON™ Plus;
- Micromodule cables: development and supply of two micromodule cables with 288 and 432-fiber counts for pan-European customers. Again, fibers with color secondary NEON™ and NEON™ Plus were used;
- Micromodule cables: development of a range of micromodule cables with up to 48-fiber counts for the Paris metropolitan rail network, with high mechanical performance and high safety standards in the event of fire (low level of flame propagation and low, non-toxic fume emission);
- Ribbon cables: industrial production and supply of a series of stranded ribbon optical cables in tubes with up to 432-fiber counts for the Paris access network, installed by COLT, using the city sewer network;
- Optical cables: development and supply of a new range of tough, reliable optical cables, which are fire-resistant and able to continue to transmit data and alarm signals for 3 hours, installed in tunnels of the high-speed rail network in sections crossing the Apennines;
- Optical Ground Wires (OPGW): the versatile range of small-diameter, low-price optical ground wires (with the same performance as their larger, more expensive counterparts) was completed and put into large-scale production. They have a central plastic tube and an aluminum sheath with 24 / 36 / 48-fiber counts;
- Data transmission cables: the completion of the production range of cables for data transmission continued for both the copper pair and optical fiber types. In particular, this involved the monofiber "easy-strip" cable, bifiber "zipcord" fiber, monotube fibers and "multitight" fibers containing up to 24-fiber counts.



Pirelli Cables and Systems Telecom developed a new family of micro-module cables for the Paris metropolitan network.

Industrial operations

In 2003, factories manufacturing telecommunications cables produced volumes similar to those of the prior year. In the case of optical cables, volumes increased by approximately 2 percent compared to the prior year, whereas the volumes of copper cables decreased by approximately 2 percent compared to the prior year.



Optical fibre cable production volumes were increased in 2003.

Telecom cables and systems sector

Telecom sector holding company

Performance by geographical area

Operations

Performance of the main companies in the telecom sector

Outlook for the current year

Materials

In 2003, prices of raw materials for telecommunications cables fell by an average of 17 percent compared to 2002.

In more detail, the price of optical fiber fell by 30 percent due to the persisting excess of supply, (which remained high despite the closing of several plants), whereas the price of the materials used to produce them (which influences the selling price by about 20 percent) fell by approximately 15 percent.

Excluding optical fibers, the average price of other materials fell by 7 percent, a figure strongly impacted by glass fiber, plastic compounds and metals (transformation).

The outlook for 2004 is for a slowdown of price erosion on the latter materials, whereas price erosion looks likely to continue, albeit to a lesser extent, in the case of fiber optics (-15 percent) and the corresponding raw materials (-7 percent).

Pressure continues on the plastic materials market, where the increase in the price of ethylene compares with the highly unstable supply/demand ratio.

Prices of metals increased in 2003, and are expect to increase further in 2004.

TELECOM SECTOR HOLDING COMPANY

The statutory financial statements of Pirelli Cavi e Sistemi Telecom S.p.A. for the year ended December 31, 2003 are summarized in the following balance sheet and statement of income:

in millions of euros

Balance sheet	2003	2002
Intangible assets	6.2	8.2
Property, plant and equipment, net	13.8	13.7
Financial assets	199.1	256.0
Net working capital	(40.0)	13.4
	179.1	291.3
Shareholders' equity	74.9	82.6
Provisions	46.8	47.1
Net financial position	57.4	161.6
	179.1	291.3

in millions of euros

Statement of income	2003	2002
Production value	65.0	56.9
Production costs:		
- raw materials and services	(63.5)	(58.8)
- personnel	(12.2)	(15.6)
- depreciation and amortization	(6.8)	(6.1)
- other	(2.8)	(0.8)
Operating loss	(20.3)	(24.4)
Financial income (expenses)	(4.5)	(4.2)
Share of earnings (losses) of equity investments	(125.8)	(102.9)
Loss before extraordinary items and income taxes	(150.6)	(131.5)
Extraordinary items	(4.8)	(1.0)
Income taxes	(2.2)	15.6
Net loss	(157.6)	(116.9)

Telecom cables and systems sector

Telecom sector holding company

Performance by geographical area

Operations

Performance of the main companies in the telecom sector

Outlook for the current year

PERFORMANCE BY GEOGRAPHICAL AREA

Italy

Pirelli Cavi e Sistemi Telecom Italia S.p.A. operates in the field of telecommunications in Italy. In 2003, **Optical Cables** for telecommunications, produced at the Livorno Ferraris factory (Vercelli), were again impacted by the persisting negative economic market situation which has hit the telecommunications sector.

Faced with a considerable decline in domestic volumes, the company reacted by increasing sales in export markets and in the data transmission cables product line. The Group's decision to make the Livorno Ferraris factory the European production center for Optical Cables generated an increase in production volumes for the affiliates. However, the effect of the price and the mix had a negative impact on overall sales, to the extent that it reported a negative profitability figure, despite the radical cuts made to fixed overheads.

The subsidiary **FOS** (Fibre Ottiche Sud S.p.A.), which manufactures optical fibers, reported sales substantially in line with those of the prior year, despite the fact that production volumes almost doubled. As a result of global production overcapacity, there was a net fall in prices which also had a negative effect on the results for the year.



The factory at Livorno Ferraris became the European production centre of optical fibre cables.

France

For **Pirelli Telecom Câbles et Systèmes France S.A.**, 2003 proved to be a particularly difficult year. The contraction of volumes recorded in 2002 was accentuated in 2003 and affected all sectors of activity: **Optical Cables**, **Connectivity** and **Copper Cables**.

After the implementation of industrial restructuring plans and greater attention being paid to market needs (especially African francophone markets), prospects for 2004 are more optimistic.

Spain

In 2003, there was a further intensification of exports by **Pirelli Telecom Cables y Sistemas España S.L.**, which now account for approximately 80 percent of total sales. However, the considerable weakness of the U.S. dollar against the euro during the year (approximately 20 percent) and especially during the last quarter, added to a further deterioration of selling prices, leading to a slightly negative net economic result, although the operating result was still positive.

Sales referred almost exclusively to overhead cables (OPGW) and the accessories required for their installation on electrical company infrastructures.

Building work was almost completed on the new factory on the outskirts of Villanueva y la Geltrú, where 80 percent of production activities had been transferred by the end of the year.

The completion of the transfer is scheduled for the first few months of 2004.

The outlook for the current year, despite the fairly healthy state of the order portfolio, will depend on the trend of selling prices and, to an even greater extent, on the development of the exchange rate between the U.S. dollar against the euro.

Telecom cables and systems sector

Telecom sector holding company

Performance by geographical area

Operations

Performance of the main companies in the telecom sector

Outlook for the current year

United Kingdom

Pirelli Telecom Cables & Systems UK Ltd. continued to implement measures to rationalize the production capacity and reduce operating costs in a context dominated by the dramatic slowdown of the world market for optical fibers and cables. In 2003, the Fiber Optic production facility at Bishopstoke was closed down.

The restructuring measures undertaken made it possible to maintain market share and considerably increase the operating profit in 2003. Moreover, during the year, the company renewed an important contract to supply Optical Cables and Connectivity to British Telecom and benefited from the development of relations with Network Rail regarding the supply of Copper Cables.

Germany

In 2003, **Pirelli Telekom Kabel und Systeme Deutschland GmbH**, the company responsible for the marketing of **Copper** and **Optical Cables** on the German and Dutch markets and the area along the Danube and in Eastern Europe, recovered from the crisis in the telecommunications market and reported an increase in sales volumes to national and international operators. Although market conditions are still highly competitive, constant attention to the needs of customers has resulted in an increase in profits.

North America

In 2003, the total market volume was 7.8 million km of fiber compared to 8.5 million km of fiber in the prior year.

The largest plunge reached by the market during the last two years was in the first quarter of 2003, when capital expenditures were reduced to their lowest levels and the inventories held by important customers were at their highest. The situation improved during the following quarters of 2003 and the level of capital expenditures during the second half of the year was 16 percent higher than in the first quarter.

The segmentation of the market has changed dramatically over the past two years. Two segments, Long Distance and CLEC, which traditionally covered a large percentage of the total market, reported a marked contraction. The market of service providers, comprising, essentially, the four large Regional Bell Operating Companies (RBOCs) and eight leading Cable TV Providers (CATV), accounts for about 55 percent of the total market.

The remaining 45 percent of the market is composed of a large number of small-scale business opportunities with small RITCs (regional telephone companies), state-owned companies, towns and institutions. More than half of this market is served through the Distribution Channel.

The average selling price on the market fell by approximately 23 percent in 2003.

Despite a general reduction in the market volume by 9 percent and the general decline in prices, Pirelli succeeded in improving its position on the market and its cost structure, achieving important results in terms of market share and contribution margin. Thanks to its competitiveness, Pirelli successfully concluded new contracts with the largest RBOCs at the end of 2002, thus improving its overall position in this segment. Moreover, during 2003, the company increased its market share to 30 percent, both in the RBOC market and the CATV segment, and reached a market share of 22 percent of the total market, the highest ever recorded since the start of Pirelli's North American operations. For the first time, these results have consolidated Pirelli's reputation as the second-largest supplier of **Optical Cables** in North America. Pirelli also focused on the problem of costs. By reducing personnel by more than 80 percent over the last two years, by closing two factories and reducing variable costs by more than 30 percent, it succeeded in improving its contribution margin, despite the adverse conditions in terms of prices and the market.

The outlook for 2004 is for a general growth of the market deriving from a overall improvement in the economic cycle, a contraction in levels of inventories, and the continuation of FTTP initiatives.

Telecom cables and systems sector

Telecom sector holding company

Performance by geographical area

Operations

Performance of the main companies in the telecom sector

Outlook for the current year

Brazil

The year 2003 was the first year under the government of President Lula, which brought inflationary pressure under control with very high social costs in terms of high interest rates, increased unemployment and decreased investments. The main macroeconomic indicators and the reduction of country risk ratios are signs that the Brazilian economy is recovering.

The telecommunications market showed a recovery compared to 2002, limited to the Copper Cables market; the affiliate **Pirelli Telecomunicações Cabos e Sistemas do Brasil S.A.** reported an increase in sales of approximately 49 percent. The net result improved by 63 percent compared to 2002, despite the reorganization costs incurred with the aim of achieving a structure that is compatible with the current market.

The outlook for 2004 is for a fairly steady domestic market which should help to stabilize market share.



Supplying telecom cables to the service provider market has made Pirelli the second biggest supplier of optical fiber cables in North America.

Australia

For the affiliate **Pirelli Telecom Cables & Systems Australia PTY Limited**, the year 2003 was marked by a significant fall in demand for **Optical Cables** compared to the prior year and by a fairly steady demand for **Copper Cables**. Despite the fact that it succeeded in maintaining its market share, the absence of any projects for infrastructures, compared to previous years, was the factor which contributed most to the decline in volumes of Optical Cables.

The continuous reduction in the costs of materials, together with measures geared to improve efficiency, however, made it possible to achieve satisfactory levels of profitability.

China

In 2003, the local market was again fraught with serious difficulties, due mainly to the persisting erosion of prices. However, compared to 2002, **Pirelli Telecom Cables Co. Ltd. Wuxi** reported an increase in volumes, both on the domestic and export markets.

Pirelli continues to strengthen its presence in China by increasing the range of products with higher added value. In fact, investments have already been completed for the armoring line for OPGW cables and, in the third quarter, the production of data cables for special applications came on line.



As Brazil's economy showed signs of recovery, the country's Pirelli factory Telecomunicações Cabos e Sistemas recorded an increase in sales.

**Telecom cables
and systems sector**

 Telecom sector holding
company

 Performance by
geographical area

Operations

 Performance of
the main companies
in the telecom sector

 Outlook for the
current year

OPERATIONS

Telecommunications cables and fibers

In the year just ended, the persisting caution exercised with regard to capital investments by companies operating in the telecommunications sector resulted in a further contraction in the demand for telecommunications cables. Moreover, the permanent disappearance or downscaling of companies which had previously focused on the growth of fixed and mobile telecommunications, merely accentuated the crisis in the demand.

Therefore, the year 2003 was again a year in which the demand and the supply were out of balance in favor of the latter and, consequently, prices fell even further.

Pirelli succeeded in improving the profitability of the business despite the difficult market situation. The measures implemented to restructure and consolidate production capacity on a world scale, a task begun or completed in the prior year, contributed to the achievement of this goal.

Moreover, the continuous reduction of variable overheads at factory level and the careful development of new products (almost 30 percent of sales was generated by new products) that were closer to the requirements of the market and less expensive, helped to direct business steadily towards an improvement in the result.

The workforce was further reduced by almost 20 percent overall (25 percent considering only management and staff).

Current market forecasts suggest that the falling trend in demand should finally come to a halt during the first half of 2004, but a real comeback and growth in volumes is not expected until 2005.

Broadband Access (BBA)

Thanks to the expansion of the market resulting from new broadband applications, 2003 witnessed a complete turnaround of BBA activities.

The strong growth was due mainly to the following customers:

- Fastweb, which became the main customer for fiber access and copper access via ADSL technology. In 2003, the products AGE RF/RAB were launched (belonging to the category of Customer Premises Equipment) which enhanced the previous product range (Media Converter: ODU-12 and MSC).
- Telecom Italia, for which, in 2003, Pirelli launched the products AGE-uB (CPE in a SOHO environment) and POTS filters; Pirelli also completed development of the modular Smart Gate which is now ready for marketing with all the base, switch and Wi-Fi units.

In December 2003, Pirelli was awarded an order by British Telecom which will lead to a multi-year contract to be signed early in 2004. Pirelli was selected as one of two integrated HUB suppliers for British Telecom, out of a total of 25 potential suppliers.

The result for 2003 was achieved by outsourcing the industrial management of production and reinforcing engineering activities, in a way that will ensure the expansion of business and satisfy the needs of existing customers and the customers of tomorrow.

Submarine cables and systems

During 2003, the market confirmed the negative situation on a world scale, typical features of which were the absence of infrastructure connections of any significant size, the demand for which has not resumed. The value of the global market again touched the low-point of 2002,



The new Disc user apparatus, developed by Pirelli Labs for the broad band access market.

Telecom cables and systems sector

Telecom sector holding company

Performance by geographical area

Operations

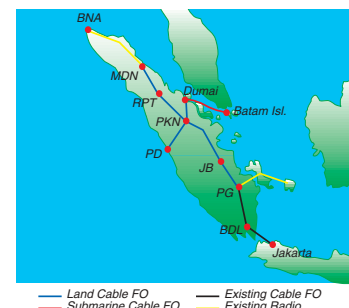
Performance of the main companies in the telecom sector

Outlook for the current year

falling well below the U.S.\$ 100 million mark, and settling at the lowest level of the last ten years.

The planned start of the SMW4 project, which, alone, is worth ten times the whole market value of 2003, was postponed in the hope that it can take shape in 2004. Pirelli Submarine Telecom Systems was impacted by the persisting stagnation of new opportunities, but succeeded in seizing what few small opportunities were available (Iran-Kuwait) to maintain the level of market share (approximately 20 percent) reached in 2002. In particular, the Iran-Kuwait link is also being affected by the uncertainties and difficulties plaguing that area, which are delaying the operational phase.

Although still a negative figure, the operating result showed an improvement, despite the consequent reduction of the order portfolio. This was due to the fact that operating activities ensured the positive conclusion of projects in progress (Sumatra Backbone, Farice), which were successfully completed before the scheduled deadline, and the continuous reduction of fixed overheads.



The Submarine Cable Systems' Sumatra contract was completed ahead of the time stipulated in the agreement.

PERFORMANCE OF THE MAIN COMPANIES IN THE TELECOM SECTOR

Key data as they appear in the financial statements prepared by the boards of Directors and approved or in the process of approval by the respective shareholders' meetings is given below.

All amounts are expressed in local currency and compared to the prior year.

	2003	2002
Pir. Cavi e Sistemi Telecom Italia S.p.A. - Italy (in thousands of euros)		
• Net sales	78,958	115,488
• Net loss	(12,047)	(11,418)
• Net financial (liquidity)/debt position	22,288	24,188
• Shareholders' equity	33,112	38,437
Pir. Telecom Câbles et Systèmes France S.A. - France (in thousands of euros)		
• Net sales	23,385	36,347
• Net loss	(5,958)	(10,769)
• Net financial (liquidity)/debt position	5,834	946
• Shareholders' equity	2,955	8,913
Pir. Telecom Cables y Systemas España S.L. - Spain (in thousands of euros)		
• Net sales	45,736	63,252
• Net income (loss)	(887)	2,606
• Net financial (liquidity)/debt position	6,295	1,151
• Shareholders' equity	20,596	24,089
Pir. Telecom Cables & Systems UK Ltd - United Kingdom (in thousands of £)		
• Net sales	34,303	49,482
• Net income (loss)	143	(24,837)
• Net financial (liquidity)/debt position	2,172	12,297
• Shareholders' equity	10,977	10,834

Telecom cables and systems sector

Telecom sector holding company

Performance by geographical area

Operations

Performance of the main companies in the telecom sector

Outlook for the current year

	2003	2002
Pir. Telekom Kabel und Systeme Deutschland GmbH - Germany (in thousands of euros)		
• Net sales	12,362	10,037
• Net income	456	283
• Net financial (liquidity)/debt position	(522)	(157)
• Shareholders' equity	1,527	1,175
Pir. Communications Cable and Systems USA LLC - United States (in thousands of U.S. \$)		
• Net sales	75,778	85,388
• Net loss	(4,941)	(63,433)
• Net financial (liquidity)/debt position	16,983	28,529
• Shareholders' equity	7,805	12,747
Pir. Telecomunicações Cabos e Sistemas do Brasil S.A. - Brazil (in thousands of Brazilian real)		
• Net sales	117,724	78,849
• Net loss	(14,824)	(19,543)
• Net financial (liquidity)/debt position	25,815	19,936
• Shareholders' equity	58,945	57,717
Pir. Telecom Cables & Systems Australia PTY Ltd (consolidated) Australia (in thousands of Australian \$)		
• Net sales	77,682	99,789
• Net income	2,973	7,039
• Net financial (liquidity)/debt position	(3,345)	(5,256)
• Shareholders' equity	23,835	24,406

OUTLOOK FOR THE CURRENT YEAR

The volumes of the global market, both in the Optical Cables and Copper Cables sectors, look as if they will settle around the levels of 2003. In this difficult world scenario, where the persisting imbalance between supply and demand continues to put pressure on prices, the Telecom Cables and Systems Sector will go on pursuing efficiency by further reducing costs. It will also concentrate on further improving the operating result, in the hope that positive developments may derive from entering new markets, such as Broadband Access.



Construction work on the new Villanueva y la Geltru Telecom Cables factory in Spain has almost been completed.

Tyres sector

Tyres sector holding company

Consumer markets

Industrial market

Performance of the main companies in the tyres sector

Outlook for the current year

TYRES SECTOR

The highlights of the consolidated financial statements of the Tyres Sector can be summarized as follows:

in millions of euros	2003	2002
• Net sales	2,970	2,857
• Gross operating profit	399	365
% of net sales	13.4%	12.8%
• Operating profit	220	191
% of net sales	7.4%	6.7%
• Financial income (expenses)	(45)	(55)
• Extraordinary items	(1)	(11)
• Income taxes	(45)	(47)
• Net income	129	78
% of net sales	4.3%	2.7%
• Net financial (liquidity)/debt position	317	492
• Capital expenditures	173	182
• R&D expenditures	123	122
• Employees (at year-end)	20,437	20,222
• Factories (number)	22	22

Net sales

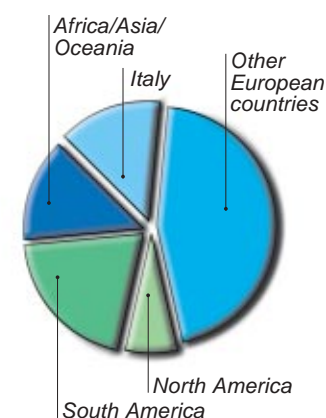
Net sales for the year 2003 are Euros 2,970 million, with an increase of 4 percent compared to the prior year.

The significant growth in volumes (+7.5 percent) and the price/mix (+4.1 percent) was only partly eroded by the negative foreign exchange effect (-7.6 percent).

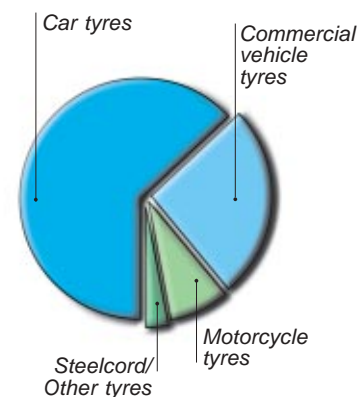
The distribution of net sales is as follows:

Geographical area	2003	2002
Italy	14%	14%
Other European countries	45%	46%
North America	7%	8%
South America	20%	19%
Africa/Asia/Oceania	14%	13%

Product category	2003	2002
Car tyres	63%	62%
Commercial vehicle tyres	26%	26%
Motorcycle tyres	8%	8%
Steelcord/Other tyres	3%	4%



Tyres: 2003 sales by geographical area and product category.



Tyres sector

Tyres sector holding company

Consumer markets

Industrial market

Performance of the main companies in the tyres sector

Outlook for the current year

Operating profit

Operating profit is Euros 220 million, representing 7.4 percent of net sales, compared to Euros 191 million in the prior year, equal to 6.7 percent of net sales. The positive contribution by volumes, prices and mix along with steps taken to reduce costs, have more than offset the negative currency exchange effect and the increase in both raw material costs and labor costs.

The increase from 2002 of Euros 29 million can be summarized as follows:

		(in millions of euros)
Operating profit 2002		191
• Currency exchange effect	(27)	
• Prices/Mix	131 (*)	
• Volumes	80	
• Production factors per unit cost	(142)**	
• Efficiencies	19	
• Depreciation	(17)	
• Merger effect	5	
• Other	(20)	
		29
Operating profit 2003		220

(*) including South America for + Euros 109 million

(**) including South America for - Euros 69 million of raw materials

Net income

The net income is Euros 129 million after:

- financial expenses of Euros 45 million, compared to Euros 55 million in 2002;
- extraordinary expenses of Euros 1 million (of which income from the "High-speed Train" project at Turin totals Euros 10 million and restructuring expenses amount to Euros 10 million), compared to extraordinary expenses of Euros 11 million in 2002 which were almost entirely due to restructuring measures;
- income tax expenses of Euros 45 million, compared to Euros 47 million in 2002.

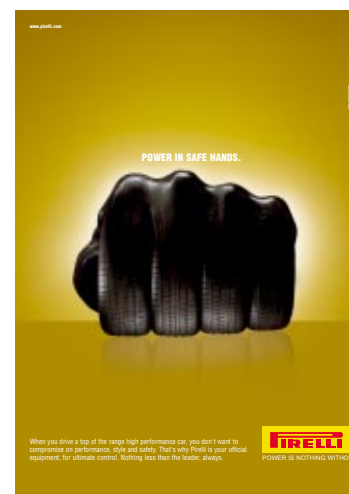
Net financial position

The net financial position is a net indebtedness position of Euros 317 million. This is a reduction of Euros 175 million compared to the prior year, after paying dividends to the parent company of Euros 70 million.

The decrease in the indebtedness position is due to the net income for the year, in addition to improvements in working capital and the financing of capital expenditures by cash flows provided by depreciation.



The MIRS™ production system was also applied to radial ply motorcycle tyres in 2003.



Numerous international awards have been won by the Pirelli tyre "Fist" advertising campaign, which was used in all the principal world markets.



Pirelli launched its second generation X-Pressure tyre inflation pressure control system.

Tyres sector

Tyres sector holding company

Consumer markets

Industrial market

Performance of the main companies in the tyres sector

Outlook for the current year

Employees

At December 31, 2003, employees in the Tyres Sector number 20,437, including 1,477 employees with temporary contracts and 228 temporary employees.

Compared to December 31, 2002, there was a reduction of 48 management and staff due to actions taken to achieve a lean organization and efficiencies in fixed overheads.

With regard to the number of blue-collar workers, there was an increase of 264 people, 172 of whom are employed under temporary contracts or temporary work arrangements as a result of production expansion at the MIRS factories in Germany, the U.K. and the U.S.A., the increase in production capacity in Turkey and the start-up of the new car tyre factory in Bahia.

At December 31, 2003, the workforce (excluding employees with temporary contracts) may be analyzed as follows:

	2003	2002
Senior executives	0.9%	0.9%
Staff	22.9%	23.3%
Blue-collar	76.2%	75.8%

With regard to **organizational development**, despite keeping a strong focus and control over the Tyres Sector, the organization was stepped up in the R&D, Industrial, Logistics and Sales functions for the purpose of maximizing organizational effectiveness and efficiency. In the Motorcycle area, certain business functions were grouped and moved from Munich to Milan with the objective of exploiting the exchange of methods and know-how with the structures of the Tyres Sector and other sectors and achieving synergies and efficiencies.

Within the area of **human resources development**, during 2003, important management training projects were carried out that will continue into 2004. A great deal of attention was also devoted to the identification and monitoring of high-potential and critical know-how inside the group and the identification of the relative managerial and specialist career paths in the R&D function.

Capital expenditures

Capital expenditures amount to Euros 173 million in 2003, representing 5.8 percent of the net sales of the Tyres Sector. The ratio of capital expenditures to depreciation is 0.97.

Capital expenditures in factories, which at the end of 2003 were 22, unchanged from 2002, represent 82 percent of the total. This is in line with the Group's strategy and market demand. The capital investments were employed in the development of innovative process, expansion of production capacity and the introduction of new products, as described in the sections devoted to the Tyres Sector.

R&D expenditures

R&D expenditures total Euros 123 million, equal to 4.1 percent of net sales.

Euros 28.3 million of this amount refers to expenses for employees working in the Milan area and Euros 1.9 million at Figline Valdarno (Florence).

The information is also provided in conformity with art. 13 of Law 140/97.

R&D activities are focused on improving and innovating the product portfolio through intensive activities to build up knowledge about traditional and innovative materials in the area

Tyres sector

Tyres sector holding company

Consumer markets

Industrial market

Performance of the main companies in the tyres sector

Outlook for the current year

of model-making and by studying new profiles and tread designs. In addition, process and product development using MIRS continued, with the consolidation of the plants using MIRS technology in Germany, the United Kingdom and the United States (here the new process resulted in the American affiliate being presented with the 2003 "Robots & Vision User Recognition Award") and compounds were developed with the innovative CCM production process.

A full description of the Group's R&D activities in 2003 can be found in the sections of the report devoted to the Sectors.

TYRES SECTOR HOLDING COMPANY

The unconsolidated financial statements of Pirelli Tyre Holding N.V. for the year ended December 31, 2003 are summarized in the following balance sheet and statement of income:

in millions of euros

Balance sheet	2003	2002
Intangible assets	1.5	2.0
Financial assets	612.4	547.4
Net working capital	7.7	6.3
	621.6	555.7
Shareholders' equity	633.4	684.0
Provisions	1.5	-
Net financial position	(13.3)	(128.3)
	621.6	555.7

in millions of euros

Statement of income	2003	2002
Net earnings of affiliates	120.5	64.2
Other income (expenses)	(1.7)	6.3
Net income	118.8	70.5

CONSUMER MARKETS

Car Tyres

In 2003, the market trend for passenger cars varied according to the different geographical areas and in relation to the Replacements or Original Equipment sales channels. The Replacements business closed 2003 on a global scale with a marked increase in volumes compared to the prior year (+4.8 percent), with growth in Europe (+2.3 percent), export markets (+20 percent), Turkey (+3 percent), South America (+8.3 percent) and North America (+0.8 percent).

As a result of a selective growth strategy which sees Pirelli involved as the key partner of leading car manufacturers worldwide, sales of Original Equipment reported an annual



The P Zero Corsa is the specialist Pirelli tyre for sports cars and can also be used on the track.

Tyres sector

Tyres sector holding company

Consumer markets

Industrial market

Performance of the main companies in the tyres sector

Outlook for the current year

increase that kept pace with the growth rates of the various markets involved. This applied to both areas of consolidated activity (Europe/South America), and the United States, where there has been a positive start to market activities in line with expectations. The future development prospects in this area are also positive for 2004, due to an ever broader homologation portfolio and the increased production capacity generated by the opening of the new factory at Feira de Santana in Brazil (inaugurated in 2003 in the presence of the President of the Republic of Brazil, Luiz Lula da Silva). The production of the new factory is largely destined for the NAFTA market.

In the sphere of innovative processes, production capacity has increased as a result of the use of the MIRS™ (Modular Integrated Robotized System) process in Germany, the U.S.A. and the U.K.. This was achieved both by installing new lines with higher production capacity and by carrying out improvements on existing systems. In addition, in Italy (Milan Bicocca), the new pilot CCM (Continuous Compound Mixing) system for developing special compounds came on line. In traditional processing, work continued to convert the production capacity on high performance products and to upgrade existing machinery.

In order to meet increased market demand and reduce production costs, production facilities were de-localized towards geographical areas with lower production costs. Capacity was increased in Turkey and Argentina, and a new factory was opened in Bahia (Brazil).

The most important product launch took place in March 2003 in Atlanta, Georgia (U.S.A.), emphasizing the re-launch of Pirelli in North America. The occasion was the opening of the new MIRS™ factory in Rome.

The event in Atlanta involved various products, all destined for the main emerging markets segments.

In the UHP segment, the PZero Corsa had its début.

An offshoot of technical solutions tested at competition level, it is at the top of the ultra-low road tyre range. The PZero Corsa, also available in the System version, with front directional and rear asymmetric tread design, is exclusively supplied for the Ferrari Challenge Stradale. In addition, the PZero Nero was launched in the M+S version. This tyre was conceived with MIRS™ technology for the North American market in response to the need for greater comfort and high mileage, without compromising the excellent handling and braking on dry and wet surfaces typical of Pirelli UHP products.

To complete the Scorpion range, in the SUV segment, two new prestigious products were launched, the result of Pirelli high-performance technology: the brand new Scorpion STR, destined for Original Equipment on SUVs and 4x4s of the latest generation, and the new Asymmetrical Scorpion Zero, top product of the Scorpion range. The latter is destined for a fast-growing and highly profitable niche market of "transformations" with sizes exceeding 20" for the original equipment of the more powerful and exclusive SUVs. At the end of 2003, further proof of Pirelli's innovation capacity was the launch of the Scorpion Zero with a 25" size homologated for a maximum speed of 240km/h, the only tyre in the world to have this configuration.



The Pirelli Scorpion, designed and developed for the latest generation SUVs and 4x4s.



Lamborghini's Gallardo is among the most recent homologations for P Zero Rosso.



Positive results for Pirelli and Ferrari on the 2004 Fia Gt Championship.

Tyres sector

Tyres sector holding company

Consumer markets

Industrial market

Performance of the main companies in the tyres sector

Outlook for the current year

In 2003, Pirelli again actively participated in sporting activities, in the Rally and Racing segments. In Rally events, Pirelli won the WRC driver's World Championship with Petter Solberg's Subaru Impreza, partly the result of the development of new compounds. Pirelli came first out of an impressive range of adversaries with tyres made by the competition.

In 2003, in addition to the usual Ferrari Challenge, the Pirelli PZero was supplied to cars competing for the Maserati Trophy. A technological partnership was also begun with Maserati for the development of the new GT model destined for the FIA GT and American Le Mans World Championships. Pirelli was also directly involved in the FIA GTM European Championships with the Ferrari 360 and the Ferrari 575GTC.

The number of homologations continued to increase in 2003, both from the quantity and quality standpoints. This was particularly due to the confirmation of manufacturer recognition of the impressive performance characteristics of products like the PZero Rosso (for which homologations were obtained with Audi, Bentley, BMW, Jaguar, Lamborghini, Mercedes, Porsche, Saab and Volvo), the P6 Fourseasons and the P7 (Audi, BMW, Chrysler, Ford, GM/Opel, Peugeot, Seat, Volvo), the PZero Nero (Ford, Lancia) and the latest arrivals, the PZero Corsa (Ferrari, Porsche) and the Scorpion STR (BMW, Ford).

In 2003, Pirelli received recognition from the United States of the technological excellence which has made Pirelli a partner in the growth of all the major world car-makers. Pirelli was honored with the J.D. Power Award, a prize presented by one of the leading market analysis institutes in the United States for original equipment tyres which are most appreciated by new car owners.

Motorcycle Tyres

In 2003, the activities of the Motorcycle Tyres area again achieved results that were better than those of the prior year, despite lower market growth than in 2002 and the negative effect of exchange rates against the U.S. dollar.

With regard to the Replacements channel, the highest growth was recorded in countries like Italy, France, Great Britain, Scandinavia, the United States and Japan.

In Europe, where market growth of 3.4 percent was recorded, the Motorcycle tyres area improved its overall market share, especially in the sports radial tyre segment, following the successful launch of new products. In North America, the segment reported positive results thanks to the performance of the radial touring and custom segments. In South America, positive growth in Brazil was accompanied by even more significant results in other South American countries.

In the Original Equipment channel, the performance of sales in Europe was excellent, both for motor cycles and scooters whereas, in Brazil, growth was less than in prior years, partly due to the economy of the country in the first half of 2003.

The two main brands in the portfolio (Pirelli and Metzeler) both reported growth due to the success of new products. As regards the Pirelli brand, the Diablo and the Diablo Corsa, manufactured by the new MIRS™ process, immediately obtained homologation for the top-of-the-range supersport models of Ducati, Honda, Aprilia and MV Agusta. The Metzeler brand obtained homologation as a result of the launch of the new Roadtec Z6 in the Sport Touring Radial segment.

From an industrial point of view, continuous improvement was reported in the production performance of the new MIRS™ process in Germany.



Honda adopted the Diablo Corsa radial, which is produced by MIRS™ technology, for its Fireblade motorcycle.

Tyres sector

Tyres sector holding company

Consumer markets

Industrial market

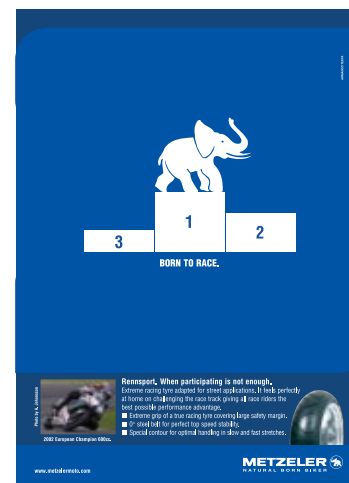
Performance of the main companies in the tyres sector

Outlook for the current year

Once the start-up phase of the MIRS™ system at the German factory had been concluded, the first homologation was obtained for the most popular Japanese model (Honda CBR). In South America, the growing demand of the local market was met by increasing the production capacity of the Gravatai factory.

In the Racing segment, the two brands once again clocked up a long series of victories at national level, in addition to winning the World Motocross GP Championship with S. Everts riding a Yamaha, the Enduro 250-cc class with S. Merriman, the Sidecar Cross Championship with D. Willemsen and K. Stupelis riding a VMC, the World Supersport with C. Vermuelen and the Tourist Trophy held in the Isle of Man with A. Archibald riding a Suzuki.

The continuous improvement in Pirelli's performance in the Superbike Championship enabled the company to become the Official Tyres Supplier following the multi-year agreement signed with the promoter FGSpport. This agreement will enable Pirelli to make faster progress in terms of developing the performance of its supersport products and achieving better market penetration.



The Roadtec Z6 was launched under the Metzeler brand in 2003, aimed at the sports touring segment of the market.

INDUSTRIAL MARKET

Truck Tyres

Globally, the competitive scenario reported average market growth of 2 percent, with higher growth in some components of the mix (radial tyres +5 percent).

During the first half of 2003, selling prices were steady, while, in the second half, there were generalized increases due to a rise in the costs of raw materials.

Pirelli increased its sales in strategic markets (with a 1 percentage increase in market share) such as South America and, in the more traditional markets, it maintained its market share and succeeded in improving profitability by repositioning its prices.

Further efforts were made to improve the level of customer service, reduce backorders and rationalize the product range.

In Europe, the Truck Tyres market reported a slight increase in the Replacements channel (+2.5 percent), while there was more than a double-digit decrease in the Original Equipment channel.

The performance of sales in Turkey, Egypt, North Africa and the Middle East reported double-digit growth. In the South American area as a whole, where the introduction of radial tyres is proceeding at a fast pace, there were significant increases in volumes, due partly to the favorable economic cycle and the replacement of vehicles.

On a global scale, Pirelli sales increased by 12 percent, generating a significant improvement in the market share.

Investments in production capacity were concentrated on areas with the highest potential, such as Brazil, in the case of the South American market, and Egypt in the Middle Eastern market.



Pirelli Truck tyre sales in Africa and the Middle East are increasing strongly.

Tyres sector

Tyres sector holding company

Consumer markets

Industrial market

Performance of the main companies in the tyres sector

Outlook for the current year

Moreover, in all the factories, the Group continued strategies for renewing the product range and extending programs to improve efficiency and quality. Truck tyres has an optimal production organization. Approximately 80 percent of the production of radial tyres takes place in countries where the transformation cost is low, while conventional production is almost completely concentrated in South America. Improvements in performance were introduced to the main product lines, the product range was rationalized by eliminating an "associated brand" and new products were launched to be introduced in new markets: the PS22 for military applications; the MC85 for the South American markets; the FG85/TG85 for tough applications on industrial work-sites.

Steelcord Tyres

In 2003, the positive economic and financial performance of the Steelcord area fits into a world market scenario where there was pressure on volumes, especially in the second half of the year. This was due to strong demand by the Chinese market, to the closing in April of a competitor in the United States, and technological evolution, which has resulted in the introduction of new, lighter cords. Overall, the world market registered growth of more than + 3 percent compared to 2002, driven by China (as already mentioned), Eastern Europe and South America, with the markets in Western Europe and the NAFTA area remaining fairly flat.

From the industrial point of view, the scenario was positive, with improved productivity in all four production facilities. During 2003, the process of increasing production capacity in Brazil and Turkey continued, enabling steelcord tyres to exceed the target of having 50 percent of steelcord production in low-cost areas.

The order portfolio at the beginning of 2004 shows a market situation that is under pressure, similar to the situation prevailing in the second half of 2003. The world steelcord tyres market is therefore expected to continue to grow, driven by markets in emerging areas.



From the 2004 season, Pirelli became the exclusive supplier of tyres for the World Superbike and Supersport Championships.

Tyres sector

Tyres sector holding company

Consumer markets

Industrial market

Performance of the main companies in the tyres sector

Outlook for the current year

PERFORMANCE OF THE MAIN COMPANIES IN THE TYRES SECTOR

Key data as they appear in the financial statements prepared by the boards of Directors and approved or in the process of approval by the respective shareholders' meetings are given below.

All amounts are expressed in local currency and compared to the prior year.

	2003	2002
Pirelli Pneumatici S.p.A. - Italy (in thousands of euros)		
• Net sales	1,211,998	1,443,558
• Net income (loss)	12,460	(6,948)
• Net financial (liquidity)/debt position	334,658	91,012
• Shareholders' equity	238,211	281,113
Pirelli Deutschland A.G. - Germany (in thousands of euros)		
• Net sales	643,723	23,032
• Net income	78,038	9,964
• Net financial (liquidity)/debt position	(86,567)	(259)
• Shareholders' equity	176,813	98,285
Pirelli Reifenwerke GmbH - Germany (in thousands of euros)		
• Net sales		554,356
• Net income	merged in	17,133
• Net financial (liquidity)/debt position	Pirelli Deutschland	23,833
• Shareholders' equity		48,602
Metzeler Reifen GmbH - Germany (in thousands of euros)		
• Net sales		124,208
• Net income	merged in	1,763
• Net financial (liquidity)/debt position	Pirelli Deutschland	10,315
• Shareholders' equity		18,175
Pirelli UK Tyres Ltd (consolidated) - United Kingdom (in thousands of £)		
• Net sales	269,139	245,320
• Net income	7,360	3,222
• Net financial (liquidity)/debt position	(15,386)	21,316
• Shareholders' equity	100,204	77,204
Pirelli Neumaticos S.A. - Spain (in thousands of euros)		
• Net sales	287,015	267,329
• Net income	2,377	4,345
• Net financial (liquidity)/debt position	(23,299)	(15,255)
• Shareholders' equity	72,778	72,653
Turk Pirelli Lastikleri A.S. - Turkey (in thousands of euros)		
• Net sales	242,683	206,430
• Net income	6,857	9,287
• Net financial (liquidity)/debt position	(19,593)	(10,170)
• Shareholders' equity	108,361	88,356
Pirelli Pneus S.A. - Brazil (in thousands of Brazilian real)		
• Net sales	2,292,292	1,733,549
• Net income	159,929	94,562
• Net financial (liquidity)/debt position	(138,997)	(44,531)
• Shareholders' equity	741,430	624,220

Tyres sector

Tyres sector holding company

Consumer markets

Industrial market

Performance of the main companies in the tyres sector

Outlook for the current year

	2003	2002
Pirelli Tire Llc - United States (in thousands of U.S. \$)		
• Net sales	196,124	154,327
• Net income	13,369	10,398
• Net financial (liquidity)/debt position	37,907	53,146
• Shareholders' equity	(5,412)	(10,844)
Pirelli Neumaticos S.A.I.C. - Argentina (in thousands of Argentine pesos)		
• Net sales	146,942	101,017
• Net income (loss)	11,901	(3,962)
• Net financial (liquidity)/debt position	(3,255)	(5,010)
• PShareholders' equity	38,377	30,142
Pirelli de Venezuela C.A. - Venezuela (in thousands of U.S. \$)		
• Net sales	77,860	57,740
• Net income	7,671	1,892
• Net financial (liquidity)/debt position	(18,703)	(6,028)
• Shareholders' equity	44,482	32,991

OUTLOOK FOR THE CURRENT YEAR

In 2003, the slight decrease in the **European** passenger car market is a reflection of the difficult economic situation. The prospects for 2004 point to stagnation that will remain stable at around the levels of the prior year.

In the **U.S. market**, the demand for passenger cars also fell, whereas, for 2004, forecasts suggest a slight recovery.

With reference to other large countries, the **Brazilian market** reported a falloff, however, growth is anticipated in 2004.

In 2004, the demand for Replacements in all product categories, and particularly in the premium segments, is expected to grow at the rates recorded in 2003, more or less in equilibrium with production capacity. The overall scenario suggests that, in 2004, there will be a further improvement in the economic result of the Tyres Sector.



With Mikko Hirvonen in the Team, Petter Solberg and his Subaru on Pirelli have begun competing for a 2004 World Rally Championship.

Real Estate sector

Major events in 2003

Economic review

Outlook for the current year

REAL ESTATE SECTOR

Pirelli & C. Real Estate S.p.A. is a management company which invests in real estate companies and real estate investment funds and non-performing loans primarily by participating with minority stakes; these are the asset management and fund management businesses. It also provides these and other clients with every type of specialist real estate service; this is the service provider business.

Pirelli & C. Real Estate S.p.A. has developed a distinctive and innovative business model, thanks to its internal specialist expertise gained over the years and a management team of proven experience.

The business model integrates investment management activities (purchase and enhancing the real estate properties and construction of new property projects both for the purpose of sale – asset management) with activities providing a wide range of specialist services in the real estate sector (service provider) and the institution, placement and management of specialized real estate funds with a long-term view (fund management).

In order to cover the retail market, a network was also set up for the distribution of real estate and financial services.

The Group boasts assets managed at December 31, 2003, at market value, of Euros 10.5 billion, of which real estate loans total Euros 0.9 billion, and offers its services to a portfolio worth Euros 30.3 billion.

With operating headquarters in the most important domestic real estate markets, in Milan, Rome and Naples, and a qualified network of agents, the Group is able to operate efficiently throughout Italy, employing a total of over 1,500 resources.

The ability to offer itself as the one source for the entire real estate cycle (from purchase to management, up to the disposal of the property) and the high degree of know-how in various areas of real estate operations, have led the Group to consolidate trusting relationships with the largest entities and business groups in Italy, as well as attract the most important international investment funds, which have identified Pirelli & C. Real Estate as the ideal and strategic partner for seizing investment opportunities offered by the Italian market.



Pirelli RE Franchising began retail market operations in 2003, providing real estate and financial services to consumers.

Real Estate sector

Major events in 2003

Economic review

Outlook for the current year

MAJOR EVENTS IN 2003

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

- important purchases of luxury real estate portfolios for subsequent enhancing;
- structuring of the non-performing loans sector, a prerequisite for development for future years;
- start of Pirelli Real Estate Franchising for the distribution of real estate and financial services to the retail market: October marked the start of the affiliation campaign for Pirelli & C. Real Estate Franchising, the retail real estate agency network which closed 2003 with 258 signed contracts;
- the fund manager activity took its place alongside the asset management and service provider businesses; this new activity aims at an equilibrium between an opportunistic and a long range approach to the market. In December, the bureaucratic approval procedures were concluded for the public sale offer and listing of the first fund managed by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A., called Tecla Fondo Uffici.



The most important international investment funds have identified Pirelli&C. RE as a strategic partner for the Italian market.

ECONOMIC REVIEW

In the description of the economic and financial highlights that follows, it is important to remember that Pirelli & C. Real Estate S.p.A. is a management company which invests in real estate companies and real estate investment funds and non-performing loans primarily by participating with minority stakes; these are the asset management and fund management businesses. It also provides these and other clients with every type of specialist real estate service; this is the service provider business.

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	2003	2002	
Aggregate production value, net of acquisitions	1,525.5	1,297.3	18%
Consolidated production value	649.0	491.5	
Operating profit including the share of earnings (losses) of equity investments	128.1	102.2	25%
Income before extraordinary items	128.9	99.9	
Net income from real estate operations - attributable	102.1	82.6	24%
Other components (*)	-	42.7	
Net income attributable	102.1	125.3	

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

Real Estate sector

Major events in 2003

Economic review

Outlook for the current year

Aggregate production value

Net of acquisitions, amounts to Euros 1,525.5 million, with a growth of 18 percent compared to Euros 1,297.3 million in 2002. Consolidated production value alone for the year ending December 31, 2003 is Euros 649.0 million, compared to Euros 491.5 million in 2002 (+32 percent).

Operating profit including the share of earnings (losses) of equity investments

The operating profit including the share of earnings (losses) of equity investments is Euros 128.1 million, compared to Euros 102.2 million in 2002 (+25 percent).

Attributable consolidated net income

The attributable consolidated net income from real estate operations is Euros 102.1 million, compared to Euros 82.6 million in 2002, with a growth of 24 percent.

In 2002, there still had been other non-real estate income components largely connected with the sale of the securities from the ex Unim portfolio for Euros 42.7 million.

Balance sheet review

in millions of euros	December 31, 2003	December 31, 2002
Fixed assets	313.4	218.8
including investments accounted for using the equity method	149.7	109.1
Net working capital	162.3	190.5
including inventories	325.0	383.7
Net invested capital	475.7	409.3
Shareholders' equity	424.8	368.8
including minority interest	3.2	0.9
Provisions	41.7	52.8
Net financial (liquidity)/debt position	9.2	(12.3)
Free cash flow	42.1	4.7
Net cash flow before dividends paid	27.2	48.7 (*)
Net cash flow	(21.5)	154.0(**)

(*) Benefiting from approx. Euros 70 million of extraordinary items (**) Including the capital increase for Euros 105.3 million

Attributable shareholders' equity

Attributable shareholders' equity at December 31, 2003 is Euros 421.6 million compared to Euros 367.9 million at the end of 2002. The increase of Euros 53.7 million is mainly due to the difference between dividends paid (Euros 48.7 million) and the net income for the year (Euros 102.1 million).

Real Estate sector

Major events in 2003

Economic review

Outlook for the current year

Net financial position

The net financial position is a net indebtedness position of Euros 9.2 million, compared to a net liquidity position of Euros 12.3 million at the end of 2002. The change is due to investments made and the payment of dividends, offset by a significant reduction in net working capital that was achieved in the presence of a growth in production value.

The net financial position expressed before financing made to minority-owned companies is also a net indebtedness position of Euros 223.7 million compared to a net indebtedness position of Euros 166.7 million at the end of 2002.

The gearing ratio is 0.53 compared to 0.45 at December 31, 2002.

Fixed assets

Fixed assets total Euros 313.4 million, compared to Euros 218.8 million recorded at the end of 2002, with an increase of Euros 94.6 million, of which Euros 40.6 million refers to equity investments accounted for using the equity method.

The increase in both property, plant and equipment and intangible assets is largely due to new acquisitions in the Facility Management area that were added to the scope of consolidation. The increase in equity investments, instead, can be traced to new initiatives by the Asset Management division (Residential, Services and non-performing loans).

Net working capital

Net working capital is equal to Euros 162.3 million, compared to Euros 190.5 million at the end of 2002 (-15 percent). The reduction was achieved in the presence of an increase in production value of 32 percent.

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 reasonable be expected for 2004, in line with the Three-year Plan 2003-2005.

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

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente**
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

PIRELLI & C. AMBIENTE

Pirelli & C. Ambiente S.p.A. reported a loss of Euros 2.1 million for the year ending December 31, 2003 compared to a loss of Euros 1.7 million in 2002.

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

Through the 49 percent-owned company project "IDEA Granda S.Cons.R.L.", headquartered in the province of Cuneo, during the first six months of 2003, production started on CDR-P for use as the quality fuel in a Buzzi-Unicem Group cement plant also located in the province of Cuneo.



Through the company "Idea Granda", production began of CDR-P for cement manufacturers.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems**
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

INFORMATION SYSTEMS

The year 2003 was marked by the agreement and implementation of the integration of the ITTI/Corporate Solutions (Telecom Italia) and Olivetti Tecnost structures. Their operations were contributed to Shared Service Center S.c.r.l. (formerly Pirelli Informatica) on August 1, 2003. This integration procedure was effectively completed according to schedule and the associated economic aims and objectives in terms of internal efficiency for 2003 were all fully accomplished.



During the course of 2003, the structures of the Telecom Italia company ITT Corporate Solutions and of Olivetti Tecnost were integrated under the name Shared Service Center Pirelli.

During 2003, most of the development, management and operating activities of local IT structures and organizations were transferred to Milan, in keeping with the organizational and business models pursued by the various Sectors, particularly with regard to countries in Europe and North America.

At the same time, the administration and operation of the infrastructure and network were centralized. At year-end 2003, the APIS infrastructure platform had approximately 16,000 users.

In the Tyres Sector, operations focused on extending and enhancing B2B initiatives. New functions were implemented for the CRM platform geared to the automated management of marketing campaigns and multichanneling of contacts with the final customer. The One-Client/One-Business SAP platform was extended to the whole of Europe, North America and the Far East, and the consolidation of the Data Warehouse solution was re-designed accordingly.

In the Telecom Cables and Systems Sector, the centralization on a European scale of the ERP infrastructures, processes and systems was completed, in order to provide better support for the business model which requires a highly centralized governance of the Sector, also extending, in the EMEA environment, the centralized operating flow that manages Application Management problems and services.

In the Energy Cables and Systems Sector a serious endeavor was made to contain the costs of new computer initiatives and improve efficiency. A particular effort was made to make tools available for analyzing results and analyzing industrial efficiency, in a technological context that is in line with the development of the market. This involves the consolidation of the centralized system of reporting for the areas of sales, logistics and purchasing, and the extension of the centralized system to manage intercompany purchases/sales flows.

In 2003, the computer systems of the Pirelli & C. Real Estate Group provided support for the expansion of business in the sectors of Franchising and Fund Management, as well as extending coverage of the already-existing information system. The main projects completed in 2003 involved the creation of new Internet portals, implementation of the computer system of the Franchising company and the new call center of Pirelli Real Estate Property Management S.p.A., interfaced with the rest of the corporate information system. Furthermore, the new information system was implemented for managing Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A., and a quality Tableau de bord was started for identifying and presenting indicators about levels of service.

Having increased considerably during the period 2001-2002, the development of Internet sites has stabilized towards a trend of physiological growth. At the same time, the same level of attention to the quality of service has been maintained in terms of content, availability and performance.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems**
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

The largest investments were made in the Intranet area, with particular attention to the use and integration of information and applications through the development of Group Portals for in-house users.

In 2003, investments were again made in Pirelli's area of e-commerce, with special attention to the user-friendliness and the performance of self-service applications on the Internet. As a result, both the percentage of orders received by e-mail and the number of sessions of visitors to sites devoted to trading increased.

In keeping with the steps taken in 2002, the physical transfer of the Pirelli Data Center continued. Service distribution processes associated with the call center were activated, ensuring the maximum possible continuity of the services, to meet the requirements of internal and external users alike.

Safeguarding of privacy and protection of data

Again in 2003, the Pirelli Group has taken important steps to guarantee its compliance with existing regulations concerning the protection of personal data.

From an organizational standpoint, Pirelli has set up a special structure (the "Privacy Office") in the Security Function, which has the following responsibilities:

- coordination concerning the application of the law on the protection of personal data at Group level, monitoring of the relative progress and verification of the results achieved;
- coordination and supervision of relations with third parties (e.g. handling of requests by third parties in the event they wish to exercise the right to access their personal records as guaranteed by existing legislation).

Pirelli is also implementing procedures to plan and put into practice the improvement measures needed for a correct application of the provisions introduced, effective January 1, 2004, by Legislative Decree No. 196 dated June 30, 2003, (the "**Privacy Code**"), which gathers into one single text (the "Testo Unico") all the provisions relating to the protection of personal data.

Pursuant to D.P.R. No. 318/1999, Pirelli has also proceeded to draw up a Programming Document on Security (PDS).

The PDS describes, based on an assessment of the risks, the technical and organizational criteria adopted for the protection of sensitive personal data treated, by Pirelli, using computerized tools. In accordance with the Privacy Code, Attachment B, paragraph 26, Pirelli serves notice that the PDS has been drawn up for the year 2003.



Continuous attention is paid to the maintenance of the facility of utilisation and integration of information for the www.pirelli.com site.

Introduction

Extraordinary
Transactions

The Group

Energy Cables and
Systems SectorTelecom Cables and
Systems Sector

Tyres Sector

Real Estate Sector

Pirelli & C. Ambiente

Information Systems

**Ecology and the
Environment**

Human Resources

Proforma data

Related Party
DisclosuresEquity Investments
held by Directors,
Statutory Auditor and
General Managers

Stock Option Plans

Corporate Governance

International
Accounting StandardsPirelli & C. S.p.A. -
Summary DataShareholders'
Resolutions

ECOLOGY AND THE ENVIRONMENT

The year 2003, reflected the results achieved and the objectives set for the future.

For several years now, in all the countries in which it operates, Pirelli has been developing a system of environmental management that reflects the International ISO 14001 standard. Two years ago Pirelli started an ambitious program of health and safety at work, to be implemented in all the operating units, in compliance with the measures contained in the international OHSAS 18001 standard.

Pirelli is well aware that "sustainability", meant as the management of a company in a way that combines the achieving of its objectives with respect for the environmental, economic and social implications of future generations, is a great opportunity.

For this reason, it has reflected on an assessment, not so much of the parameters relating to environmental matters and safety at work (which are now sufficiently clear and defined at an international level), but on those parameters that affect social matters, where there are very general principles, but no actual standards which are recognized and accepted by everyone. Pirelli, which owns industrial facilities worldwide, has decided to assess the overall corporate social responsibility in a basic way, starting with a real understanding of the importance of the parameters that are commonly used.

This first step will lead to a precise commitment to create a certifiable management system of its corporate social responsibility activities.

The positive tension now pervading all the corporate facilities with regard to the management of aspects of the external environment and the safety of all the employees provides the impetus to start yet another ambitious project in the full conviction that it will succeed in achieving the objective in a time-scale that is coherent with the global size of the Group.

The differences between the various cultures and situations do not constitute a problem, but, if they are correctly shared, will become a focus which will develop and enhance the project itself.

As far as environmental results are concerned, almost 100 percent of the operating units have obtained the ISO 14001 quality certification and the results show a trend of constant improvement in terms of specific consumption, although there are local variations which do not affect the overall result.

The management of safety at work still suffers from a widespread diversity of approach, generating results which do not provide a synthetic vision for comparing impact on the environment. However, regardless of the management systems which have obtained ISO 18001 certification, the attention which the various structures are devoting to this area enable us to be confident of succeeding, with time-scales varying slightly from one place to another.



The OHSAS 18001 standard is applied in all Pirelli operating units.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources**
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

HUMAN RESOURCES

The total workforce of the Group at December 31, 2003 numbers 36,337. This is a headcount reduction of 1,013 compared to the end of the prior year.

The workforce at December 31, 2003 can be summarized as follows:

Sector		
Energy Cables and Systems	10,746	29.6%
Telecom Cables and Systems	2,218	6.1%
Tyres	20,437	56.2%
Real Estate	1,544	4.3%
Other	1,392	3.8%
Geographical area		
Europe	61.6%	(of which Italy 25.1%)
North America	3.3%	
South America	23.3%	
Other	11.8%	
Composition		
Senior executives	620	1.7%
Staff	9,904	27.3%
Blue-collar	23,396	64.4%
Temporary workers	2,417	6.6%

Personnel costs during the year were Euros 1,371 million, with a reduction of 3.9 percent compared to the prior year. Personnel costs as a percentage of net sales are 20.5 percent compared to 21.2 percent in the prior year.

TRAINING AND DEVELOPMENT OF HUMAN RESOURCES

In 2003, in the area of the training and development of human resources, the training of staff and management took off with renewed vigor.

In addition, a rigorous process of analysis and measuring was developed using quantitative and measurable indicators of the quality and effectiveness of the action taken in recent years. This system of "Key Performance Indicators" (KPIs) has thrown light on typical traits of the people who work in the Pirelli Group, which are summarized below.

A key factor from the point of view of professional development proved to be growth through experience in the international field. By sending out an average of 350 employees a year all over the world, both from the ranks of staff and management, the Group shows that it knows how to create a generation of managers with a high international and multi-cultural profile.



The home page of the system for the on line auto-management of time cards.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources**
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

Another important aspect is the prevalence of growth towards management positions of resources already working for the Group. Although the difficult economic situation tended to encourage this trend, from the point of view of the Group, it meant searching among its workforce for talent and accelerating its exposure to challenging tasks within the company. In 2004, the Pirelli Group intends to take action particularly in the following areas:

• **Internal Communication**

Direct communication between Top Management and the affiliates will continue, with the aim of increasing sensitivity and awareness of corporate results and short-term business objectives at all organizational levels, and further consolidating the internal environment.

Moreover, during the first half of the year, the new version of the Intranet portal is expected to come on line. The new portal is intended for consultation by all the staff, and cadres and senior executives, and will provide employees with information about the company and the main work tools in an even more timely and direct way.

• **Development of talent**

The "People Days" held at the affiliates, that is, days devoted to analyzing the growth of talent and management turnover, have become an important aspect of management development. This custom will be further consolidated this year by the creation of a "Talent and Development Portal": Top Management will be able to consult on-line an updated situation of the state of management turnover and profiles of the people regarded as having high development potential in all the affiliates.

• **Corporate Social Responsibility**

The fundamental importance of Corporate Social Responsibility which the Group intends to place at the center of its business dealings was expressed in 2003, and will continue to be a point of focus in 2004, in three main areas of action:

- the decision to become a "No Smoking Company" and the consequent ban on smoking (except in specially designated smoking areas and far away from the work environment);
- the drawing up and communication to all Group employees of the Group Code of Ethics and the Charter of Corporate Values, with the aim of orienting behavior and professional action within the Group even more decisively and uniformly. In addition, with goal-oriented training in mind, Italian companies will receive the Organizational Model in compliance with Law No. 231 which, according to the Code of Ethics, reviews processes and work tools;
- the launch of "Progetto Donna", with the aim of ensuring maximum chances of professional growth in all the Group functions and structures, helping the Group as a whole to handle the topic of "Diversity" in an advanced, effective way in the achievement of corporate results. The project includes action to promote awareness through training and internal communication, control over whether the sexes are receiving equal treatment in the management of human resources, and action to encourage women to return to their professional activity at the end of maternity leave.



Pirelli became a No Smoking Company in 2004.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data**
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

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 December 31, 2003 of Pirelli & C. S.p.A. is presented below, assuming the consolidation line-by-line of Olimpia S.p.A. and the use of the equity method to value the investment in Telecom Italia S.p.A.

	Consolidated financial statements 2003 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	Proforma adjustments			Total proforma adjustments	Proforma consolidated financial data 2003 Pirelli & C. S.p.A. ⁽²⁾
				Adjustments to Olimpia financial statements to take into account the valuat. 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			
in millions of euros								
Condensed statement of income								
• Net sales	6,671	-	-	-	-	-	-	6,671
• Operating profit	268	-	1	-	-	1	269	
• Financial income (expenses)/ valuation adjustments to financial assets	(185)	97	(318)	143	(37)	(115)	(300)	
• Extraordinary items	(9)	-	(12)	-	-	(12)	(21)	
• Income taxes	(70)	-	-	-	-	-	(70)	
• Net income (loss)	4	97	(329)	143	(37)	(126)	(122)	
• Net loss - Pirelli & C. S.p.A.	(39)	97	(169)	72	(19)	(19)	(58)	
Goodwill amortization effect	3	-	-	-	309	309	312	
Net income (excluding goodwill amortization)	7	97	(329)	143	272	183	190	
Net income (loss) - Pirelli & C. S.p.A. (excluding goodwill amortization)	(36)	97	(169)	72	137	137	101	
Reclassified balance sheet								
• Fixed assets	5,901	97	9,561	(1,245)	(5,331)	3,082	8,983	
• Net working capital	567	-	42	-	-	42	609	
• Total net invested capital	6,468	97	9,603	(1,245)	(5,331)	3,124	9,592	
Financed by:								
• Shareholders' equity	3,678	97	6,325	(1,245)	(5,331)	(154)	3,524	
- of which shareholders' equity Pirelli & C. S.p.A.	3,429	97	3,188	(627)	(3,997)	(1,340)	2,089	
• Provisions	1,045	-	-	-	-	-	1,045	
• Net financial (liquidity)/ debt position	1,745	-	3,278	-	-	3,278	5,023	

(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 December 31, 2003 and the consolidated financial statements of the Telecom Italia group at the same date.

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

- in the column "Elimination of Olimpia S.p.A. net result attributable to Pirelli & C. S.p.A. (50.4%)": elimination of the statement of income and balance sheet effects of valuing Olimpia S.p.A. with the equity method in the Pirelli & C. S.p.A. consolidated financial statements at December 31, 2003;

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data**
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

- 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 year ended December 31, 2003 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": reversal of the writedown made by Olimpia in Holinvest (Euros 143 million). Also considered was the effect of the allocation of the Pirelli & C S.p.A. merger surplus (Euros 1,388 million). The net impact of the two adjustments (Euros 1,245 million) 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 37 million, of which Euros 167 million relates to the amortization of implicit goodwill for twelve months out of a total twenty-year period, and Euros 130 million to Olimpia S.p.A.'s share of the 2003 net income of the Telecom Italia Group.
In order to represent the diluting effect of Euros 2,250 million deriving from the reduction of Olimpia S.p.A.'s percentage holding in Telecom Italia S.p.A. following the merger of Olivetti 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 December 31, 2003 Pirelli & C. S.p.A.", the amount of Euros 3 million refers to the amortization charge for the year 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 309 million includes Euros 167 million for the goodwill booked by Olimpia S.p.A. in respect of Telecom Italia S.p.A. and Euros 142 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 December 31, 2003 and December 31, 2002 is presented below, assuming:

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

in millions of euros	Shareholders' equity		Net debt		Net debt/Shareholders' equity		Shareholders' equity - Pirelli & C. S.p.A.	
	2003	2002	2003	2002	2003	2002	2003	2002
Pirelli & C. S.p.A. Group: consolidated financial statements at 12/31/2003	3,678	4,626	1,745	2,050	0.47	0.44	3,429	1,933
Pirelli & C. S.p.A. Group: proforma consolidated data with Olimpia S.p.A. consolidated line-by-line and Telecom Italia S.p.A. valued using the equity method	3,524	6,121	5,023	5,726	1.43	0.94	2,089	1,817
Pirelli & C. S.p.A. Group: proforma consolidated data with Olimpia S.p.A. and Telecom Group consolidated line-by-line	22,362	23,428	38,369	39,125	1.72	1.67	2,089	1,817

Introduction

Extraordinary
Transactions

The Group

Energy Cables and
Systems SectorTelecom Cables and
Systems Sector

Tyres Sector

Real Estate Sector

Pirelli & C. Ambiente

Information Systems

Ecology and the
Environment

Human Resources

Proforma data

Related Party
DisclosuresEquity Investments
held by Directors,
Statutory Auditor and
General Managers

Stock Option Plans

Corporate Governance

International
Accounting StandardsPirelli & C. S.p.A. -
Summary DataShareholders'
Resolutions

RELATED PARTY DISCLOSURES

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

The effects deriving from the transactions between Pirelli & C. S.p.A. and its subsidiaries are disclosed in the financial statements of the parent company and in the notes, and as with the intragroup transaction 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. Group and the Telecom Italia Group in 2003 are described below. These transactions fall within ordinary operations, are carried out at arm's length and there are no transactions of an unusual and exceptional nature or constituting a potential conflict of interests. Such transactions refer to:

- **revenues for goods and services**, relating mainly to the supply of telecommunications cables and services rendered by Pirelli & C. S.p.A., Shared Service Center S.c.r.l. and Pirelli & C. Real Estate S.p.A. (Euros 120 million);
- **costs for goods and services**, mainly relating to telephone and computer services and the supply of electrical energy (Euros 60 million);
- **trade receivables**, relating to the supply of the goods and services described above (Euros 44.8 million);
- **trade payables**, relating to telephone and computer services and the supply of electrical energy described above (Euros 21.7 million).

Introduction

 Extraordinary
Transactions

The Group

 Energy Cables and
Systems Sector

 Telecom Cables and
Systems Sector

Tyres Sector

Real Estate Sector

Pirelli & C. Ambiente

Information Systems

 Ecology and the
Environment

Human Resources

Proforma data

 Related Party
Disclosures

**Equity Investments
held by Directors,
Statutory Auditor and
General Managers**

Stock Option Plans

Corporate Governance

 International
Accounting Standards

 Pirelli & C. S.p.A. -
Summary Data

 Shareholders'
Resolutions

EQUITY INVESTMENTS HELD BY DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS

Pursuant to article 79 of Consob Regulation approved by resolution No. 11971 dated May 14, 1999, the following information is provided as regards the equity investments held in the company Pirelli & C. S.p.A., and its subsidiaries, by the Directors, Statutory Auditors and General Managers, as well as spouses, not legally separated, and minor children, either directly or through subsidiaries, trustee companies or individual persons, resulting from the shareholders' register at December 31, 2003, from notices received or other information acquired from the same Directors, Statutory Auditors and General Managers.

Name	Company in which investment held	No. of shares held at prior year-end	No. of shares purchased / subscribed / exchanged	No. of shares sold / subscribed / exchanged	No. of shares held at current year-end
Tronchetti Provera Marco	Pirelli & C.	2,070	6,210	-	8,280
	Pirelli & C. (indirect ownership)	184,852,214 (1)	618,522,450	12,550,000	790,824,664
	Pirelli S.p.A. (indirect ownership)	37,361,855 (1)	1	37,361,856	-
Pirelli Alberto	Pirelli & C.	4,500	13,500	-	18,000
Puri Negri Carlo Alessandro	Pirelli & C.	10,000	30,000	-	40,000
	Pirelli & C. Real Estate S.p.A.	1,185,121	- (2)	- (2)	1,185,121
Buora Carlo	Pirelli & C.	3,000	65,688	-	68,688
	Pirelli S.p.A.	42,517	-	42,517	-
Coppola di Canzano Eugenio *	Pirelli S.p.A.	39,152	-	39,152	-
Ferrario Giovanni	Pirelli & C.	-	553,332	-	553,332
	Pirelli S.p.A.	415,000	-	415,000	-
Gazzoni Frascara Giuseppe	Pirelli & C. (indirect ownership)	498,923	-	498,923	-
Ligresti Giulia Maria	Pirelli & C. Real Estate S.p.A.	10 (4)	-	-	10
Moratti Massimo	Pirelli & C.	1,328,571	3,985,713	-	5,314,284
	Pirelli & C. (indirect ownership)	11,004,953 (3)	20,376,138	-	31,381,091
Orlando Luigi	Pirelli & C.	4,354	13,062	-	17,416
Presutti Ennio	Pirelli & C.	-	40,000	-	40,000
	Pirelli S.p.A.	30,000	-	30,000	-
Sozzani Vincenzo	Pirelli & C. - ordinary	10,500	76,606	-	87,106
	Pirelli & C. - savings	598	-	-	598
	Pirelli S.p.A.	32,483	1	32,484	-
Battista Valerio	Pirelli & C.	-	10,089	-	10,089
	Pirelli S.p.A.	7,567	-	7,567	-
De Conto Claudio	Pirelli & C.	-	53,916	-	53,916
	Pirelli S.p.A.	40,437	-	40,437	-
Gori Francesco	Pirelli & C.	-	15,072	-	15,072
	Pirelli S.p.A.	11,304	-	11,304	-
Riddett Kevin (**)	Pirelli & C.	-	3,356	-	3,356
	Pirelli S.p.A.	2,517	-	2,517	-
Guatri Luigi	Pirelli & C.	-	133,332	-	133,332
	Pirelli S.p.A.	100,000 (4)	-	100,000	-

The shares exchanged refer to the exchange of Pirelli S.p.A. and Pirelli & C. shares in a ratio of 4 Pirelli & C. shares for every 3 Pirelli S.p.A. shares following the merger of the two companies

(*) This is a director of Pirelli S.p.A. in office until August 4, 2003; (**) This is a general manager of Pirelli S.p.A. in office until June 1, 2003

(1) Shares held through Camfin S.p.A.

(2) On June 27, 2003, C.A. Puri Negri sold 579,411 Pirelli & C Real Estate S.p.A. ordinary shares to his subsidiary Partecipazioni Finanziarie S.r.l.

(3) Shares held through CMC

(4) Shares held through spouse

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans**
- Corporate Governance
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

STOCK OPTION PLANS

No new stock option plans were introduced in 2003.

As a result of the merger of Pirelli S.p.A. in Pirelli & C. S.p.A. (the "Merger"), Pirelli & C. S.p.A. took over the stock option plans voted by the merged company Pirelli S.p.A.. Accordingly, the number of options originally attributed and the relative exercise price were adjusted on the basis of the exchange ratio of the Merger. Starting from August 4, 2003 (the date the Merger became effective), Pirelli & C S.p.A. thus has two stock option plan outstanding destined for the senior executives and staff of the same company and other companies in the Group which were granted option rights, not transferable to third parties, for the subscription/purchase of Pirelli & C. S.p.A. ordinary shares.

The following disclosure is provided, also pursuant to the recommendations of Consob, on the change in the above plans called Pirelli to People and Group Senior Executives.

	<i>Pirelli to People</i>	<i>Group Senior Executives</i>
Features of the plan	Option rights granted, non-transferable to third parties, for the subscription of future new issues of Pirelli & C. ordinary shares or, as decided by the latter, for the purchase of treasury shares of Pirelli & C..	Option rights granted, non-transferable to third parties, for the subscription of future new issues of Pirelli & C. ordinary shares or, as decided by the latter, for the purchase of treasury shares of Pirelli & C..
Beneficiaries	570 employees (senior executives, cadres, employees with a high potential) of the companies of the Group. Originally 725 persons at the date of approval of the plan.	41 senior executives of the companies of the Group. Originally 51 persons at the date of approval of the plan.
Conditions for exercising options	Continuance of employment.	(a) continuance of employment, and (b) the reaching, in the two-year period 2001-2002, of specific targets, assigned to each beneficiary.
Subscription/purchase price per share	Each option right granted gives the right to subscribe/purchase one Pirelli & C. ordinary share at the price of Euros 1.284(1).	Each option right granted gives the right to subscribe/purchase one Pirelli & C. ordinary share at the price of Euros 1.284(1).
Period for exercising options	Up to nine years from the date the options are granted (which took place on November 5, 2001), but not before one year has passed from that date for 50 percent of the options granted, two years for another 25 percent and three years for the remaining 25 percent.	As regards the options granted on November 5, 2001, up to nine years from the date the options are granted, but not before one year has passed from that date for 50 percent of the options, two years for another 25 percent and three years for the remaining 25 percent. For the options granted definitively on May 10, 2003, up to May 31, 2009 but not before June 1, 2002 for 50 percent of the options and not before January 1, 2003 for the remaining 50 percent.
Maximum number of options for which the offer was open at December 31, 2002	43,084,400(2) options destined for 636 beneficiaries.	19,355,190(2) options destined for 46 beneficiaries.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

	<i>Pirelli to People</i>	<i>Group Senior Executives</i>
Maximum number of shares for which the offer was open at December 31, 2003	39,112,407(2) options equal to about 1.19 percent of outstanding ordinary shares destined for 570 beneficiaries.	17,853,283(2) options equal to about 0.52 percent of outstanding ordinary shares destined for 41 beneficiaries.
Options expiring during the year as a result of persons leaving the Group	3,971,993(2) options	1,501,907(2) options
Shares issued during the year	None	None

(1) Value adjusted following the Merger on the basis of the exchange ratio (previously Euros 1.712).

(2) Number adjusted following the Merger on the basis of the exchange ratio (4 Pirelli & C. ordinary shares for every 3 Pirelli S.p.A. ordinary shares).

The following tables show the changes in the above plans, the number of option rights and the exercise price.

Tab. 1	Pirelli to People			Year 2002		
	Year 2003			Year 2002		
	Numbers of shares	Annual average exer. price in €	Market price in €	Numbers of shares	Annual average exer. price in €	Market price in €
Data referring to Pirelli S.p.A.						
Options existing at 1/1/2003	32,313,300	1.712	0.90	37,049,600	1.712	1.97
Opt. granted during the period	-	-	-	-	-	-
(Opt. exercised during the period)	-	-	-	-	-	-
(Opt. expired during the period due to person leaving group)	-	-	-	4,736,300	1.712	-
Opt. existing at August 3, 2003	32,313,300	1.712	0.91	32,313,300 (*)	1.712	0.90
Data referring to Pirelli & C. S.p.A.						
Opt. existing at August 4, 2003	43,084,400 (1)	1.284 (2)	0.67	-	-	-
Opt. granted during the period	-	-	-	-	-	-
(Opt. exercised during the period)	-	-	-	-	-	-
(Opt. expired during the period due to person leaving group)	3,971,993	-	-	-	-	-
Options existing at 12/31/2003	39,112,407	1.284	0.81	-	-	-

(1) Number adjusted following the Merger on the basis of the exchange ratio (4 Pirelli & C. ordinary shares for every 3 Pirelli S.p.A. ordinary shares).

(2) Value adjusted following the Merger on the basis of the exchange ratio.

(*) at 12/31/2002

Tab. 2	Options granted - existing at December 31, 2003				
	Exercise prices	Residual contract life			Of which exercisable
		> 2 year *	Total	from 8/4/2003	from 11/5/2003
€ 1.284	39,112,407	39,112,407	19,556,203	9,778,102	9,778,102

* up to November 5, 2010

Introduction

 Extraordinary
Transactions

The Group

 Energy Cables and
Systems Sector

 Telecom Cables and
Systems Sector

Tyres Sector

Real Estate Sector

 Pirelli & C. Ambiente
Information Systems

 Ecology and the
Environment

Human Resources

Proforma data

 Related Party
Disclosures

 Equity Investments
held by Directors,
Statutory Auditor and
General Managers

Stock Option Plans

Corporate Governance

 International
Accounting Standards

 Pirelli & C. S.p.A. -
Summary Data

 Shareholders'
Resolutions

Group Senior Executives

Tab. 1	Year 2003			Year 2002		
	Numbers of shares	Annual average exer. price in €	Market price in €	Numbers of shares	Annual average exer. price in €	Market price in €
Data referring to Pirelli S.p.A.						
Options existing at 1/1/2003	14,516,392	1.712	0.90	7,164,800	1.712	1.97
Opt. granted during the period	-	-	-	8,646,763 (*)	1.712	1.56
(Opt. exercised during the period)	-	-	-	-	-	-
(Opt. expired during the period due to person leaving group)	-	-	-	1,295,171	-	-
Opt. existing at August 3, 2003	14,516,392	1.712	0.91	14,516,392 (**)	1.712	0.90
Data referring to Pirelli & C. S.p.A.						
Opt. existing at August 4, 2003	19,355,190 (1)	1.284 (2)	0.67	-	-	-
Opt. granted during the period	-	-	-	-	-	-
(Opt. exercised during the period)	-	-	-	-	-	-
(Opt. expired during the period due to person leaving group)	1,501,907	-	-	-	-	-
Options existing at 12/31/2003	17,853,283	1.284	0.81	-	-	-

(1) Number adjusted following the Merger on the basis of the exchange ratio (4 Pirelli & C. ordinary shares for every 3 Pirelli S.p.A. ordinary shares)

(2) Value adjusted following the Merger on the basis of the exchange ratio

(*) In reference to the Group Senior Executives Plan of November 5, 2001, balance of options granted - definitively - on May 10, 2002 (***) at 12/31/2002

Tab. 2	Options assigned - existing at December 31, 2003				
	Exercise prices	Residual contract life		Of which exercisable	
		> 2 year *	Total	from 8/4/2003	from 11/5/2003
€ 1.284	17,853,283	17,853,283	13,939,149	1,957,067	1,957,067

* up to May 31, 2009

The following table indicates the number of option rights granted under the aforementioned incentive plans, held at December 31, 2003, directly and indirectly, by the members of the Board of Directors, and the General Managers.

Name	Options held at 8/4/2003 (*)		Options granted during year		Options exercised during year		Options held at end of year	
	Numbers of options	Average exercise price	Numbers of options	Average exercise price	Numbers of options	Average exercise price	Numbers of options	Average exercise price
Buora Carlo	1,333,334 ^{(1) (2)}	1.284 ⁽³⁾	-	-	-	-	1,333,334 ^{(1) (2)}	1.284 ⁽³⁾
Ferrario Giovanni	1,333,334 ^{(1) (2)}	1.284 ⁽³⁾	-	-	-	-	1,333,334 ^{(1) (2)}	1.284 ⁽³⁾
Battista Valerio	983,467 ^{(1) (2)}	1.284 ⁽³⁾	-	-	-	-	983,467 ^{(1) (2)}	1.284 ⁽³⁾
	666,667 ^{(2) (4)}	1.284 ⁽³⁾	-	-	-	-	666,667 ^{(2) (4)}	1.284 ⁽³⁾
De Conto Claudio	778,774 ^{(1) (2)}	1.284 ⁽³⁾	-	-	-	-	778,774 ^{(1) (2)}	1.284 ⁽³⁾
	410,667 ^{(2) (4)}	1.284 ⁽³⁾	-	-	-	-	410,667 ^{(2) (4)}	1.284 ⁽³⁾
Gobbi Luciano	778,774 ^{(1) (2)}	1.284 ⁽³⁾	-	-	-	-	778,774 ^{(1) (2)}	1.284 ⁽³⁾
	360,000 ^{(2) (4)}	1.284 ⁽³⁾	-	-	-	-	360,000 ^{(2) (4)}	1.284 ⁽³⁾
Gori Francesco	533,334 ^{(1) (2)}	1.284 ⁽³⁾	-	-	-	-	533,334 ^{(1) (2)}	1.284 ⁽³⁾
	666,667 ^{(2) (4)}	1.284 ⁽³⁾	-	-	-	-	666,667 ^{(2) (4)}	1.284 ⁽³⁾

(1) Group Senior Executives incentive plan

(2) Number adjusted following the Merger on the basis of the exchange ratio (4 Pirelli & C. ordinary shares for every 3 Pirelli S.p.A. ordinary shares)

(3) Value adjusted following the Merger on the basis of the exchange ratio (previously Euros 1.712)

(4) Pirelli to People incentive plan

(*) No change took place between 12/31/2002 and the date of the Merger

Introduction

Extraordinary
Transactions

The Group

Energy Cables and
Systems SectorTelecom Cables and
Systems Sector

Tyres Sector

Real Estate Sector

Pirelli & C. Ambiente
Information SystemsEcology and the
Environment

Human Resources

Proforma data

Related Party
DisclosuresEquity Investments
held by Directors,
Statutory Auditor and
General Managers

Stock Option Plans

Corporate Governance

International
Accounting StandardsPirelli & C. S.p.A. -
Summary DataShareholders'
Resolutions

In 2001, Pirelli & C. granted the Managing Director-General Manager of Pirelli & C. Ambiente S.p.A., Nicolò Dubini, an option to purchase 183,600 shares of said company (equal to 6 percent of share capital), at Euros 1.15 per share on the basis of an appraisal specifically performed for that purpose.

In 2002, a new stock option plan was put into place for the same company and options were granted to four employees for the purchase of a total of 91,800 Pirelli & C. Ambiente S.p.A. shares, equal to 3 percent of share capital, at the same price per share of Euros 1.15, again on the basis of an appraisal specifically performed for that purpose.

All the above options may be exercised starting from the date of the approval of the financial statements at December 31, 2003 of Pirelli & C. Ambiente S.p.A. and the shares from the options can be sold by the beneficiaries to Pirelli & C. within two years after having exercised the option rights at a price that will take into account the net asset revaluation of the company during that time.

As regards the separate stock option plans put into place by Pirelli & C. Real Estate S.p.A., a listed subsidiary of Pirelli & C. S.p.A., please refer to the annual report of that company.

CORPORATE GOVERNANCE

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

Introduction

During 2003, Pirelli & C. S.p.A. completed a process of transformation and integration for the purpose of – in the first phase – transforming the Company from a limited partnership company (A.p.A.) to a corporation (S.p.A.) and – in the second phase – merging Pirelli S.p.A. and Pirelli & C. Luxembourg S.p.A. by incorporation.

Various objectives were pursued through these transactions, the most relevant of which include:

- adoption of a type of company – that is, a corporation (S.p.A.) – which, compared to a limited partnership company (A.p.A.), allows all the shareholders greater involvement in the decision-making process. In fact, the particular rules regarding the position of managing partners in the management of a company are no longer considered in the Italian Civil Code;
- maximization of market capitalization, providing Pirelli & C. ordinary shares with greater liquidity;
- optimization of economic and financial flows within the group.

The briefly-described aforementioned transactions emphasize the decision to see Pirelli & C.'s shareholders take an more active role, thus confirming the Company's interest in developing an appropriate, transparent relationship with its investors. In this regard, the Company has followed the Self-Regulatory Code of listed companies" (hereinafter the "Code"), recommended by Borsa Italiana S.p.A. since November 16, 1999, and on March 24, 2004, the Board of Directors voted to submit amendments to the bylaws for approval by the next shareholders' meeting. These amendments are directed towards fostering ever-increasing participation by all shareholders in the Company's activities and in decisions capable of bringing about the Company's success¹.

In conformity with the Instructions for the Regulation of markets organized and managed by Borsa Italiana, and also taking into account the recommendations contained in the "Guidelines for the preparation of the annual report regarding corporate governance" prepared by Borsa Italiana and in the "Guide for the compilation of the report on corporate governance" drawn up by Assonime, the following describes the salient features of the system of corporate governance currently in place and its planned development.

Governance Structure

1. Board of Directors

1.1 The role of the Board of Directors

The Company shall be administered by a Board of Directors composed of from seven to twenty-three members who serve for three years (unless a shorter period is established by the shareholders' meetings when the Directors are appointed) and can be re-elected (art. 10 of the bylaws).

Pursuant to the bylaws (art. 11), the Board is empowered with the management of the Company and, for this purpose, is invested with the fullest powers of administration, except those, which according to the bylaws or by law, are reserved for the shareholders' meetings. The Board of Directors, in fact, shall exercise its powers in conformity with point 1.2 of the Code, that is, it shall:

- examine and approve the strategic, corporate, industrial and financial plans of the Company and the corporate structure of the Group which the Company heads;
- assign and revoke the delegation of powers to the Managing Directors and Executive Committee (if established), fixing the limits, the manner of exercising such powers and

¹ On this point, see paragraph 8.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

- the interval, normally at least quarterly, within which the parties delegated powers must refer to the Board regarding the activities carried out in exercising such powers;
- establish, after examining the proposals of the specific remuneration committee and after having consulted the Board of Statutory Auditors, the compensation to be paid to the Managing Directors and those who hold specific posts, as well as the division of the total compensation to which the Directors are entitled among the individual members of the Board and the Executive Committee (if established), if this has not already been decided by the shareholders' meeting;
 - monitor the general performance of operations, with special attention being paid to conflicts of interest, taking into account, in particular, the information received from the Executive Committee (if established), the Managing Directors and the Committee for Internal Control and Corporate Governance, as well as comparing the results with the budgets on a regular basis;
 - examine and approve transactions that have a significant economic, equity or financial impact, with particular reference to related party transactions;
 - verify the adequacy of the general organizational and administrative structure of the Company and group as organized by the Managing Directors;
 - keep the shareholders informed at the shareholders' meetings.

1.2 The Functions of the Board

The Board of Directors shall appoint a Chairman (if not provided for by the shareholders' meeting) and, if necessary, one or more Deputy Chairmen.

In the event of the Chairman being absent, the chair shall be taken by a Deputy Chairman or a Managing Director, in that order; if there should happen to be two or more Deputy Chairmen or Managing Directors, the chair shall be taken respectively by the more senior in age.

The Board shall appoint a Secretary who is not necessarily a member of the Board.

The Board shall meet at the invitation of the Chairman or whomsoever is acting on his behalf, at the registered office of the Company or in any other place stated in the letter of convocation, at any time he considers it to be in the best interest of the Company, or whenever a meeting has been requested by one of the Managing Directors or by at least two standing statutory auditors².

The bylaws do not establish a minimum number of meetings; it is, nevertheless, the practice to hold at least six meetings a year (to examine the preliminary data at June 30 and December 31, the draft financial statements and the quarterly and six-month reports). Normally, the timing of the most important Company events (that is, the Board and shareholders' meetings) is communicated to the market at the end of the last Board meeting of each year. The market is promptly informed of any variations.

Meetings of the Board may take place through means of telecommunication that allow all the participants to take part in the discussion and have the same information.

Board meetings shall be convened by means of a letter, telegram, telex or fax³ sent to the address of each Director and each standing statutory auditor, at least five days before (or, in urgent cases, at least six hours before) the day set for the meeting.

However, the Board may validly pass resolutions, even failing any formal convocation, if all the Board members and all the standing statutory auditors in office are present.

The presence of at least half the members, plus one, shall be necessary for the resolutions of the Board to be deemed valid, and the favorable vote of the majority of those attending shall be required.

In the event of a tie in votes, the casting vote shall be that of the Chairman.

The resolutions of the Board, even when passed by meetings held by teleconference and/or videoconference, shall be recorded in a special book signed by the Chairman and the Secretary.

² With regard to the authority to convene a meeting at the initiative of one fifth of the Directors on the Board, see paragraph 8.

³ With regard to the substitution of the telex with e-mail, see paragraph 8.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

1.3 The composition of the Board of Directors

Prior to the transformation of the Company from a limited partnership company (A.p.A.) to a corporation (S.p.A.), on May 7, 2003, the Board of Managing Partners was composed of the following members:

Marco Tronchetti Provera - Chairman
 Alberto Pirelli - Deputy Chairman
 Carlo Buora
 Luigi Orlando
 Carlo Alessandro Puri Negri

Subsequent to the transformation to a corporation, the Board of Directors is composed of the following members:

Marco Tronchetti Provera - Chairman
 Alberto Pirelli - Deputy Chairman
 Carlo Alessandro Puri Negri - Deputy Chairman
 Carlo Buora - Managing Director
 Giovanni Ferrario - Managing Director
 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 Secchi⁴
 Vincenzo Sozzani
 Frank Vischer

Leopoldo Pirelli holds the post of Honorary Chairman of the Company.

In conformity with point 7.1 of the Code, the proposals for the post of Director – accompanied by statements attesting that no circumstances exist for ineligibility or incompatibility, as well as the suitability, where applicable, of the candidates to qualify as independent candidates – were deposited at the registered offices ten days prior to the date fixed for the shareholders' meeting in first call.

The Board is composed of 22 Directors of whom 3 are executive, with the Executive Directors being, according to point 2.1 of the Code, – the Chairman, Marco Tronchetti Provera, and the Managing Directors-General Managers, Carlo Buora and Giovanni Ferrario. In accordance with the Code (point 3.1), “independent Directors” shall be those who:

- a) do not have, directly, indirectly or on behalf of third parties, nor have they recently had, economic relationships with the Company, its subsidiaries, the executive Directors, or the shareholder or group of shareholders which control the Company, of such significance as to influence their independence of opinion;
- b) do not hold, directly, indirectly or on behalf of third parties, equity stakes of such magnitude as to allow them to exercise control or significant influence over the

⁴ Prof. Carlo Secchi was appointed by the Board of Directors during its meeting on February 19, 2004, to replace Alberto Falck, who passed away on November 3, 2003.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

Company, nor do they belong to shareholders' agreements for control of the Company; c) are not close relatives of the executive Directors of the Company or of individuals who are in the situations indicated in letters a) and b), above.

Based on this definition, the Board of Directors has determined that 8 of the remaining 19 Directors (Carlo De Benedetti, Carlo Acutis, Giuseppe Gazzoni Frascara, Georg F. Kraye, Giampiero Pesenti, Ennio Presutti, Prof. Carlo Secchi and Prof. Frank Vischer) can qualify as "independent Directors" while another eight (Gilberto Benetton, Gabriele Galateri di Genola, Mario Greco, Giulia Maria Ligresti, Massimo Moratti, Giovanni Perissinotto, Maurizio Romiti and Luigi Orlando) represent companies which belong to the Pirelli & C. voting trust.

Finally, the independent Directors do not include Alberto Pirelli and Carlo Alessandro Puri Negri, in view of the executive responsibilities performed at Pirelli Pneumatici S.p.A. and Pirelli & C. Real Estate S.p.A., and – only in consideration of the long period over which he has held such type of positions in the group – Vincenzo Sozzani.

The term of office of the current Directors will expire at the time of the shareholders' meeting called for the approval of the December 31, 2005 financial statements (the term of Prof. Carlo Secchi, co-opted by the Board of Directors, will expire at the next shareholders' meeting).

A list of the posts held by each of the Directors, as Director or Statutory Auditor in other companies listed in regulated markets, also abroad, in financial, banking, insurance companies or in other companies of significant size, are presented at the end of this section of the report.

2. **The shareholders' meetings**

Functions of the shareholders' meeting

The convocation of the shareholders' meeting, which may take place anywhere in Italy including in a place other than the registered office, the right to attend meetings and representation at same are all governed by law and the bylaws⁵.

When required, the ordinary shareholders' meeting may be convened within six months of the Company's year end.

The normal establishment of shareholders' meetings and the validity of the resolutions shall be regulated by law.

The voting *quorum* for the appointment of Directors shall be determined by the relative majority of votes⁶.

The shareholders' meeting shall be chaired by the Chairman of the Board of Directors, a Deputy Chairman or a Managing Director, in that order; if there should happen to be two or more Deputy Chairmen or Managing Directors present, the chair shall be taken respectively by the more senior in age. In the event of the absence of any of these persons, the chair shall be taken by another person selected by the shareholders' meeting from the shareholders present.

The Chairman is assisted by a Secretary appointed by the meeting; there is no need to appoint a Secretary when the minutes of the meeting are drawn up by a notary public.

The Chairman of the meeting verifies the right to attend the meeting, including by means of proxy, ascertains whether or not the meeting has been duly constituted and has achieved the quorum required in order to pass resolutions, conducts and moderates the discussion and establish the order and manner of voting as well as announces the results thereof⁷.

The resolutions of the meeting shall be recorded in the minutes, which shall be signed by the Chairman and the Secretary of the shareholders' meeting or the notary public.

The minutes of the extraordinary shareholders' meeting must be drawn up by a notary public appointed by the Chairman of the shareholders' meeting.

⁵ With regard to the adoption of a Regulations for Shareholders' Meetings, see paragraph 8.

⁶ With regard to the proposal for the introduction of a system of slates for the appointment of Directors, see paragraph 8.

⁷ The meeting of the Board of Directors on March 24, 2004 approved proposing, at the next shareholders' meeting, the substitution of convocation by telex with that by e-mail.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

3. **The Board of Statutory Auditors**

The Company's bylaws provide that the Board of Statutory Auditors shall be composed of three standing statutory auditors and two alternate statutory auditors. In order to allow the minority shareholders to elect one standing statutory auditor and one alternate statutory auditor, article 16 of the Company's bylaws provides that their appointment shall be drawn from "slates" of candidates, whereby one standing statutory auditor and one alternate statutory auditor shall be appointed from the slate which has obtained the highest number of votes after the first slate. The remaining members of the Board of Statutory Auditors (two standing statutory auditors and one alternate statutory auditors) shall, instead, be taken from the slate which has obtained the highest number of votes.

Shareholders who, alone or together with other shareholders, represent at least 2 percent of the shares with voting rights in the ordinary shareholders' meeting, have the right to put forward a slate.

In conformity with point 14.1 of the Code, article 16 of the bylaws provides that the slates, undersigned by the parties presenting them, must be filed at the Company's registered office at least ten days before the date fixed for the shareholders' meeting in first call. A description of the professional résumé of the individuals standing for election must be enclosed with the slates together with statements whereby the single candidates accept the nomination and attest, under their own personal responsibility, that no circumstances exist for ineligibility or incompatibility, and that they comply with requirements prescribed by law or the bylaws for the position.

Slates put forward that do not comply with the aforesaid provisions shall be considered as not having been put forward.

Each candidate may be included on only one slate, under penalty of ineligibility.

Likewise, any individuals who are not in possession of the requisites established by the applicable rules and regulations or who already hold the position of standing statutory auditor in more than five companies with stocks listed on regulated Italian markets, with the exception of the controlling companies and subsidiaries of Pirelli & C. S.p.A., may not be appointed as statutory auditors.

Each individual with voting rights may vote for only one slate.

The Chairman of the Board of Statutory Auditors shall be the standing member indicated as the first candidate on the slate which obtained the highest number of votes.

If only one single slate has been put forward, then the shareholders' meeting shall cast its vote in relation to that slate; if the slate obtains a relative majority, then the first three candidates in consecutive order on the slate shall be appointed as the standing statutory auditors, and the fourth and fifth candidates shall be appointed as alternate statutory auditors; the Chairman of the Board of Statutory Auditors shall be the person indicated at the top of the slate put forward; in case of death, waiver or resignation of a statutory auditor, and in the event of substitution of the Chairman of the Board of Statutory Auditors, they shall be replaced by an alternate statutory auditor and a standing statutory auditor, respectively, in the order arising from the consecutive numbering of the said slate.

Failing any slates, the Board of Statutory Auditors and its Chairman shall be appointed by the shareholders' meeting with the majorities prescribed by law.

The Board of Statutory Auditors shall be responsible for overseeing:

- compliance with the law and bylaws;
- the observance of the principles of proper administration;
- the adequacy of the Company's organizational structure, for aspects that are within their sphere of activity, the internal control system and accounting-administrative system, as well as the reliability of the latter to accurately represent operational events;
- the adequacy of the Company's instructions to its subsidiaries regarding their obligations to communicate *price sensitive* information.

The Board of Statutory Auditors shall perform its functions by exercising all powers entrusted to it by the law and by relying on a constant, analytical flow of information from the Company, even outside of the periodic meetings of the Board of Directors.

In carrying out its functions, the Board of Statutory Auditors shall, in addition to participating in all Board of Directors and shareholders' meetings, take part in the work of the Remuneration Committee and Internal Control and *Corporate Governance* Committee.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

4. **Composition of share capital**

At March 24, 2004, the share capital of Pirelli & C. S.p.A. amounts to Euros 1,799,823,565.80, consisting of 3,461,199,165 shares with a par value of Euros 0.52 each, of which 3,326,434,736 are ordinary shares and 134,764,429 are non-convertible savings shares.

The share capital may increase up to a nominal maximum of Euros 2,002,440,591.32 through the issue of a maximum of 390,463,831 ordinary shares to be exclusively and irrevocably reserved for the exercise of 1,561,855,326 Pirelli & C. 2003-2006 ordinary share warrants issued in execution of the resolutions of the shareholders' meeting of May 7, 2003. The holder of the warrants may subscribe to one ordinary share of Pirelli & C. - at a price of Euros 0.52 (par value) - for every 4 warrants presented. The aforementioned share capital already takes into account the exercise of 3,262,820 warrants.

To the best of the Company's knowledge, no individuals or corporations exist which may exercise control over it, in accordance with article 93 of Legislative Decree No. 58/1998. However, there is the "Pirelli & C. S.p.A. voting trust" which purpose is to ensure the stability of Pirelli & C. and the oneness of the direction of its management. An extract of the text of the agreement is included at the end of this section of the report (in addition, the same extract is available on the Company's website, www.pirelli.com).

Information on the implementation of the provisions of the self-regulatory code

1. **Board of Directors**

1.1 The appointment of Directors

In conformity with point 7 of the Code, although not provided by the bylaws⁸, the proposals for the appointment to the post of Director, accompanied by exhaustive disclosure concerning the personal and professional characteristics of the candidates, with evidence of any eligibility of the candidates to qualify as independent in accordance with point 3 of the Code, shall be filed at the registered offices - if possible - at least ten days prior to the date fixed for the shareholders' meeting.

In compliance with these procedures, the participants in the Pirelli & C. Ordinary Share Voting presented a proposal for the appointment of Directors at the shareholders' meeting on May 7, 2003 (all of the individuals included in the proposal were then elected by the shareholders' meeting).

1.2 The meetings of the Board

Five Board meetings were held during 2003, in addition to three meetings of the Board of Managing Partners held prior to the transformation of the limited partnership company into a corporation on May 7, 2003. The total attendance by Directors at the Board of Directors' meetings was approximately 76 percent (the attendance at the meetings of the Board of Managing Partners was approximately 93 percent); attendance by independent Directors was approximately 68 percent.

Except in exceptional cases, the Directors were provided with the necessary documentation and information, reasonably in advance, to allow the Board to express its opinion knowledgeably on the matters under examination.

Two meetings have already been held in 2004 and at least another four are planned.

1.3 The compensation to the Directors

The members of the Board are paid, in addition to the reimbursement of expenses

⁸ With regard to the proposal to introduce the mechanism of slates, with the requirement of the bylaws to present in advance exhaustive disclosure concerning the personal and professional characteristics of the candidates, see paragraph 8.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

incurred during the course of their duties, annual remuneration set by the shareholders' meeting (art. 14 of the corporate bylaws).
 The shareholders' meeting of May 7, 2003 approved the amount of Euros 50,000 as the annual remuneration for each member of the Board of Directors. In this regard, at the time of the merger, the bylaws of Pirelli & C., the merging company, did not adopt the provision specified by art. 23 of the bylaws of Pirelli S.p.A., the merged company, which attributed to the Directors the right to receive, in addition to the remuneration set by the shareholders' meeting, a further 1 percent of the net profits exceeding: (a) the amount set aside in the legal reserve, (b) the portion of 7 percent of the par value of savings shares, (c) the portion equal to 5 percent of the paid-in par value represented by ordinary shares. The remuneration to Directors invested with special duties is established by the provisions of art. 2389, paragraph 3 of the Italian Civil Code. For further information on the remuneration received by Directors invested with special duties, reference should be made to the table included in the notes to the statutory financial statements for the year ended December 31, 2003.

Finally, with reference to the participation by the Managing Directors in stock option place, reference should be made to the specific table included in the 2003 Directors' Report on Operations.

1.4 The granting of powers

The Board of Directors, during its meeting on May 7, 2003, granted the Chairman, Marco Tronchetti Provera, the following powers:

- relations with the shareholders and information provided to them;
- coordination of the activities of the Managing Directors;
- determination, in agreement with the Managing Directors, of the general strategies and development policy of the Company and the Group, as well as the extraordinary transactions, to be submitted to the Board of Directors;
- proposals, in agreement with the Managing Directors, for the appointment of members of the general management and, after having consulted the Remuneration Committee, the fees to be paid to them, to be submitted to the Board of Directors;
- Chairmanship of the Steering Committees with strategic functions;
- appointment of consultants and professionals, after having consulted the Managing Directors, with the authority to delegate these powers to them;
- external communication in any form, with the authority to delegate these powers to the Managing Directors;
- the right to acquire, from the Managing Directors and from the management of the Group, all data and information considered necessary for carrying out the above-mentioned functions.

Moreover, the Board, for purposes of a broader capacity to represent the Company before third parties, has conferred upon the Chairman the necessary powers to carry out all acts pertinent to the corporate business purpose in its various forms, to be exercised with single signature powers, with the exception of the power to issue guarantees for obligations of the Company and its subsidiaries in excess of individual amounts of Euros 25 million or guarantees in the interest of third parties for obligations in excess of individual amounts of Euros 10 million; in these cases, joint signature with a Managing Director is necessary. Carlo Buora, a Managing Director - who also holds the position of General Manager, has been entrusted with all finance and administration activities - and has been granted broad powers, pertinent to these specific positions, with quantitative limits for the most significant transactions (Euros 50 million for the purchase and disposal of equity interests and investments in companies or entities, subscription to capital increases and bonds and the signing of contracts for the exchange and trading of real estate or financial instruments). In respect of the limits of value described above, an individual transaction is intended to mean the aggregate of transactions that, while individually may be below the

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

thresholds indicated, are linked together within the same strategic or executive structure. Equivalent powers, to be exercised in the normal activities of the industrial sectors, have been granted to the other Managing Director – General Manager, Giovanni Ferrario. Powers pertinent to the specific positions, with quantitative limits for the most significant transactions, were granted to Claudio De Conto, General Manager of Administration and Control, Luciano Gobbi, General Manager of Finance, Valerio Battista, General Manager of the Energy Cables and Systems Sector, and Francesco Gori, General Manager of the Tyres Sector.

Specific and more limited powers were granted to other senior executives of the Company, to be used in carrying out their specific responsibilities.

During 2003, as in the past, the Chairman, the General Managers and the senior executives used the powers granted to them only for the ordinary management of the Company's activities (about which the Directors were periodically informed), waiving such powers in the case of significant transactions, in terms of quality or value, from an economic and financial standpoint, and submitting them to the Board of Directors.

1.5 Information provided to the Board of Directors

In conformity with that provided by art. 11 of the bylaws, (which is in compliance with that set forth by art. 150, paragraph 1 of Legislative Decree No. 58 of 1998), the Board of Directors, through the delegated bodies, has always kept the Board of Statutory Auditors informed – on a quarterly basis – about the activities and any important economic, financial or equity transactions carried out by the Company or its subsidiaries as well as about transactions involving any potential conflicts of interest, providing all the elements necessary to understand these transactions.

To aid the orderly organization of information flows, the Company has adopted, since July 2002, a specific Procedure (the text of which is presented at the end of this section of the report) defining, in precise terms, the rules to be followed to comply with the disclosure requirements of the above-mentioned art. 150, related to the activities carried out by the executive Directors both in exercising the powers delegated to them and in executing transactions approved by the Board.

1.6 Rules of conduct for carrying out transactions with related parties

The Company has also established rules of conduct for carrying out transactions with related parties, including intra-group transactions (the text of which is also presented at the end of this section of the report). The principles are directed towards guaranteeing the true correctness and transparency of these transactions, both in substance and in form, with full co-responsibility of the Board of Directors in the related determination of these transactions. Based on those principles, the Board is required to approve in advance both transactions with related parties and intra-group transactions, with the exception of transactions that are typical or are to be finalized at arm's length conditions. To this end, the Board shall receive adequate information on the nature of the relationship, the manner in which the transaction is to be executed, the conditions – both economic and otherwise – for its realization, the valuation method followed, the underlying interests and motivations and any risks to the Company. In the event that the relationship is with a Director or with a party related through a Director, the Director concerned shall limit his involvement to providing clarification and shall leave the Board meeting at the time the decisions are taken. In relation to the nature, value or other characteristics of the transaction, the Board of Directors, in order to avoid that the transaction is entered into at conditions that are not appropriate, shall be assisted by one or more experts who, depending on the circumstances, express an opinion on the economic conditions, and/or the legitimacy, and/or the technical aspects of the transaction.

The matters set out in paragraphs 1.3, 1.4 and 1.5, demonstrate that the Board of Directors, while also benefiting from the specific procedures described above, has actually exercised the powers set forth under article 1.2 of the Code.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

2. Committees

2.1 Remuneration Committee

The Board has internally set up the "Remuneration Committee", which has investigative and advisory functions. In particular, the Committee shall be responsible for:

a) drawing up proposals to be presented to the Board for the compensation of the Managing Directors and those who have special duties, as well as determining the criteria for the remuneration of top management of the Company based on indications received from the Managing Directors;

b) making preliminary examinations of proposals to adopt stock option plans.

The Committee meets any time the Chairman deems it necessary or when a request has been made by another member or a Managing Director. As regards the convening of meetings and the validity of their constitution and the resolutions, the same rules apply as those stated in the Company bylaws for the meetings of the Board of Directors.

In full compliance with the recommendations under point 8.1 of the Code, the Remuneration Committee is exclusively composed of non-executive Directors (Ennio Presutti - the Chairman - Luigi Orlando and Giampiero Pesenti, the majority of whom are independent (Ennio Presutti and Giampiero Pesenti).

The Remuneration Committee met twice during 2003.

2.2 Committee for Internal Control

The Board of Directors has internally set up an "Committee for Internal Control and Corporate Governance", having advisory and proposal functions. In particular, the Committee shall be responsible for:

a) assisting the Board in determining the guidelines of the internal control system and in the periodical testing of its adequacy and its effective functioning, in order to ensure that corporate risks are suitably managed;

b) evaluating the work plan prepared by those in charge of internal control and receiving their periodic reports;

c) evaluating the adequacy of the accounting principles used and their uniformity, for purposes of preparing the consolidated financial statements, together with the persons in charge of the financial functions of the Company and the auditors;

d) evaluating the proposals presented by the independent audit firms for their appointment as auditors, as well as the audit work plan and the results expressed in the report and letter of recommendations;

e) informing the Board about the work carried out and the adequacy of the system of internal control, at least every six months, at the time of the approval of the annual financial statements and six-month financial statements;

f) performing additional tasks assigned to it by the Board of Directors, particularly with regard to relations with the independent audit firm;

g) monitoring the compliance with and continuous updating of the rules of corporate governance and ascertaining that any principles of conduct adopted by the Company and its subsidiaries are followed.

The Committee meets at least twice per year, before the Board meeting held for the approval of the annual financial statements and the six-month financial statements, or at any time the Chairman deems it necessary or when a request has been made by another member or a Managing Director.

As regards the convening of meetings and the validity of their constitution and resolutions, the same rules apply as those stated in the Company bylaws for the meetings of the Board of Directors.

The Board of Statutory Auditors and the Managing Directors attend the Committee meetings, as well as, by invitation, the person responsible for the Internal Audit Department and one or more General Managers.

In full compliance with the provisions of point 10 of the Code, the Committee is

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

exclusively composed of independent Directors: Giuseppe Gazzoni Frascara, the Chairman, Ennio Presutti and Prof. Carlo Secchi.

The Committee for Internal Control met three times during 2003 and all members were present at the meetings. During 2003, the Internal Audit Department reported on its work to the Chairman at least monthly, and to the Committee for Internal Control three times. The Committee for Internal Control and *Corporate Governance* and the Board of Directors, based also on the indications received from the Board of Statutory Auditors, have deemed the system of internal control to be adequate.

2.3 Committee for the nomination of Directors

The Board of Directors has not deemed it necessary to form an internal committee for proposals for the appointment of candidates to the post of Director, since, at present, the requirements for doing so, as contemplated by the Code, do not apply to the Company and, more particularly, because, in view of the current shareholder base, no particular difficulties are envisaged in proposing candidates. If the shareholders' meeting called to approve the December 31, 2003 financial statements approves, at an extraordinary meeting, the adoption of the system of slates for candidates, the formation of such a committee would result be even more superfluous, given the capacity of that voting system to attribute transparency to the procedure for selecting and nominating candidates.

3. **Handling of confidential information**

3.1 Outside communications of documents and information

In compliance with the recommendations of point 6 of the Code, the management of confidential information, with particular reference to price sensitive information, is directly followed by the Chairman.

Outside communications regarding documents and information about the Company and its subsidiaries are conducted – always in agreement with the Chairman – by the Secretary to the Board and by the Corporate Secretary for communications to the authorities and the shareholders, by the External Relations function for communications to the press and by the Investor Relations function for communications directed to institutional investors.

The Chairman and those in charge of the aforementioned functions are invariably able to join together to issue any urgent external communications.

3.2 Insider dealing

As required by the regulations in force, the Company adopted (effective from December 1, 2002) a Code of Conduct disciplining the obligatory requirements for disclosures and conduct inherent to transactions involving Financial Instruments (financial instruments being, in summary, ordinary and savings shares issued by Pirelli & C. S.p.A., shares issued by Pirelli & C. Real Estate S.p.A., instruments which attribute a right to acquire / subscribe to the above-mentioned shares, or quotas of real estate funds promoted and managed by subsidiaries of Pirelli & C.) carried out by Relevant Persons (by which it is meant, again briefly, those persons who, by virtue of their positions within the Company, may have access to relevant information). For a more precise definition of both terms, refer to the text of the code of conduct (the "*Insider Dealing Code*") presented at the end of this section of the report.

The *Insider Dealing Code*, whose primary scope is to guarantee to the market the maximum transparency of transactions carried out by individuals who have a particular relationship with the Company and its subsidiaries, as well as to regulate the periods during which those individuals may carry out transactions on the securities in question, can be broken down into the following principal provisions:

- 1) the identification of the group of persons subject to the disclosure requirement;
- 2) the requirement to immediately communicate to the market significant transactions

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

involving Financial Instruments, that is those transactions whose amount, alone or in aggregate with other transactions carried out in the previous three months, exceeds Euros 80,000;

- 3) the requirement for quarterly communications to the market of transactions involving Financial Instruments whose amount, alone or in aggregate, is between Euros 35,000 and Euros 80,000;
- 4) the provision of specific periods during which Relevant Persons may not carry out transactions involving Financial Instruments.

4. **Internal control**

The internal control system of Pirelli & C. and the group is organized in such a way as to ensure proper disclosure and an adequate system of control for all Group activities, with particular attention on the areas considered to be potentially *at risk*.

Responsibility for the internal control system rests with the Board of Directors, which sets guidelines and periodically verifies its adequacy and effective function. To this end, the Board avails itself of the Committee for Internal Control and *Corporate Governance* and the Internal Audit Department.

This Department, which reports directly to the Chairman of Pirelli & C. S.p.A. even for its activities carried out on subsidiaries, has the main responsibility for verifying that the system of internal control of the entire Group is working and is adequate in terms of effectiveness and efficiency

There is also a planning and control system, by sector and operating unit, which produces a detailed report monthly for the General Managers - so that they have a useful instrument with which to monitor specific activities.

In order to follow through on the strategies and guidelines adopted by the parent company, the competent General Managers and executives of the Sectors and functions also sit on the Boards of Directors of the largest subsidiaries.

During 2003, the aforementioned internal control system was further strengthened through the adoption of an *organizational model* approved by the Board of Directors on July 31, 2003. That organizational model, which aims to guarantee the setting of a system modeled on the specific requirements established by the coming into force of Legislative Decree No. 231/2001 regarding the administrative responsibility of companies for violations committed by their employees, takes form in a diversified pyramid system of principles and procedures which, beginning from the base, can be outlined as follows:

- **Group Code of Ethics**, which constitutes the general principles (transparency, correctness and fairness) on which the running and conduct of business are modeled;
- **Internal Control System**, that is, the aggregate of the "instruments" directed at providing a reasonable guarantee of achieving the objectives of operating efficiency and effectiveness, reliability of financial and management information, observance of laws and regulations, and safeguarding of the Company's assets, even against possible fraud. The internal control system is founded upon and characterized by certain general principles, expressly defined within the organizational model whose range of application extends across all organizational levels (Business Units, Central Functions and Companies);
- **Lines of Conduct**, which introduce specific rules for relations with representatives of the Public Administration and which are embodied in favorable conduct "to do" and unfavorable conduct "not to do", translating into key operating practices as expressed in the Group Code of Ethics;
- **Internal Control Checklists**, which have been prepared for all high or medium risk operating processes and for instrumental processes. These checklists set out an analogous structure which is embodied in a set of rules directed at identifying the principal phases of every process, violations which can be committed in relation to individual processes, specific control activities to reasonably prevent the correlated

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

risks of violation, as well as specific information flows to the Supervisory Panel to highlight any situations of non-compliance with the procedures established in the organizational models. The internal control checklists have been prepared in light of three cardinal rules, those being:

1. the separation of duties in carrying out activities inherent to the processes;
2. the "traceability" of decisions, that is, the constant visibility of decisions (for example, through specific documentary evidence) in order to permit the identification of the precise "points" of responsibility and the "justifications" for decisions;
3. the objectification of decision processes, in the sense of providing that, when decisions are made, purely subjective evaluations are excluded and reference is made, instead, to pre-established criteria.

The Supervisory Panel, endowed with autonomous powers of initiative and control, completes the organizational model, and is appointed to oversee the performance and observance of the model as well as to provide for its continual updating. The Panel, appointed by the Board of Directors on July 31, 2003, is composed of Giuseppe Gazzoni Frascara, an independent Director and Chairman of the Internal Control and *Corporate Governance* Committee, Paolo Francesco Lazzati, a member of the Board of Statutory Auditors, and Sergio Romiti, the person responsible for the Internal Audit Department. With reference to the other unlisted Italian Companies of the Group, the Supervisory Panel was identified by pursuing a technical-operational solution that, while respecting the mandates and powers reserved to it by the regulations, is appropriate for the organizational size and context of each company.

Finally, an appropriate disciplinary system was introduced to penalize failures to comply with the standards recommended in the organization, management and control models. During 2004, the operational processes will be consolidated in order to activate specific information flows to the Supervisory Panels, in implementation of the provisions of article 6, paragraph 2, letter d) of Legislative Decree No. 231/2001 which identifies precise information requirements for the Panel appointed to oversee the performance and observance of the models.

5. **Relations with investors and the other shareholders**

The Company has always actively tried to establish a dialogue with its shareholders and institutional investors based on an understanding of the reciprocal roles, and also by planning periodical meetings with members of the Italian and international financial community.

Moreover, as early as March 1999, an *Investor Relations* office was established (which reports directly to the Managing Director, Carlo Buora), that is now entrusted to Alberto Borgia, and to which a specific section of the Company's website, www.pirelli.com, is dedicated.

In this area of the website, investors may find, both in Italian and English, every useful document published by the Company relating both to the accounts (including, for example, annual reports, six-month reports and quarterly reports), and the Corporate Governance system (including, for example, the Rules of conduct for transactions with related parties, the Procedure for compliance with the requirements of Art. 150, Paragraph 1, of Legislative Decree No. 58/1998 and the Code of conduct for *insider dealing*). Users can also access documentation made available to financial analysts and/or investors during the Company's presentations to and/or meetings with them and to all information on the composition of share capital and shareholders (including the publication of any shareholders' agreements).

Investor queries may be sent to the following e-mail address, telephone and fax numbers: e-mail: ir@pirelli.com; telephone: 02.64422949; fax: 02.64424686.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

6. **The shareholders' meetings**
 Company's consistent policy to use the shareholders' meetings to provide the shareholders with information about the Company and its prospects; this obviously is complied with in accordance with the rules governing *price sensitive* information and, therefore, where necessary, by providing the market with such information at the same time.
 It is also the Company's policy to call attention to the location, date and time of the meeting in order to facilitate the participation of the shareholders at the meetings; furthermore, where possible, all the Directors and statutory auditors try to attend the shareholders' meetings, in particular those Directors who, because of the posts they hold, can make a useful contribution to the discussions⁹.
7. **Statutory auditors**
 The shareholders' meeting of May 7, 2003 appointed, using a system based on slates and with effect from the date the merger of Pirelli S.p.A. in Pirelli & C. S.p.A. (August 4, 2003) became effective, as standing Statutory Auditors: Prof. Luigi Guatri (Chairman), Roberto Bracchetti and Paolo Francesco Lazzati.
 Franco Ghiringhelli and Sebastiano Guido were appointed as alternate Statutory Auditors. The current Board of Statutory Auditors will remain in office until the approval of the financial statements for the year ended December 31, 2005.
 The appointments occurred through a system based on slates. The only slate presented was that of the members of the Pirelli & C. Voting Trust. The influence and renown of the proposed candidates is considered by the Company to be the possible motive for which no alternative slate was presented by the minority shareholders.
 During 2003, the Board of Statutory Auditors held five meetings (of which three were held by the Board of Statutory Auditors in office up to the effective date of the merger of Pirelli S.p.A. in Pirelli & C. S.p.A.).
8. **Amendments to the bylaws submitted for approval by the shareholders**
 On March 24, 2003, the Board of Directors voted to submit a series of proposals for approval by the shareholders' meeting. These proposals are directed at further improving the Company's system of corporate governance and facilitating an ever-increasing participation by all shareholders in the Company's activities and in decisions capable of bringing about the Company's success. With this mind, the Board voted to propose the following to the shareholders' meeting:
- to introduce in the Company's bylaws the mechanism of the slates for the appointment of members of the Board of Directors. This provision is meant to ensure that – should the shareholders decide to take advantage of the right stated therein by putting forward, according to the manner established by art. 10, at least two slates – one fifth of the members of the Board will be chosen among those indicated by the so-called minority shareholders. The slates must be presented by shareholders who, alone or together with other shareholders, hold, in total, shares representing at least 2 percent of the shares with voting rights in the ordinary shareholders' meeting and must be filed at the Company's registered office at least ten days before the date fixed for the shareholders' meeting in first call. The *professional résumé* of each candidate must be presented at the time the slates are filed;
 - to add a feature to those already indicated on the subject of convening the Board of Directors' meeting so that a meeting can be convened upon a request presented by one fifth of the Directors in office. The proposal intends to give the possible so-called *minority* Directors (for the record, one fifth of the total number) an even greater

⁹ With regard to the adoption of a Regulations for Shareholders' Meetings, see paragraph 8.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

possibility of influencing the conduct of the life of the company by convening the administrative body;

- to adopt the Regulations for Shareholders' Meetings, a document aimed at regulating the orderly and efficient conduct of ordinary and extraordinary shareholders' meetings and guaranteeing every shareholder the right to take the floor on the matters under discussion, as recommended by the Self-Regulatory Code of listed companies.

The tables which follow summarize the procedures for the adoption of the principal recommendations of the Code by the Company:

- structure of the Board of Directors, the Remuneration Committee and the Committee for Internal Control and *Corporate Governance*
- structure of the Board of Statutory Auditors
- other provisions of the Code
- posts held as Director or Statutory Auditor by the members of the Board of Directors and the members of the Board of Statutory Auditors in other listed companies, in financial, banking, insurance or other companies of significant size.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

Table 1 - STRUCTURE OF THE BOARD OF DIRECTOR AND THE COMMITTEES

Post	Members	executive	non- executive	independent	****	Number of other posts held **	Committee for Internal Control		Remuneration Committee	
							***	****	***	****
Chairman	Marco Tronchetti Provera	X			100%	6				
Deputy Chairman	Alberto Pirelli		X		100%	6				
Deputy Chairman	Carlo A. Puri Negri		X		100%	10				
Managing Director	Carlo Buora	X			100%	7				
Managing Director	Giovanni Ferrario	X			100%	4				
Director	Carlo Acutis			X	100%	12				
Director	Gilberto Benetton		X		60%	12				
Director	Carlo De Benedetti			X	20%	7				
Director	Gabriele Galateri di Genola		X		60%	8				
Director	Giuseppe Gazzoni Frascara			X	60%	7	X	100%		
Director	Mario Greco		X		80%	14				
Director	Georg F. Krayer			X	20%	2				
Director	Giulia Maria Ligresti		X		60%	9				
Director	Massimo Moratti		X		100%	5				
Director	Luigi Orlando		X		60%	5			X	50%
Director	Giovanni Perissinotto		X		60%	15				
Director	Giampiero Pesenti			X	60%	14			X	50%
Director	Ennio Presutti			X	100%	1	X	100%	X	100%
Director	Maurizio Romiti		X		40%	7				
Director	Vincenzo Sozzani		X		100%	4				
Director	Carlo Secchi ⁽¹⁾			X	- ⁽¹⁾	4	X	- ⁽¹⁾		
Director	Frank Vischer			X	100%					
Number of meetings held during the year of reference		Board of Directors			Committee		Remuneration			
		(since May 7, 2003 *****): 5			for Internal Control: 3		Committee: 2			

NOTES

- * An asterisk denotes that the director was appointed through the slates presented by the minority shareholders.
- ** The number of posts held as a director or statutory auditor by the person in other companies listed on regulated markets, also foreign markets, in financial, banking, insurance or other companies of significant size is indicated in the Directors' Report on Operations under Corporate Governance.
- *** The "X" in this column indicates that the Board member is on the Committee.
- **** This column indicates the percentage of attendance at the meetings of the Board of Directors and Committees, respectively.
- ***** In 2003, three meetings of the Board of Managing Partners were also held.
- ⁽¹⁾ Appointed a Director on February 19, 2004 to replace A. Falck (who passed away on November 3, 2003), who attended 3 out of 4 Board of Directors' meetings and 3 meetings of the Committee for Internal Control.

Table 2 - BOARD OF STATUTORY AUDITORS

Post	Members	Percentage of attendance at the Board of Statutory Auditors' meetings	Number of other posts held **
Chairman	Luigi Guatri	100%	1
Standing statutory auditor	Roberto Bracchetti	100%	2
Standing statutory auditor	Paolo Francesco Lazzati	100%	1
Alternate statutory auditor	Franco Ghiringhelli		3
Alternate statutory auditor	Sebastiano Guido		-

Number of meetings held during the year of reference: 5 (including 3 meetings of the Board of Statutory Auditors in office until August 4, 2003)

Quorum required for the presentation of slates by minority shareholders for the election of one or more standing statutory auditors (ex art. 148 TUF): 2%

NOTES

- * An asterisk denotes that the statutory auditor was appointed through the slates presented by the minority shareholders.
- ** The number of posts held as a statutory auditor by the person in other companies listed on regulated Italian markets. The posts held (also in no listed companies) are indicated in detail in the Directors' Report on Operations under Corporate Governance.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

TABLE 3 - OTHER CONSIDERATIONS IN THE SELF-REGULATORY CODE

	YES	NO	Summary of the reasons for any variations from the recommendations of the Code
System of powers and transactions with related parties			
Has the Board of Directors (BoD) delegated powers defining:			
a) limits?	X		
b) manner in which powers should be exercised?	X		
c) intervals at which disclosure should be made?	X		
Has the BoD reserved itself the examination and approval of transactions having a significant economic, financial or equity effect (including transactions with related parties)?	X		
Has the BoD set up guidelines and criteria for the identification of "significant" transactions?	X		
Are the aforementioned guidelines and criteria described in the report?	X		
Has the BoD set up specific procedures for the examination and approval of transactions with related parties?	X		
Are the procedures for the approval of transactions with related parties included in the report?	X		
Procedures for the most recent nomination of directors and statutory auditors			
Were the nominations for director filed at least ten days in advance?	X		
Were the nominations for director accompanied by exhaustive disclosure?	X		
Were the nominations for director accompanied by indication of the suitability to be qualified as independent?	X		
Were the nominations for the post of statutory auditor filed at least ten days in advance?	X		
Were the nominations for the post of statutory auditor accompanied by exhaustive disclosure?	X		
Shareholders' Meetings			
Has the company approved the Regulations for Shareholders' Meetings?		X ¹	
Are the Regulations attached to the report (or indication given of where they can be obtained or downloaded)?		X ¹	
Internal control			
Has the company appointed the persons responsible for internal control?	X		
Are the persons in charge of internal control independent of (do not report to) those in charge of the operating areas?	X		
Organizational unit responsible for internal control (ex art. 9.3 of the Code)	X		
Investor relations			
Has the company appointed a person responsible for investor relations?	X		
Organizational unit and references (address/telephone/fax/e-mail) of the person responsible for investor relations		X ²	

1 The approval of the Regulations will be proposed to the next shareholders' meeting (the text of the Regulations is attached to the proposal of the resolution).

2 The Investor Relations department (which reports directly to the Managing Director Carlo Buora) is now headed by Alberto Borgia; References: e-mail ir@pirelli.com; telephone: 02.64422949; fax: 02.64424686.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

Posts held as Director or Statutory Auditor by the members of the Board of Directors and the members of the Board of Statutory Auditor in other listed companies, in financial, banking, insurance or other companies of significant size

Marco Tronchetti Provera	Camfin S.p.A.	Chairman
	G.P.I. - Gruppo Partecipazioni Industriali S.p.A.	Chairman
	Marco Tronchetti Provera & C. S.p.A.	Chairman
	Olimpia S.p.A.	Chairman
Alberto Pirelli	Pirelli & C. Real Estate S.p.A.	Chairman
	Telecom Italia S.p.A.	Chairman
	FIN. AP. di Alberto Pirelli & C. A.p.A.	Chairman
	G.P.I. - Gruppo Partecipazioni Industriali S.p.A.	Deputy Chairman
Carlo Alessandro Puri Negri	Camfin S.p.A.	Director
	G.I.M. - Generale Industrie Metallurgiche S.p.A.	Director
	Olimpia S.p.A.	Director
	S.M.I. - Società Metallurgica Italiana S.p.A.	Director
	Pirelli & C. Real Estate S.p.A.	Deputy Chairman and Managing Director
	Camfin S.p.A.	Deputy Chairman
	G.P.I. - Gruppo Partecipazioni Industriali S.p.A.	Managing Director
	Aon Italia S.p.A.	Director
	Capitalia S.p.A.	Director
	Grandi Stazioni S.p.A.	Director
Carlo Buora	Istituto Europeo di Oncologia S.r.l.	Director
	Olimpia S.p.A.	Director
	Permasteelisa S.p.A.	Director
	Telecom Italia S.p.A.	Director
	Tim S.p.A.	Chairman
	Telecom Italia S.p.A.	Managing Director
	RCS MediaGroup S.p.A.	Director
Giovanni Ferrario	Mediobanca S.p.A.	Director
	Olimpia S.p.A.	Director
	Pirelli & C. Real Estate S.p.A.	Director
	Ras S.p.A.	Director
	Pirelli Tyre Holding NV	Chairman
Carlo Acutis	Pirelli Cavi e Sistemi Telecom S.p.A.	Deputy Chairman and Managing Director
	Pirelli Cavi e Sistemi Energia S.p.A.	Director
	Pirelli Labs S.p.A.	Director
	BPC Investimenti SGR S.p.A.	Chairman
	Vittoria Assicurazioni S.p.A.	Deputy Chairman
	Banca Passadore & C. S.p.A.	Director
	Camfin S.p.A.	Director
	Ergo Italia S.p.A.	Director
	Ergo Assicurazioni S.p.A.	Director
	Inbro B.V.	Director
	Vittoria Capital N.V.	Director
	Yura S.A.	Director
	Yura International Holding B.V.	Director
Yura Capital S.A.	Director	
Scor S.A.	Director	
Gilberto Benetton	Autogrill S.p.A.	Chairman
	Edizione Holding S.p.A.	Chairman
	Olimpia S.p.A.	Deputy Chairman
	Telecom Italia S.p.A.	Deputy Chairman
	Abertis Infraestructuras S.A.	Director
	Autostrade S.p.A.	Director
	Banca Antoniana Popolare Veneta S.p.A.	Director
	Benetton Group S.p.A.	Director
	Beni Stabili S.p.A.	Director
	HMS Host Corp.	Director
Lloyd Adriatico S.p.A.	Director	
Mediobanca S.p.A.	Director	

Introduction Extraordinary Transactions The Group Energy Cables and Systems Sector Telecom Cables and Systems Sector Tyres Sector Real Estate Sector Pirelli & C. Ambiente Information Systems Ecology and the Environment Human Resources Proforma data Related Party Disclosures Equity Investments held by Directors, Statutory Auditor and General Managers Stock Option Plans Corporate Governance International Accounting Standards Pirelli & C. S.p.A. - Summary Data Shareholders' Resolutions	Carlo De Benedetti	CDB Web Tech S.p.A. CIR S.p.A. COFIDE S.p.A. SOGEFI S.p.A. Gruppo Editoriale L'Espresso S.p.A. Valeo SA Banca Immobiliare S.p.A.	Chairman Chairman Chairman Chairman Director Director Director
	Gabriele Galateri di Genola	Mediobanca S.p.A. Istituto Europeo di Oncologia S.r.l. Assicurazioni Generali S.p.A. Accor S.A. Banca CRS S.p.A. Banca Esperia S.p.A. IFI S.p.A. UTET S.p.A.	Chairman Chairman Deputy Chairman Director Director Director Director Director
	Giuseppe Gazzoni -Frascara	Bologna Football Club 1909 S.p.A. Bologna Football Club 1909 Holding S.p.A. Euromobiliare Corporate Finance S.p.A. F.G.F Finanziaria Generale Felsinea S.p.A. Lega Calcio Service S.p.A. Fondo "Sofipa Equity Fund" gestito da MCC-Sofipa SGR S.p.A.	Director Director Director Director Director Director Supervisory Panel member
	Mario Greco	AGF RAS Holding BV Allianz Subalpina S.p.A. Rasbank S.p.A. RAS International NV Riunione Adriatica di Sicurtà S.p.A. - RAS Allianz Compania de Seguros y Reaseguros Allianz Suisse Lebensversicherungs Allianz Suisse Versicherungen e.Biscom S.p.A. GIM - Generale Industrie Metallurgiche S.p.A. IFIL S.p.A. Istituto Europeo di Oncologia S.r.l. Mediobanca S.p.A. Unicredito Italiano S.p.A.	Deputy Chairman Deputy Chairman Deputy Chairman Deputy Chairman Managing Director and General Manager Director Director Director Director Director Director Director Director Director Director
	Georg F. Krayner	Bank Sarasin & Cie AG Baloise Holding AG	Chairman Director
	Giulia Maria Ligresti	Premafin Finanziaria Holding di Partecipazioni S.p.A. Fondiaria SAI S.p.A. Sailux S.A. SAI Holding Italia S.p.A. SAIFIN S.p.A. Milano Assicurazioni S.p.A. Finadin S.p.A. Sainernational S.p.A. Telecom Italia Media S.p.A.	Chairman Deputy Chairman Deputy Chairman Managing Director Managing Director Director Director Director Director
	Massimo Moratti	Sarint S.A. Angelo Moratti di GianMarco e Massimo Moratti & C. S.a.p.a. SARAS S.p.A. Raffinerie Sarde Interbanca S.p.A. Telecom Italia S.p.A.	Chairman General partner Managing Director Director Director
	Luigi Orlando	Europa Metalli S.p.A. Orlando & C. - Gestioni Finanziarie S.a.p.A. G.I.M. - Generale Industrie Metallurgiche S.p.A. SMI - Società Metallurgica Italiana S.p.A. KM Europa Metal AG	Honorary Chairman Chairman Chairman Chairman Supervisory Panel member

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

Giovanni Perissinotto	Belgica Insurance Holding	Chairman
	Banca Generali	Chairman
	Flandria Participation Financieres	Chairman
	Generali Asset Management Sgr S.p.A.	Chairman
	Generali Finances S.A.	Chairman
	Generali Properties	Chairman
	Agorà Investimenti	Director
	Albula	Director
	Banca Intesa S.p.A.	Director
	Banca Nazionale del Lavoro S.p.A.	Director
	BSI - Banca della Svizzera Italiana	Director
	Generali Finance B.V.	Director
	Generali France Holding	Director
Participatie Maatschappij Graafschap Holland N.V.	Director	
Transocean Holding Corporation	Director	
Giampiero Pesenti	Italmobiliare S.p.A.	Chairman and Managing Director
	Intermobiliare S.p.A.	Chairman
	Italcementi S.p.A.	Managing Director
	Ciment Francais	Deputy Chairman
	Fincomind AG	Deputy Chairman
	Ciments du Maroc	Director
	Compagnie Monegasque de Banque	Director
	Credit Mobilier de Monaco	Director
	Finter Bank France	Director
	Finter Bank Zurich	Director
	G.I.M.-Generale Industrie Metallurgiche S.p.A	Director
Mittel S.p.A.	Director	
RAS- Riunione Adriatica di Sicurtà S.p.A.	Director	
Soparfinter SA (Luxembourg)	Director	
Ennio Presutti	Air Liquide Italia S.p.A.	Director
Maurizio Romiti	RCS MediaGroup S.p.A.	Managing Director and General Manager
	Poligrafici Editoriale S.p.A.	Director
	RCS Quotidiani S.p.A.	Director
	H3G	Director
	Istituto Europeo di Oncologia S.r.l.	Director
	RCS Investimenti (formerly Fila Holding) S.p.A.	Director
	Ratti S.p.A.	Director
Carlo Secchi	Università Commerciale "Luigi Bocconi"	President
	Veneranda Fabbrica del Duomo	Director
	Fondazione Teatro alla Scala	Director
	Lloyd Adriatico S.p.A.	Director
Vincenzo Sozzani	Banco di Desio e della Brianza S.p.A.	Director
	Pirelli & C. Credit Servicing S.p.A.	Director
	Pirelli & C. Real Estate S.p.A.	Director
	Pirelli & C. Real Estate SGR S.p.A.	Director
Frank Vischer	Pirelli Société Générale SA	Director
Luigi Guatri	ABCGroup-Società Italiana dei Consulenti Economico-Aziendali S.p.A.	Chairman
	ABCGroup Finanza e Valore S.p.A.	Chairman
	Finanziaria 2000 S.p.A.	Chairman
	Vittoria Assicurazioni S.p.A.	Chairman
	Walter Mieli S.p.A.	Chairman
	Università Commerciale "Luigi Bocconi"	Deputy Chairman
	Banco di Desio e della Brianza S.p.A.	Director
	Ferrero, Gnudi, Guatri, Uckmar Consulenti Associati S.p.A.	Director
	Giochi Preziosi	Director
	Granitifiandre S.p.A.	Director
	Maffei S.p.A.	Director
	Negri Bossi	Director

Introduction	SO.PA.F. S.p.A.	Director
	BPU - Banche Popolari Unite srl	Chairman of Board of Statutory Auditors
	Centrobanca S.p.A.	Chairman of Board of Statutory Auditors
	Italcementi S.p.A.	Chairman of Board of Statutory Auditors
Extraordinary Transactions	Italmobiliare S.p.A.	Chairman of Board of Statutory Auditors
	Movi Lemar S.p.A.	Chairman of Board of Statutory Auditors
The Group	Movi S.p.A.	Chairman of Board of Statutory Auditors
	Permasteelisa S.p.A.	Chairman of Board of Statutory Auditors
Energy Cables and Systems Sector	Rhifim S.p.A.	Chairman of Board of Statutory Auditors
	Wimed S.p.A.	Chairman of Board of Statutory Auditors
Telecom Cables and Systems Sector		
Tyres Sector	Roberto Bracchetti	Chairman of Board of Statutory Auditors
	Ratti S.p.A.	Chairman of Board of Statutory Auditors
Real Estate Sector	Pirelli & C. Real Estate S.p.A.	Standing statutory auditor
	Viscontea Coface S.p.A.	Standing statutory auditor
Pirelli & C. Ambiente	ABB S.p.A.	Standing statutory auditor
	Intesa Fiduciaria SIM S.p.A.	Standing statutory auditor
Information Systems	Olimpia S.p.A.	Standing statutory auditor
	Pirelli & C. Real Estate SGR S.p.A.	Standing statutory auditor
Ecology and the Environment		
Human Resources	Paolo Francesco Lazzati	Sole Director
	Pro Juvara S.r.l.	Sole Director
Proforma data	SO.GE.ST. S.r.l.	Director
	Fondazione Giangiacomo Feltrinelli	Director
Related Party Disclosures	Finaval S.r.l.	Director
	Elle Servizi S.r.l.	Director
Equity Investments held by Directors, Statutory Auditor and General Managers	Stone S.p.A.	Director
	Società Degli Avi p.A.	Chairman of Board of Statutory Auditors
Stock Option Plans	Monit S.p.A. Monetaria Italiana	Chairman of Board of Statutory Auditors
	Progetto Fontana S.r.l.	Chairman of Board of Statutory Auditors
Corporate Governance	Camfin S.p.A.	Standing statutory auditor
	Julius Baer Creval Private Banking S.p.A.	Standing statutory auditor
International Accounting Standards	Istituto Centrale delle Banche Popolari Italiane S.p.A.	Standing statutory auditor
	Ecla S.p.A.	Standing statutory auditor
Pirelli & C. S.p.A. - Summary Data	FREE SIM S.p.A.	Standing statutory auditor
	Pirelli & C. Real Estate S.G.R. S.p.A.	Standing statutory auditor
Shareholders' Resolutions		
Shareholders' Resolutions	Franco Ghiringhelli	Chairman of Board of Statutory Auditors
	Mondadori Pubblicità S.p.A.	Standing statutory auditor
Shareholders' Resolutions	Camfin S.p.A.	Standing statutory auditor
	CFT Finanziaria S.p.A.	Standing statutory auditor
Shareholders' Resolutions	Grifogest SGR S.p.A.	Standing statutory auditor
	I Grandi Viaggi S.p.A.	Standing statutory auditor
Shareholders' Resolutions	Localto S.p.A.	Standing statutory auditor
	Partecipazioni Real Estate S.p.A.	Standing statutory auditor
Shareholders' Resolutions	Pirelli & C. Real Estate Credit Servicing S.p.A.	Standing statutory auditor
	Pirelli & C. Real Estate S.p.A.	Alternate statutory auditor
Shareholders' Resolutions		
Shareholders' Resolutions	Sebastiano Guido	Chairman of Board of Statutory Auditors
	Esselte S.r.l.	Chairman of Board of Statutory Auditors
Shareholders' Resolutions	Global Reinsurance Brokers S.p.A.	Chairman of Board of Statutory Auditors
	Harlequin Mondadori S.p.A.	Chairman of Board of Statutory Auditors
Shareholders' Resolutions	Mach 2 Libri S.p.A.	Chairman of Board of Statutory Auditors
	Rizzoli Larousse S.p.A.	Chairman of Board of Statutory Auditors
Shareholders' Resolutions	Adelphi Edizioni S.p.A.	Standing statutory auditor
	City Italia S.p.A.	Standing statutory auditor
Shareholders' Resolutions	STAR S.p.A.	Standing statutory auditor

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

PROCEDURE FOR COMPLIANCE WITH THE REQUIREMENTS OF ART. 150, PARAGRAPH 1, OF LEGISLATIVE DECREE NO. 58 OF 1998

Introduction

In accordance with article 150, paragraph 1, of Legislative Decree No. 58 of 1998 (hereinafter, the "Italian Income Tax Code") "the Directors shall promptly report to the Board of Statutory Auditors, in accordance with the procedures set out in the bylaws and at least quarterly, on the activities performed and on transactions carried out by the company or its subsidiaries that have a significant economic, financial or equity impact; in particular, they shall report on transactions involving a potential conflict of interest" ¹.

Pursuant to the above-mentioned provision and in light of the communications by Consob relating to corporate controls ², this procedure defines the individuals and transactions involved in the information flows of which the statutory auditors of Pirelli & C. S.p.A. (hereinafter "Pirelli" or "the Company") are the recipients, and the phases and timing characterizing those flows. In particular, the procedure sets out:

1. the method, frequency and content of the information;
2. the collection of the information.

Attached to this procedure is an illustrative report that considers the issues underlying the definition of the information flows in question and the decisions made.

Consequently, the main objective of this procedure is to provide the Board of Statutory Auditors with the information necessary for the performance of its monitoring and oversight activities as required by the Italian Income Tax Code (article 149).

Secondly, this procedure implements the corporate governance instruments with which to tangibly implement the recommendations contained in the Self-Regulatory Code prepared by the Committee for Corporate Governance of Listed Companies with which Pirelli has complied since its release. In particular, by increasing the transparency of the Company's management, this procedure allows each Director to participate in that management in a more knowledgeable and informed manner. Furthermore, this procedure sets in motion the information flows between the Directors with delegated powers and the Board of Directors recommended by the Self-Regulatory Code and aimed, on the one hand, at endorsing the "centrality" of the Company's management body in its entirety and, on the other hand, at strengthening the internal control functions.

Method, frequency and content of the information

The Board of Directors, also through its delegated bodies, shall send a specific written report to the Board of Statutory Auditors on a quarterly basis on:

- a) the activities performed;
- b) transactions that have a significant economic, financial or equity impact;
- c) transactions involving a potential conflict of interest, i.e.:
 - c1) intra-group transactions;
 - c2) transactions with related parties, other than intra-group transactions;
- d) atypical or unusual transactions and on every other activity or transaction that it considers appropriate to communicate to the Board of Statutory Auditors.

¹ This provision was incorporated in Pirelli & C.'s bylaws; article 11, paragraph 2 of the bylaws which states that "The Board of Directors, also through delegated bodies, informs the Board of Statutory Auditors on a timely basis about the activities conducted and the most important economic, financial and equity transactions carried out by the company and its subsidiaries; it specifically makes reference to transactions with potential conflicts of interest. The information is provided, at least quarterly, at the board meetings or Executive Committee meetings or by written communication to the Board of Statutory Auditors".

² See, currently, Consob Communication No. 97001574 dated February 20, 1997 and Consob Communication No. 1025564 dated April 6, 2001. See also, Consob Communication No. 2064231 dated September 30, 2002 which defines the concept of related parties.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

The information provided shall refer to the activities performed and transactions carried out during the period subsequent to the previous report.
The report shall be sent simultaneously to all Directors and standing statutory auditors.

1. Activities performed

The information shall regard executive activities and the status of transactions already approved by the Board of Directors, as well as the activities of Committees (Committee for Internal Control and Corporate Governance, Remuneration Committee and other internal committees); in particular, executive Directors shall report on the activities performed by them – through the Company's and its subsidiaries' structures or otherwise – in exercising the powers delegated to them, including the initiatives adopted and the projects introduced.

2. Transactions having a significant economic, financial or equity impact

The information shall focus on transactions that have a significant economic, financial or equity impact, highlighting, in particular, the strategic aims, consistency with the budget and the industrial plan, manner of execution (including terms and conditions, both economic and otherwise, of their realization) and developments, as well as any conditions and implications that they carry for the Pirelli Group's activities.

For the purposes of this procedure, the following transactions carried out by Pirelli or its subsidiaries - in addition to the transactions reserved for the Board of Directors pursuant to article 2381 of the Italian Civil Code and the bylaws – shall be considered to have a significant economic, financial or equity impact:

- 1) the issue of financial instruments for a total equivalent value in excess of Euros 100 million;
- 2) the granting of real or personal guarantees in the interest of subsidiaries (and, in the interest of Pirelli in the case of real guarantees) against obligations in excess of single amounts of Euros 25 million;
- 3) the granting of financing or guarantees to the benefit of or in the interest of third parties in excess of Euros 10 million;
- 4) the granting of financing to subsidiaries, investment and divestiture transactions, including real estate transactions, and transactions involving the acquisition and disposal of equity investments, companies or business segments of companies, property, plant and equipment and other assets, in excess of Euros 100 million;
- 5) merger and demerger transactions, involving subsidiaries, if at least one of the following parameters, where applicable, is equal to or in excess of 15 percent:
 - a. total assets of the incorporated (merged) company or the activities subject to demerger/total assets of the Company (data taken from the consolidated financial statements);
 - b. results before tax and extraordinary items of the incorporated (merged) company or the activities to be demerged/results before tax and extraordinary items of the Company (data taken from the consolidated financial statements);
 - c. total shareholders' equity of the incorporated (merged) company or the business segment subject to demerger/total shareholders' equity of the Company (data taken from the consolidated financial statements).

Transactions involving the merger (by incorporation or by pooling of interests) of listed companies, as well as the merger by pooling of interests of a listed company with an unlisted company or the merger by incorporation of a listed company into an unlisted company, shall in any case be considered, for the purposes of this procedure, to be transactions that have a significant economic, financial or equity impact.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

The information shall also include transactions that, while individually below the thresholds specified above or those that determine the exclusive responsibility of the Board of Directors, are interconnected within the same strategic or executive structure and therefore, when considered in the aggregate, exceed the relevant thresholds.

3. Transactions involving a potential conflict of interest:

3a) Intra-group transactions

The information concerning intra-group transactions shall illustrate the underlying interests and logic in the context of the Group, as well as the manner in which the transactions are executed (including the terms and conditions, both economic and otherwise, of their realization) with particular regard to the valuation methods followed.

Specific emphasis shall be placed on transactions with a value exceeding Euros 50 million, or less if those transactions are not finalized at arm's length conditions³. Emphasis shall also be placed on transactions that, while individually below the specified threshold, are interconnected within the same strategic or executive structure and therefore, when considered in the aggregate, exceed that threshold.

For the purposes of this procedure, intra-group transactions⁴ shall be those transactions carried out by Pirelli or its subsidiaries with:

- a) companies that, directly or indirectly (i.e. also through fiduciary companies or nominees), control Pirelli pursuant to article 2359, paragraphs 1 and 2, of the Italian Civil Code and article 93 of the Italian Income Tax Code;
- b) companies that, directly or indirectly (i.e. also through fiduciary companies or nominees), are controlled by Pirelli pursuant to article 2359, paragraphs 1 and 2, of the Italian Civil Code and article 93 of the Italian Income Tax Code;
- c) companies that, directly or indirectly (i.e. also through fiduciary companies or nominees), are controlled by the same companies that control Pirelli pursuant to article 2359, paragraphs 1 and 2, of the Italian Civil Code and article 93 of the Italian Income Tax Code;
- d) associated companies of Pirelli pursuant to article 2359, paragraph 3, of the Italian Civil Code and those that exercise significant influence on Pirelli; an associated company relationship does not exist with the associated company of an associated company.

3b) Transactions with related parties, other than intra-group transactions

The information concerning transactions with related parties, other than intra-group transactions, shall highlight the underlying interests and illustrate the manner in which the transactions are executed (including the terms and conditions, both economic and otherwise, of their realization) with particular regard to the valuation methods followed.

For the purposes of this procedure, transactions with related parties⁵ shall be those transactions carried out by Pirelli or its subsidiaries with parties directly or indirectly related to Pirelli.

Parties directly related to Pirelli shall be:

- a) individuals who hold (directly or indirectly, i.e. also through fiduciary companies or nominees) an investment equal to or exceeding 10 percent of the share capital represented by ordinary shares of Pirelli;
- b) individuals who, even though holding (directly or indirectly, i.e. also through fiduciary companies or nominees) an investment below the percentage indicated in a), may, by virtue

³ For the purposes of this procedure, transactions finalized at arm's length conditions are those transactions finalized at the same conditions as the Company applies to whatsoever party.

⁴ For the purposes of this procedure, intra-group transactions shall cover the disposal, with or without consideration, of personal or real property and of transferable economic rights, transactions involving the performance of works and services, the granting or securing of financing and guarantees, and cooperation agreements for conducting and developing the Company's business.

⁵ See note 4.

Introduction

Extraordinary Transactions

The Group

Energy Cables and Systems Sector

Telecom Cables and Systems Sector

Tyres Sector

Real Estate Sector

Pirelli & C. Ambiente Information Systems

Ecology and the Environment

Human Resources

Proforma data

Related Party Disclosures

Equity Investments held by Directors, Statutory Auditor and General Managers

Stock Option Plans

Corporate Governance

International Accounting Standards

Pirelli & C. S.p.A. - Summary Data

Shareholders' Resolutions

of shareholders' agreements, appoint, alone or jointly with the other parties adhering to the agreements, a majority of the members of Pirelli's Board of Directors;

- c) individuals who, even though holding (directly or indirectly, i.e. also through fiduciary companies or nominees) an investment below the percentage indicated in a), command, by virtue of shareholders' agreements, alone or jointly with the other parties adhering to the agreements, a majority of the exercisable votes in Pirelli's ordinary shareholders' meetings;
- d) members of Pirelli's Board of Directors and its standing statutory auditors;
- e) Pirelli's General Managers, Secretary to the Board of Directors and heads of Business Units/Central Functions/Operating Activities who report directly to the Chairman and the Managing Directors (so-called first reports).

Parties indirectly related to Pirelli shall be:

- f) spouses, if not separated, of the parties referred to in a) to e) above;
- g) relatives by blood or affinity, up to the second degree, of the parties referred to in a) to e) above;
- h) companies in which the parties referred to in a) to g) above hold, directly or indirectly (i.e. also through fiduciary companies or nominees) an investment equal to or exceeding 10 percent (if a listed company) or 20 percent (if an unlisted company) of the share capital represented by shares having voting rights in the ordinary shareholders' meetings;
- i) companies in which the parties referred to in a) to g) above, although holding investments below the percentage indicated in h), may, by virtue of shareholders' agreements, appoint, alone or jointly with the other parties adhering to the agreements, a majority of the members of that company's Board of Directors;
- j) companies in which the parties referred to in a) to g) above, although holding investments below the percentage indicated in h), command, by virtue of shareholders' agreements, alone or jointly with the other parties adhering to the agreements, a majority of the exercisable votes in that company's ordinary shareholders' meetings;
- k) companies in which the parties referred to in a) to g) above have a strategic management role, and their subsidiaries;
- l) companies that have a majority of their Directors in common with Pirelli.

The following shall also be related parties:

those adhering, directly or indirectly, to shareholders' agreements referred to in article 122, paragraph 1, of Legislative Decree No. 58/98, whose objective is the exercise of voting rights, if the interests covered by such agreements constitute the controlling interest.

Information shall be provided on transactions exceeding Euros 500 thousand, or less if not finalized at arm's length conditions, carried out (also through third parties) with parties directly or indirectly related to Pirelli. Further, evidence shall be provided of transactions that, while individually below the specified threshold, are interconnected within the same strategic or executive structure and therefore, when considered in the aggregate, exceed that threshold.

4. Atypical or unusual transactions and other transactions

The information on atypical or unusual transactions, including those carried out by subsidiaries, and on every other activity or transaction on which it is considered appropriate to provide information, shall highlight the underlying interests and illustrate the manner in which the transactions are executed (including the terms and conditions, both economic and otherwise, of their realization) with particular regard to the valuation methods followed.

For the purposes of this procedure, atypical or unusual transactions shall be those transactions whose object or nature are outside the normal course of the Company's business and those that present particular critical elements due to their characteristics and to the inherent risks, the nature of the counterpart, or the time of their completion⁶.

⁶ Transactions carried out in proximity to the end or beginning of the year.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

Procedure for the collection of information

The Board of Directors shall report to the Board of Statutory Auditors through the delegated bodies. For the purposes of preparing the specific report, the information shall be transmitted to the Chairman and the Managing Directors, in accordance with the following procedure.

1. Information on the activities performed, on transactions that have a significant economic, financial or equity impact, on intra-group transactions and on atypical or unusual transactions.

Pirelli's General Managers and heads of Business Units/Central Functions/Operating Activities, who report directly to the Chairman and Managing Directors (so-called first reports) through the General Administration and Control function, shall report monthly to the Chairman and the Managing Directors, by specific communication, on the activities performed by their structure in the period, giving details on transactions that have a significant economic, financial or equity impact, intra-group transactions exceeding Euros 50 million, or less if not finalized at arm's length conditions, atypical or unusual transactions, executive activities and the status of transactions already approved by the Board of Directors, as well as the principal activities performed by Directors in exercising the powers delegated to them, comprising the most important projects introduced and the most significant initiatives adopted.

They shall also communicate transactions that, while individually below the previously specified thresholds or those that determine the exclusive responsibility of the Board of Directors, are interconnected within the same strategic or executive structure and therefore, when considered in the aggregate, exceed the relevant thresholds⁷.

Information on the activities of the Committee for Internal Control and Corporate Governance, Remuneration Committee and other internal committees shall be provided by the respective Chairmen.

Each quarter, the General Administration and Control function shall prepare and send to the Chairman and Managing Directors summary reports containing the aggregate data of the above-described transactions that were carried out during the period subsequent to the previous report.

Details shall also be provided of transactions that, while individually below the previously specified threshold, are interconnected within the same strategic or executive structure and therefore, when considered in the aggregate, exceed that threshold⁸.

2. Information on transactions with related parties, other than intra-group transactions

2.1 Pirelli's General Managers and heads of Business Units/Central Functions/Operating Activities who report directly to the Chairman and Managing Directors (so-called first reports) shall send to the General Administration and Control function, by specific communication, a list of transactions with related parties, other than intra-group transactions, carried out by Pirelli or its subsidiaries exceeding Euros 500 thousand, or less if not finalized at arm's length conditions, using the same methods and with the same frequency as in point 1) above.

Pirelli's Directors and standing statutory auditors, Secretary to the Board of Directors, General Managers and heads of Business Units/Central Functions/Operating Activities who report directly to the Chairman and Managing Directors (so-called first reports) shall

⁷ In this case, the transactions are relevant even if carried out over a period of time exceeding the three months covered by the report.

⁸ See note 7.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

report to the General Administration and Control function – in accordance with the format laid down in Appendix A – the transactions carried out with Pirelli or its subsidiaries by each of them, or by parties indirectly related to Pirelli through them, that exceed Euros 500 thousand, or less if not finalized at arm's length conditions, within fifteen days of the transaction's conclusion.⁹

- 2.2 In providing the information on transactions with related parties, other than intra-group transactions, set forth in point 2.1, above, emphasis shall also be given to transactions that, while individually below the previously specified threshold, are interconnected within the same relationship and therefore, when considered in the aggregate, exceed that threshold¹⁰.
- 2.3 Each quarter, on the basis of the information received in accordance with points 2.1 and 2.2 above, the General Administration and Control function shall send a summary to the Chairman and Managing Directors containing all of the elements necessary to comply with the information requirements related to these transactions.

Rules for conduct for carrying out transactions with related parties

1. Transactions with related parties, including intra-group transactions, with the exception of transactions that are typical or usual or to be finalized at arm's length conditions shall be approved in advance by the Board of Directors.
2. Typical or usual transactions shall be those transactions, which, by subject or nature, are not outside the normal course of the Company's business and which do not present particular critical elements due to their characteristics or to the risks inherent to the nature of the counterpart or to the time of their completion. Transactions finalized at arm's length conditions shall be those transactions concluded at the same conditions as the Company applies to whatsoever party.
3. The Board of Directors shall receive adequate information on the nature of the relationship, the manner in which the transaction is to be executed, the conditions, both economic and otherwise, for its realization, the valuation method followed, the underlying interests and motivations and any risks to the Company. In the event that the relationship is with a Director or with a party related through a Director, the Director concerned shall limit his involvement to providing clarification and shall leave the Directors' meeting at the time the decisions are taken.
4. Depending on the nature, value or other characteristics of the transaction, in order to avoid that the transaction is carried out at unsuitable conditions the Board of Directors shall be assisted by one or more experts who, depending on the circumstances, shall express an opinion on the economic conditions, and/or the legitimacy, and/or the technical aspects of the transaction.
5. With respect to transactions with related parties, including intra-group transactions, that are not submitted to the Board of Directors inasmuch as they are typical or usual and/or at arm's length conditions, the Directors having delegated powers or the managers responsible for carrying out the transaction, if not in contrast with the specific procedure pursuant to article 150, paragraph 1, of the Italian Income Tax Code, shall collect and conserve,

⁹ This declaration is requested mainly in view of the difficulty, if not impossibility, for Pirelli to know or to identify with certainty parties indirectly related to it through the aforementioned individuals; nor would it appear appropriate, first and foremost for reasons of privacy, to request from each of those individuals a list of said possible parties.

¹⁰ See note 7.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

including by transaction type or group, adequate information on the nature of the relationship, the manner in which the transaction is to be executed, the conditions, both economic and otherwise, for its realization, the valuation method followed, the underlying interests and motivations and any risks to the Company. One or more experts may be appointed also for these transactions as provided above.

6. The choice of experts shall be from among individuals with recognized professional credentials and expertise on the subject matter, who shall be carefully evaluated in terms of their independence and the absence of conflicts of interest.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

PIRELLI & C. S.P.A.'S CODE OF CONDUCT FOR INSIDER DEALING

(The provisions of the Code came into force on December 1, 2002)

1. Introduction

Further to the provisions of article 180, and subsequent articles, of Legislative Decree No. 58/1998 on the topic of misuse of privileged information, this Code of Conduct of Pirelli & C. S.p.A. (the "Code") is intended to regulate, with binding effect, the declaration and conduct obligations inherent to Transactions carried out by Relevant Persons and the related disclosures to the market.

2. Definitions

For the purposes of this Code:

- A. *Relevant Persons*: shall mean the Directors (executive and non-executive), the standing statutory auditors, the General Managers, the Secretary to the Board of Directors, the heads of Departments and the head of Investor Relations. Furthermore, the heads of General Administration and Control Department, General Finance Department, Legal and Corporate Affairs Department, Legal Affairs Department – Industrial Sector, External Communications Department and Audit Department shall be considered Relevant Persons, as shall the heads of the functions which form such departments.
- The heads of the following departments of Pirelli & C. Real Estate S.p.A shall also be considered Relevant Persons: the Central Administration and Control Department, the General Finance Department and the Central Legal and Corporate Affairs Department. Each of the above-identified Relevant Persons may indicate other Relevant Persons in relation to the activity they carry out or their assigned job, for an indefinite or limited period of time; immediate communication shall be made of such indications – and of the respective time limits, if any – to the person concerned and to the Authorized Person.
- B. *Financial Instruments*: shall mean (i) negotiable financial instruments listed on Italian and foreign regulated markets issued by Pirelli & C. S.p.A. and its subsidiaries, excluding non-convertible bonds; (ii) listed or unlisted financial instruments that attribute a right to subscribe to, purchase or sell the instruments referred to in (i), above, and the certificates representative of the instruments referred to in (i), above; (iii) derivative financial instruments and covered warrants whose underlyings are the financial instruments referred to in (i), above, including those whose exercise involves the payment of a cash differential. The definition of Financial Instruments in (i), above, shall also include the subscriptions to real estate mutual investment funds promoted and managed by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. in its capacity as a funds management company.
- C. *Transaction(s)*: shall mean any act that creates, modifies or extinguishes rights with respect to Financial Instruments, even if carried out within an individual investment portfolio management relationship. It shall also include the exercise of any stock options or option rights on Financial Instruments.
- D. *Significant Transaction*: shall mean every Transaction that, alone or in aggregate with other Transactions carried out in the preceding three months and not yet declared to the Company, exceeds Euros 80,000. The notional value of derivative financial instruments or covered warrants shall be calculated as the product of the number of shares on which the

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

instrument is based and the official price of the underlying recorded on the day the transaction was concluded.

- E. *Authorized Person*: shall be the Secretary to the Board of Directors of Pirelli & C. S.p.A., responsible for the receipt of declarations and administration of the information relating to Transactions carried out by Relevant Persons, who shall provide for the subsequent disclosure to the market in accordance with the procedures provided by the Code.

3. Declaration Requirements of Relevant Persons

Within the seventh calendar day after the end of each calendar quarter, Relevant Persons shall send to the Authorized Person the list of Transactions carried out in the quarter on Financial Instruments, whose total amounts to or exceeds Euros 35,000.

In the event that a Significant Transaction was carried out, the Relevant Person shall declare this without delay to the Authorized Person, together with the list of Transactions carried out in the preceding three months and not yet declared to the Company.

Transactions carried out by the Relevant Person's spouse, if not legally separated, or minor children, or delegated to be carried out by nominees, trustees or subsidiaries shall also be subject to the declaration requirements.

The declaration to the Authorized Person shall be made using a form corresponding to the model for submitting information established in the Instructions for the Regulations of Markets Organized and Managed by Borsa Italiana S.p.A..

4. Exemption from Transaction declaration requirements

The Transactions carried out – directly or through nominees or trustees – between the Relevant Person and his or her spouse, if not legally separated, or minor children, shall be excluded from the declaration requirements to the Authorized Person.

Transactions involving the loan of securities in which the Relevant Person, directly or indirectly, his or her spouse, if not legally separated, or minor children, acts as the lender, and Transactions creating liens or beneficial interests shall also be excluded.

5. Limitations on carrying out Transactions

Transactions carried out – directly or through nominees – by Relevant Persons, excluding non-executive Directors and statutory auditors, shall be permitted only after the first release of final or preliminary economic-financial data for each quarter until¹¹ the closing of next quarter. The non-executive Directors and statutory auditors shall abstain from carrying out Transactions from the day the Directors' meeting called to examine the above-mentioned economic-financial data is convened, or from the time that they became acquainted with that data if earlier, until its release.

Relevant Persons may carry out Transactions outside the allowed period only in the event of exceptional situations of personal necessity that are adequately justified by the person concerned. The assessment of the existence of a situation of personal necessity shall be referred to the Chairman of the Board of Directors.

The limitations referred to in the first paragraph of this article shall not apply to the exercise of *stock options* or option rights involving Financial Instruments and the consequent Transactions, provided they are carried out at the same time the options or rights are exercised.

The Board of Directors may identify additional periods or circumstances in which Transactions

¹¹ Or, semester or year, in the case of exemption from the publication of the second and fourth quarter reports, respectively.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

are subject to limits and conditions and shall immediately inform the Authorized Person and Relevant Persons thereof.

6. Disclosure of transactions to the Market

The Authorized Person shall disclose the information received from Relevant Persons to the market within the tenth trading day of the stock market after each calendar quarter by means of the transmission of a specific communication to Borsa Italiana, in accordance with the procedures provided in the Regulation of Markets Organized and Managed by Borsa Italiana and in the related Instructions.

Significant Transactions shall be disclosed to the market without delay, in the manner specified in the previous paragraph.

7. Sanctions

With the understanding that Pirelli & C. S.p.A. has the right to seek compensation for any damages and/or liability that may result from conduct in violation of the Code, the breach of the declaration requirements or of the limitations on carrying out Transactions shall lead to: (i) for employees, the imposition of disciplinary sanctions as provided by the laws in force and the applicable collective national labor contract; (ii) for any other collaborators, the termination – with or without notice – of the relationship; (iii) for Directors and statutory auditors, the Board of Directors may propose the revocation of their appointments to the next shareholders' meeting.

8. Acceptance

Acceptance of this Code by each Relevant Person shall be by signing the form attached as an Appendix.

9. Updating of the Code and treatment of personal data

The Authorized Person shall be responsible for monitoring the application and effectiveness of the Code in respect of its intended purpose, and for the submission of any modifications or integrations to the Board of Directors.

The Authorized Person shall conserve the written declarations by which the Relevant Persons confirm their full knowledge and acceptance of the Code and grant their consent, pursuant to Legislative Decree No. 196/2003, for the treatment of the requested data.

Introduction

Extraordinary Transactions

The Group

Energy Cables and Systems Sector

Telecom Cables and Systems Sector

Tyres Sector

Real Estate Sector

Pirelli & C. Ambiente

Information Systems

Ecology and the Environment

Human Resources

Proforma data

Related Party

Disclosures

Equity Investments held by Directors, Statutory Auditor and General Managers

Stock Option Plans

Corporate Governance

International Accounting Standards

Pirelli & C. S.p.A. - Summary Data

Shareholders' Resolutions

PIRELLI & C. SOCIETA' PER AZIONI VOTING TRUST AGREEMENT EXTRACT

1. Type of agreement and purpose

The purpose of the Pirelli & C. voting trust agreement is to ensure a stable shareholder base and a uniform strategy in the management of the company.

2. Parties to the agreement and Pirelli & C. shares transferred to the voting trust:

	Number of shares transferred to the trust	% of total shares transferred to the trust	% of total ordinary shares issued	Number of warrants transferred to the trust (*)	% of total warrants transferred to the trust	% of total warrants outstanding
CAMFIN S.p.A.	504,362,856	36.10	15.17	378,272,142	36.10	24.22
RCS MEDIAGROUP S.p.A.	146,334,392	10.47	4.40	109,750,794	10.47	7.03
FONDIARIA - SAI S.p.A.	138,740,184	9.93	4.17	104,055,138	9.93	6.66
MEDIOBANCA S.p.A.	125,513,500	8.98	3.77	94,135,125	8.98	6.03
EDIZIONE HOLDING S.p.A.	125,508,680	8.98	3.77	94,131,510	8.98	6.03
R.A.S. S.p.A.	125,508,680	8.98	3.77	94,131,510	8.98	6.03
ASSICURAZIONI GENERALI S.p.A. (**)	125,508,680	8.98	3.77	94,131,510	8.98	6.03
S.M.I. S.p.A.	48,914,160	3.50	1.47	36,685,620	3.50	2.35
Massimo MORATTI (***)	32,482,464	2.33	0.98	24,361,848	2.33	1.56
SINPAR HOLDING S.A.	24,461,948	1.75	0.74	18,346,461	1.75	1.17
Total	1,397,335,544	100	42.02	1,048,001,658	100	67.11

(*) Warrants grant the right to subscribe to 1 Pirelli & C. ordinary share for every 4 Warrants presented for the year

(**) of which 41,000,000 shares through La Fédération Continentale Compagnie d'Assurances Sur La Vie S.A.

(***) of which 27,168,180 shares and 20,376,135 warrants through CMC S.p.A.

3. The party, if any, which, through the agreement, can exercise control over the company

There is no party which, through the agreement, can exercise control over Pirelli & C..

4. Restrictions on the sale of the shares transferred and on the subscription and the purchase of new shares

The sale of the shares to third parties (and option rights in the event of a capital increase against payment) is prohibited. Shares can be sold freely and pre-emptively to subsidiaries, according to article 2359, paragraph 1, point 1 of the Italian Civil Code, and to the parent companies as well as other participants of the voting trust.

Each participant may buy or sell additional shares for an amount not in excess of the higher of 20% of the shares already transferred and 2% of the ordinary share capital issued; purchases of greater amounts are permitted only with the intent of reaching a holding equal to 5% of the ordinary share capital issued, on condition that the amount in excess of the above limits came under the voting trust.

CAMFIN S.p.A. is authorized to freely purchase additional Pirelli & C. shares; it can transfer shares to the voting trust, but to the extent that, at any one time, the shares do not exceed 40% of total shares transferred by all the participants in the voting trust. This has been decided so that a stable predominate position is not assumed in the voting trust or a stable veto power is not exercised over common decisions.

Except where the Pirelli & C. ordinary shares in the voting trust correspond to the majority of the voting rights in the ordinary shareholders' meetings, each party (also though parent companies and/or subsidiaries) intending to purchase shares of that category shall inform the President in writing beforehand and the President shall inform the party if, taking into account the laws in

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance**
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions

force concerning tender offers, the party can proceed, in whole or in part, with the proposed purchase, buy or sell the shares.

5. Disposition of the shares

The shares transferred shall remain at the disposition of the participants in the voting trust.

6. Bodies governing the agreement, criteria and manner of composition, cases when meetings are called and powers delegated

The Body governing the agreement is the management of the voting trust.

Management of the voting trust shall consist of a president and vice-president designated by Pirelli & C. from among its Directors and by a member representing each participant unless a participant has deposited more than 10% of ordinary share capital, in which case another member may be designated: for this purpose, in the event the voting trust is composed of several companies related by a controlling relationship or belonging to the same parent company, their aggregate shall be considered for this purpose as one sole participant in the voting trust.

The management of the voting trust shall be convened to evaluate the proposals to be submitted to the shareholders' meetings, for the possible earlier termination of the agreement and for the admission of new participants. The shareholders' meeting shall also meet at least twice a year to examine, with the Directors of Pirelli & C., the semiannual performance, the annual results, the general guidelines for the company's development, the investment policy and proposed significant divestitures and more in general, all the relevant matters of discussion by both the ordinary and extraordinary sessions of the shareholders' meetings.

7. Matters covered by the agreement

Those contemplated in points 4 and 6.

8. Majority vote required for decisions relating to matters in the agreement

The management of the voting trust passes resolutions by casting votes in favor by the members representing at least three fifths of the shares transferred; management of the voting trust can designate trustees to represent the shares in the voting trust at the shareholders' meetings in order for voting to take place according to the instructions of the management of the voting trust. Whenever the decisions of the management of the voting trust are not voted unanimously, the dissenting participant shall have the right to freely exercise his/hers/its vote in the shareholders' meeting.

9. Term, renewal and cancellation of the agreement

The agreement shall be valid until April 15, 2007 and shall be tacitly renewed for a period of three years except for withdrawal, which can be exercised between December 15 and January 15 prior to the expiration date. In case of withdrawal, the shares transferred by the withdrawing party shall be automatically offered pro-quota to the other participants. The agreement shall remain in force, whenever it is possible, at every expiration date, to renew the agreement for a percentage of Pirelli & C.'s subscribed ordinary share capital of not less than 33%.

10. Penalties for breach of the commitments contained in the agreement

They are not envisaged by the agreement.

11. Registration of the agreement at the Company Registry

The agreement is registered at the office of the Milan Companies Registry.

Milan, January 24, 2004

Introduction

Extraordinary Transactions

The Group

Energy Cables and Systems Sector

Telecom Cables and Systems Sector

Tyres Sector

Real Estate Sector

Pirelli & C. Ambiente

Information Systems

Ecology and the Environment

Human Resources

Proforma data

Related Party Disclosures

Equity Investments held by Directors, Statutory Auditor and General Managers

Stock Option Plans

Corporate Governance

International Accounting Standards

Pirelli & C. S.p.A. - Summary Data

Shareholders' Resolutions

INTERNATIONAL ACCOUNTING STANDARDS

In relation to the recommendations of CESR (Committee of European Securities Regulators) published on December 30, 2003 and containing guidelines for companies listed within the EU regarding the transition to IAS/IFRS, the benchmark regulatory framework and process of adoption of international accounting standards within Pirelli & C S.p.A. Group are illustrated below.

In accordance with the provisions of Regulation (EC) No. 1606/2002, dated July 19, 2002, of the European Parliament and the Council of the European Union, beginning from 2005, companies whose securities are traded on regulated market of a member state of the European Union shall prepare their consolidated financial statements in conformity with international accounting standards.

During 2003, the Pirelli Group commenced a program for the adoption of IAS/IFRS which provided for the establishment of a working group for each financial statement area, with responsibility for identifying the changes to and integrations with Group accounting principles, highlighting the differences with principles currently used and the principal implications on the information systems deriving from the adoption of the new standards. Within the various activities both the international accounting standards currently in force and the principal changes which may be inferred from current draft standards, and which will presumably be used in the preparation of the first IAS/IFRS consolidated financial statements, were considered.

Furthermore, a group technical disclosure and employee training program was instituted to share the changes deriving from the new international standards, their operational implications and proposed solutions.

Based on the analysis carried out thus far, and considering that international accounting standards, when not inconsistent with Italian laws, have always represented a valid technical point of reference for the development of new Group accounting principles, some of the most innovative aspects compared to the principles currently adopted are summarized as follows:

- *goodwill and differences on consolidation*: these items will no longer be amortized systematically in the statement of income but should be subject to a valuation, carried out at least annually, in order to identify any impairment in value (impairment test);
- *treasury shares*: the amount of treasury shares should be recorded as a reduction of shareholders' equity;
- *asset impairment*: IAS/IFRS provides more objective and detailed guidelines for the measurement of asset impairment;
- *stock options*: "equity settled" stock options must be valued at their fair value at the time granted ("grant date"), recording the cost in the statement of income with a contra-account to increase reserves in shareholders' equity; the cost should be recognized over the period in which the vested right to the stock options is acquired ("vesting period");
- *pension funds and employees' leaving indemnity*: fall under the category of defined benefit plans subject to actuarial valuation;
- *extraordinary items*: there are no extraordinary items under IAS/IFRS, while this is a widely accepted practice in Italy.

With regard to financial instruments, dealt with under IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement", some uncertainties exist regarding their adoption beginning from 2005. In particular, the European Commission, under Regulation No. 1725 dated September 29, 2003, did not provide for the adoption of those standards in that they are still subject to discussion and possible revision.

The financial statements at December 31, 2005 will be the first annual accounts presented in accordance with IAS/IFRS and will include, for comparative purposes, the financial statements at December 31, 2004 in accordance with IAS/IFRS. Opening shareholders' equity at the transition date (1/1/2004) will be arrived at based on the provisions of IFRS 1 ("First time adoption of International Financial Reporting Standards").

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data**
- Shareholders' Resolutions

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

As stated earlier, the corporate structure was streamlined during 2003 and this occurred through the merger by incorporation of Pirelli S.p.A. and Pirelli & C. Luxembourg S.p.A. (notary public file No. 17612/5344 dated July 31, 2003, recorded on the Milan Companies Registry on August 1, 2003). The merger became effective with third parties after completing the registrations required by art. 2504 bis of the Italian Civil Code, as from the date of August 4, 2003.

The merger gave rise to a merger surplus of Euros 2,164.2 million, of which Euros 1,800.5 million came from the exchange of shares and Euros 363.7 million from the cancellation of shares.

Of the total exchange surplus on the merger, Euros 1,534.7 million was allocated as an adjustment to the assets and liabilities of the minority interest coming from the financial statements of Pirelli S.p.A. at December 31, 2002.

For a better understanding of the effects that the merger had on the balance sheet, a summary table is presented below. This table shows the balance sheet captions at December 31, 2002 of the merged companies and the merger entries that were made, which can be summed up as the elimination of the net equities of the merged companies with the equity interests that Pirelli & C. S.p.A. and Pirelli & C. Luxembourg S.p.A. had in the same merged companies as well as the treasury shares recorded in Pirelli S.p.A.'s portfolio and the recognition of the merger surplus and its allocation.

(in millions of euro)						
Balance sheet	12/31/2002				1/1/2003	12/31/2003
	Pirelli & C. A.p.A.	Pirelli S.p.A.	Pirelli & C. Luxembourg S.p.A.	Merger entries	Pirelli & C. S.p.A. post-merger	Pirelli & C. S.p.A.
Intangible assets	-	14.5	0.1	(8.1)	6.5	12.3
Property, plant and equipment	24.5	40.6	-	(7.1)	58.0	56.4
Investments in financial assets	759.5	5,645.5	1,202.0	(3,473.2)	4,133.8	4,657.7
Net working capital	52.7	133.4	(5.2)	-	180.9	196.6
	836.7	5,834.0	1,196.9	(3,488.4)	4,379.2	4,923.0
Shareholders' equity	1,265.0	4,936.2	181.5	(3,769.3)	2,613.4	3,355.1
Provisions	17.4	72.8	-	280.9	371.1	354.2
Net financial position	(445.7)	825.0	1,015.4	-	1,394.7	1,213.7
	836.7	5,834.0	1,196.9	(3,488.4)	4,379.2	4,923.0

Intangible assets increased due to the effect of the aforementioned merger (corresponding to the intangible assets of the merged company at December 31, 2002 for Euros 14.6 million, less the effect of the allocation of a part of the exchange surplus on the merger for Euros 8.1 million) in addition to the capitalization of the expenses connected with the capital increase.

As for **property, plant and equipment**, excluding the effect of the aforementioned merger (corresponding to the receipt of the net book value of the buildings of Pirelli S.p.A. at December 31, 2002 for Euros 40.6 million, less the effect of the allocation of a part of the exchange surplus on the merger for Euros 7.1 million), there were no significant changes.

Investments in financial assets rose from Euros 759.5 million at December 31, 2002 to Euros 4,657.7 million at December 31, 2003.

Investments acquired in the merger totaled Euros 6,847.5 million. The merger entries, which amount to Euros 3,473.2 million, refer to the elimination of the investments in the merged companies (Euros 1,799.1 million) and the treasury shares recorded in Pirelli S.p.A.'s portfolio (Euros 435.6 million) and the allocation of a part of the exchange surplus on the merger (Euros 1,238.5 million).

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data**
- Shareholders' Resolutions

Excluding the changes generated by the merger, investments increased by Euros 523.9 million compared to the prior year.

The most important changes during the year can be summed up as follows: the capital increase in Olimpia S.p.A. for Euros 388.1 million and in F.C. Internazionale Milano S.p.A. for Euros 11.7 million, the payment to absorb the loss of Pirelli Cavi e Sistemi Telecom S.p.A. (Euros 150 million), the purchase of Pirelli S.p.A. ordinary shares from BZ Group (Euros 43.3 million), the buy-back of treasury shares by Pirelli S.p.A. (Euros 6.9 million), the adjustment to investments to account for permanent impairments in value (Euros 56.5 million) and the sale of investments for Euros 20.3 million (Localto S.p.A. for Euros 5.3 million – Caltagirone Editore S.p.A. for Euros 12.9 million – Epiclink S.p.A. for Euros 2.1 million).

Excluding the effect of the merger (Euros 128.2 million), **net working capital** increased by Euros 15.7 million compared to the prior year. This increase is mainly due to higher dividends received from companies of the Group (Euros 27.9 million), partly offset by the net effect of minor receivables and payables of a tax and trading nature.

Changes in **shareholders' equity** can be summarized as follows:

(in millions of euro)		
Shareholders' equity at 12/31/2002		1,265.0
Dividends paid	(41.9)	
Capital increase	812.2	
Exercise of share withdrawal rights by shareholders	(162.6)	
Net income	137.8	
Merger effect		
- Capital increase from the share exchange	715.1	
- Exchange surplus on the merger	1,800.5	
- Cancellation surplus on the merger	363.7	
- Allocation of exchange surplus on the merger	(1,534.7)	
Total merger effect	1,344.6	
Total changes		2,090.1
Shareholders' equity at 12/31/2003		3,355.1

Provisions, excluding the effect of the merger which basically refers to the assumption of the provisions of Pirelli S.p.A. (Euros 72.8 million) and the allocation of a part of the exchange surplus on the merger (Euros 280.9 million), to cover the risks on the put option granted to the shareholder banks of Olimpia S.p.A. under the shareholders' agreements of Olimpia S.p.A. (Euros 233 million) and to Hopa S.p.A. (Euros 47.9 million), decreased by Euros 16.9 million mainly as a result of the utilization and release of the provisions for income taxes (Euros 16.2 million).

The **net financial position** went from net cash of Euros 445.7 million at December 31, 2002 to net borrowings of Euros 1,213.7 million at December 31, 2003. The change of Euros 1,659.4 million can be analyzed as follows:

(in millions of euro)	
Funds provided by operations	172.3
Increase in capital and reserves	812.2
Exercise of share withdrawal rights by shareholders	(162.6)
Increase in investments	(598.3)
Dividends paid by Pirelli & C. S.p.A.	(41.9)
Other changes	(0.6)
Merger effect:	
Net borrowings Pirelli S.p.A.	(825.0)
Net borrowings Pirelli & C. Luxembourg S.p.A.	(1,015.5)
Total changes	(1,659.4)

Introduction

Extraordinary Transactions

The Group

Energy Cables and Systems Sector

Telecom Cables and Systems Sector

Tyres Sector

Real Estate Sector

Pirelli & C. Ambiente

Information Systems

Ecology and the Environment

Human Resources

Proforma data

Related Party Disclosures

Equity Investments held by Directors, Statutory Auditor and General Managers

Stock Option Plans

Corporate Governance

International

Accounting Standards

Pirelli & C. S.p.A. - Summary Data

Shareholders' Resolutions

Statement of income

Pirelli & C. S.p.A. closed the year 2003 with a net income of Euros 137.8 million compared to a net income of Euros 60.2 million in the prior year.

The income statement is summarized as follows:

(in millions of euro)		
Statement of income	2003	2002
Financial income (expenses)	(46.5)	13.2
Investment income	261.4	83.4
Valuation adjustments to financial assets	(56.5)	(134.4)
Other operating income (expenses)	(19.1)	(8.9)
Income (loss) before extraordinary items and income taxes	139.3	(46.7)
Extraordinary items	(20.6)	139.6
Income taxes	19.1	(32.7)
Net income	137.8	60.2

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

Investment income increased compared to 2002. Details are as follows:

(in millions of euro)		
	2003	2002
Sipir Finance N.V. - Holland	131.0	-
Pirelli Tyre Holding NV - Holland	85.0	-
Pirelli & C. Real Estate S.p.A. - Italy	35.0	50.1
Mediobanca S.p.A. - Italy	2.5	1.8
Pirelli S.A. - Brazil	2.0	-
Pirelli Servizi Finanziari S.p.A. - Italy	1.2	-
Dividend tax credit	0.9	30.0
Gains of the sale of investments	1.7	-
Dividends from other companies	2.1	1.5
	261.4	83.4

The increase in **net operating expenses** is principally due to the effect of the merger by incorporation of Pirelli S.p.A. and Pirelli & C. Luxembourg S.p.A.. The allocation of the merger surplus from the share exchange to intangible assets and property, plant and equipment generated lower amortization and depreciation charges of Euros 4.5 million.

Net extraordinary expenses amount to Euros 20.6 million, including Euros 16.1 million referring to the costs incurred for the merger.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions**

SHAREHOLDERS' RESOLUTIONS

Appropriation of net income

The year ended December 31, 2003 shows a net income of Euros 137,762,964.

The Board of Directors proposes the distribution of dividends, before withholding taxes, of:

- Euros 0.0310 per each ordinary share
- Euros 0.0414 for each savings share

Owing to the tax reform which came into force on January 1, 2004, the proposed dividends are not entitled to any tax credits, except as specified below.

The tax credit is due, in fact, only if dividends are received in the year not coinciding with the calendar year in progress at December 31, 2003 by resident corporations or commercial entities and those that are non-resident if provided by the international double taxation avoidance agreements.

In this case, dividends are entitled to an ordinary tax credit with the right of reimbursement of 51.51 percent, divided as follows:

- to ordinary shares a reimbursable tax credit of Euros 0.015968
- to savings shares a reimbursable tax credit of Euros 0.021325.

If in agreement with our proposal, we ask you to pass the following

resolution

The shareholders' meeting:

- having taken note of the Directors' Report on Operations;
- having taken note of the Board of Statutory Auditors' Report;
- having examined the financial statements at December 31, 2003 which show a net income of Euros 137,762,964;

resolves

a) to approve:

- the Directors' Report on Operations;
- the balance sheet, the statement of income, the notes to financial statements for the year ended December 31, 2003 which show a net income of Euros 137,762,964 as presented by the Board of Directors in their entirety and in the individual entries, with the proposed accruals;

b) to appropriate the net income for the year of Euros 137,762,964 as follows:

- | | | |
|--|-------|-------------|
| • 5 percent to the legal reserve | Euros | 6,888,148 |
| • to the shareholders: | | |
| Euros 0.0310 to 3,323,981,005 (*) ordinary shares, for a total | Euros | 103,043,411 |
| Euros 0.0414 to 134,764,429 savings shares for a total | Euros | 5,579,247 |
| • to retained earnings | Euros | 22,252,158 |

(*) net of 2,617,500 treasury shares held by the Company

c) to authorize the Directors, in the event treasury shares are purchased before the exercise dividend date in reference to point b) to appropriate the amount of the dividends to which such shares are entitled to retained earnings, and to charge the same caption for the balance of roundings which may arise at the time of the payment of the dividends.

The Board of Directors
Milan, March 24, 2004

[Introduction](#)
[Extraordinary Transactions](#)
[The Group](#)
[Energy Cables and Systems Sector](#)
[Telecom Cables and Systems Sector](#)
[Tyres Sector](#)
[Real Estate Sector](#)
[Pirelli & C. Ambiente](#)
[Information Systems](#)
[Ecology and the Environment](#)
[Human Resources](#)
[Proforma data](#)
[Related Party Disclosures](#)
[Equity Investments held by Directors, Statutory Auditor and General Managers](#)
[Stock Option Plans](#)
[Corporate Governance](#)
[International Accounting Standards](#)
[Pirelli & C. S.p.A. - Summary Data](#)
[Shareholders' Resolutions](#)

Appointment of a director

Dear Shareholders,

On February 19, 2004, the Board of Directors appointed Prof. Carlo Secchi, President of Bocconi University, as a director of the Company (to replace Alberto Falck, who passed away on November 3, 2003).

Prof. Secchi's term of office will expire at the next shareholders' meeting, which will be asked to vote on the appointment of a new director.

The Board proposes the confirmation of Prof. Carlo Secchi as Director of the Company.

Proposal for the purchase and disposition procedures of treasury shares

Dear Shareholders,

In the resolution passed on May 7, 2003, you authorized the purchase of treasury shares (ordinary and savings shares) up to the maximum amount allowed by art. 2357 of the Italian Civil Code, equal to 10 percent of share capital pro-tempore and for a period of 18 months from the date of the resolution.

This authorization will expire on November 6, 2004.

With regard to the purchase of treasury shares, which we submit for your approval, the same opportunities now exist which persuaded the directors to propose to you the May 2003 resolution, that being the convenience of taking action (in accordance with the law and ensuring equal treatment to the shareholders), in relation to contingent market situations, to act as a stabilizing force in improving the liquidity of the market, favor normal trading and facilitate the maximum consistency between the market price and the intrinsic value of the stock.

We therefore believe it useful to propose, with today's shareholders' meeting and to avoid convening a specific meeting close to the above expiration date, to proceed to issue a new authorization, which is completely the same as the existing one, canceling the authorization not used; the related procedures for the purchase and sale, as well as the procedures for the sale of the treasury shares already held in portfolio are contained in the following proposed resolution.

If in agreement, we ask you to pass the following

RESOLUTION

"The shareholders' meeting

- having taken note of the proposal by the directors;
- having taken note of the provisions of art. 2357 and 2357-ter of the Italian Civil Code;
- having taken note that, as of today, the company holds 2,617,500 ordinary shares equal to approximately 0.08 percent of share capital amounting to Euros 1,799,823,565.80.

RESOLVES

- a) to cancel the resolutions passed by the shareholders' meeting of May 7, 2003 authorizing the purchase of treasury shares and the disposition of the same, as not used;

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions**

- b) to authorize the purchase of treasury shares (ordinary and savings shares) of par value Euros 0.52 each within the maximum limit established by art. 2357 of the Italian Civil Code, equal to 10 percent of share capital pro-tempore, establishing that:
- the purchase can be made at one or more times within 18 months of the date of this resolution;
 - the purchase shall be carried out according to the manner agreed with the company managing the market so that equal treatment among shareholders can be ensured, in accordance with Legislative Decree No. 58 of February 24, 1998, art. 132;
 - the purchase price of each share shall not be either lower or higher, in both cases, than a maximum of 15 percent of the average reference price recorded by the Italian stock exchange in the three trading sessions prior to each single transaction;
 - the purchase shall be made by using retained earnings and the available reserves as shown in the latest approved financial statements, setting up a reserve for treasury shares in the manner and within the limits established by law;
- c) to authorize the Board – and on its behalf the Chairman, the Deputy Chairmen and the managing directors, separately – to dispose, without any time limit, the treasury shares already held or purchased according to the resolution referring to point b) even before having completed all the purchases; the sale can occur at one or more times; the shares shall be sold through a sale or exchange (also through a public offer, to the shareholders, to employees, and/or directors and/or associates - also as part of any stock option plans); in the event of sale, the price shall not be less than the lower of (a) the average official market prices of the share in the 15 trading days preceding each single sale transaction and (b) the value obtained by applying a discount of not more than 5 percent to the minimum price recorded by the Pirelli & C. ordinary or savings shares on the day of each sale transaction, or, however, at the last price available; such price limits shall not be applied when the sale of the shares takes place with employees and/or directors and/or associates of the company, and companies which it controls, under possible stock option plans; the shares can also be sold by being attached to bonds or warrants for their exercise;
- d) to confer to the Board, and on its behalf the Chairman, Deputy Chairmen and managing directors, separately, any and all powers necessary to make purchases and sales and in any case to carry out the preceding resolutions, also through those holding power of attorney, fulfilling that eventually required by the appropriate authorities”.

Determination of the compensation to be assigned to the members of the Supervisory Panel appointed pursuant to Legislative Decree No. 231 dated June 8, 2001.

Dear Shareholders,

Legislative Decree No. 231 dated June 8, 2001 (“Rules regarding the administrative liability of legal entities, companies and associations with no juridical personality, according to Law No. 300, art. 11, dated September 29, 2000) introduced the possibility of directly recognizing companies liable for specific crimes against the public administration (corruption, extortion, misappropriation, computer fraud, forgery of money, public instruments and revenues stamps) and recently added, corporate crimes and those directed to terrorism – committed by individuals in the interests of the same companies.

Companies can be excluded from such liability if they can demonstrate, in the event of any criminal proceedings for one of the crimes considered, that they have adopted organizational models suitable for preventing the committing of such crimes.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions**

In view of the above, the Board of Directors of Pirelli & C. S.p.A., in its meeting of July 31, 2003, approved the "231 Organizational Model" drawn up in conformity with the "guidelines" established in February 2002 by Confindustria and sent to the Ministry of Justice - and it has also set up a specific Supervisory Panel composed of three members:

- Giuseppe Gazzoni Frascara, Chairman of the Committee for Internal Control and Corporate Governance;
- Paolo Francesco Lazzati, standing statutory auditor;
- Sergio Romiti, head of the Internal Audit Department of Pirelli & C. S.p.A..

The Supervisory Panel has been delegated the all and every power necessary to ensure close supervision of the functioning and respect of the above Organizational Model.

In light of the above, the Board decided to refer the determination of the compensation of each member of the Supervisory Panel, as consideration for their activities, to the next shareholders' meeting.

You are therefore asked to duly pass resolutions on the above compensation.

Proposal for the adoption of Regulations for Shareholders' Meetings

Dear Shareholders,

Article 2364, paragraph 1, number 6) of the Italian Civil Code, as amended by Legislative Decree No. 6 dated January 17, 2003 (the so-called Vietti Reform), states that, among other things, the ordinary shareholders' meeting should approve the regulations for the conduct of the shareholders' meetings. The decree adopted the recommendations contained in the Self-regulatory Code for companies listed on the Italian stock exchange (the so-called Preda Code), which, in fact, contemplates the adoption of a set of regulations to govern the orderly and efficient running of the ordinary and extraordinary shareholders' meetings.

The Board of Directors of Pirelli & C. S.p.A. has, in the past, expressed its conviction that the provisions contained in the bylaws regarding the functioning of the shareholders' meetings were sufficient, in themselves, to ensure the correct and proper conduct of the meetings.

However, your Board has taken note of the preferences expressed over time by investors concerning the adoption of such a tool, on the part of listed companies, as a useful support in conducting the shareholders' meetings.

In light of the above, your directors - in view of attracting an ever-increasing participation of shareholders in the life of the company - has set out regulations for the shareholders' meetings which, pursuant to the provisions of art. 2364 of the Italian Civil Code, are submitted for your approval.

If in agreement, we ask you to pass the following

RESOLUTION

The shareholders' meeting

- having taken note of the proposal by the directors;
- having taken note of the provisions of art. 2364, paragraph 1, number 6) of the Italian Civil Code;

RESOLVES

to approve and recognize the Regulations for Shareholders' Meetings as presented below.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions**

REGULATIONS FOR SHAREHOLDERS' MEETINGS

Article 1

- These Regulations shall apply to the Company's ordinary and extraordinary shareholders' meetings.

Article 2

- To ensure the regular conduct of shareholders' meetings, for matters not expressly governed by these Regulations, the Chairman of the meeting (hereinafter the "Chairman") shall adopt the measures and solutions deemed most appropriate, in compliance with the law and the bylaws.

Article 3

- Meetings may be attended, with the right to take part in the discussion and to vote, by persons entitled to do so pursuant to the applicable provisions (hereinafter the "Participants").
- Unless stated otherwise in the notice convening the meeting, personal identification and verification of the right to attend the meeting shall begin at the place where it is to be held at least one hour before the time fixed for it to start. When the Participants have been identified and their right to attend verified, under the supervision of the Chairman, the auxiliary staff provided by the Company shall issue badges that serve for control purposes and to exercise the right to vote.
- The Participants shall be able to follow the discussion, take the floor during the discussion and exercise their right to vote, in the technical manner specified on each occasion by the Chairman.
- Participants who, after being admitted to the meeting, intend for any reason to leave the premises where it is being held, must inform the auxiliary staff.

Article 4

- Directors, senior executive and employees of the Company and of Group companies may attend the meetings, as may other persons whose presence is deemed useful in relation to the matters to be discussed.
- With the agreement of the Chairman, the proceedings may be followed by professionals, consultants, experts, financial analysts and suitably qualified journalists, accredited for a single meeting, in areas which could specifically be set aside for that purpose.
- Persons accredited to follow the proceedings must report for identification by the Company's appointees at the entrance of the premises where the meeting is to be held and collect a special badge to be exhibited upon request.

Article 5

- In accordance with the law and the bylaws, it is up to the Chairman to direct the meeting and ensure the best conditions for its orderly and effective conduct.
- The Chairman may authorize the use of audio-visual recording and transmission equipment.

Article 6

- The Chairman shall be assisted in the conduct of the meeting and the preparation of the minutes by a Secretary, where a Notary public is not present. The Secretary or the Notary public may in turn arrange to be assisted by persons of their trust.
- The Chairman, for the purposes of conducting the voting procedures, shall be assisted by scrutineers; he may use auxiliary staff to provide the necessary technical support and to maintain order.

Article 7

- When the quorum for duly constituting the shareholders' meeting is not reached, after a appropriate period of time the Participants shall be informed of the fact and the discussion of the matters on the agenda shall be understood to be deferred until the next call of the meeting, if any.

- Introduction
- Extraordinary Transactions
- The Group
- Energy Cables and Systems Sector
- Telecom Cables and Systems Sector
- Tyres Sector
- Real Estate Sector
- Pirelli & C. Ambiente
- Information Systems
- Ecology and the Environment
- Human Resources
- Proforma data
- Related Party Disclosures
- Equity Investments held by Directors, Statutory Auditor and General Managers
- Stock Option Plans
- Corporate Governance
- International Accounting Standards
- Pirelli & C. S.p.A. - Summary Data
- Shareholders' Resolutions**

- During a meeting the Chairman may, if he deems it desirable and the majority of the capital represented at the meeting does not object, suspend the proceedings for up to three hours.

Article 8

- The Chairman shall establish the order in which the items on the agenda are to be discussed, which may differ from that indicated in the notice convening the meeting.
- He may provide for several items to be discussed together or for the discussion to proceed item by item.
- The Chairman and, at his invitation, persons attending the meeting pursuant to the Article 4, paragraph 1, shall explain the items on the agenda.

Article 9

- It is up to the Chairman to conduct and moderate the discussion, ensure its correctness and prevent disturbances of the regular course of the meeting.
- The Chairman, taking account of the subject matter and importance of the individual items on the agenda, may establish at the start of the meeting the time - not less than 15 minutes - available to each speaker.
- The Chairman shall call on Participants to comply with the time limits for speaking established in advance and to keep to the matters stated in the agenda. In the event of an overrun and/or an abuse, the Chairman shall interrupt the speaker.

Article 10

- Persons who intend to speak must apply to the Chairman or the Secretary, indicating the subject they will address. Such requests may be submitted until the Chairman closes the discussion on the subject to which they refer.
- Participants may ask to take the floor a second time during the same discussion, for not more than five minutes, exclusively in response to other speakers or to declare how they intend to vote.

Article 11

- The Board of Directors and the Participants may put forward, giving reasons, proposals for alternative or amended resolutions with respect to those originally put forward by the Board of Directors. The Chairman shall evaluate the compatibility of such proposals in relation to the agenda of the meeting.

Article 12

- The members of the Board of Directors and the Board of Statutory Auditors may intervene in the discussion; at the invitation of the Chairman, persons attending the meeting pursuant to the Article 4, paragraph 1, may also take the floor, inter alia to respond to requests for clarification.

Article 13

- The Chairman shall take appropriate measures to ensure the orderly conduct of voting and provide for the voting on an item to be held immediately after the close of the discussion thereof or at the end of the discussion of all the items on the agenda.
- The Chairman shall establish how each voting procedure is to be conducted and the procedures for identifying and counting the votes cast and shall be responsible for ascertaining the results.

Article 14

- Upon completion of the voting and the necessary counting of the votes with the help of the scrutineers and the Secretary, the results of the voting shall be announced.

The Board of Directors
Milan, March 24, 2004

Consolidated financial statements at December 31, 2003

Consolidated balance sheets

Assets

(in thousands of euros)

	12/31/2003	12/31/2002
B) Fixed assets		
I) Intangible assets		
Formation costs	19,775	10,616
Patents and design patent rights	1,708	4,048
Concession, licenses, trademarks and similar rights	24,844	12,362
Goodwill	33,132	39,912
Difference on consolidation	421,376	508,269
Intangible assets in progress and payments on account	2,096	4,656
Other intangible assets	53,577	82,139
Total intangible assets	556,508	662,002
II) Property, plant and equipment		
Land and buildings	682,529	667,363
Plant and machinery	1,071,596	1,229,889
Industrial and commercial equipment	127,290	134,647
Other property, plant and equipment	86,766	173,332
Assets under construction and advanced to suppliers	186,414	201,175
Total property, plant and equipment	2,154,595	2,406,406
III) Financial assets		
Investments in:		
a) Unconsolidated subsidiaries	19,381	646
b) Jointly controlled subsidiaries	2,588,671	3,000,888
c) Associated companies	187,809	157,868
d) Other companies	313,069	282,677
Financial receivables:		
a.1) Unconsolidated subsidiaries due within 1 year	-	9,092
a.2) Unconsolidated subsidiaries due beyond 1 year	-	14,662
b.1) Associated companies within 1 year	-	165,911
b.2) Associated companies beyond 1 year	219,641	5
c.1) Other companies due within 1 year	6,878	2,466
c.2) Other companies due beyond 1 year	56,217	69,901
Other securities	81,824	85,803
Treasury shares	4,678	4,678
Total financial assets	3,478,168	3,794,597
Total fixed assets	6,189,271	6,863,005

Assets (seguito)

(in thousands of euros)

	12/31/2003	12/31/2002
C) Current assets		
I) - Inventories		
Raw materials, auxiliaries and consumables	228,941	257,246
Work in process and semifinished products	217,478	302,979
Contract work in progress	156,958	161,465
Finished products and goods for resale	609,419	539,325
Advances	9,218	22,199
Total inventories	1,222,014	1,283,214
II) - Receivables		
Trade	1,326,740	1,355,815
Unconsolidated subsidiaries	22,004	3,930
Associated companies	166,807	100,192
Other receivables	413,935	622,467
Total receivables	1,929,486	2,082,404
III) - Current financial assets		
Other securities	283,525	198,652
Total current financial assets	283,525	198,652
IV) - Cash and banks		
Bank and postal deposits	257,704	380,370
Checks	2,979	2,027
Cash on hand	2,933	2,722
Total cash and banks	263,616	385,119
Total current assets	3,698,641	3,949,389
D) Accrued income and prepaid expenses		
Accrued income	40,453	42,337
Prepaid expenses	32,681	42,594
Total accrued income and prepaid expenses	73,134	84,931
Total assets	9,961,046	10,897,325

Liabilities and shareholders' equity

(in thousands of euros)

	12/31/2003	12/31/2002
A) Shareholders' equity		
- Parent company interest	3,428,567	1,932,938
I) Share capital	1,799,399	339,423
II) Share premium reserve	500,291	549,673
III) Revaluation reserve	1,680	707
IV) Legal reserve	67,885	67,880
V) Reserve for treasury shares in portfolio	4,678	4,678
VII) Other reserves	879,153	786,538
VIII) Retained earnings	214,838	242,422
IX) Net income (loss)	(39,357)	(58,383)
- Minority interest	249,180	2,693,450
a) Capital and reserves	205,535	3,040,227
b) Net income (loss)	43,645	(346,777)
Total shareholders' equity	3,677,747	4,626,388
B) Provisions for liabilities and expenses		
Pensions and similar obligations	198,665	205,232
Income taxes	162,322	214,464
Other	515,152	331,906
Total provisions for liabilities and expenses	876,139	751,602
C) Provision for employees' leaving indemnity	169,006	158,951
D) Payables		
Bonds	1,150,004	1,164,796
Convertible bonds	-	21,977
Bank borrowings	1,271,441	1,637,782
Other financial companies	159,803	99,726
Advanced from customers	134,069	179,693
Trade	1,380,117	1,259,407
Unconsolidated subsidiaries	5,321	126
Associated companies	56,418	34,592
Taxes	192,871	193,214
Social security agencies	56,999	56,789
Other payables	522,003	433,825
Total payables	4,929,046	5,081,927
E) Accrued liabilities and deferred income		
Accrued liabilities	230,873	242,535
Deferred income	78,235	35,922
Total accrued liabilities and deferred income	309,108	278,457
Total liabilities and shareholders' equity	9,961,046	10,897,325

Memorandum accounts

(in thousands of euros)

	12/31/2003	12/31/2002
Personal guarantees		
- Sureties on behalf of other companies	273,254	224,605
- Credit guarantees on behalf of other companies	16,906	10,656
	290,160	235,261
Third party assets held in deposit		
- Securities held in deposit	1,230,245	1,107,883
- Third-party goods held in deposit	10,100	7,625
	1,240,345	1,115,508
Assets held by third parties		
- Securities held as guarantees and sureties	56,715	52,670
- Shares held in deposit	563,636	552,528
- Goods held by third parties	4,314	9,103
	624,665	614,301
Commitments and contingencies		
- Commitments for purchases of fixed assets	534,356	600,914
- Commitments for purchases of investments	40,948	-
- Nominal value of put options given to third parties	2,209,360	2,151,517
- Sale of tax receivables	101,558	102,052
	2,886,222	2,854,483
Other memorandum accounts		
- Potential losses for risk of default on discounted bills	21,954	31,500
- Forward securities purchase	342,100	342,100
	364,054	373,600
Total	5,405,446	5,193,153

Consolidated statements of income

(in thousands of euros)

	2003	2002
A) Production value		
Revenues from sales and services	6,671,300	6,717,915
Changes in inventories of work in process, semifinished and finished products	(2,447)	(14,840)
Changes in contract work in progress	20,153	15,312
Increase in property, plant and equipment	10,659	11,218
Other revenues and income:		
a) Miscellaneous	150,668	126,653
b) Government grants	6,375	5,188
Total production value	6,856,708	6,861,446
B) Production costs		
Raw materials, auxiliaries, consumables and goods for resale	(3,215,408)	(3,223,030)
Service expenses	(1,308,615)	(1,289,691)
Lease and rent expenses	(80,662)	(76,777)
Personnel costs	(1,371,175)	(1,426,439)
Amortization, depreciation and writedowns:		
a) amortization of intangible assets	(82,853)	(90,844)
b) depreciation of property, plant and equipment	(277,701)	(314,738)
d) writedowns of receivables included in current assets and cash and banks	(26,263)	(40,871)
Changes in inventories of raw materials, auxiliaries, consumables and goods for resale	63,262	(485)
Other accruals	(47,135)	(27,805)
Other operating expenses	(242,478)	(253,264)
Total production costs	(6,589,028)	(6,743,944)
Difference between production value and production costs	267,680	117,502
C) Financial income and expenses		
Investments income	14,432	20,121
Other financial income:		
a) from receivables included in fixed assets	10,246	13,319
b) from securities included in fixed assets	-	90
c) from securities included in current assets	25,455	13,237
d) income other than the above	210,965	498,910
Interest and other financial expenses	(395,036)	(723,099)
Total financial income and expenses	(133,938)	(177,422)
D) Valuation adjustments to financial assets		
Revaluations	70,676	67,440
Writedowns	(121,027)	(242,536)
Total valuation adjustments	(50,351)	(175,096)
E) Extraordinary items		
Extraordinary income	69,064	259,108
Extraordinary expenses	(77,964)	(341,840)
Total (loss) extraordinary items	(8,900)	(82,732)
Income before income taxes	74,491	(317,748)
Income taxes	(70,203)	(87,412)
Net income (loss)	4,288	(405,160)
Parent company interest	(39,357)	(58,383)
Minority interest	43,645	(346,777)

Notes to the consolidated financial statements at december 31, 2003

Form and content

The consolidated financial statements for the year ended December 31, 2003 have been drawn up in accordance with the provisions introduced by Legislative Decree No. 127 of April 9, 1991 which incorporate those of the VII directive of the EC.

The consolidated financial statements include the financial statements of Pirelli & C. S.p.A., the parent company, and the companies in which Pirelli & C. S.p.A. holds, directly or indirectly, control as defined by Legislative Decree 127/91, art. 26.

Jointly controlled subsidiaries are consolidated proportionally, by consolidating the individual items of the financial statements on a proportional basis, or valued using the equity method.

The subsidiaries which fall under the cases indicated in Legislative Decree 127/91, art. 28 are excluded from the scope of consolidation.

The list of investments included in the scope of consolidation, the statements of cash flows and the statements of changes in shareholders' equity are presented in the supplementary information which is considered an integral part of these notes.

All amounts in the notes are expressed in thousands of euros, unless otherwise indicated.

The financial statements have been prepared in accordance with the principles set forth in article 2423-bis of the Italian Civil Code and, in particular:

- items are valued on a prudent basis and according to the going-concern concept;
- income and expenses are accounted for on the accrual basis;
- risks and losses referring to the current year are taken into account even if they become known after the balance sheet date;
- gains are only included if realized by the year-end date in accordance with the accrual principle.

The posting of items of the balance sheet and statement of income is made in conformity with the principles stated in articles 2424-bis and 2425-bis of the Italian Civil Code.

The balance sheet and statement of income also present the corresponding comparative figures for the prior year.

Reclassifications, where appropriate, have been made to the previous year's financial statements for purposes of comparison.

The audit report on the consolidated financial statements has been issued by PricewaterhouseCoopers S.p.A. pursuant to art. 159 of Legislative Decree No. 58 of February 24, 1998 and takes into account the CONSOB recommendation of February 20, 1997, in execution of the resolution passed by the shareholders on May 13, 2002 which appointed the audit firm for the three-year period 2002-2004. The audit fee for the consolidated financial statements has been agreed at Euros 153 thousand per year.

The fees for the audit of the individual Group companies have been borne directly by the companies concerned; the equivalent euro amount of fees for the year 2003 has amounted to approximately Euros 3,154 thousand, including the fees for the limited review of the six-month financial statements.

Principles of consolidation

The financial statements used in consolidation are those at December 31, 2003 prepared locally for approval by the shareholders of the individual companies and adjusted, where necessary, to agree with the "Common Accounting Principles" of the Group, which comply with those established by Legislative Decree 127/91 and those issued by the National Boards of Dottori Commercialisti and Ragionieri.

The financial statements of subsidiaries operating in high-inflation countries have been adjusted to take into account the changed purchasing power of the local currency, in accordance with the principles for inflation accounting.

The financial statements expressed in foreign currency have been translated into euros at rates prevailing at year-end for the balance sheet and at average exchange rates for the statement of income, with the exception of the financial statements of companies operating in high-inflation countries, whose statements of income have been translated at year-end rates.

The differences arising from the translation of opening shareholders' equity at year-end exchange rates have been recorded in translation adjustments in shareholders' equity.

The exchange rates which have been applied are presented under "Other information" in the notes.

The principles of consolidation are as follows:

- for companies included in the scope of consolidation that are consolidated line-by-line or proportionally, the carrying value of the investments has been eliminated against the related underlying share of net equity. For companies valued using the equity method, the purchase cost is adjusted to the corresponding share of underlying net equity at December 31, 2003 resulting from their respective financial statements. For investments in consolidated companies and for those valued using the equity method, the differences emerging, at acquisition, between the carrying value of the investments and the corresponding share of net equity have been accounted for as follows:
 1. negative differences are shown as a deduction from fixed assets, except those of definite amount; any additional negative difference is recorded in the consolidation reserve;
 2. positive differences, where not attributable to the assets or liabilities of the investee companies, have been recorded as a reduction of the consolidation reserve up to the amount of same and the remaining amount has been recorded as an asset in "difference on consolidation";
- balance sheet and statement of income transactions between consolidated companies, including dividends paid within the Group, have been eliminated;
- gains and losses arising from transactions between consolidated companies, if not yet realized through transactions with third parties, have been eliminated;
- the share of net equity and results of operations attributable to minority interests are shown separately, respectively, in the balance sheet and statement of income.

The reconciliation between the net results and shareholders' equity of Pirelli & C. S.p.A. at December 31, 2003 and the corresponding consolidated figures is presented in the supplementary information.

Summary of significant accounting policies

The accounting policies adopted are those set forth by the provisions of art. 2426 of the Italian Civil Code, referred to and supplemented by the provisions of CONSOB and by the accounting principles issued by the National Boards of Dottori Commercialisti and Ragionieri.

The accounting principles have been applied on a basis consistent with the prior year, except for the change in the valuation of strategic metals inventories (copper, aluminum, etc.) from the LIFO to the FIFO method and the change in criteria used to record the purchase cost of financial assets from the LIFO to the average cost method. Unless otherwise indicated, the accounting principles applied in the valuation of the components of the consolidated financial statements are in compliance with those adopted in the financial statements of the parent company.

• Intangible assets

"Formation costs" relate to the capital increase costs of consolidated companies and are amortized over a period of five years.

"Patents and design patent rights", "concessions, licenses, trademarks and similar rights" are amortized over their expected economic lives, estimated in a period of five years.

"Goodwill" includes the amount paid for this purpose by the Group companies for the acquisition of companies or other corporate transactions. Goodwill is amortized over a period of ten years, which identifies the possible period of utilization.

"Difference on consolidation", relating to the acquisition of investments, is amortized over a period between ten and twenty years; this period identifies the possible period of utilization.

Applied software acquisition costs are amortized over a period between three and five years.

Leasehold improvements are amortized over the period of the lease and, in any case, not exceeding five years.

Image awareness costs benefiting future periods are amortized over the duration of the contract and, in any case, not exceeding five years.

Loan acquisition costs are amortized over a period not exceeding the duration of the loan and, in any case, not exceeding five years.

- **Property, plant and equipment**

Property, plant and equipment are stated at purchase or production cost including directly attributable incidental expenses and eventually increased by revaluations effected in accordance with specific laws.

Depreciation is calculated starting from the month when the asset is available and ready for use or potentially able to provide economic benefits.

Depreciation is calculated on the straight-line method on a monthly basis at rates designed to completely write-off the assets over their estimated useful lives or, for disposals, up to the last month of utilization:

Buildings	3% - 10%
Plant	7% - 10%
Machinery	5% - 10%
Tools and equipment	10% - 33%
Furniture	10% - 33%
Vehicles	10% - 25%

In addition, property, plant and equipment are written down when the net recoverable amount is permanently impaired and lower than the net book value, in accordance with article 2426, point 3 of the Italian Civil Code.

Ordinary maintenance and repair costs are expensed in the year incurred.

Government investment grants relating to property, plant and equipment are recorded in a special provision under liabilities and are released to income in proportion to the future depreciation of the assets to which they refer.

Assets acquired under financial leasing contracts are accounted for as property, plant and equipment with a contra-entry to financial payables and are therefore capitalized and depreciated over their estimated useful lives. The lease installment is divided between interest expense, recorded in the statement of income, and the repayment of principal, recorded as a deduction of the financial liability.

- **Financial assets**

- **Investments**

Equity investments in unconsolidated subsidiaries and other companies are valued at average cost, reduced for any permanent impairment in value; the original amount is reinstated whenever the reasons for the adjustment no longer apply.

Equity investments in jointly controlled subsidiaries are valued using the equity method.

Equity investments in associated companies are valued using the equity method, in accordance with article 2359 of the Italian Civil Code.

- **Other securities**

Other securities are stated at cost, reduced for any permanent impairment in value.

- Treasury shares

Treasury shares are valued at purchase cost, eventually adjusted for any permanent impairment in value. An undistributable reserve for the same amount is recorded in shareholders' equity pursuant to art. 2357 of the Italian Civil Code.

• Current assets**- Inventories**

Inventories are stated at the lower of cost, determined on the FIFO basis, and estimated realizable value. Work in process on long-term contracts is stated in proportion to the stage of completion of the work on the basis of agreed prices and taking into account estimated losses which are fully recognized in the year they become known.

Land for development and properties under construction and/or renovation are stated at cost plus interest effectively incurred during the course of their development, construction or renovation.

Furthermore, any requests for additional expenditures associated with the construction of university buildings are recorded in inventories based on a prudent estimate of the amounts to be recognized.

Penalties for delays in deliveries of properties are accrued whenever such delays are chargeable to the contractor and not the principal.

- Receivables and payables

Receivables (under both fixed assets and current assets) are stated at estimated realizable value. Payables are stated at nominal value.

Receivables and payables in foreign currencies other than the functional currency of the individual companies, are adjusted to the year-end exchange rates; the effects of hedging contracts are recorded in accrued income and accrued liabilities; related exchange gains or losses are recorded in the statement of income, for the period to which they refer.

- Other investments and other securities

Investments and other securities recorded in current assets designated for trading purposes and/or to meet treasury requirements, are stated at the lower of cost and fair value.

- Cash and banks

Cash and banks are stated at nominal value.

- Accruals and prepayments

Accruals and prepayments are recorded on the accrual basis.

• Provisions for liabilities and expenses**- Provisions for pensions and similar obligations**

These provisions refer to pensions, health care and other benefits in favor of employees, not regulated by specific laws but covered by local labor agreements and benefit plans operating at some Group companies.

The accounting method is based on the allocation of the entire cost at maturity over the service lives of the employees based on entitlement earned, using actuarial methods.

- Provision for income taxes

The provision includes deferred tax liabilities and tax losses that are certain or likely to be incurred but uncertain as to the amount or the date on which they will arise; definite and certain income taxes payable are recorded in a specific account in the balance sheet.

- Other provisions

Other provisions include liabilities that are certain or likely to be incurred but uncertain as to the amount or the date on which they will arise.

• Provision for employees' leaving indemnity

The provision for employees' leaving indemnity includes amounts payable to employees accrued on their behalf in accordance with specific laws or national labor contracts.

• Guarantees and commitments

Guarantees given to third parties and commitments are recorded at the contract value of the commitment assumed on behalf of the beneficiary.

Options granted to third parties and third-party securities held in deposit are recorded at nominal value.

• Financial instruments

Forward contracts and derivative financial instruments used for hedging purposes are recorded under commitments at the time the contract is signed, for the notional amount. Income and expenses, as well as any effects, corresponding to the difference between the original contract amount and the fair value at the end of the year, are accounted for on the accrual basis.

• Recognition of revenues

Revenues from the sale of products are recognized at the time of transfer of title of ownership which generally coincides with the delivery or shipment of the goods.

Revenues from sales are shown net of discounts and allowances.

• Research & development and advertising costs

Research & development and advertising costs are charged to the statement of income in the year incurred.

• Dividends

Dividends are recorded on a cash basis, gross of tax credits.

• Income taxes

Current income tax liabilities are determined on the basis of a realistic estimate of the tax expense payable under the current tax laws of the country; the related liability is shown in "taxes payable" net of advance payments, withholdings and tax credits.

Deferred taxes are calculated on the temporary differences existing between the value of assets and liabilities in the balance sheet and their tax basis (liability method). Any deferred tax liabilities are recorded in the provision for income taxes. Deferred tax assets are accounted for only where there is a reasonable certainty of recovery and these are recorded in "Other receivables".

CONSOLIDATED BALANCE SHEETS

Assets

B) Fixed assets

I) Intangible assets

The composition and changes in intangible assets are presented below:

	(in thousands of euros)						
	12/31/2002	Translation adjustment	Allocation of merger surplus	Increase	Decrease	Amor-tization ^(*)	12/31/2003
• Formation costs	10,616	(3)	(165)	14,304	-	(4,977)	19,775
• Patents and design patent rights	4,048	(23)	(1,234)	26	-	(1,109)	1,708
• Concessions, licenses, trademarks and similar rights	12,362	(6)	(2,843)	20,721	(3,157)	(2,233)	24,844
• Goodwill	39,912	(610)	-	15,840	(16,734)	(5,276)	33,132
• Difference on consolidation	508,269	-	-	20,162	(75,772)	(31,283)	421,376
• Other	86,795	(1,093)	(22,914)	30,860	-	(37,975)	55,673
	662,002	(1,735)	(27,156)	101,913	(95,663)	(82,853)	556,508

(*) net of the adjustment for the allocation of the merger surplus equal to Euros 6,810 thousand

The increase in “**formation costs**” is due to expenses relating to the share capital increase by Pirelli & C. S.p.A. and the start-up costs for the Pirelli & C. Real Estate S.p.A. franchising network.

“**Concessions, licenses, trademarks and similar rights**” mainly include the costs incurred by Parcheggi Bicocca S.r.l. to lay out the P7 and P9 parking lots in the Bicocca area as agreed with the City of Milan which granted the license to operate the lots until July 2032.

The increase in “**goodwill**” mainly refers to the goodwill generated by the purchase of the ex-Ras facility business from Aida S.r.l. in January 2003.

The “**difference on consolidation**” includes Euros 348,129 thousand representing the difference on the price paid for the underlying net equity of the company Pirelli S.p.A. which emerged following the purchase of shares by Pirelli & C. A.p.A. and by Pirelli & C. Luxembourg S.A., net of amortization (calculated over a period of 20 years). The decrease of Euros 75,772 thousand refers to the purchase of Pirelli S.p.A. shares during the year below net equity value.

The major items included in “**other**” relate to software applications costs, expenses for the development and implementation of the Group portal, expenses for new software for manufacturing and sales applications in the Tyres Sector and expenses for the implementation of e-business solutions, loan acquisition costs and leasehold improvements.

II) Property, plant and equipment

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

	(in thousands of euros)	
	12/31/2003	12/31/2002
Gross value		
• Opening balances	5,757,030	6,405,699
• Translation adjustment	(363,950)	(714,050)
• Change in scope of consolidation	13,039	1,551
• Allocation of merger surplus	(124,909)	-
• Additions	273,475	328,964
• Disposals	(163,794)	(265,134)
	5,390,891	5,757,030
Accumulated depreciation		
• Opening balances	3,350,624	3,579,799
• Translation adjustment	(268,401)	(390,047)
• Change in scope of consolidation	1,302	714
• Depreciation charge (*)	277,701	314,738
• Disposals	(124,930)	(154,580)
	3,236,296	3,350,624
Net book value	2,154,595	2,406,406

(*) net of the adjustment for the allocation of the merger surplus equal to Euros 14,056 thousand

The net decrease from the prior year is due to the combination of the following:

- translation adjustments, in reference to property, plant and equipment included in the financial statements of foreign companies;
- change in the scope of consolidation due to the first-time line-by-line consolidation in 2003 of principally OMS Facility S.r.l. and Est Erogazioni e Servizi e Tecnologie S.p.A. by Pirelli & C. Real Estate S.p.A.
- additions, which are lower than the prior year;
- disposals, mainly in reference to plants as a consequence of production rationalization;

Gross values include about Euros 22,159 thousand of assets which are no longer in use and are being held for transfer to other Group companies or disposal to third parties.

III) Financial assets

Investments went from Euros 3,442,079 thousand to Euros 3,108,930 thousand and can be analyzed as follows:

	(in thousands of euros)					
	12/31/2002	Change in scope of consolidation	Allocation of merger surplus	Increase	Decrease	12/31/2003
• Investments in unconsolidated subsidiaries	646	2,625	-	17,569	(1,459)	19,381
• Investments in jointly controlled subsidiaries	3,000,888	-	(700,000)	388,080	(100,297)	2,588,671
• Investments in associated companies	157,868	76	-	101,891	(72,026)	187,809
• Investments in other companies	282,677	197	(35,442)	112,825	(47,188)	313,069
	3,442,079	2,898	(735,442)	620,365	(220,970)	3,108,930

“Investments in unconsolidated subsidiaries” amount to Euros 19,381 thousand and consist of companies recently set up and/or not very significant to the consolidated financial statements in terms of the net equity or the results and/or in which the rights of the parent company are subject to severe and long-lasting restrictions.

Investments in unconsolidated subsidiaries can be analyzed as follows:

(in thousands of euros)			
Description	Country	% holding	Amount
foreign			
AFCAB Holdings (Proprietary) Ltd.	South Africa	50.00%	14,859
Pirelli & C. Real Estate Ltd.	United Kingdom	100.00%	100
italian			
Progetto Grande Bicocca Multisala S.r.l.(*)	Italy	100.00%	1,880
Alfa Due S.r.l.(*)	Italy	100.00%	2,482
Newco Re 1 S.r.l.	Italy	100.00%	30
Newco Re 2 S.r.l.	Italy	100.00%	10
Newco Re 3 S.r.l.	Italy	100.00%	10
Newco Re 4 S.r.l.	Italy	100.00%	10
Total			19,831

(*) accounted for using the equity method

“**Investments in jointly controlled subsidiaries**” amount to Euros 2,588,671 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 44,402 thousand).

“**Investments in associated companies**” amount to Euros 187,809 thousand, and increased from Euros 157,868 thousand at the end of the prior year. They can be analyzed as follows:

(in thousands of euros)	
real estate group	
Bernini Immobiliare S.r.l.	1,768
CFT Finanziaria S.p.A.	12,933
Continuum S.r.l.	3,633
Delta S.p.a	2,168
Domogest S.r.l.	1,588
FIM - Fabbrica Italiana di Mediazione S.r.l.	1,187
Geolidro S.r.l.	2,233
Localto S.p.a	1,697
M.S.M.C. Holding B.V.	11,640
M.S.M.C. Solferino S.a.r.l.	2,220
Esedra S.r.l.	2,624
Trixia S.r.l.	6,999
Dixia S.r.l.	6,442
Massetto 1 B.V.	14,911
Immobiliare Prizia S.r.l.	4,281
Iniziative Immobiliari S.r.l.	36,588
Popoy B.V.	11,449
Sci Roev Partners L.P.	2,516
IN Holding Italy S.a.r.l.	6,495
Induxia S.r.l.	2,509
Ininm Due S.a.r.l.	3,097
Aree Urbane S.r.l. (già Ortensia S.r.l.)	2,730
Progetto Bicocca La Piazza S.r.l.	600
Other minor companies	73
	142,381

industrial group

Power Cables Malaysia Sdn Bhd (Malaysia)	7,842
Drathcord Saar & Co. K.G. (Germany)	5,266
Rodco Ltd. (United Kingdom)	4,146
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)	1,178
Industriekraftwerk (Germany)	521
Euro Drive Car S.L. (Spain)	129
Other minor companies	824
	26,933

other

Eurostazioni S.p.A.	17,862
I.D.E.A. Granda Società consortile	633
	18,495

TOTAL
187,809

“**Investments in other companies**” amount to Euros 313,069 thousand and include Euros 207,179 thousand of shares owned in companies listed on the stock exchange and held in the portfolios of Pirelli & C. S.p.A., Pirelli Finance (Luxembourg) S.A. and Trefin S.r.l.. Such investments consist of shares held in Mediobanca, Impregilo, Società Metallurgica Italiana, Generale Industrie Metallurgiche, Banca Intesa, Gemina, Capitalia and RCS Mediagroup.

The change from the prior year is mainly attributable to the purchase of Capitalia S.p.A. shares (Euros 79,449 thousand), the purchase of Equinox shares (Euros 10,791 thousand), the subscription to the share capital increase by F.C. Internazionale Milano S.p.A. (Euros 11,719 thousand) and by Istituto Europeo di Oncologia S.r.l. (Euros 1,836 thousand), offset in part by the effect of the merger (Euros 35,442 thousand) and the sale of e.Biscom, Caltagirone Editore S.p.A. and Epiclink S.p.A. shares.

“**Financial receivables from associated companies**” refer to loans by the shareholders to companies in which the Pirelli & C. Real Estate Group holds minority stakes.

“**Financial receivables from other companies**”, due beyond one year, amount to Euros 56,217 thousand, and include:

- Euros 3,040 thousand of interest-bearing fixed rate loans;
- Euros 31,196 thousand of interest-bearing fixed rate obligatory deposits;
- Euros 8,747 thousand of interest-bearing floating rate loans;
- Euros 2,438 thousand of non-interest bearing security deposits;
- Euros 10,796 thousand of non-interest bearing loans.

Receivables due beyond five years total Euros 32,584 thousand.

“**Other securities**” total Euros 81,824 thousand compared to Euros 85,803 thousand at December 31, 2002 and mainly include Fenera Holding S.p.A. bonds (Euros 2,582 thousand) 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 82 million. No writedown was made since there was 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 only ordinary shares) for a weighted average carrying price of Euros 1.79 per share.

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 2.8 million. The valuation at cost has been maintained in the financial statements as there is no permanent impairment in value.

C) Current assets

I) Inventories

Inventories amount to Euros 1,222,014 thousand, compared to Euros 1,283,214 thousand in the prior year, and may be analyzed as follows:

	(in thousands of euros)	
	12/31/2003	12/31/2002
• Energy Cables and Systems Sector	395,030	385,211
• Telecom Cables and Systems Sector	58,213	91,144
• Tyres Sector	453,342	429,983
• Real Estate	325,035	383,702
• Other/consolidation adjustments	(9,606)	(6,826)
	1,222,014	1,283,214

The change in the method of valuing the strategic metals inventories from LIFO to FIFO had a positive effect of Euros 6 million on the operating profit, for the change in inventories during the year, and of Euros 5 million in extraordinary income, for the change in opening inventories.

II) Receivables

Receivables decreased from Euros 2,082,404 thousand at December 31, 2002 to Euros 1,929,486 thousand at December 31, 2003, and can be analyzed as follows:

	(in thousands of euros)			
	12/31/2003		12/31/2002	
	Financial	Trade and other	Financial	Trade and other
• Trade	–	1,326,740	–	1,355,815
• Unconsolidated subsidiaries	18,428	3,576	190	3,740
• Associated companies	32,723	134,084	34,382	65,810
• Other receivables	2,151	411,784	25,382	597,085
	53,302	1,876,184	59,954	2,022,450

Specifically:

– Trade receivables

Trade receivables from customers are detailed by due date as follows:

	(in thousands of euros)	
	12/31/2003	12/31/2002
• due within 1 year	1,468,773	1,507,816
• due beyond 1 year	469	540
• allowance for doubtful receivables	(142,502)	(152,541)
	1,326,740	1,355,815

No receivables are due beyond five years.

The carrying value of receivables, adjusted for probable future losses, approximates estimated fair value at year-end.

– **Receivables from unconsolidated subsidiaries**

With regard to financial receivables, the increase is mainly due to transactions on the current account by some subsidiaries with Pirelli & C. Real Estate S.p.A..

– **Receivables from associated companies**

With regard to financial receivables, the item refers to the loan made to Eurostazioni S.p.A. (Euros 32,425 thousand) consequent to transactions with Pirelli & C. S.p.A.

The most significant trade receivables refer to direct and indirect associated companies of Pirelli & C. Real Estate S.p.A. (Euros 120,865 thousand).

All amounts are receivable within one year.

– **Other receivables**

“Other receivables”, which amount to Euros 413,935 thousand, include the balance of deferred tax assets of Euros 67,153 thousand; amounts due from the tax authorities of Euros 198,454 thousand; receivables from sales of fixed assets of Euros 10,230 thousand; receivables from employees of Euros 9,407 thousand and receivables from social security agencies, export refunds and other minor amounts of Euros 128,691 thousand.

The amount due beyond one year and within five years is Euros 83,934 thousand, while receivables due beyond five years amount to Euros 38,831 thousand.

III) Current financial assets

“**Other securities**” amount to Euros 283,525 thousand and include the following:

- Euros 139,436 thousand of fixed rate bonds issued and guaranteed by banking institutions;
- Euros 78,863 thousand of floating rate bonds issued and guaranteed by banking institutions;
- Euros 2,052 thousand of fixed rate bonds issued and guaranteed by governments of various countries;
- Euros 2,200 thousand of floating rate bonds issued and guaranteed by governments of various countries;
- Euros 37,533 thousand of equity securities intended for sale;
- Euros 13,236 thousand of premiums paid on call options on Telecom Italia S.p.A. ordinary shares or Telecom Italia S.p.A. 2001-2010 convertible bonds;
- Euros 10,205 thousand of investment funds negotiable on demand.

The securities are held in safe-keeping at leading banking institutions.

IV) Cash and banks

“**Bank and postal deposits**” are concentrated in the financial companies, holding companies and subholding companies of the Group. Available liquidity is mainly invested in the short-term deposits market at leading banking counterparts primarily at interest rates reflecting the market rates at year-end.

D) Accrued income and prepaid expenses

“**Accrued income**”, calculated on the accrual basis, went from Euros 42,337 thousand at December 31, 2002 to Euros 40,453 thousand at December 31, 2003. Accrued income mainly relates to hedging revenues, interest income, insurance and other minor items.

“**Prepaid expenses**” went from Euros 42,594 thousand at December 31, 2002 to Euros 32,681 thousand at December 31, 2003. Prepaid expenses mainly relate to prepaid insurance, building rent and other minor items.

LIABILITIES AND SHAREHOLDERS' EQUITY

A) Shareholders' equity

Parent company interest

“Share capital” amounts to Euros 1,799,399 thousand at December 31, 2003 and consists of 3,325,619,031 ordinary shares and 134,764,429 savings shares, all with a par value of Euros 0.52 per share and normal dividend rights.

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

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

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

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

2. Share capital increase

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

3. Merger by incorporation

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

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

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

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

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

The “**share premium reserve**”, equal to Euros 500,291 thousand, decreased by Euros 49,382 thousand as a result of the reimbursement connected with the merger transaction described above.

The “**revaluation reserve**” went from Euros 707 thousand to Euros 1,680 thousand due to the replenishment of the monetary revaluation Law 72/83 reserve.

The “**legal reserve**” went from Euros 67,880 thousand to Euros 67,885 thousand following the appropriation of part of 2002 net income in order to reach one fifth of share capital at December 31, 2002.

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

Minority interest

The minority interest in shareholders' equity amounts to Euros 249,180 thousand, compared to Euros 2,693,450 thousand at the end of the prior year. The change is due mostly to the effect of the merger in addition to the balance of the results for the year 2003, the payment of last year's dividends and the foreign exchange effect due to the translation of the financial statements in euros.

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

	12/31/2003	12/31/2002
Shared Service Center s.c.r.l. (Italy)	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)	35.38%	35.56%
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%	32.85%
Turk Pirelli Kablo ve Sistemleri A.S. (Turkey)	16.25%	16.25%
Pirelli Telecom Cables Co. Ltd Wuxi (China)	13.29%	28.16%
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 pensions and similar obligations**” include accruals for pensions, health care and other benefits in favor of employees, not regulated by specific laws but covered by local labor agreements and benefit plans operating at some Group companies.

In those companies operating in the U.S.A. and the United Kingdom where defined benefit pension schemes are in place, the comparison between the liability for future obligations towards those entitled to benefits and the value of assets invested by the plans shows, at December 31, 2003, a deficit valued at about Euros 60 million, which will be amortized over the remaining service period of the participants in the plan in accordance with suitable actuarial methods.

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)	
	12/31/2003	12/31/2002
• Provision for current taxes	52,627	57,138
• Provision for deferred taxes	109,695	157,236
	162,322	214,464

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

	(in thousands of euros)	
	12/31/2003	12/31/2002
• Current taxes	113,198	96,129
• Deferred taxes	(42,995)	(8,717)
	70,203	87,412

Current taxes increased in 2003 compared to 2002 due to the general improvement in the results of the companies, in particularly the Energy and Telecom Cables and Systems Sectors. Such increase, however, was more than compensated by the reduction in the provision for deferred taxes carried by the Italian holding companies, taking into account their taxable income positions.

The impact of both the current and deferred taxes for 2003 was therefore lower than that of the previous year.

The Group companies which show tax liabilities generally display tax rates in line with the nominal rates applicable in the countries in which they operate:

Europe:		North America:	
Italy	38.25%	U.S.A.	40.00%
France	34.30%	Canada	33.00%
Spain	35.00%	South America:	
Germany	38.00%	Argentina	35.00%
United Kingdom	30.00%	Brazil	34.00%
Turkey	30.00%	Venezuela	34.00%
		Oceania:	
		Australia	30.00%

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

	(in thousands of euros)		
	Restructuring costs	Other	Total
Balance at December 31, 2002	176,151	155,755	331,906
• Translation adjustment	(6,151)	(10,880)	(17,031)
• Allocation of the merger surplus	-	387,781	387,781
• Utilization	(142,298)	(114,743)	(257,041)
• Increase	23,779	45,758	69,537
Balance at December 31, 2003	51,481	463,671	515,152

Utilizations of the **provision for restructuring costs** were in respect of the Energy Cables and Systems Sector for Euros 91,602 thousand, the Telecom Cables and Systems Sector for Euros 28,288 thousand and Corporate for Euros 21,974 thousand. The balance of the provision relates to the Energy Cables and Systems Sector for Euros 29,307 thousand, the Telecom Cables and Systems Sector for Euros 12,761 thousand and the Tyres Sector for Euros 9,413 thousand.

The increase in the provision for restructuring costs mainly relates to the reorganization plan for the industrial structures.

The total of **other provisions** of Euros 463,671 thousand includes accruals for litigation, industrial risks and claims, product warranties, and other contingencies. The effect of the merger refers to the put options granted to the shareholder banks of Olimpia and Hopa under the shareholders' agreements (Euros 280,925 thousand) and the pension funds of the U.S.A. and U.K. affiliates (Euros 106,856 thousand).

D) Payables

Payables amount to Euros 4,929,046 thousand, compared to Euros 5,081,927 thousand in the prior year, and may be analyzed as follows:

	(in thousands of euros)			
	12/31/2003		12/31/2002	
	Financial	Trade and other	Financial	Trade and other
• Bonds	1,150,004	-	1,164,796	-
• Convertible bonds	-	-	21,977	-
• Bank borrowings	1,271,441	-	1,637,782	-
• Other financial companies	159,803	-	99,726	-
• Advanced from customers	-	134,069	-	179,693
• Trade	-	1,380,117	-	1,259,407
• Unconsolidated subsidiaries	4,834	487	1	125
• Associated companies	9,609	46,809	752	33,840
• Taxes	-	192,871	-	193,214
• Social security agencies	-	56,999	-	56,789
• Other payables	-	522,003	7,759	426,066
	2,595,691	2,333,355	2,932,793	2,149,134

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

	(in thousands of euros)			
	12/31/2003		12/31/2002	
	within 1 year	beyond 1 year	within 1 year	beyond 1 year
• Bonds	4	1,150,000	4	1,164,792
• Convertible bonds	-	-	21,977	-
• Bank borrowings	750,681	520,760	970,317	667,465
• Other financial companies	136,810	22,993	41,071	58,655
• Unconsolidated subsidiaries	4,834	-	1	-
• Associated companies	9,609	-	752	-
• Other companies	-	-	7,759	-
	901,938	1,693,753	1,041,881	1,890,912

Financial payables

Financial payables are secured by liens and mortgages of Euros 66,658 thousand. Financial payables due beyond five years amount to Euros 175,106 thousand.

Additional disclosure is provided as follows:

– Bonds

These refer to Pirelli & C. S.p.A. 1998-2008 bonds of Euros 500 million, 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 million 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 million issued by Pirelli & C. S.p.A. in 1999, paying interest at 5.125 percent and maturing April 7, 2009.

– Convertible bonds

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

– Bank borrowings

Bank borrowings due within one year amount to Euros 750,681 thousand and include the current portion of long-term debt of Euros 360,729 thousand.

Bank borrowings due beyond one year amount to Euros 520,760 thousand and include floating rate loans of Euros 393,918 thousand and fixed rate loans of Euros 126,842 thousand.

– Other financial companies

The amount includes the liability posted for the exercise of the put option by Cisco Systems on the investment in Pirelli Submarine Telecom System Holding B.V. (Euros 60,800 thousand).

Trade and other payables

	(in thousands of euros)			
	12/31/2003		12/31/2002	
	within 1 year	beyond 1 year	within 1 year	beyond 1 year
• Advances from customers	97,845	36,224	177,702	1,991
• Trade	1,380,114	3	1,259,390	17
• Unconsolidate subsidiaries	487	–	125	–
• Associated companies	46,809	–	33,840	–
• Taxes	146,559	46,312	151,825	41,389
• Social security agencies	56,999	–	56,789	–
• Other payables	485,183	36,820	383,524	42,542
	2,213,996	119,359	2,063,195	85,939

– Associated companies

As for trade payables, the most significant amounts refer to Progetto Bicocca La Piazza S.r.l. (Euros 8,273 thousand), Progetto Bicocca Università S.r.l. (Euros 2,639 thousand), Trixia S.r.l. (Euros 1,566 thousand), Tiglio I S.r.l. (Euros 10,183 thousand), Aida S.r.l. (Euros 2,809 thousand) and Société Tunisienne des Industries De Pneumatiques S.A. (Euros 16,568 thousand).

– Taxes

The balance includes the liability for current income taxes and also includes the liability for the Irpeg and VAT tax amnesties filed by some Italian companies for Euros 13,969 thousand.

– Other payables

These amount to Euros 522,003 thousand and mainly include payables to employees of Euros 108,767 thousand, security deposits from customers for packaging guarantees of Euros 4,415 thousand, legal and consulting fees of Euros 5,912 thousand, purchases of fixed assets of Euros 33,980 thousand, notes payable of Euros 134,567 thousand and property management by third parties of Euros 13,229 thousand.

E) Accrued liabilities and deferred income

“**Accrued liabilities**” decreased from Euros 242,535 thousand at December 31, 2002 to Euros 230,873 thousand. They include the portion of exchange differences on hedging transactions, building leases payable, hedging costs and other minor items.

“**Deferred income**” increased from Euros 35,922 thousand at December 31, 2002 to Euros 78,235 thousand. They include installment payments received in advance.

MEMORANDUM ACCOUNTS

Memorandum accounts amount to Euros 5,405,446 thousand compared to Euros 5,193,153 thousand in the prior year.

Personal guarantees

– *Sureties on behalf of other companies*

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

Third party assets held in deposit

– *Securities held in deposit*

These include securities entrusted for administration.

Assets held by third parties

– *Securities held as guarantees and sureties*

These include 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*

These include Euros 186,133 thousand for the commitment undertaken by Pirelli & C. Real Estate S.p.A., Pirelli & C. Real Estate Agency S.p.A. and Centrale Immobiliare S.p.A. to purchase buildings not sold by associated companies. The caption also includes Euros 320,000 thousand for the commitment to purchase a part of the buildings owned by Imser 60 S.r.l.

– *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 shareholders of the associated company Iniziative Immobiliari S.r.l., referring to the Peabody group, for the forward purchase of the respective quotas, equal to 9.601 percent of the share capital of the associated company (Euros 18,258 thousand).

– *Nominal value of put options given to third parties*

These represent the nominal value of the put options granted to the shareholder banks of Olimpia S.p.A., Banca Intesa S.p.A. (Euros 584,680 thousand) and Unicredito Italiano S.p.A. (Euros 584,680 thousand) (the "Banks"), and to Edizione Finance International S.A./Edizione Holding S.p.A. (Euros 1,040,000 thousand) ("Edizione"), under the shareholders' agreement signed – with regard to Olimpia - between Pirelli & C. S.p.A. ("Pirelli&C") and, respectively, the Banks and Edizione.

A provision of Euros 233 million has been set up in the balance sheet for these options.

The put options granted to the Banks can be exercised from September 2006 or, before that date, in the case of a deadlock among the shareholders or in the case of the withdrawal of Pirelli & C. from the shareholders' agreements.

The conditions for exercising the put options are, with regard to the Euros 520,000 thousand for each bank, 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).

As for the remaining amount of Euros 64,680 thousand, the premium and Cap will not be applied to determine the price but

the Floor will continue to be used. The total sales price to Pirelli & C will be equal to the higher of Euros 3.53 and the weighted average price of reference recorded by the Telecom Italia share in the 30 trading days prior to the request for sale multiplied by a number of Telecom Italia shares equal to 18,322,946. It is understood that, should Telecom Italia proceed to put into place capital transactions not involving a change in the shareholders' equity which alter such formulas, the parties shall agree the eventual adjustments.

The put options granted to Edizione can be exercised in the case of a (I) deadlock situation among the shareholders, (II) withdrawal on the part of Pirelli & C. 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 options granted to Edizione is equal to, respectively, (I) the Price, (II) the Price increased by an additional 50 percent 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 aforementioned agreements with the Banks.

– *Sale of tax receivables*

This refers to the nominal value of the receivables from the tax authorities for taxes and interest earned, 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, 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 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 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 earlier possible date.

Hopa would obtain payment of an amount corresponding to Euros 0.74 per Telecom Italia S.p.A. 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 S.p.A. share or instrument.

In the event the Hopa Agreement is not renewed, Hopa would have the right to obtain a premium per Telecom Italia S.p.A. 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.

FINANCIAL INSTRUMENTS

It is the Group's policy to reduce financial risks deriving from international activities conducted in research, manufacturing and distribution through operating and financial management decisions.

To this end, the Group uses forward exchange contracts and derivative financial instruments to protect its operating results from unfavorable fluctuations of exchange rate and interest rates and the prices of raw materials. With an overall view towards reducing exposure to risk, the Group deals exclusively with leading bank counterparts and in highly liquid instruments.

The following table gives the position of derivative financial instruments in the major currencies:

	(in thousands of euros)			
	Gross nominam amounts (at year-end exchange rates)	Fair value	Maturing within one year	Maturing beyond one year
Exchange rate risk				
• Forward contracts	1,061	1,028	1,012	16
• Swaps contracts	117	128	87	41
• Futures contracts	48	30	30	-
Interest rate risk				
• Forward rate agreement	-	-	-	-
• Interest rate swaps	9	9	9	-
Raw materials price risk				
• Futures contracts	4	4	4	-

The fair value of derivative financial instruments used to hedge exchange rate, interest rate and materials price risks approximates the fair value of the positions being hedged.

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)				
Geographical areas	2003		2002	
Europe				
• Italy	1,490,676	22.34%	1,538,711	22.90%
• Other European countries	2,877,389	43.13%	2,759,848	41.08%
North America	624,266	9.36%	731,366	10.89%
Central and South America	821,859	12.32%	778,441	11.59%
Oceania, Africa and Asia	857,110	12.85%	909,549	13.54%
	6,671,300	100.00%	6,717,915	100.00%
Sector				
Energy Cables and Systems	2,636,668	39.52%	3,021,391	44.98%
Telecom Cables and Systems	426,998	6.40%	468,151	6.97%
Tyres	2,970,219	44.52%	2,857,000	42.53%
Real Estate	644,759	9.67%	424,050	6.31%
Inter-elimination	(7,344)	(0.11%)	(52,677)	(0.78%)
	6,671,300	100.0%	6,717,915	100.0%

- **Other revenues and income**

The caption "**miscellaneous**" includes rent income, commissions, insurance indemnities and refunds, gains from the ordinary disposal of property, plant and equipment and other minor items.

B) Production costs

- *Service expenses*

(in thousands of euros)		
	2003	2002
• Selling expenses	306,674	345,868
• Building construction expenses	75,653	99,311
• Building running expenses	83,353	45,441
• Ordinary maintenance expenses	62,010	75,697
• Commissioned outside expenses	34,432	35,132
• Electrical power expenses	161,162	167,892
• EDP expenses	44,936	45,724
• Insurance expenses	50,916	45,600
• Advertising expenses	115,733	126,610
• Consulting fees	100,790	86,732
• Employee loan expenses	27,915	22,259
• Technical assistance and other minor expenses	245,041	193,425
	1,308,615	1,289,691

- **Lease and rent expenses**

Lease and rent expenses mainly consist of rent expenses of Euros 58,030 thousand, operating lease installments of Euros 16,388 thousand and patent utilization rights of Euros 6,244 thousand.

- **Personnel costs**

Personnel costs consist of the following:

	(in thousands of euros)	
	2003	2002
• Salaries and wages	1,036,417	1,091,439
• Social security costs	243,109	243,318
• Leaving indemnity	47,157	45,121
• Pension and similar costs	23,465	27,356
• Other costs	21,027	19,205
	1,371,175	1,426,439

- **Depreciation of property, plant and equipment**

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

	(in thousands of euros)	
	2003 (*)	2002
• Buildings	28,947	31,503
• Plant and machinery	172,989	201,814
• Commercial and industrial equipment	44,946	45,300
• Other assets	30,819	36,121
	277,701	314,738

(*) including the effect of the allocation of the merger surplus of euro 14,056 thousand

- **Other operating expenses**

	(in thousands of euros)	
	2003	2002
• Administrative expenses	10,349	13,718
• Travel expenses	55,592	58,026
• Revenue stamps and local taxes	33,434	34,036
• Losses on the disposal of property, plant and equipment	3,021	6,940
• Legal fees	6,427	8,139
• Association dues	8,303	8,388
• Entertainment expenses	4,888	4,851
• Other minor expenses	120,464	119,166
	242,478	253,264

C) Financial income and expenses

• *Investment income*

	(in thousands of euros)	
	2003	2002
• Dividends from unconsolidated subsidiaries	3,679	1,389
• Dividends from associated companies	-	27
• Dividends from other companies	7,844	18,705
• Other income	2,909	-
	14,432	20,121

• *Other financial income*

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

	(in thousands of euros)	
	2003	2002
• Interest from unconsolidated subsidiaries	639	11
• Interest from associated companies	2,589	1,868
• Bank interest and other interest	29,992	55,817
• Other financial income from associated companies	540	-
• Miscellaneous financial income	31,736	55,853
• Gains on exchange	145,469	385,361
	210,965	498,910

“Miscellaneous financial income” includes revenues from forward contracts, gains on the sale of fixed-rate securities, interest on receivables due from the tax authorities and other minor financial income.

• *Interest and other financial expenses*

These expenses include:

	(in thousands of euros)	
	2003	2002
• Interest to unconsolidated subsidiaries	7	-
• Interest to associated companies	68	390
• Bond interest	64,264	56,836
• Bank interest and interest to other financial companies	114,572	152,810
• Other financial expenses to associated companies	21	-
• Miscellaneous financial expenses	55,700	113,177
• Losses on exchange	160,404	399,886
	395,036	723,099

“Miscellaneous financial expenses” include costs for forward contracts, losses on the sale of fixed-rate securities, bank commissions and other minor financial expenses.

D) Valuation adjustments to financial assets

• Revaluations

Revaluations amount to Euros 70,676 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.

• Writedowns

	(in thousands of euros)	
	2003	2002
• Losses of companies accounted for using the equity method	3,638	7,165
• Losses of jointly controlled subsidiaries	100,297	149,953
• Writedowns of investments	17,092	85,418
	121,027	242,536

“**Losses of companies accounted for using the equity method**” refer to the associated companies of Pirelli & C. Real Estate S.p.A..

“**Losses of jointly controlled subsidiaries**” refer to the valuation of Olimpia S.p.A..

“**Writedowns of investments**” include the writedown of the investments in F.C. Internazionale Milano S.p.A. (Euros 6,233 thousand), Gemina S.p.A. (Euros 4,100 thousand), Euroqube S.A. (Euros 3,750 thousand) and Alloptic S.p.A. (Euros 2,000 thousand).

E) Extraordinary items

• Extraordinary income

Extraordinary income amounts to Euros 69,064 thousand compared to Euros 259,108 thousand in the prior year, and may be analyzed as follows:

	(in thousands of euros)	
	2003	2002
• Gains on disposals	21,889	240,755
• Miscellaneous	47,175	18,353
	69,064	259,108

“**Gains on disposal**” mainly include Euros 8,769 thousand on the sale of the former R&D building in the Bicocca area, Euros 2,788 thousand for the sale of the building complex at S. Giuliano Milanese and Euros 6,375 thousand for the sale of a part of the area at Southampton (U.K.).

Last year, this caption had principally included Euros 173,744 thousand of gains from the shares offering on the stock market of 10,365,442 shares of the subsidiary Pirelli & C. Real Estate S.p.A. and Euros 53,611 thousand of gains on the sale of securities underlying the equity swaps in Pirelli & C. Real Estate S.p.A.'s portfolio.

“**Miscellaneous**” mainly comprises 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, Euros 4,583 thousand for prior years' taxes and Euros 4,930 thousand for the change in the valuation method of strategic metals inventories from LIFO to FIFO.

Last year, this caption had principally included the adjustment for the higher tax credit of Euros 5,108 thousand on dividends relating to the year ended June 30, 1998 of the company Pirelli Partecipazioni S.p.A., which was merged in Pirelli S.p.A., and prior years' taxes of Euros 2,465 thousand relating to the company Pirelli Labs.

• **Extraordinary expenses**

Extraordinary expenses amount to Euros 77,964 thousand, compared to Euros 341,840 thousand in the prior year. They may be analyzed as follows:

	(in thousands of euros)	
	2003	2002
• Losses on disposal	492	2,529
• Miscellaneous	77,472	339,311
	77,964	341,840

“**Miscellaneous**” mainly includes Euros 16,059 thousand for the costs of the merger incurred by Pirelli & C. S.p.A., Euros 6,910 thousand for lay-off costs, Euros 9,070 thousand for expenses relating to the reclamation of unused areas, Euros 13,969 thousand for the tax amnesty, Euros 4,000 thousand for the costs connected with the “Milan-Turin High-Speed Train Project” relative to the Settimo Torinese factory and Euros 1,950 thousand for the reorganization of the Arco Felice factory (Naples).

Last year, this caption had included the restructuring costs of the industrial structure of Euros 275,000 thousand and costs for the shares offering on the stock market of the subsidiary Pirelli & C. Real Estate S.p.A. of Euros 24,029 thousand.

Other information

• **Directors' and statutory auditors' fees**

Fees to the directors and statutory auditors of Pirelli & C. S.p.A., who also carry out these functions in other companies included in consolidation, are as follows:

	(in thousands of euros)
Directors	15,533
Statutory auditors	346
	15,899

• **Employees**

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

Senior executive/staff	10,465
Blue-collar	23,584
Temporary employment	2,509
	36,558

• *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)					
	12/31/2003	Year-end 12/31/2002	Change in %	2003	Average 2002	Change in %
Europe						
British pound	0.7048	0.6505	8.35%	0.6920	0.6288	10.05%
Swiss franc	1.5579	1.4524	7.26%	1.5212	1.4670	3.69%
Hungarian forint	262.5000	236.2900	11.09%	253.5875	242.9587	4.37%
Slovakian koruna	41.1700	41.5030	(0.80%)	41.4867	42.6933	(2.83%)
North America						
American dollar	1.2630	1.0487	20.43%	1.1311	0.9454	19.64%
Canadian dollar	1.6234	1.6550	(1.91%)	1.5818	1.4835	6.62%
South America						
Brazilian real	3.6491	3.7054	(1.52%)	3.4742	2.7709	25.38%
Venezuelan bolivar	2,020.8000	1,471.3261	37.35%	1,821.3716	1,112.7547	63.68%
Argentine peso	3.7006	3.5341	4.71%	3.3367	3.0120	10.78%
Oceania						
Australian dollar	1.6802	1.8556	(9.45%)	1.7381	1.7374	0.04%
Asia						
Chinese yuan RMB	10.4535	8.6832	20.39%	9.3622	7.8250	19.64%
Singapore dollar	2.1450	1.8199	17.86%	1.9703	1.6909	16.53%
Indonesian rupiah	10,621.8300	9,338.6735	13.74%	9,688.5555	8,794.7906	10.16%
Africa						
Egyptian pound	7.7675	4.8398	60.49%	6.6385	4.3581	52.33%
Ivory Coast franc	655.957	655.957	0.00%	655.9570	655.9570	0.00%

• *Net financial position*

The composition of the net financial position, which decreased from last year, is commented in the introduction to the Directors' Report on operations. Details are as follows:

	(in thousands of euros)	
	12/31/2003	12/31/2002
• Short-term financial payables	902	1,042
• Accrued interest expenses	50	50
• Cash and banks	(264)	(385)
• Other short-term securities	(284)	(199)
• Short-term financial receivables	(60)	(62)
• Accrued interest income	(14)	(22)
Net short-term (liquidity)/debt	330	424
• Medium/long term financial payables	1,695	1,891
• Medium/long term financial receivables	(276)	(259)
• Other securities	(4)	(6)
Net medium/long term debt	1,415	1,626
Net financial position	1,745	2,050

- *R & D expenditures*

In 2003, the Group incurred research and development expenditures and technical management costs for a total of Euros 204 million, entirely charged to operating expenses, compared to Euros 219 million in the prior year. 2003 expenditures represent 3.4 percent of industrial aggregate net sales and is in line with the previous year.

Such costs are detailed by geographical area as follows:

Europe	92%	Oceania	1%
North America	3%	South America	4%

Supplementary information

Consolidated statements of cash flows

(in thousands of euros)

	1/1 - 12/31/2003	1/1 - 12/31/2002
Net debt, at beginning of year	(2,050,385)	(2,029,561)
Translation adjustments	20,568	(20,937)
Operating profit	267,680	117,502
Depreciation and amortization	360,553	405,582
Increase in intangible assets	(88,549)	(89,489)
Increase in property, plant and equipment	(273,475)	(328,964)
Increase in financial assets	(69,027)	(304,693)
Disposal of intangible assets	16,705	5,123
Disposal of property, plant and equipment	13,799	28,017
Disposal of financial assets	10,427	248,017
Net investments	(390,121)	(441,989)
Changes in inventories	29,288	80,239
Changes in trade and other accounts receivable/payable	310,607	366,024
Changes in working capital	339,895	446,263
Changes in employee-related provisions and other provisions	3,165	(59,348)
Other changes	(17,253)	8,049
Free Cash Flows	563,920	476,059
Extraordinary items, net	(8,900)	(82,732)
Financial expenses, net	(148,369)	(177,422)
Income taxes, net	(70,202)	(87,412)
Olimpia S.p.A. capital increase	(388,080)	-
Purchase of Capitalia shares	(79,449)	-
Purchase of other minority holdings	(103,800)	-
Other changes	(66,327)	(155,096)
Net cash flows before dividends	(301,207)	(26,603)
Dividends paid	(63,772)	(141,218)
Net Cash Flows	(364,979)	(167,821)
Share capital increase of Pirelli & C S.p.A.	812,165	62,635
Reimbursement of share capital and reserves due to share withdrawals	(162,629)	-
Share capital increase of Pirelli & C Real Estate S.p.A.	-	105,299
Share capital increase minority interest	(103)	-
Changes in share capital	649,433	167,934
Net change in borrowings (*)	305,022	(20,824)
Net debt at end of year	(1,745,363)	(2,050,385)
(*) Financed by:		
Increase (decrease) in long-term loans	(210,622)	32,087
Increase (decrease) in short-term loans	(131,259)	449,725
Decrease (increase) in cash and banks and cash equivalents	36,859	(460,988)
	(305,022)	20,824

Consolidated statements of changes in shareholders' equity

(in thousands of euros)

	Share capital	Share premium reserve	Legal reserve	Cumulative translation reserve	Other reserves, retained earnings net income (loss) (*)	Total
Balance at december 31, 2001	325,408	501,054	65,014	(55,976)	1,283,205	2,118,705
Profit distribution, as per resolution of May 13, 2002						
• allocation to legal reserve			2,866		(2,866)	-
• dividends to shareholders					(52,365)	(52,365)
Conversion of bonds 1998/2003	14,015	48,620				62,635
Adjustment from translation of foreign currency financial statements				(137,654)		(137,654)
Net loss for the year					(58,383)	(58,383)
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						
• allocation to legal reserve			4		(4)	-
• dividends to shareholders					(41,871)	(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 statement				(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

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

Reconciliation of net results and shareholders' equity of Pirelli & C. S.p.A. and corresponding consolidated figures of the group at december 31, 2003

(in thousands of euros)

	Share Capital	Reserves	Net income (loss)	Total
Pirelli & C. S.p.A. financial statements	1,799,399	1,417,931	137,763	3,355,093
Earnings (losses) for the year of consolidated companies (before consolidation adjustments)			135,866	135,866
Capital and reserves of consolidated companies (before consolidation adjustments)		1,926,574		1,926,574
Consolidation adjustments:				
- carrying value of investments in consolidated companies		(2,055,453)		(2,055,453)
- intragroup dividends		122,987	(254,493)	(131,506)
- other		256,485	(58,493)	197,992
Group	1,799,399	1,668,524	(39,357)	3,428,567

List of investments

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	2,071,178	100.00%	Pirelli Cable Holding N.V.
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Bruxelles	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.
Superent Bis France S.A.	Energy Cables and Systems	Marne la Vallee	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.
Materialverwertungsgesellschaft Breuberg GmbH	Tyre	Breuberg/Odenwald	Euro	25,565	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.
Pneomobil 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 Tyre S.p.A.
Pirelli Hellas S.A. (in liquid.)	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.

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
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.
Alfa S.r.l.	Real Estate	Milan	Euro 2,600,000	100.00%		Pirelli & C. Real Estate S.p.A.
Altofim S.r.l.	Financial	Milan	Euro 78,000	100.00%		Pirelli & C. S.p.A.
Casaclick S.p.A.	Real Estate	Milan	Euro 1,635,210	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 Tyre 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.
						Pirelli & C. Real Estate Facility Management S.p.A.
Emmegiesse S.p.A.	Real Estate	Britto	Euro 250,000	51.00%		
Erato Finance S.r.l.	Real Estate	Conegliano	Euro 10,000	53.85%		Pirelli & C. Real Estate S.p.A.
Fibre Ottiche Sud - F.O.S. S.p.A.	Optical fibers	Battipaglia (SA)	Euro 5,200,000	100.00%		Pirelli Cavi e Sistemi Telecom S.p.A.
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.
Parcheggi 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%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Agency S.p.A. (formerly Pirelli & C. R. E. Commercial Agency S.p.A.)	Real Estate	Milan	Euro 832,000	100.00%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Credit Servicing S.p.A.	Financial	Milan	Euro 2,000,000	100.00%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Facility Management S.p.A.	Real Estate	Milan	Euro 561,000	100.00%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Franchising Agenzia Assicurativa S.r.l.	Real Estate	Milan	Euro 10,000	100.00%		Pirelli & C. Real Estate Franchising Holding Assicurativa S.r.l.

Company	Business	Headquarters	Share	Capital	Percentage ownership	Percentage of vote	Held by
Pirelli & C. Real Estate Franchising Holding S.r.l.	Real Estate	Milan	Euro	10,200	80.00%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Project Management S.p.A.	Real Estate	Milan	Euro	520,000	100.00%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Property Management S.p.A.	Real Estate	Milan	Euro	114,400	100.00%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Servizi di Rete S.p.A.	Real Estate	Milan	Euro	500,000	100.00%		Pirelli & C. Real Estate Franchising Holding S.r.l.
Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A.	Real Estate	Milan	Euro	1,500,000	100.00%		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%	1.25%	Pirelli & C. S.p.A. 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%	1.25%	Pirelli & C. S.p.A. 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 Tyre S.p.A.	Tyre	Milan	Euro	252,320,000	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.	Environment	Milan	Euro	25,500	100.00%		Pirelli & C. Ambiente S.p.A.
Progetto Ambiente Beta S.r.l.	Environment	Milan	Euro	25,500	100.00%		Pirelli & C. Ambiente S.p.A.
Progetto Ambiente Gamma S.r.l.	Environment	Milan	Euro	25,500	100.00%		Pirelli & C. Ambiente S.p.A.
Progetto Bicocca 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 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	10,000	100.00%		Partecipazioni Real Estate S.p.A.
Rofau S.r.l.	Real Estate	Milan	Euro	10,000	100.00%		Altofim S.r.l.
Shared Service Center s.c.r.l. (formerly Pirelli Informatica S.p.A.)	Information Systems	Milan	Euro	1,040,000	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.

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
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 Tyre S.p.A.
					1.00%	Polo Viaggi S.r.l.
					1.00%	Alfa Due S.r.l.
Somogi S.r.l.	Real Estate	Vimodrone (MI)	Euro	90,000	88.00%	Pirelli & C. Real Estate Facility Management S.p.A.
					100.00%	Pirelli & C. Real Estate S.p.A.
					100.00%	Partecipazioni Real Estate S.p.A.
					100.00%	Pirelli & C. Real Estate S.p.A.
					100.00%	Pirelli & C. S.p.A.
					100.00%	Pirelli & C. S.p.A.
Luxembourg						
Gamirco S.A.	Financial	Luxembourg	Swiss Franc	2,100,000	100.00%	Pirelli Finance (Luxembourg) S.A.
Pirelli Finance (Luxembourg) S.A.	Financial	Luxembourg	Euro	270,228,168	100.00%	Pirelli & C. S.p.A.
Pirelli International Finance S.A.	Reinsurance	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						
Pirelli Polska Sp.z.o.o.	Tyre	Varsaw	Pol. Zloty/mil.	625,771	100.00%	Pirelli Tyre (Europe) S.A.
Portugal						
Descos Fabrica Portuguesa de Material Electrico e Electronico S.A.	Energy Cables and Systems	Arcozelo Vnगाia	Euro	1,545,000	70.93%	Pirelli Energie Cables 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	Rus. 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						
Fercable S.A.	Energy Cables and Systems	Barcelona	Euro	3,606,073	100.00%	Pirelli Cables y Sistemas S.A.
Omnia Motor S.A.	Tyre	Barcelona	Euro	1,502,530	100.00%	Pirelli Neumaticos S.A.
Pirelli Cables y Sistemas S.A.	Energy Cables and Systems	Barcelona	Euro	24,000,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Esmar S.A.	Energy Cables and Systems	Torredembarra	Euro	8,714,675	100.00%	Pirelli Cables y Sistemas S.A.
Pirelli Neumaticos S.A.	Tyre	Barcelona	Euro	45,075,908	100.00%	Pirelli Tyre Holding N.V.

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Pirelli Telecom Cables y Sistemas Espana S.L.	Telecom Cables and Systems	Barcelona	Euro 12,000,000	100.00%		Pirelli Cavi e Sistemi Telecom S.p.A.
Sweden						
Pirelli Kablar och System AB	Energy Cables and Systems	Hoganas	Swed. Krona 100,000	100.00%		Pirelli Cables and Systems OY
Pirelli Tyre Nordic AB	Tyre	Bromma	Swed. Krona 950,000	100.00%		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.	Holding Tyre	Breukelen	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.
Turkey						
Celikord A.S.	Tyre	Istanbul	Turk. Lira/mil. 27,000,000	50.47%		Pirelli Tyre Holding N.V.
				0.27%		Pirelli Tyre S.p.A.
				0.27%		Pirelli Deutschland A.G.
				62.45%		Pirelli Tyre Holding N.V.
				0.23%		Pirelli Deutschland A.G.
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	Turk. Lira/mil. 134,000,000	0.08%		Pirelli UK Tyres Ltd
				0.15%		Pirelli Tyre S.p.A.
				0.08%		Pirelli Tyre (Europe) S.A.
				0.08%		Pirelli Neumaticos S.A.
				83.75%		Pirelli Cable Holding N.V.
Türk Pirelli Kablo ve Sistemleri A.S.	Energy Cables and Systems	Mudania / Bursa	Turk. Lira/mil. 9,828,000	83.75%		Pirelli Cable Holding N.V.
Zalsan Zirai Arac Lastikleri A.S.	Tyre	Istanbul	Turk. Lira/mil. 3,283,000	70.00%		Turk-Pirelli Lastikleri A.S.
United Kingdom						
Aberdare Cables Ltd	Energy Cables and Systems	London	Brit. Pound 609,654	100.00%		Pirelli General plc
Cable Makers Properties and Services Ltd	Energy Cables and Systems	East Molesey	Brit. Pound 33	63.53%		Pirelli General plc
Central Tyre Ltd	Tyre	London	Brit. Pound 100,000	100.00%		Pirelli UK Tyres Ltd
Comergy Ltd	Energy Cables and Systems	London	Brit. Pound 1,000,000	100.00%		Pirelli Cable Holding N.V.

(*) The purchase of the remaining 10 percent took place in January 2004

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Courier Tyre Company Ltd	Tyre	London	Brit. Pound 10,000	100.00%		Pirelli UK Tyres Ltd
CPK Auto Products Ltd	Tyre	London	Brit. Pound 10,000	100.00%		Pirelli UK Tyres Ltd
CTC 1994 Ltd	Tyre	London	Brit. Pound 984	100.00%		Central Tyre Ltd
Pirelli Cables (2000) Ltd	Energy Cables and Systems	London	Brit. Pound 118,653,473	100.00%		Pirelli General plc
Pirelli Cables (Industrial) Ltd	Energy Cables and Systems	London	Brit. Pound 9,010,935	100.00%		Pirelli General plc
Pirelli Cables (Supertention) Ltd	Energy Cables and Systems	London	Brit. 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	Brit. Pound 100,000	100.00%		Pirelli General plc
Pirelli Construction Company Ltd	Energy Cables and Systems	London	Brit. Pound 8,000,000	100.00%		Pirelli General plc
Pirelli Focom Ltd	Energy Cables and Systems	London	Brit. Pound 6,447,000	100.00%		Pirelli General plc
Pirelli General plc	Cables and Systems	London	Brit. 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	Brit. Pound 100,000	100.00%		Pirelli General plc
Pirelli Telecom Cables and Systems UK Ltd	Telecom Cables and Systems	London	Brit. Pound 100,000	100.00%		Pirelli General plc
Pirelli Tyres Ltd	Tyre	London	Brit. Pound 16,000,000	100.00%		Pirelli UK Tyres Ltd
Pirelli UK Employee Share Trustee Ltd	Financial	London	Brit. Pound 2	100.00%		Pirelli UK plc "C"
Pirelli UK Finance Ltd	Financial	London	Brit. Pound 6,969,280	100.00%		Pirelli UK plc "C"
Pirelli UK plc "A"	Holding Tyre	London	Brit. Pound 85,535,300	100.00%		Pirelli Tyre Holding N.V.
Pirelli UK plc "B1"	Energy Cables and Systems holding company	London	Brit. Pound 69,188,889	100.00%		Pirelli Cable Holding N.V.
Pirelli UK plc "B2"	Telecom Cables and Systems holding company	London	Brit. Pound 27,149,529	100.00%		Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli UK plc "C"	Finance holding company	London	Brit. Pound 11,625,978	100.00%		Pirelli & C. S.p.A.
Pirelli UK Tyres Ltd	Tyre	London	Brit. Pound 85,000,000	100.00%		Pirelli UK plc "A"

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 Telecom 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.

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Pirelli Power Cables and Systems USA LLC	Energy Cables and Systems	Wilmington (Delaware) US \$		10	100.00%	Pirelli North America Inc. "B2"
Pirelli RNC Inc.	Commercial	Wilmington (Delaware) US \$		1	100.00%	Pirelli Tyre Holding N.V.
Pirelli Tire LLC	Tyre	Wilmington (Delaware) US \$		1	100.00%	Pirelli North America Inc. "A"

Central/South America

Argentina

Fipla S.A.	Energy Cables and Systems	Buenos Aires	Arg. Peso	1	66.97%	Pirelli Consultora Conductores e Instalaciones S.A.I.C.
Pirelli Argentina de Mandatos S.A.	Services	Buenos Aires	Arg. Peso	500,000	100.00%	Pirelli Soci�t� G�n�rale S.A.
Pirelli Consultora Conductores e Instalaciones S.A.I.C.	Energy Cables and Systems	Buenos Aires	Arg. Peso	2,227	100.00%	Pirelli Cable Holding N.V.
Pirelli Energia Cables y Sistemas de Argentina S.A.	Energy Cables and Systems	Buenos Aires	Arg. Peso	44,509,458	74.91%	Pirelli Consultora Conductores e Instalaciones S.A.I.C.
					24.69%	Pirelli Cable Holding N.V.
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	19,016,500	99.02%	Pirelli Tyre Holding N.V.
					0.98%	Pirelli Tyre S.p.A.
Pirelli Telecomunicaciones Cables y Sistemas de Argentina S.A.	Telecom Cables and Systems	Buenos Aires	Arg. Peso	12,000	100.00%	Pirelli Telecomunika��es Cabos e Sistemas do Brasil S.A.
Tel 3 S.A.	Energy Cables and Systems	Buenos Aires	Arg. Peso	7,822,000	51.00%	Pirelli Energia Cables y Sistemas de Argentina S.A.

Brazil

Cordas Metalicas do Brasil Ltda	Tyre	Sumar�	Bra. Real	1,000	99.90%	Pirelli Pneus S.A.
					0.10%	Muria� Ltda
Muria� Ltda	Financial	Santo Andr�	Bra. Real	80,000,000	100.00%	Pirelli Pneus S.A.
Novacorp Consultora e Servi�os Corporativos Ltda	Holding	Santo Andr�	Bra. Real	6,000	99.98%	Pirelli S.A.
Pirelli & C. Real Estate Ltda	Real Estate	Santo Andr�	Bra. Real	2,000,000	30.00%	Pirelli S.A.
					60.00%	Pirelli & C. Real Estate S.p.A.
Pirelli Energia Cabos e Sistemas do Brasil S.A.	Energy Cables and Systems	Santo Andr�	Bra. Real	106,824,993	87.20%	Pirelli Cavi e Sistemi Energia S.p.A.
					12.22%	10.36% Pirelli S.A.
Pirelli Pneus Nordeste Ltda	Tyre	Feira de Santana	Bra. Real	29,991,402	100.00%	Pirelli Pneus S.A.
Pirelli Pneus S.A.	Tyre	Santo Andr�	Bra. Real	342,085,095	96.05%	Pirelli Tyre S.p.A.
					3.67%	0.79% Pirelli S.A.
Pirelli Produtos Especiais Ltda	Energy Cables and Systems	Cerquillo	Bra. Real	43,143,421	100.00%	Pirelli Energia Cabos e Sistemas do Brasil S.A.
Pirelli S.A.	Financial	Santo Andr�	Bra. Real	45,848,684	100.00%	Pirelli & C. S.p.A.
Pirelli Telecomunika��es Cabos e Sistemas do Brasil S.A.	Telecom Cables and Systems	Sorocaba	Bra. Real	81,288,046	90.23%	Pirelli Cavi e Sistemi Telecom S.p.A.
					9.33%	7.92% Pirelli S.A.

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Pneuc Comercial e Importadora Ltda	Tyre	San Paolo	Bra. Real 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. Instalaciones S.A.I.C.	Energy Cables and Systems	Santiago	Chile Peso/000 918,707	90.00%	10.00%	Pirelli Consultora Conductores e Cite S.A.
Pirelli Neumaticos Chile Limitada	Tyre	Santiago	US \$ 1,918,451	99.98%	0.02%	Pirelli Pneus S.A. Pneuc Comercial e Importadora Ltda
Colombia						
Pirelli de Colombia S.A.	Tyre	Santa Fe De Bogota	Col. Peso/000 3,315,069	92.91%	2.28%	Pirelli Pneus S.A. Pirelli de Venezuela C.A.
					1.60%	Muriaè Ltda
					1.60%	Pirelli Pneus Nordeste Ltda
					1.60%	Pneuc Comercial e Importadora Ltda
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Naucalpan	Mex. Peso 35,098,600	99.98%	0.02%	Pirelli Pneus S.A. Pneuc Comercial e Importadora Ltda
Servicios Pirelli Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso 50,000	99.00%	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 20,062,679	96.22%		Pirelli Tyre Holding N.V.
Africa						
Egypt						
Alexandria Tire Company S.A.E.	Tyre	Alexandria	Egy. Pound 393,000,000	86.81%		Pirelli Tyre S.p.A.
International Tire Company Ltd	Tyre	Alexandria	Egy. Pound 50,000	96.00%		Alexandria Tire Company S.A.E.
Ivory Coast						
SICABLE - Société Ivoirienne de Cables S.A.	Energy Cables and Systems	Abidjan	Cfa Fr. 740,000,000	51.00%		Pirelli Energie Câbles et Systèmes 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.
Tunis						
Auto Cables Tunisie S.A.	Energy Cables and Systems	Tunis	Tun. Dinar 4,450,000	51.00%		Pirelli Energie Câbles et Systèmes France S.A.

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
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 (formerly BICCGeneral Baosheng Cable Co. Ltd)	Energy Cables and Systems	Jiangsu	US \$ 19,500,000	67.00%		Pirelli Cables Asia-Pacific Pte Ltd
Pirelli Cables (Shanghai) Trading Co. Ltd	Energy Cables and Systems	Shanghai	US \$ 200,000	100.00%		Pirelli Cables Asia-Pacific Pte Ltd
Pirelli Telecom Cables Co. Ltd Wuxi	Telecom Cables and Systems	Xuelang Town	US \$ 29,941,250	86.71%		Pirelli Cable Overseas N.V.
Tianjin Pirelli Power Cables Co. Ltd (formerly Tianjin Top Power Cables Co. Ltd)	Energy Cables and Systems	Tianjin Municipality	US \$ 13,100,000	67.00%		Pirelli Cable Holding N.V.
India						
Pirelli Cables (India) Private Ltd	Energy Cables and Systems	New Delhi	India Rupee 10,000,000	100.00%		Pirelli Cable Holding N.V.
				0.00%		Pirelli Cavi e Sistemi Energia S.p.A.
Indonesia						
P.T. Pirelli Cables Indonesia	Energy Cables and Systems	Jakarta	US \$ 67,300,000	99.48%		Pirelli Cable Holding N.V.
				0.52%		Pirelli Cavi e Sistemi Energia S.p.A.
Japan						
P & A K.K.	Tyre	Tokyo	Jap. Yen 2,700,000,000	69.15%		Pirelli Tyre Holding N.V.
Pirelli K.K.	Tyre	Tokyo	Jap. Yen 40,000,000	100.00%		Pirelli Tyre (Europe) S.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%		Pirelli General plc
				50.00%		Pirelli Cable Holding N.V.
Pirelli Cables Asia-Pacific Pte Ltd	Energy Cables and Systems	Singapore	Sing. \$ 213,324,290	100.00%		Pirelli Cable Holding N.V.
Trans-Power Cables Pte Ltd	Energy Cables and Systems	Singapore	Sing. \$ 1,500,000	100.00%		Pirelli Cable Holding N.V.

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						
Italy						
Alfa Due S.r.l.	Real Estate	Milan	Euro 1,300,000	100.00%		Pirelli & C. Real Estate S.p.A.
Bicocca Center S.r.l.	Real Estate	Gavirate (VA)	Euro 51,000	100.00%		Progetto Grande Bicocca Multisala S.r.l.
Progetto Grande Bicocca Multisala S.r.l.	Real Estate	Milan	Euro 1,530,000	100.00%		Pirelli & C. Real Estate S.p.A.
Associated companies						
Europe						
Germany						
Drahtcord Saar Geschaefstfuehrungs GmbH	Tyre	Merzig	Deut. Mark 60,000	50.00%		Pirelli Deutschland A.G.
Drahtcord Saar GmbH & Co. K.G.	Tyre	Merzig	Deut. Mark 30,000,000	50.00%		Pirelli Deutschland A.G.
Kabeltrommel Gesellschaft mbH & Co K.G.	Energy Cables and Systems	Cologne	Deut. Mark 10,225,838	27.48%		Pirelli Kabel und Systeme GmbH
Italy						
Altair Zander Italia S.r.l. Management S.p.A.	Real Estate	Milan	Euro 10,330	50.00%		Pirelli & C. Real Estate Facility
Aree Urbane S.r.l. (formerly Ortensia S.r.l.)	Real Estate	Milan	Euro 100,000	10.75%		Pirelli & C. Real Estate 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.
CFT Finanziaria S.p.A.	Real Estate	Florence	Euro 23,660,000	46.98%		Partecipazioni Real Estate S.p.A.
Continuum S.r.l.	Real Estate	Milan	Euro 20,000	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.

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
Eurostazioni S.p.A.	Holding	Rome	Euro 60,000,000	31.67%		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 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.
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	Milan	Euro 12,000	16.00%		Partecipazioni Real Estate S.p.A.
Luxembourg						
Inimm Due S.a.r.l.	Real Estate	Luxembourg	Euro 240,950	25.00%		Pirelli & C. Real Estate S.p.A.
IN Holdings I S.a.r.l.	Real Estate	Luxembourg	Euro 3,768,500	25.00%		Pirelli & C. Real Estate S.p.A.
M.S.M.C. Solferino S.a.r.l.	Real Estate	Luxembourg	Euro 136,700	31.25%		Pirelli & C. Real Estate S.p.A.
Spain						
Optiwire S.L.	Energy Cables and Systems	Barcellona	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 1 B.V.	Real Estate	Amsterdam	Euro 19,000	33.00%		Pirelli & C. Real Estate S.p.A.
Popoy Holding B.V.	Financial	Rotterdam	Euro 26,550	25.05%		Pirelli & C. Real Estate S.p.A.
Spazio Industriale B.V.	Real Estate	Amsterdam	Euro 763,077	25.00%		Pirelli & C. Real Estate S.p.A.
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.

Company	Business	Headquarters	Share Capital	Percentage ownership	Percentage of vote	Held by
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.	Energy Cables and Systems	Szecsény	Hun. Forint/000	36,350	25.17%	MKM Magyar Kabel Muvek Rt.
Italy						
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.
Spain						
Euro Driver Car S.L.	Tyre	Barcelona	Euro	492,000	25.00%	Pirelli Neumaticos S.A.
					26.22%	Proneus S.L.
Proneus S.L. (*)	Tyre	Barcelona	Euro	3,005,06	51.00%	Pirelli Neumaticos S.A.
United Kingdom						
Pirelli & C. Real Estate Ltd. (*)	Real Estate	London	Euro	100,000	100.00%	Pirelli & C. Real Estate S.p.A.
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 \$	1,50	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

(*) These investments have not been consolidated since they are considered immaterial or the rights of the parent company are subject to restrictions or the investments were recently purchased

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.	Tyres	Vitry sur Seine	Euro 262,500	14.29%		Pirelli Pneumatici S.p.A.
Italy						
Eurofly Service S.p.A.	Services	Caselle Torinese	Euro 4,275,000	16.33%		Pirelli & C. S.p.A.
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.r.l.	Service	Turin	Euro 105,000	12.38%		Pirelli & C. S.p.A.
Tecnocittà S.r.l. (in liquid.)	Real Estate	Milan	Euro 547,612	12.00%		Pirelli & C. Real Estate S.p.A.
Poland						
Centrum Utylizacji Opon Otaganizacja 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.
Tunis						
Société Tunisienne des Industries de Pneumatiques S.A.	Tyre	Tunisi	Tun. Dinar 38,252,940	15.83%		Pirelli Pneumatici S.p.A.
Turkey						
Turk Edison Enerji (formerly Türk Sondel Enerji A.S.)		Cogeneration	Istanbul Turk. Lira/mil.	37,191	10.63%	Türk-Pirelli Lastikleri A.S.
				3.80%		Celikord A.S.

Independent Auditors' Report

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW DECREE N° 58 DATED 24 FEBRUARY 1998

To the Shareholders of
Pirelli & C. SpA


- 1 We have audited the consolidated financial statements of Pirelli & C. SpA as of and for the year ended 31 December 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards recommended by CONSOB, the Italian Commission for listed Companies and Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report dated 18 April 2003.

- 3 In our opinion, the consolidated financial statements present fairly the financial position of Pirelli & C. SpA as of 31 December 2003 and the results of its operations for the year then ended in accordance with the Italian regulation governing financial statements.

Milan, 23 April 2004

PricewaterhouseCoopers SpA



Fabio Facchini
(Partner)

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

Sede legale: Milano 20124 Via Vittor Pisani 20 Tel. 0267811 Fax 0266981433 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P. IVA e Reg. Imp. Milano 12979880155 Iscritta all'Albo Consob - Alli uffici: **Ancona** 60124 Via Corridoni 2 Tel. 07136881 **Bari** 70125 Viale della Repubblica 110 Tel. 0805429863 - **Bologna** 40122 Via delle Lanze 111 Tel. 051526611 - **Brescia** 25124 Via Cefalonia 70 Tel. 030219811 - **Firenze** 50129 Viale Milton 65 Tel. 0574627100 - **Genova** 16121 Piazza Dante 7 Tel. 01029041 - **Milano** 20122 Corso Europa 2 Tel. 0277851 - **Napoli** 80121 Piazza dei Martiri 30 Tel. 0817644441 - **Padova** 35137 Largo Europa 16 Tel. 0498762677 - **Palermo** 90141 Via Marziale Ligo 60 Tel. 091349737 - **Panna** 43100 Via Tanza 20A Tel. 0521242848 - **Roma** 00154 Largo Forchum 29 Tel. 06570251 - **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 - **Trento** 38100 Via Manzoni 16 Tel. 0461237004 - **Treviso** 31100 Piazza Crispi 8 Tel. 0422542726 - **Trieste** 34125 Via Cesare Balzani 18 Tel. 0403480781 - **Udine** 33100 Via Marinoni 12 Tel. 043225789 - **Verona** 37122 Corso Porta Nuova 175 Tel. 0458002561

Extraordinary session

Report drawn up by the directors pursuant to art. 72, paragraph 1, of Consob Regulation No. 11971 dated May 14, 1999, as amended.

Dear Shareholders,

We have convened the extraordinary session of the meeting to submit two proposed resolutions: one regards certain amendments to the bylaws of the company connected with Legislative Decree No. 6 dated January 17, 2003 – “*Underlying reform of corporations and cooperatives*” – (as later amended by Legislative Decree No. 37 dated February 6, 2004) and the other regards the delegation of power to the directors to increase share capital and issue convertible bonds. The individual resolutions and the underlying motivations are described for each below.

As to the first proposal:

Amendments to the bylaws: articles 1 (name of the company), 2 (corporate business purpose), 3 (registered office), 4 (term), 5 (share capital), 6 (shares), 7 (shareholders' meetings), 8 (quorum for constituting a meeting and voting), 9 (conduct of the shareholders' meetings), 10 (administration of the company), 11 (functions of the Board of Directors), 12 (convening Board of Directors' meetings and majorities), 14 (compensation to directors) and 16 (Board of Statutory Auditors).

1. Motivation for the proposal

Legislative Decree No. 6 dated January 17, 2003, changed, among other things, the articles of the Italian Civil Code that govern the life of corporations, thus requiring these legal entities to review and update the articles contained in their own bylaws. This is just what the law under delegate powers No. 366 dated October 3, 2001 had envisaged, among the general objectives of the Reform, that of *extending the scope of the autonomy of the bylaws*.

Taking its cue from the work of the legislators, the directors of Pirelli & C. wished to examine the current bylaws from a more global standpoint in order to achieve a series of objectives.

The first, which could be described as *technical* in nature, consists of an assessment of the provisions introduced by the new reform so that they could be considered for eventual inclusion in the company's own bylaws. The proposed amendments falling in this category are art. 4 on the subject of the extension of the term of the company, art. 5 on the subject of the increases in share capital against payment with the exclusion of option rights for a maximum of ten percent of the pre-existing capital, art. 6 with reference to the consequences of any introduction or limitation of restrictions regarding the circulation of shares, art. 7 regarding the rules for legitimizing participation in shareholders' meetings and the time limits within which the same must be convened, art. 9 on the matter of the powers of the Chairman of the shareholders' meeting, art. 11 with regard to the responsibilities of the Board of Directors and disclosure obligations and art. 12 on the subject of disclosure of matters for the attention of the Board.

The second objective, and perhaps the most important, is connected with the constant attention placed by the Board of Directors on the adoption of provisions which favor a growing participation of all the shareholders in the life of the company and in the decisions that are able to bring about the success of the enterprise. From this standpoint, after having changed Pirelli & C. from a limited partnership company to a corporation, the company wishes to submit, for your approval, the amendment to art. 10 (administration of the company), introducing the mechanism of the so-called *slates* for the appointment of members of the Board of Directors. This provision is meant to ensure that – should the shareholders decide to take advantage of the right stated therein by putting forward, according to the manner established by art. 10, at least two slates – one fifth of the members of the Board will be chosen among those indicated by the so-called *minority*. To complete and reinforce what was said above, the Board of Directors also proposes to add a feature to those already indicated on the subject of convening the Board of Directors' meeting, and specifically, to include in art. 12, that the meeting can be

convened when a written request is made by one fifth of the directors in office. Should you approve the proposal, the possible so-called *minority* directors (for the record, one fifth of the total number) would have an even greater possibility of influencing the conduct of the life of the company through being attributed the right to convene the administrative body.

These same needs are also addressed by the proposed amendment to art. 8 (*quorum* for constituting a meeting and voting) which, through the introduction of a second paragraph, provides for the possibility of the adoption of Regulations for Shareholders' Meetings, a document aimed at regulating – as recommended by the Self-disciplinary Code of listed companies, prepared by Borsa Italiana S.p.A. – the orderly and efficient conduct of the ordinary and extraordinary shareholders' meetings and participation by the shareholders on the matters for discussion.

Lastly, the proposed amendment to art. 7 (shareholders' meetings), in the part regulating the right to attend the meetings, stresses the attention given by the Board of Directors to the needs expressed by the investors. In fact, in proposing a regulation to legitimize participation in shareholders' meetings which is consistent with that indicated in art. 2370 of the Italian Civil Code, the Board did not deem it necessary to take advantage of the right to put into place a so-called "securities bloc", and in acting thus intended to motivate the participation also of those shareholders which to date had considered the legitimization regime as provided in the pre-existing law to be a penalizing factor.

The third objective – a detail, but equally useful for the purpose of the efficient conduct of corporate business – regards the change of certain provisions that were outdated or, in any case, susceptible to improvement. Articles falling in this category include art. 2 on the subject of the activities reserved by the law, the provision in art. 5 regarding contributions in kind or receivables, that of art. 12 on the means used for convening the shareholders' meetings and the possibility of a more flexible use of the means of communication for holding Board meetings (a feature also included in art. 16 for the Board of Statutory Auditors) as well as that of art. 16 on the subject of greater detail concerning the manner of the presentation of the slates for the appointment of the Board of Statutory Auditors.

The following paragraphs illustrate in detail the changes made to the individual articles of the bylaws.

Article 1 – Name of the company

Reflecting a now consolidated practice concerning the use of the name of the company, it was specified that *società per azioni* can be represented in its shortened form of S.p.A..

Article 2 – Corporate business purpose

The proposed amendment, of an entirely formal nature, is intended to emphasize that the company, besides the activities indicated in art. 11, paragraph 2 of the Banking Code, can not perform the other activities reserved by law to specific parties.

Article 3 – Registered office

As stated in art. 2328 of the Italian Civil Code, the city in which the registered office is located was indicated, eliminating reference to the street and street number.

Article 4 – Term

A proposal is put forward for the adoption of the authority, provided by art. 2437, paragraph 2, letter a), concerning the exclusion of the right of withdrawal in the event of the extension of the term of the company.

Article 5 – Share capital

Two amendments are proposed.

The first regards the introduction of the possibility allowed by art. 2441, paragraph 4, on the subject of the exclusion of options rights for a maximum limit of ten percent of the pre-existing share capital, on condition that the issue price corresponds to the market value of the shares and that this is confirmed in a specific report by the firm charged with the audit. It should be pointed out that, in the event of the approval of the aforementioned amendment to the bylaws, for the exclusion of option rights for the maximum limit indicated above (ten percent of pre-existing capital), it will be necessary to have the approval of the extraordinary shareholders' meeting which will pass a resolution with the majorities indicated in articles 2368 and 2369 of the Italian Civil Code, whereas for the exclusion of option rights for a percentage higher than that indicated above, the qualified *quorum* provided in art. 2441, paragraph 5, will continued to be applied.

The second amendment refers to the provision that share capital can be increased also by contributions in kind and receivables. The amendment is based upon the provisions of art. 2436, paragraph 5, which states that resolutions amending the bylaws produce effects only after they are recorded in the Companies Registry. Accordingly, where in the future the opportunity arises to proceed to increase share capital through a contribution in kind or receivables and the extraordinary shareholders' meeting intends to approve such resolution, your company would find itself – should the current prevailing interpretation be confirmed – in a position of calling two separate shareholders' meetings: the first, for the adoption of the amendment now submitted for your approval and later, once the resolution is recorded on the Companies Registry, the convening of the second meeting for the approval of the capital increase transaction.

Lastly, it was decided to reformulate the description of the share capital increases voted by the shareholders' meeting on May 7, 2003 to take into account the resolutions that have already been executed.

Article 6 – Shares

Two amendments are proposed.

The first regards the elimination of the seventh paragraph (disclosure to the common representative of the savings shareholders), the contents of which were reformulated with more detailed wording and was substantially re-proposed in art. 11 of the bylaws.

The second relates to the adoption of the authority, provided by art. 2437, paragraph 2, letter b), concerning the exclusion of the right of withdrawal in the event of the introduction or removal of restrictions concerning the circulation of shares.

Article 7 – Shareholders' meetings

The proposed amendments refer to: (i) the first paragraph, a more precise reference to the provisions of the bylaws on the subject at hand, (ii) the introduction of a new second paragraph concerning the possibility of a third call for extraordinary shareholders' meetings, in observance of the provisions of art. 2369, paragraph 6, of the Italian Civil Code, (iii) introduction of a new third paragraph concerning the right to attend shareholders' meetings according to the provisions of art. 2370, paragraph 2, of the Italian Civil Code and (iv) the times by which the ordinary shareholders' meeting must be called, as now set forth in art. 2364, paragraph 2, of the Italian Civil Code.

Article 8 – Quorum for constituting a meeting and voting

Elimination of the second paragraph is proposed since the *quorum* necessary for the appointment of the directors is stated in art. 10 of the bylaws. This paragraph would be replaced by a new second paragraph on the adoption of the Regulations for Shareholders' Meetings, a document aimed at regulating the orderly and efficient conduct of the ordinary and extraordinary shareholders' meetings and participation by the shareholders on the matters for discussion.

Article 9 – Conduct of the shareholders' meeting

The proposed amendments regard: (i) the first and second paragraphs, a more precise indication of the manner in which to proceed to appoint the Chairman of the shareholders' meeting, in the absence of the parties indicated in the same paragraph, and the appointment of the Secretary, in accordance with the provisions of art. 2371 and (ii) the third paragraph, also on the basis of art. 2371, paragraph 1, of the Italian Civil Code, a reformulation of the powers attributable to the Chairman of the shareholders' meeting.

Article 10 – Administration of the company

A proposal is presented for the adoption of the so-called slates for the appointment of the members of the Board of Directors. As stated earlier, the purpose of this proposal is to further foster the participation of the subjects indicated in the so-called *minority* in the life of the company, reserving for the latter, in the event of the presentation of at least two slates of candidates according to the manner indicated in the same art. 10, one fifth of the directors.

Article 11 – Functions of the Board of Directors

The proposed amendments regard two main elements.

The first, represented by the addition of a new second paragraph, refers to the attribution of authority to the Board of

Directors in certain of the cases indicated in art. 2365, paragraph 2, of the Italian Civil Code, and, in particular, resolutions concerning mergers in the cases provided by articles 2505 and 2505 bis of the Italian Civil Code, the setting up and closing of secondary offices, the reduction of share capital in the event of withdrawal of the shareholder, amendments to the bylaws to agree with the law and the transfer of the registered office within the national territory.

The second regards the control of information flows with regard to relations between the Board of Directors, the Board of Statutory Auditors and delegated bodies (art. 2381, paragraph 5, of the Italian Civil Code and art. 150, paragraph 1 of Legislative Decree No. 58 dated February 24, 1998) and with regard to the common representative of the savings shareholders (art. 145, paragraph 7, Legislative Decree No. 58 dated February 24, 1998.)

Article 12 – Convening Board of Directors' meetings and majorities

The proposed amendments regard: (i) the provision that the Board of Directors must be called when a written request is made by at least one fifth of the directors, (ii) the advance notice to the directors – taking into account the situation at hand – on the matters for the attention of the Board, (iii) the replacement, as a means of calling the board meeting, of the telex with e-mail and (iv) a more functional use of the means of communication for holding board meetings.

Article 14 – Compensation of the directors

The proposed amendment consists in the replacement of the references of the law to the word law.

Article 16 – Board of Statutory Auditors

The proposed amendments regard: (i) a more precise formulation of the manner of proving ownership of the minimum number of shares established for putting forward slates, in accordance with the provisions of art. 2370, paragraph 2, of the Italian Civil Code, (ii) the provision for the subdivision of the slates into two sections (one reserved for the indication of the standing statutory auditors and the other for alternate statutory auditors) for purposes of verifying, with greater precision, the possession of the requisites stated in the Ministry of Justice Decree No. 162 dated March 30, 2000 and art. 2397 of the Italian Civil Code and (iii) compliance of the procedure with that established for putting forward slates for the appointment of the Board of Directors. With regard to the latter aspect, it should be mentioned that, as indicated in art. 10, a reduction in the times is proposed for proving ownership of the number of shares necessary for putting forward the slates.

2. Exposition of the comparison of the articles of the bylaws for which amendments are being requested

The comparison of the current text of the articles of the bylaws with the proposed text which is being submitted for your approval is included in the proposed resolution which follows.

3. Evaluations by the Board of Directors on the matter of the possible recurrence of the right of withdrawal

The Board of Directors of Pirelli & C. S.p.A. does not believe that the above-described amendments to the bylaws, in addition to those that will later be illustrated with regard to the delegation of powers to the directors to increase share capital and issue convertible bonds, will give rise to the right of withdrawal by the shareholders under art. 2437 of the Italian Civil Code.

* * *

If in agreement, we ask you to approve the following

RESOLUTION

“The extraordinary shareholders' meeting,

- having taken note of the Directors' Report describing the proposed amendments to the articles 1 (name of the company), 2 (corporate business purpose), 3 (registered office), 4 (term), 5 (share capital), 6 (shares), 7 (shareholders' meetings), 8 (*quorum* for constituting a meeting and voting), 9 (conduct of the shareholders' meetings), 10 (administration of the company), 11 (functions of the Board of Directors), 12 (convening Board of Directors' meetings and majorities), 14 (compensation to directors) and 16 (Board of Statutory Auditors).

RESOLVES

a) to amend art. 1 of the bylaws as follows:

Current text

Article 1

A Corporation is hereby incorporated under the name *Pirelli & C. Società per Azioni*.

Proposed text

Article 1

A Corporation is hereby incorporated under the name *Pirelli & C. Società per Azioni* **or, in shortened form, Pirelli & C. S.p.A.**

b) to amend art. 2 of the bylaws as follows:

Current text

Article 2

The purpose of the company is the following:

- a) the acquisition of equity investments in other companies or corporations, both in Italy and abroad;
- b) the financing, the technical and financial coordination of the companies or corporations in which it has interests;
- c) the sale, ownership, management or placement of both government and private securities.

The company may carry out all transactions of any type whatsoever - excluding the collection of savings deposits from the public - connected to its corporate business purpose.

Proposed text

Article 2

The purpose of the company is the following:

- a) the acquisition of equity investments in other companies or corporations, both in Italy and abroad;
- b) the financing, the technical and financial coordination of the companies or corporations in which it has interests;
- c) the sale, ownership, management or placement of both government and private securities.

The company may carry out all transactions of any type whatsoever - **excluding the activities reserved by law** - connected to its corporate business purpose.

c) to amend art. 3 of the bylaws as follows:

Current text

Article 3

The registered office of the company is in Milan, at Via G. Negri 10.

Proposed text

Article 3

The registered office of the company is in Milan.

d) to amend art. 4 of the bylaws as follows:

Current text

Articolo 4

The duration of the company is fixed until the date of December 31, 2100.

Proposed text

Articolo 4

The duration of the company is fixed until the date of December 31, 2100.

The extension of the term does not give the right of withdrawal to the shareholders who do not take part in the approval of the relative resolution.

e) to amend art. 5 of the bylaws as follows:

Current text

Article 5

The share capital is Euros 1,799,399,399.20

Proposed text

Article 5

The share capital, **subscribed and paid in**, is equal to

(one billion seven hundred ninety nine million three hundred ninety nine thousand three hundred ninety nine and twenty cents) divided into 3,460,383,460 (three billion four hundred sixty million three hundred eighty three thousand four hundred sixty) shares with a par value of Euros 0.52 (fifty two cents) each consisting of 3,325,619,031 (three billion three hundred twenty five million six hundred ninety seven thousand three hundred twenty five) ordinary shares and 134,764,429 (one hundred thirty four million seven hundred sixty four thousand four hundred twenty nine) savings shares.

By resolution passed by the extraordinary shareholders' meeting held on December 22, 1998, the directors were granted the power to increase share capital, at one or more times, by a maximum amount of Euros 103,291,379.81 (one hundred three million two hundred ninety one thousand three hundred seventy nine and eighty one cents) and for a maximum time period of five years from the date of said resolution. The share capital increase may be carried out by issuing, also with a share premium, both ordinary and savings shares, and must be reserved for shareholders and/or holders of convertible bonds.

By resolution passed by the extraordinary shareholders' meeting held on December 22, 1998, the directors were granted the power to issue bonds, at one or more times, including bonds that are convertible both into ordinary shares or into savings shares, or bonds with warrants valid or the subscription of said shares, for a maximum par value amount of Euros 206,582,759.63

(two hundred six million five hundred eighty two thousand seven hundred fifty nine and sixty three cents) and for a maximum time period of five years from the date of said resolution, with the consequent possible increase of the share capital to serve the bond conversion.

The extraordinary shareholders' meeting of May 7, 2003 voted the following:

- a) to increase share capital, against payment, in divisible form, by and no later than December 31, 2003, for a maximum of Euros 1,014,185,020.68 (one billion fourteen million one hundred eighty five thousand and twenty and sixty eight cents), through the issue of a maximum 1,950,355,809 (one billion nine hundred fifty million three hundred fifty five thousand eight hundred and nine) ordinary shares of par value Euros 0.52 (fifty two cents)

Euros 1,799,823,565.80 (one billion seven hundred ninety nine million eight hundred twenty three thousand five hundred sixty five and eighty cents) divided into 3,461,199,165 (three billion four hundred sixty one million one hundred ninety nine thousand one hundred sixty five) shares of par value Euros 0.52 (fifty two cents) each, of which 3,326,434,736 (three billion three hundred twenty six million four hundred thirty four thousand seven hundred thirty six) ordinary shares and 134,764,429 (one hundred thirty four million seven hundred sixty four thousand four hundred twenty nine) savings shares.

In passing resolutions on share capital increases against payment, option rights can be excluded for a maximum of ten percent of the pre-existing capital, on condition that the issue price corresponds to the market price of the shares and that this is confirmed in a specific report by the firm charged with the audit. If voted by the shareholders' meeting, share capital can also be increased by contributions in kind or receivables.

The extraordinary shareholders' meeting on May 7, 2003 voted to increase share capital against payment, in divisible form, by and no later than June 30, 2006, for a maximum par value of Euros 203,041,192.12 (at March 24, 2004, Euros 202,617,025.52), through the issue, also at more than one time, of a maximum 390,463,831 (at March 24, 2004, 389,648,126) ordinary shares, at a per unit par value of Euros 0.52 (fifty two cents) each, with regular dividend rights, to be reserved exclusively and irrevocably for the

each, with dividend rights from January 1, 2003, to be offered in a rights offering to the shareholders, at a unit price equal to par value, in a ratio of 3 new ordinary shares for every 1 share of whatsoever class of stock owned;

- b) to attach to each share referred to in point a) a free warrant, that can be traded separately, valid to subscribe, at any time from January 1, 2004 to June 30, 2006, 1 new Pirelli & C. ordinary share, with regular dividend rights and a par value of Euros 0.52 (fiftytwo cents) for every 4 warrants held, at a unit price equal to par value;
- c) to consequently increase share capital against payment, in divisible form, by and not later than June 30, 2006, for a maximum par value of Euros 253,546,255.04 (two hundred fifty three million five hundred forty six thousand two hundred fifty five and four cents) through the issue, at one or more times, of a maximum of 487,588,952 (four hundred eighty seven million five hundred eighty eight thousand nine hundred fifty two) ordinary shares, of par value Euros 0.52 (fifty two cents) each, with regular dividend rights, to be reserved exclusively and irrevocably for the exercise of a maximum of 1,950,355,809 (one billion nine hundred fifty million three hundred fifty five thousand eight hundred nine) warrants attached to the shares referred to in the preceding point b).

By resolution voted by the extraordinary shareholders' meeting of May 7, 2003, the directors were granted the power to issue, at one or more times, up to a maximum of 100,000,000 (one hundred million) ordinary shares, by April 30, 2008, to be granted to the senior executive and cadres of the company and its subsidiaries and the subsidiaries of the latter, in Italy and abroad, pursuant to articles 2441 and/or 2349 of the Italian Civil Code.

f) to amend art. 6 of the bylaws as follows:

Current text

Article 6

The shares are divided into ordinary shares and savings shares.

Ordinary shares give the right to one vote per share; they may be either registered or bearer shares insofar as the law permits, and in this case may be converted, especially at the holder's request and expense, from one type to the other. Savings shares do not give the right to vote and, unless the law provides otherwise, are bearer shares.

At the request and expense of the shareholder they may be converted into registered shares.

As well as any rights and privileges provided for by law and in other parts of the present bylaws, savings shares shall have pre-emptive rights in the matter of paying-off of

exercise of 1,561,855,326 warrants (at March 24, 2004, warrants for 1,558,592,506) issued in execution of the resolution passed by the same shareholders' meeting on May 7, 2003.

By resolution voted by the extraordinary shareholders' meeting of May 7, 2003, the directors were granted the power to issue, at one or more times, up to a maximum of 100,000,000 (one hundred million) ordinary shares, by April 30, 2008, to be granted to the senior executive and cadres of the company and its subsidiaries and the subsidiaries of the latter, in Italy and abroad, pursuant to articles 2441 and/or 2349 of the Italian Civil Code.

Proposed text

Article 6

The shares are divided into ordinary shares and savings shares.

Ordinary shares give the right to one vote per share; they may be either registered or bearer shares insofar as the law permits, and in this case may be converted, especially at the holder's request and expense, from one type to the other. Savings shares do not give the right to vote and, unless the law provides otherwise, are bearer shares.

At the request and expense of the shareholder they may be converted into registered shares.

As well as any rights and privileges provided for by law and in other parts of the present bylaws, savings shares shall have pre-emptive rights in the matter of paying-off of

capital up to the full par value of same; in the event of a capital reduction due to loss, the par value of the saving shares will be reduced only by that part of loss exceeding the total par value of the other shares.

Savings shares keep the rights and privileges foreseen by law and by the present bylaws even in the event of exclusion of ordinary shares and savings shares from trading.

In order to ensure the common representative of the holders of savings shares, of adequate information about any transactions which might influence the trend in the market prices of the shares in that class, any communications concerning said transactions will promptly be sent to same, by the legal representatives.

In the event of a share capital increase being carried out by issuing shares of only one class, same must be offered as option rights to the shareholders of all classes of shares.

In the event of both ordinary shares and savings shares being issued:

- a) the holders of ordinary shares shall have the right to receive option rights for ordinary shares, and savings shares to make up any difference;
- b) the holders of savings shares shall have the right to receive options rights for savings shares, and ordinary shares to make up any difference.

g) to amend art. 7 of the bylaws as follows:

Current text

Article 7

The convocation of the shareholders' meeting, which may take place anywhere in Italy including in a place other than the registered office, the right to attend meetings and representation at same are all governed by law.

In view of the nature of the company's business and the special requirements arising therefrom, the ordinary shareholders' meeting may be convened within six months of the end of the financial period.

capital up to the full par value of same; in the event of a capital reduction due to loss, the par value of the saving shares will be reduced only by that part of loss exceeding the total par value of the other shares.

Savings shares keep the rights and privileges foreseen by law and by the present bylaws even in the event of exclusion of ordinary shares and savings shares from trading.

In the event of a share capital increase being carried out by issuing shares of only one class, same must be offered as option rights to the shareholders of all classes of shares.

In the event of both ordinary shares and savings shares being issued:

- a) the holders of ordinary shares shall have the right to receive option rights for ordinary shares, and savings shares to make up any difference;
- b) the holders of savings shares shall have the right to receive options rights for savings shares, and ordinary shares to make up any difference.

Any introduction or removal of restrictions on the circulation of shares does not give the right of withdrawal to shareholders who did not take part in the approval of the relative resolution.

Proposed text

Article 7

The convocation of the shareholders' meeting, which may take place anywhere in Italy including in a place other than the registered office, the right to attend meetings and representation at same are all governed by law **and the bylaws.**

The notice of the call of the shareholders' meeting can provide for a third call.

Shareholders who have sent communication to the company pursuant to art. 2370, paragraph 2, of the Italian Civil Code, within two days prior to the date of each single shareholders' meeting and who at the date of the meeting are in possession of suitable certification may attend the shareholders' meetings. The ordinary shareholders' meeting must be called within 120 days or, if special circumstance intervene, within 180 days from the end of the financial year-end; in the case of convening the meeting within 180 days, the directors must indicate the reasons for the

postponement in the directors' report on operations accompanying the financial statements.

h) to amend art. 8 of the bylaws as follows:

Current text

Article 8

The due constitution of the meeting and the validity of its resolutions are governed by law.

The voting *quorum* for the appointment of directors is established as a relative majority of the votes.

Proposed text

Article 8

The due constitution of the meeting and the validity of its resolutions are governed by law.

The conduct of the shareholders' meetings, besides being regulated by law and the bylaws, is also governed by the Regulations for Shareholders' Meetings, approved by resolution of the ordinary shareholders' meetings of the company.

i) to amend art. 9 of the bylaws as follows:

Current text

Article 9

The meeting shall be presided over by the Chairman of the Board of Directors, by a Deputy Chairman or by a Managing Director, in that order; whenever there are two or more Deputy Chairmen or Managing Directors, the chair shall be taken respectively by the senior in age. In the event of the absence of the above-indicated individuals, the chair shall be taken by another person chosen by the shareholders' meeting among the shareholders present.

The Chairman is assisted by a Secretary appointed by the meeting; there is no need to appoint a Secretary when the minutes of the meeting are drawn up by a notary public.

It is the duty of the Chairman of the meeting to verify the right to attend the meeting, including by means of proxy; to ascertain whether or not the meeting has been duly constituted and has achieved the quorum required in order to pass resolutions; to conduct and moderate the discussion; to establish the order and manner of voting as well as announce the results thereof.

The resolutions of the meeting shall be recorded in the minutes, which shall be signed by the Chairman and the Secretary of the meeting or the notary public.

The minutes of the extraordinary shareholders' meeting must be drawn up by a notary public appointed by the Chairman.

Proposed text

Article 9

The meeting shall be presided over by the Chairman of the Board of Directors, by a Deputy Chairman or by a Managing Director, in that order; whenever there are two or more Deputy Chairmen or Managing Directors, the chair shall be taken respectively by the senior in age. In the event of the absence of the above-indicated individuals, the chair shall be taken by another person chosen by the shareholders' meeting **by majority vote of the capital at the meeting.**

The Chairman is assisted by a Secretary appointed by the meeting **by majority vote of the capital at the meeting, and can also be chosen from outside the shareholders;** there is no need to appoint a Secretary when the minutes of the meeting are drawn up by a notary public.

The Chairman of the shareholders' meeting chairs the meeting and, according to the law and these bylaws governs the conduct of the meeting. To this end, the Chairman - among other things - verifies that the meeting is duly constituted; ascertains the identity of those present and their right to attend, also by proxy; ascertains the legal number for passing resolutions; directs the work, also establishing a different order of discussion of the matters indicated in the notice for convening the meeting. The Chairman also takes necessary action to conduct an orderly discussion and voting, stating the manner and ascertaining the results thereof.

The resolutions of the meeting shall be recorded in the minutes, which shall be signed by the Chairman and the Secretary of the meeting or the notary public.

The minutes of the extraordinary shareholders' meeting must be drawn up by a notary public appointed by the Chairman.

Any copies and extracts thereof, that have not been drawn up by a notary public, shall be certified as true copies by the Chairman of the Board of Directors.

Any copies and extracts thereof, that have not been drawn up by a notary public, shall be certified as true copies by the Chairman of the Board of Directors.

j) to amend art. 10 of the bylaws as follows:

Current text

Article 10

The company is managed by a Board of Directors composed of between seven and twenty-three members who shall remain in office for three years (unless the meeting fixes a shorter term of office at the time of making the appointment) and may be re-elected.

Proposed text

Article 10

The company is managed by a Board of Directors composed of between seven and twenty-three members who shall remain in office for three years (unless the meeting fixes a shorter term of office at the time of making the appointment) and may be re-elected. **The shareholders' meeting shall determine the number of members of the Board of Directors, a number that shall remain fixed until another resolution is passed.**

The appointment of the Board of Directors shall be made on the grounds of slates put forward by the shareholders, according to the following paragraphs, in which the candidates are listed by consecutive number. The slates put forward by the shareholders, undersigned by the parties presenting them, must be filed at the company's registered office and available to anyone on request at least ten days before the date fixed for the meeting in first call.

Each shareholder may put forward or take part in putting forward only one slate and each candidate shall be presented on only one slate, on penalty of ineligibility.

All shareholders who, alone or together with other shareholders, represent at least 2 percent of the shares with voting rights in the ordinary shareholders' meeting, have the right to put forward a slate, with the obligation of proving ownership of the number of shares necessary to put forward the slates within two days prior to the shareholders' meeting in first call. Statements must be filed together with the slates, within the terms indicated above, whereby the single candidates accept the nomination and attest, under their own personal responsibility, that no circumstances exist for ineligibility or incompatibility, and that they have the requisites prescribed for the position. A description of the personal and professional résumé of each individual standing for election must be filed with the statements, with eventual indication of the eligibility of the person to be qualified as an independent candidate.

Any slates put forward which do not comply with the aforesaid provisions shall be considered not to have been put forward.

Anyone with voting rights may vote for only one slate. The election of the Board of Directors is performed

as follows:

- a) four fifths of the directors to be elected, with roundings, in the case of a fraction of a number to the lower unit, are taken from the slate which has obtained the highest number of votes, in the consecutive order in which they are listed thereon;
- b) the remaining directors are taken from the other slates; to this end, the votes obtained by the slates themselves shall be divided successively for one, two, three, four - and so on - according to the number of directors to be elected. The quotients thus obtained will be consecutively applied to the candidates on each of these slates, in the respective order in which they appear on the slate. The quotients thus assigned to the candidates of the various slates will be ranked in a single descending classification.

Those with the highest quotients will be elected.

When more than one candidate has obtained the same quotient, the candidate on the slate which has not yet elected any directors or which has elected the lowest number of directors will be elected.

If none of these slates has as yet elected a director or all the slates have elected the same number of directors, the candidate on the slate which received the most votes shall be appointed. In the event of several slates obtaining the same number of votes, and again with the same quotient, a new run-off vote will be cast by all the shareholders present at the meeting and the candidate who obtains the simple majority shall be elected.

For the appointment of the directors who, for whatsoever reason, were not appointed by the procedures described herein, the meeting shall elect the directors by the majorities prescribed by law. If because one or more directors are not present during the year, the provisions of art. 2386 of the Italian Civil Code will apply.

The Board of Directors appoints a Chairman, **where this has not already been done by the shareholders' meeting**, and, if necessary, one or more Deputy Chairmen. In the event of the Chairman being absent, the chair shall be taken by a Deputy Chairman or a Managing Director, in that order; if there should happen to be two or more Deputy Chairmen or Managing Directors, the chair shall be taken respectively by the senior in age.

The Board shall appoint a Secretary, who is not necessarily a member of the Board.

Unless otherwise decided by the shareholders' meeting, the directors are not bound over by the prohibition mentioned under art. 2390 of the Italian Civil Code.

The Board of Directors appoints a Chairman, and, if necessary, one or more Deputy Chairmen.

In the event of the Chairman being absent, the chair shall be taken by a Deputy Chairman or a Managing Director, in that order; if there should happen to be two or more Deputy Chairmen or Managing Directors, the chair shall be taken respectively by the senior in age.

The Board shall appoint a Secretary, who is not necessarily a member of the Board.

Unless otherwise decided by the shareholders' meeting, the directors are not bound over by the prohibition mentioned under art. 2390 of the Italian Civil Code.

k) to amend art. 11 of the bylaws as follows:

Current text

Article 11

The Board is empowered with the management of the company and, for this purpose, is invested with the fullest powers for administration, except those, which according to the bylaws or by law, are reserved for the shareholders' meetings.

The Board of Directors, also through delegated bodies, informs the Board of Statutory Auditors on a timely basis about the activities conducted and the most important economic, financial and equity transactions carried out by the company and its subsidiaries; it specifically makes reference to transactions with potential conflicts of interest. The information is provided, at least quarterly, at the board meetings or Executive Committee meetings or by written communication to the Board of Statutory Auditors.

The Board is authorized to delegate those powers it wishes to confer on one or more of its members, eventually through the positions of Managing Directors, attributing single or collective signature powers as it deems to establish for the administration of the company. It may also delegate its competence to an Executive Committee composed of some of its members, whose compensation shall be established by the shareholders' meeting. It may also nominate one or more committees with consulting functions, also for purposes of updating the *corporate governance* structure to the recommendations issued from time to time by the competent authorities.

Proposed text

Article 11

The Board is empowered with the management of the **company** and, for this purpose, is invested with the fullest powers for administration, except those, which according to the bylaws or by law, are reserved for the shareholders' meetings.

Within the limits set by law, the Board of Directors has the authority to decide on the merger of companies in which Pirelli & C. S.p.A. owns at least 90 percent of the shares or quotas, the reduction of share capital in the event of the withdrawal of shareholders, amendments to the bylaws to conform with the law, the transfer of the legal registered office within the national territory, as well as setting up or closing secondary offices.

The Board of Directors **and the Board of Statutory Auditors are kept informed, also by the delegated bodies, about the activities carried out, the general performance of operations, the future outlook and the most important economic, financial and equity transactions carried out by the company and its subsidiaries; in particular, the delegated bodies refer about transactions in which they have an interest, on their own behalf or on behalf of third parties, or transactions that are influenced by the party, if any, exercising management and coordination activities. Communication is given on a timely basis and, in any case, at least quarterly, at meetings of the Board of Directors and Executive Committee, if appointed, or by written communication.**

In accordance with the timing and manner established for disclosing information to the market, the common representative of the holders of savings shares is informed, by the Board of Director or by the persons delegated for this purpose, about any corporate transactions which might influence the trend in the market prices of the shares in that class.

The Board is authorized to delegate those powers it wishes to confer on one or more of its members, eventually through the positions of Managing Directors, attributing single or collective signature powers as it deems to establish for the administration of the **company**.

It may also delegate its competence to an Executive Committee composed of some of its members, whose compensation shall be established by the shareholders' meeting.

It may also nominate one or more committees with consulting **and proposal** functions, also for purposes of updating the *corporate governance* structure to the recommendations issued from time to time by the competent authorities.

Lastly, the Board may appoint General Managers, Deputy General Managers, Managers and Deputy Managers and persons with power of attorney for single acts or categories of acts, establishing powers and competence. The appointment of Managers, Deputy Managers and persons with power of attorney for individual acts or categories of acts, can also be referred by the Board to the Managing Directors and the General Managers.

l) to amend art. 12 of the bylaws as follows:

Current text

Article 12

The Board shall meet at the invitation of the Chairman or whomsoever is acting on his behalf, at the registered office of the company or in any other place stated in the letter of convocation, every time he considers it in the best interests of the company, or whenever a meeting has been requested by one of the Managing Directors or by at least two standing statutory auditors.

However, the Board may validly pass resolutions, even failing any formal convocation, if all the board members and all the standing statutory auditors in office are present.

Board meetings shall be convened by means of a letter, telegram, telex or fax sent to the address of each director and each standing statutory auditor, at least five days before (or in urgent cases at least six hours before) the day set for the meeting.

Meetings of the Board and of the Executive Committee may be held by teleconference or videoconference. In this case the following must be guaranteed:

- a) identification of all the participants at each point in the connection;
- b) the possibility for each participant to intervene, to orally put forward same's own opinion, to view, receive and transmit all documentation, as well as the contextuality of considerations and resolutions.

Meetings of the Board of Directors and of the Executive Committee are considered to be held in the place in which the Chairman and the Secretary must be simultaneously.

The presence of at least the majority of the members is necessary for the resolutions of the Board to be deemed

Lastly, the Board may appoint general managers, deputy general managers, managers and deputy managers and persons with power of attorney for single acts or categories of acts, establishing powers and competence. The appointment of managers, deputy managers and persons with power of attorney for individual acts or categories of acts, can also be referred by the Board to the Managing Directors and the General Managers.

Proposed text

Article 12

The Board shall meet at the invitation of the Chairman or whomsoever is acting on his behalf, at the registered office of the company or in any other place stated in the letter of convocation, every time he considers it in the best interests of the company, or whenever a meeting has been requested **in writing** by one of the Managing Directors **or by one fifth of the directors in office** or by at least two standing statutory auditors.

The Chairman communicates the matters for discussion at the board meeting in advance and sees that adequate information about the matters for examination are provided to all the directors, taking into account the situation at hand.

Board meetings shall be convened by means of a letter, telegram, fax **or e-mail** sent to the address of each director and each standing statutory auditor, at least five days before (or in urgent cases at least six hours before) the day set for the meeting.

However, the Board may validly pass resolutions, even failing any formal convocation, if all the board members and all the standing statutory auditors in office are present.

Participation at the meetings of the Board and of the Executive Committee, if appointed, may take place - whenever the Chairman or whomsoever is acting on his behalf, ascertains the necessity - through means of telecommunication that allow all the participants to take part in the discussion and have the same information.

Meetings of the Board of Directors and of the Executive Committee, **if appointed**, are considered to be held in the place in which the Chairman and the Secretary must be simultaneously.

The presence of at least the majority of the members is necessary for the resolutions of the Board to be deemed

valid, and the favorable vote of the majority of those present is required. In the event of a tie in votes, the casting vote shall be that of the Chairman.

The resolutions of the Board, even when passed by meetings held by teleconference or by videoconference, are recorded in a special book signed by the Chairman and the Secretary. Any copies and extracts thereof, that have not been drawn up by a notary public, shall be certified as true copies by the Chairman.

m) to amend art. 14 of the bylaws as follows:

Current text

Article 14

The members of the Board of Directors are entitled to annual compensation established by the shareholders' meeting and shall be reimbursed for all expenses incurred during the course of their duties.

The compensation to directors invested with special duties is established by art. 2389, paragraph 2, of the Italian Civil Code.

n) di modificare l'art. 16 dello statuto sociale come segue:

Current text

Article 16

The Board of Statutory Auditors is composed of three standing statutory auditors and two alternate statutory auditors who must hold the requisites required by existing laws and regulations; to this end, account will be taken that the matters and sectors of business strictly inherent to those of the company are those indicated in the corporate business purpose with particular reference to companies or entities operating in the industrial, banking, insurance, real estate and services sectors in general.

The ordinary shareholders' meeting shall elect the Board of Statutory Auditors and determine its compensation. The minority shareholders shall appoint one standing statutory auditor and one alternate statutory auditor.

With the exception of the provisions of the second last paragraph of the present article, the appointment of the Board of Statutory Auditors shall be made on the grounds of slates put forward by the shareholders in which candidates are listed under consecutive numbers.

Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.

All shareholders who, alone or together with other shareholders, represent at least 2 percent of the shares with voting rights in the ordinary shareholders' meeting, have the right to put forward a slate.

valid, and the favorable vote of the majority of those present is required. In the event of a tie in votes, the casting vote shall be that of the Chairman.

The resolutions of the Board, even when passed by meetings held **through means of telecommunication**, are recorded in a special book signed by the Chairman and the Secretary. Any copies and extracts thereof, that have not been drawn up by a notary public, shall be certified as true copies by the Chairman.

Proposed text

Article 14

The members of the Board of Directors are entitled to annual compensation established by the shareholders' meeting and shall be reimbursed for all expenses incurred during the course of their duties.

The compensation to directors invested with special duties is established **by the Board of Directors after hearing the opinion of the Board of Statutory Auditors.**

Proposed text

Article 16

The Board of Statutory Auditors is composed of three standing statutory auditors and two alternate statutory auditors who must hold the requisites required by existing laws and regulations; to this end, account will be taken that the matters and sectors of business strictly inherent to those of the company are those indicated in the corporate business purpose with particular reference to companies or entities operating in the industrial, banking, insurance, real estate and services sectors in general.

The ordinary shareholders' meeting shall elect the Board of Statutory Auditors and determine its compensation. The minority shareholders shall appoint one standing statutory auditor and one alternate statutory auditor.

With the exception of the provisions of the **third last** paragraph of the present article, the appointment of the Board of Statutory Auditors shall be made on the grounds of slates put forward by the shareholders in which candidates are listed under consecutive numbers.

Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.

All shareholders who, alone or together with other shareholders, represent at least 2 percent of the shares with voting rights in the ordinary shareholders' meeting, have the right to put forward a slate, **with the obligation of**

The slates of candidates, undersigned by the parties presenting them, must be filed at the company's registered office at least ten days before the day fixed for the meeting in first call. A description of the professional résumé of the individuals standing for election must be enclosed with the slates together with statements whereby the single candidates accept the nomination and attest, under their own personal responsibility, that no circumstances exist for ineligibility or incompatibility, and that they comply with requirements prescribed by law or by the bylaws for the position.

Any slates put forward which do not comply with the aforesaid provisions shall be considered not to have been put forward.

Each candidate may be included on only one slate, under penalty of ineligibility.

Likewise, any individuals who are not in possession of the requisites established by the applicable rules and regulations or who already hold the position of standing statutory auditor in more than five companies with stocks listed on regulated Italian markets, with the exception of the subsidiaries of Pirelli & C. may not be appointed as statutory auditors.

Each individual with voting rights may vote for only one slate. The election of the members of the Board of Statutory Auditors is performed as follows: two standing statutory members and one alternate member are taken from the slate which has obtained the highest number of votes, in the consecutive order in which they are listed thereon; the remaining standing statutory member and the other alternate member are taken from the slate which has obtained the highest number of votes from the meeting after the first slate, again in the consecutive order in which same are listed thereon; in the event of several slates obtaining the same number of votes, a new run-off vote between the said slates will be cast by all the shareholders present at the meeting, and the candidates on the slate which obtains the simple majority of the votes will be appointed.

The Chairman of the Board of Statutory Auditors shall be the standing statutory member indicated as the first candidate on

proving ownership of the number of shares necessary to put forward the slates within two days prior to the shareholders' meeting in first call. Each shareholder may put forward or take part in putting forward only one slate.

The slates of candidates, undersigned by the parties presenting them, must be filed at the company's registered office, **available to anyone on request**, at least ten days before the day fixed for the meeting in first call. A description of the professional résumé of the individuals standing for election must be enclosed with the slates together with statements whereby the single candidates accept the nomination and attest, under their own personal responsibility, that no circumstances exist for ineligibility or incompatibility, and that they comply with requirements prescribed by law or by the bylaws for the position.

Any slates put forward which do not comply with the aforesaid provisions shall be considered not to have been put forward.

Each candidate may be included on only one slate, under penalty of ineligibility.

Likewise, any individuals who are not in possession of the requisites established by the applicable rules and regulations or who already hold the position of standing statutory auditor in more than five companies with stocks listed on regulated Italian markets, with the exception of the subsidiaries of Pirelli & C. may not be appointed as statutory auditors.

The slates have two sections: one for the candidates for standing statutory auditors and one for the candidates for alternate statutory auditors. The first candidate of each section must be taken from among the members of the Register of Accounting Auditors who have exercised the activity of legal control of accounts for a period of not less than three years.

Each individual with voting rights may vote for only one slate. The election of the members of the Board of Statutory Auditors is performed as follows:

- a) two standing statutory members and one alternate member are taken from the slate (**the so-called majority slate**) which has obtained the highest number of votes, in the consecutive order in which they are listed thereon;
- b) the remaining standing statutory member and the other alternate member are taken from the slate which has obtained the highest number of votes from the meeting after the first slate (**the so-called minority slate**) again in the consecutive order in which same are listed thereon; in the event of several slates obtaining the same number of votes, a new run-off vote between the said slates will be cast by all the shareholders present at the meeting, and the candidates on the slate which obtains the simple majority of the votes will be appointed.

The Chairman of the Board of Statutory Auditors shall be the standing statutory member indicated as the first candidate on

the slate which obtained the highest number of votes. In case of death, waiver or resignation of a Statutory Auditor, the alternate belonging to the same slate as the resigned statutory auditor shall replace him. In the event of replacement of the Chairman the Board of Statutory Auditors, the chair shall be taken by the other standing statutory member on the slate to which the resigning Chairman belonged; if it is not possible to perform substitutions and replacements as set out hereinabove, then a meeting shall be convened to integrate and complete the Board of Statutory Auditors and which shall pass resolutions with a relative majority.

When the meeting has to make provisions, pursuant to the terms of the foregoing paragraph or to the terms of law, for the appointment of standing statutory auditors and/or alternates needed to complete the Board of Statutory Auditors, it shall proceed as follows: if statutory auditors appointed from the majority slate have to be replaced, then the appointment is made with a relative majority vote without being tied to any slate; if, on the other hand, statutory auditors appointed by the minority shareholders have to be replaced, the meeting shall replace them with a relative majority vote choosing names where possible from amongst the candidates indicated on the slate on which the statutory auditor to be replaced appeared.

If only one single slate has been put forward, then the meeting shall cast its vote in relation to that slate; if the slate obtains a relative majority, then the first three candidates on the slate in consecutive order shall be appointed as the standing statutory auditors, and the fourth and fifth candidate shall be appointed as alternate statutory auditors; Chairman of the Board of Statutory Auditors shall be the person indicated at the top of the slate put forward; in case of death, waiver or resignation of a statutory auditor, and in the event of substitution of the Chairman of the Board of Statutory Auditors, they shall be replaced respectively by an alternate statutory auditor and a standing statutory auditor in the order arising from the consecutive numbering of the said slate.

Failing any slates, the Board of Statutory Auditors and its Chairman shall be appointed by the shareholders' meeting with the majorities prescribed by law.

Resigning statutory auditors may be re-elected.

the slate which obtained the highest number of votes. In case of death, waiver or resignation of a Statutory Auditor, the alternate belonging to the same slate as the resigned statutory auditor shall replace him. In the event of replacement of the Chairman the Board of Statutory Auditors, the chair shall be taken by the other standing statutory member on the slate to which the resigning Chairman belonged; if it is not possible to perform substitutions and replacements as set out hereinabove, then a meeting shall be convened to integrate and complete the Board of Statutory Auditors and which shall pass resolutions with a relative majority.

When the meeting has to make provisions, pursuant to the terms of the foregoing paragraph or to the terms of law, for the appointment of standing statutory auditors and/or alternates needed to complete the Board of Statutory Auditors, it shall proceed as follows: if statutory auditors appointed from the majority slate have to be replaced, then the appointment is made with a relative majority vote without being tied to any slate; if, on the other hand, statutory auditors **elected from the minority slate** have to be replaced, the meeting shall replace them with a relative majority vote choosing names where possible from amongst the candidates indicated on the slate on which the statutory auditor to be replaced appeared.

For the appointment of the statutory auditors who, for whatsoever reason, were not appointed by the procedures described herein, the meeting shall elect the statutory auditors by the majorities prescribed by law.

Resigning statutory auditors may be re-elected.

Participation at the meetings of the Board of Statutory Auditors may take place - whenever the Chairman or whomsoever is acting on his behalf, ascertains the necessity - through means of telecommunication that allow all the participants to take part in the discussion and have the same information.

- o) to confer to the Board, and on its behalf the Chairman, Deputy Chairmen and Managing Directors, separately, any and all powers necessary to fulfill every formality necessary so that the adopted resolutions can be registered in the Companies Registry, accepting and introducing in the same the amendments, additions or deletions, formal and not substantial, eventually required by the appropriate authorities.

* * *

As to the second proposal:

Delegation of powers to the directors, pursuant to article 2443 of the Italian Civil Code, for the right to increase, at one or more times, for a maximum amount of par value Euros 600 million, the share capital, through the issue of ordinary and/or savings shares, through a rights offering to the shareholders and convertible bondholders, with the possibility of exclusion of the rights offering, pursuant to the interpretation of art. 2441, last paragraph, of the Italian Civil Code and art. 134, paragraph 2, of Legislative Decree No. 58/1998, where the shares are offered for subscription to the employees of Pirelli & C. S.p.A. or companies controlled by it.
Delegation of powers to the directors, pursuant to article 2420-ter of the Italian Civil Code, for the right to issue, at one or more times, for a maximum amount of face value Euros 1,000 million, bonds convertible into ordinary and/or savings shares or carrying warrants valid for the subscription of said shares to be offered through a rights offering to the shareholders and convertible bondholders.

1. Motivation for the proposal

We would like to remind you that, by resolution passed on December 22, 1998, the shareholders' meeting authorized the directors – for a maximum period of five years – to increase share capital for a maximum amount of par value Euros 103.2 million and to issue bonds for a maximum face value of Euros 206.5 million.

Considering that said authorizations – moreover, never used – expired last December, it would appear appropriate to repeat the authorizations. This proposal is based upon the same position taken in 1998, and that is, the advantage of reducing as far as possible, where necessary, the times needed to obtain new financial resources for the company for any transactions that it might not otherwise be able to seize because of the time factor. Moreover, it should also be mentioned that, currently, the use of these powers does not fall under the programs of the company.

It would also appear appropriate to propose that the maximum limits of the delegation of powers should be raised to a par value of Euros 600 million with regard to the authorization for the issue of shares of the company and Euros 1,000 million for the issue of convertible bonds. This is in consideration of the present corporate structure of the Group, which sees a strengthening of the role of coordination carried out by Pirelli & C., and the amount of the present share capital, which is considerably higher also due to the complete success of the transactions approved last year. Furthermore, it should be pointed out that ratio of the amounts authorized by the delegations of power to the share capital subscribed to and paid in are substantially in line with that existing at the date when the resolutions were passed and for which a proposal is being made for their renewal.

As regards the share capital increase, lastly, we propose to also confer to the directors the right to exclude, according to the interpretation of art. 2441, last paragraph, of the Italian Civil Code and art. 134, paragraph 2, of Legislative Decree No. 58/1998, the rights offering to which the shareholders are entitled in order to be able to offer the shares for subscription by the employees of Pirelli & C. S.p.A. or companies controlled by it.

* * *

If in agreement, we ask you to approve the following

RESOLUTION

“The shareholders' meeting, having taken note of the proposal by the directors

RESOLVES

- a) a) to delegate powers to the directors, pursuant to article 2443 of the Italian Civil Code, for the right to increase, at one or more times, the share capital for a maximum amount of par value Euros 600 million for a maximum period of five years from the date of the resolution.
The directors can exercise such right by voting to increase share capital through the issue of ordinary and/or savings shares, to be offered to the shareholders and convertible bondholders.
The directors may also vote a share premium on the issue, establishing the amount, as well as provide that, should the amount voted not be fully subscribed to by the date set each time for that purpose, the capital should be increased by an amount equal to the subscriptions received up to that date.
The directors are also delegated the right to exclude, according to the interpretation of art. 2441, last paragraph, of the Italian Civil Code and art. 134, paragraph 2, of Legislative Decree No. 58/1998, the rights offering to which the shareholders are entitled in order to be able to offer the shares for subscription by the employees of Pirelli & C. S.p.A. or companies controlled by it;
- b) to delegate powers to the directors, pursuant to article 2420-ter of the Italian Civil Code, for the right to issue, at one or more times, for a maximum amount of face value Euros 1,000 million, bonds convertible into ordinary and/or savings shares or carrying warrants valid for the subscription of said shares, for a maximum period of five years from the date of this resolution, with the right to establish the rate and term of the bonds as well as all the other conditions of the issue.
The bonds shall be offered through a rights offering to the shareholders and convertible bondholders.
In exercising the powers delegated to them, the directors should, if the circumstance arise, ensure the observance of the existing law on the matter of limits for bond issues.
The directors shall pass resolutions in accordance with the provisions stated in art. 2420 bis of the Italian Civil Code and, in particular, determine the exchange ratio, the nature of the shares to which the bonds can be converted, the period and the manner of conversion and, at the same time, vote on the share capital increase for an amount corresponding to the par value of the shares to be assigned upon conversion, with the possibility of establishing a share premium;
- c) to further amend art. 5 of the bylaws, adding the following paragraphs after the last:
“By resolution of the extraordinary shareholders’ meeting on, the directors were delegated the right to increase, against payment, by the date of, at one or more times, the share capital for a total maximum amount of par value Euros 600 million, with or without a share premium through the issue of a maximum 1,153,846,153 ordinary shares, to be offered in a rights offering to the shareholders and convertible bondholders, with the possibility of exclusion of the rights offering, pursuant to the interpretation of art. 2441, last paragraph, of the Italian Civil Code and art. 134, paragraph 2, of Legislative Decree No. 58/1998, where the shares are offered for subscription to the employees of Pirelli & C. S.p.A. or companies controlled by it. By resolution of the extraordinary shareholders’ meeting on, the directors were delegated the right to issue, by the date of, at one or more times, bonds convertible into ordinary and/or savings shares, or carrying warrants valid for the subscription of said shares to be offered through a rights offering to the shareholders and convertible bondholders, for a maximum amount of face value Euros 1,000 million within the limits, each time, allowed by the laws in force, with the consequent eventual increase of share capital to service the conversion of the bonds and/or exercise of the warrants. The resolutions passed by the Board of Directors to increase share capital in exercising the rights attributed as described above shall fix the price for subscription (including any share premium) as well as the specific term for the subscription of the shares: they may also provide that, if the capital increase voted is not fully subscribed to by the date fixed for this purpose, the capital shall be increased for an amount equal to the subscriptions received up to that date”;
- d) d) to confer to the Board, and on its behalf the Chairman, Deputy Chairmen and Managing Directors, separately, any and all powers necessary to fulfill every formality necessary so that the adopted resolutions can be registered in the Companies Registry, accepting and introducing in the same the amendments, additions or deletions, formal and not substantial, eventually required by the appropriate authorities

The comparison of the current text of the articles of the bylaws with the proposed text is presented in the following paragraphs.

Current Text

NAME - PURPOSE - REGISTERED OFFICE - TERM

Article 1

A Corporation is hereby incorporated under the name *Pirelli & C. Società per Azioni*.

Article 2

The purpose of the company is the following:

- the acquisition of equity investments in other companies or corporations, both in Italy and abroad;
- the financing, the technical and financial coordination of the companies or corporations in which it has interests;
- the sale, ownership, management or placement of both government and private securities;

The company may carry out all transactions of any type whatsoever - excluding the collection of savings deposits from the public - connected to its corporate business purpose.

Article 3

The registered office of the company is in Milan, at Via G. Negri 10.

Article 4

The duration of the company is fixed until the date of December 31, 2100.

SHARE CAPITAL

Article 5

The share capital is Euros 1,799,399,399.20 (onebillionsevenhundredninetyninemillionthreehundredninetyninethousandthreehundredninetynineandtwentycents) divided into 3,460,383,460 (threebillionfourhundredsixty millionthreehundredeightythree thousandfour hundredsixty) shares with a par value of Euros 0.52 (fiftytwo cents) each, consisting of 3,325,619,031 (threebillionthree hundredtwentyfivemillionsixtyhundrednineteenthousandthirtyone) ordinary shares and 134,764,429 (onehundredthirtyfourmillionsevenhundredsixtyfour thousandfourhundredtwenty nine) savings shares.

New Text

NAME - PURPOSE - REGISTERED OFFICE - TERM

Article 1

A Corporation is hereby incorporated under the name *Pirelli & C. Società per Azioni* **or, in shortened form, Pirelli & C. S.p.A.**

Article 2

The purpose of the company is the following:

- the acquisition of equity investments in other companies or corporations, both in Italy and abroad;
- the financing, the technical and financial coordination of the companies or corporations in which it has interests;
- the sale, ownership, management or placement of both government and private securities;

The company may carry out all transactions of any type whatsoever - excluding the activities reserved by law - connected to its corporate business purpose.

Article 3

The registered office of the company is in Milan.

Article 4

The duration of the company is fixed until the date of December 31, 2100.

The extension of the term does not give the right of withdrawal to the shareholders who do not take part in the approval of the relative resolution.

SHARE CAPITAL

Article 5

The share capital, subscribed and paid in, is equal to Euros 1,799,823,565.80 (onebillionsevenhundredninetyninemilliononehundredtwentythree thousand five hundred sixty five and eighty cents) divided into 3,461,199,165 (threebillionfourhundredsixtyone milliononehundredninetyninethousandone hundredsixty five) shares of par value Euros 0.52 (fiftytwo cents) each, consisting of 3,326,434,736 (threebillionthree hundredtwentysixmillionfourhundredthirtyfour thousandsevenhundredthirtysix) ordinary shares and 134,764,429 (onehundredthirtyfourmillionseven hundredsixtyfour thousandfour hundredtwenty nine) savings shares.

In passing resolutions on share capital increases against payment, option rights can be excluded for a maximum of ten percent of the pre-existing capital, on

By resolution passed by the extraordinary shareholders' meeting held on December 22, 1998, the directors were granted the power to increase share capital, at one or more times, by a maximum amount of Euros 103,291,379.81 (onehundredthreemilliontwohundrednintyonethousandthree hundredseventynineandei ghtyonecents) and for a maximum time period of five years from the date of said resolution.

The share capital increase may be carried out by issuing, also with a share premium, both ordinary and savings shares, and must be reserved for shareholders and/or holders of convertible bonds.

By resolution passed by the extraordinary shareholders' meeting held on December 22, 1998, the directors were granted the power to issue bonds, at one or more times, including bonds that are convertible both into ordinary shares or into savings shares, or bonds with warrants valid or the subscription of said shares, for a maximum par value amount of Euros 206,582,759.63(twohundredsixmillion fivehundredeightytwothousandsevenhundredfiftynineandsixt ythreecents) and for a maximum time period of five years from the date of said resolution, with the consequent possible increase of the share capital to serve the bond conversion.

The extraordinary shareholders' meeting of May 7, 2003 voted the following:

- a) to increase share capital, against payment, in divisible form, by and no later than December 31, 2003, for a maximum of Euros 1,014,185,020.68 (onebillionfourteen milliononehundredeightyfivethousandandtwentyandsixty eightcents), through the issue of a maximum 1,950,355,809 (onebillionninehundredfiftymillion threehundredfiftyfivethousandandeighthundredandnine) ordinary shares of par value Euros 0.52 (fiftytwo cents) each, with dividend rights from January 1, 2003, to be offered in a rights offering to the shareholders, at a unit price equal to par value, in a ratio of 3 new ordinary shares for every 1 share of whatsoever class of stock owned;
- b) to attach to each share referred to in point a) a free warrant, that can be traded separately, valid to subscribe, at any time from January 1, 2004 to June 30, 2006, 1 new Pirelli & C. ordinary share, with regular dividend rights and a par value of Euros 0.52 (fiftytwo cents) for every 4 warrants held, at a unit price equal to par value;
- c) to consequently increase share capital against payment,

condition that the issue price corresponds to the market price of the shares and that this is confirmed in a specific report by the firm charged with the audit. If voted by the shareholders' meeting, share capital can also be increased by contributions in kind or receivables.

The extraordinary shareholders' meeting on May 7, 2003 voted to increase share capital against payment, in divisible form, by and no later than June 30, 2006, for a maximum par value of Euros 203,041,192.12 (at March 24, 2004, Euros 202,617,025.52), through the issue, also at more than one time, of a maximum 390,463,831 (at March 24, 2004, 389,648,126) ordinary shares, at a per unit par value of Euros 0.52 (fiftytwo cents) each, with regular dividend rights, to be reserved exclusively and irrevocably for the exercise of 1,561,855,326 warrants (at March 24, 2004, warrants for 1,558,592,506) issued in execution of the resolution passed by the same shareholders' meeting on May 7, 2003.

in divisible form, by and not later than June 30, 2006, for a maximum par value of Euros 253,546,255.04 (twohundredfiftythreemillionfivehundredfortysixthousandtwohundredfiftyfiveandfourcents) through the issue, at one or more times, of a maximum of 487,588,952 (fourhundredeightysevenmillionfivehundredeightyeighthousandninehundredfiftytwo) ordinary shares, of par value Euros 0.52 (fiftytwocents) each, with regular dividend rights, to be reserved exclusively and irrevocably for the exercise of a maximum of 1,950,355,809 (onebillionninehundredfiftymillionthreehundredfiftyfivethousandandeighthundredninne) warrants attached to the shares referred to in the preceding point b).

By resolution voted by the extraordinary shareholders' meeting of May 7, 2003, the directors were granted the power to issue, at one or more times, up to a maximum of 100,000,000 (onehundredmillion) ordinary shares, by April 30, 2008, to be granted to the senior executive and cadres of the company and its subsidiaries and the subsidiaries of the latter, in Italy and abroad, pursuant to articles 2441 and/or 2349 of the Italian Civil Code.

By resolution voted by the extraordinary shareholders' meeting of May 7, 2003, the directors were granted the power to issue, at one or more times, up to a maximum of 100,000,000 (onehundredmillion) ordinary shares, by April 30, 2008, to be granted to the senior executive and cadres of the company and its subsidiaries and the subsidiaries of the latter, in Italy and abroad, pursuant to articles 2441 and/or 2349 of the Italian Civil Code.

By resolution of the extraordinary shareholders' meeting on, the directors were delegated the right to increase, against payment, by the date of, at one or more times, the share capital for a total maximum amount of par value Euros 600 million, with or without a share premium through the issue of a maximum 1,153,846,153 ordinary shares, to be offered in a rights offering to the shareholders and convertible bondholders, with the possibility of exclusion of the rights offering, pursuant to the interpretation of art. 2441, last paragraph, of the Italian Civil Code and art. 134, paragraph 2, of Legislative Decree No. 58/1998, where the shares are offered for subscription to the employees of Pirelli & C. S.p.A. or companies controlled by it.

By resolution of the extraordinary shareholders' meeting on, the directors were delegated the right to issue, by the date of, at one or more times, bonds convertible into ordinary and/or savings shares, or carrying warrants valid for the subscription of said shares to be offered through a rights offering to the shareholders and convertible bondholders, for a maximum amount of face value Euros 1,000 million within the limits, each time, allowed by the laws in force, with the consequent eventual increase of share capital to service the conversion of the bonds and/or exercise of the warrants.

The resolutions passed by the Board of Directors to increase share capital in exercising the rights

attributed as described above shall fix the price for subscription (including any share premium) as well as the specific term for the subscription of the shares: they may also provide that, if the capital increase voted is not fully subscribed to by the date fixed for this purpose, the capital shall be increased for an amount equal to the subscriptions received up to that date.

Article 6

The shares are divided into ordinary shares and savings shares.

Ordinary shares give the right to one vote per share; they may be either registered or bearer shares insofar as the law permits, and in this case may be converted, especially at the holder's request and expense, from one type to the other. Savings shares do not give the right to vote and, unless the law provides otherwise, are bearer shares.

At the request and expense of the shareholder they may be converted into registered shares.

As well as any rights and privileges provided for by law and in other parts of the present bylaws, savings shares shall have pre-emptive rights in the matter of paying-off of capital up to the full par value of same; in the event of a capital reduction due to loss, the par value of the saving shares will be reduced only by that part of loss exceeding the total par value of the other shares.

Savings shares keep the rights and privileges foreseen by law and by the present bylaws even in the event of exclusion of ordinary shares and savings shares from trading.

In order to ensure the common representative of the holders of savings shares, of adequate information about any transactions which might influence the trend in the market prices of the shares in that class, any communications concerning said transactions will promptly be sent to same, by the legal representatives.

In the event of a share capital increase being carried out by issuing shares of only one class, same must be offered as option rights to the shareholders of all classes of shares.

In the event of both ordinary shares and savings shares being issued:

- a) the holders of ordinary shares shall have the right to receive option rights for ordinary shares, and savings shares to make up any difference;
- b) the holders of savings shares shall have the right to receive options rights for savings shares, and ordinary shares to make up any difference.

Article 6

The shares are divided into ordinary shares and savings shares.

Ordinary shares give the right to one vote per share; they may be either registered or bearer shares insofar as the law permits, and in this case may be converted, especially at the holder's request and expense, from one type to the other. Savings shares do not give the right to vote and, unless the law provides otherwise, are bearer shares.

At the request and expense of the shareholder they may be converted into registered shares.

As well as any rights and privileges provided for by law and in other parts of the present bylaws, savings shares shall have pre-emptive rights in the matter of paying-off of capital up to the full par value of same; in the event of a capital reduction due to loss, the par value of the saving shares will be reduced only by that part of loss exceeding the total par value of the other shares.

Savings shares keep the rights and privileges foreseen by law and by the present bylaws even in the event of exclusion of ordinary shares and savings shares from trading.

In the event of a share capital increase being carried out by issuing shares of only one class, same must be offered as option rights to the shareholders of all classes of shares. In the event of both ordinary shares and savings shares being issued:

- a) the holders of ordinary shares shall have the right to receive option rights for ordinary shares, and savings shares to make up any difference;
- b) the holders of savings shares shall have the right to receive options rights for savings shares, and ordinary shares to make up any difference.

Any introduction or removal of restrictions on the circulation of shares does not give the right of withdrawal to shareholders who did not take part in the approval of the relative resolution.

SHAREHOLDERS' MEETINGS

Article 7

The convocation of the shareholders' meeting, which may take place anywhere in Italy including in a place other than the registered office, the right to attend meetings and representation at same are all governed by law.

In view of the nature of the company's business and the special requirements arising therefrom, the ordinary shareholders' meeting may be convened within six months of the end of the financial period.

Article 8

The due constitution of the meeting and the validity of its resolutions are governed by law.
The voting quorum for the appointment of directors is established as a relative majority of the votes.

Article 9

The meeting shall be presided over by the Chairman of the Board of Directors, by a Deputy Chairman or by a Managing Director, in that order; whenever there are two or more Deputy Chairmen or Managing Directors, the chair shall be taken respectively by the senior in age. In the event of the absence of the above -indicated individuals, the chair shall be taken by another person chosen by the shareholders' meeting among the shareholders present.
The Chairman is assisted by a Secretary appointed by the meeting; there is no need to appoint a Secretary when the

SHAREHOLDERS' MEETINGS

Article 7

The convocation of the shareholders' meeting, which may take place anywhere in Italy including in a place other than the registered office, the right to attend meetings and representation at same are all governed by law and the bylaws.

The notice of the call of the shareholders' meeting can provide for a third call.

Shareholders who have sent communication to the company pursuant to art. 2370, paragraph 2, of the Italian Civil Code, within two days prior to the date of each single shareholders' meeting and who at the date of the meeting are in possession of suitable certification may attend the shareholders' meetings. The ordinary shareholders' meeting must be called within 120 days or, if special circumstance intervene, within 180 days from the end of the financial year-end; in the case of convening the meeting within 180 days, the directors must indicate the reasons for the postponement in the directors' report on operations accompanying the financial statements.

Article 8

The due constitution of the meeting and the validity of its resolutions are governed by law.

The conduct of the shareholders' meetings, besides being regulated by law and the bylaws, is also governed by the Regulations for Shareholders' Meetings, approved by resolution of the ordinary shareholders' meetings of the company.

Article 9

The meeting shall be presided over by the Chairman of the Board of Directors, by a Deputy Chairman or by a Managing Director, in that order; whenever there are two or more Deputy Chairmen or Managing Directors, the chair shall be taken respectively by the senior in age. In the event of the absence of the above -indicated individuals, the chair shall be taken by another person chosen by the shareholders' meeting by majority vote of the capital at the meeting.
The Chairman is assisted by a Secretary appointed by the meeting **by majority vote of the capital at the meeting,**

minutes of the meeting are drawn up by a notary public.

It is the duty of the Chairman of the meeting to verify the right to attend the meeting, including by means of proxy; to ascertain whether or not the meeting has been duly constituted and has achieved the quorum required in order to pass resolutions; to conduct and moderate the discussion; to establish the order and manner of voting as well as announce the results thereof.

The resolutions of the meeting shall be recorded in the minutes, which shall be signed by the Chairman and the Secretary of the meeting or the notary public.

The minutes of the extraordinary shareholders' meeting must be drawn up by a notary public appointed by the Chairman.

Any copies and extracts thereof, that have not been drawn up by a notary public, shall be certified as true copies by the Chairman of the Board of Directors.

ADMINISTRATION OF THE COMPANY

Article 10

The company is managed by a Board of Directors composed of between seven and twenty-three members who shall remain in office for three years (unless the meeting fixes a shorter term of office at the time of making the appointment) and may be re-elected.

and can also be chosen from outside the shareholders; there is no need to appoint a Secretary when the minutes of the meeting are drawn up by a notary public.

The Chairman of the shareholders' meeting chairs the meeting and, according to the law and these bylaws governs the conduct of the meeting. To this end, the Chairman - among other things - verifies that the meeting is duly constituted; ascertains the identity of those present and their right to attend, also by proxy; ascertains the legal number for passing resolutions; directs the work, also establishing a different order of discussion of the matters indicated in the notice for convening the meeting. The Chairman also takes necessary action to conduct an orderly discussion and voting, stating the manner and ascertaining the results thereof.

The resolutions of the meeting shall be recorded in the minutes, which shall be signed by the Chairman and the Secretary of the meeting or the notary public.

The minutes of the extraordinary shareholders' meeting must be drawn up by a notary public appointed by the Chairman.

Any copies and extracts thereof, that have not been drawn up by a notary public, shall be certified as true copies by the Chairman of the Board of Directors.

ADMINISTRATION OF THE COMPANY

Article 10

The company is managed by a Board of Directors composed of between seven and twenty-three members who shall remain in office for three years (unless the meeting fixes a shorter term of office at the time of making the appointment) and may be re-elected. **The shareholders' meeting shall determine the number of members of the Board of Directors, a number that shall remain fixed until another resolution is passed. The appointment of the Board of Directors shall be made on the grounds of slates put forward by the shareholders, according to the following paragraphs, in which the candidates are listed by consecutive number.**

The slates put forward by the shareholders, undersigned by the parties presenting them, must be filed at the company's registered office and available to anyone on request at least ten days before the date fixed for the meeting in first call.

Each shareholder may put forward or take part in putting forward only one slate and each candidate shall be presented on only one slate, on penalty of ineligibility.

All shareholders who, alone or together with other

shareholders, represent at least 2 percent of the shares with voting rights in the ordinary shareholders' meeting, have the right to put forward a slate, with the obligation of proving ownership of the number of shares necessary to put forward the slates within two days prior to the shareholders' meeting in first call.

Statements must be filed together with the slates, within the terms indicated above, whereby the single candidates accept the nomination and attest, under their own personal responsibility, that no circumstances exist for ineligibility or incompatibility, and that they have the requisites prescribed for the position. A description of the personal and professional résumé of each individual standing for election must be filed with the statements, with eventual indication of the eligibility of the person to be qualified as an independent candidate.

Any slates put forward which do not comply with the aforesaid provisions shall be considered not to have been put forward.

Anyone with voting rights may vote for only one slate.

The election of the Board of Directors is performed as follows:

- c) roundings, in the case of a fraction of a number to the lower unit, are taken from the slate which has obtained the highest number of votes, in the consecutive order in which they are listed thereon;
- d) the remaining directors are taken from the other slates; to this end, the votes obtained by the slates themselves shall be divided successively for one, two, three, four - and so on - according to the number of directors to be elected. The quotients thus obtained will be consecutively applied to the candidates on each of these slates, in the respective order in which they appear on the slate. The quotients thus assigned to the candidates of the various slates will be ranked in a single descending classification.

Those with the highest quotients will be elected.

When more than one candidate has obtained the same quotient, the candidate on the slate which has not yet elected any directors or which has elected the lowest number of directors will be elected.

If none of these slates has as yet elected a director or all the slates have elected the same number of directors, the candidate on the slate which received the most votes shall be appointed. In the event of several slates obtaining the same number of votes, and again with the same quotient, a new run-off vote will be cast by all the shareholders present at the

The Board of Directors appoints a Chairman, and, if necessary, one or more Deputy Chairmen.

In the event of the Chairman being absent, the chair shall be taken by a Deputy Chairman or a Managing Director, in that order; if there should happen to be two or more Deputy Chairmen or Managing Directors, the chair shall be taken respectively by the senior in age.

The Board shall appoint a Secretary, who is not necessarily a member of the Board.

Unless otherwise decided by the shareholders' meeting, the directors are not bound over by the prohibition mentioned under art. 2390 of the Italian Civil Code.

Article 11

The Board is empowered with the management of the company and, for this purpose, is invested with the fullest powers for administration, except those, which according to the bylaws or by law, are reserved for the shareholders' meetings.

The Board of Directors, also through delegated bodies, informs the Board of Statutory Auditors on a timely basis about the activities conducted and the most important economic, financial and equity transactions carried out by the company and its subsidiaries; it specifically makes reference to transactions with potential conflicts of interest. The information is provided, at least quarterly, at the board meetings or Executive Committee meetings or by written communication to the Board of Statutory Auditors.

meeting and the candidate who obtains the simple majority shall be elected.

For the appointment of the directors who, for whatsoever reason, were not appointed by the procedures described herein, the meeting shall elect the directors by the majorities prescribed by law. If because one or more directors are not present during the year, the provisions of art. 2386 of the Italian Civil Code will apply.

The Board of Directors appoints a Chairman, **where this has not already been done by the shareholders' meeting**, and, if necessary, one or more Deputy Chairmen.

In the event of the Chairman being absent, the chair shall be taken by a Deputy Chairman or a Managing Director, in that order; if there should happen to be two or more Deputy Chairmen or Managing Directors, the chair shall be taken respectively by the senior in age.

The Board shall appoint a Secretary, who is not necessarily a member of the Board.

Unless otherwise decided by the shareholders' meeting, the directors are not bound over by the prohibition mentioned under art. 2390 of the Italian Civil Code.

Article 11

The Board is empowered with the management of the **company** and, for this purpose, is invested with the fullest powers for administration, except those, which according to the bylaws or by law, are reserved for the shareholders' meetings.

Within the limits set by law, the Board of Directors has the authority to decide on the merger of companies in which Pirelli & C. S.p.A. owns at least 90 percent of the shares or quotas, the reduction of share capital in the event of the withdrawal of shareholders, amendments to the bylaws to conform with the law, the transfer of the legal registered office within the national territory, as well as setting up or closing secondary offices.

The Board of Directors and the Board of Statutory Auditors are kept informed, also by the delegated bodies, about the activities carried out, the general performance of operations, the future outlook and the most important economic, financial and equity transactions carried out by the company and its subsidiaries; in particular, the delegated bodies refer about transactions in which they have an interest, on their own behalf or on behalf of third parties, or transactions that are influenced by the party, if any, exercising management and coordination activities. Communication is given on a timely basis and, in any case, at least quarterly, at meetings of the Board of

The Board is authorized to delegate those powers it wishes to confer on one or more of its members, eventually through the positions of Managing Directors, attributing single or collective signature powers as it deems to establish for the administration of the company.

It may also delegate its competence to an Executive Committee composed of some of its members, whose compensation shall be established by the shareholders' meeting.

It may also nominate one or more committees with consulting functions, also for purposes of updating the corporate governance structure to the recommendations issued from time to time by the competent authorities.

Lastly, the Board may appoint General Managers, Deputy General Managers, Managers and Deputy Managers and persons with power of attorney for single acts or categories of acts, establishing powers and competence. The appointment of Managers, Deputy Managers and persons with power of attorney for individual acts or categories of acts, can also be referred by the Board to the Managing Directors and the General Managers.

Article 12

The Board shall meet at the invitation of the Chairman or whomsoever is acting on his behalf, at the registered office of the company or in any other place stated in the letter of convocation, every time he considers it in the best interests of the company, or whenever a meeting has been requested by one of the Managing Directors or by at least two standing statutory auditors.

However, the Board may validly pass resolutions, even failing any formal convocation, if all the board members and all the standing statutory auditors in office are present.

Board meetings shall be convened by means of a letter,

Directors and Executive Committee, if appointed, or by written communication.

In accordance with the timing and manner established for disclosing information to the market, the common representative of the holders of savings shares is informed, by the Board of Director or by the persons delegated for this purpose, about any corporate transactions which might influence the trend in the market prices of the shares in that class.

The Board is authorized to delegate those powers it wishes to confer on one or more of its members, eventually through the positions of Managing Directors, attributing single or collective signature powers as it deems to establish for the administration of the **company**.

It may also delegate its competence to an Executive Committee composed of some of its members, whose compensation shall be established by the shareholders' meeting.

It may also nominate one or more committees with consulting **and proposal** functions, also for purposes of updating the corporate governance structure to the recommendations issued from time to time by the competent authorities.

Lastly, the Board may appoint general managers, deputy general managers, managers and deputy managers and persons with power of attorney for single acts or categories of acts, establishing powers and competence. The appointment of managers, deputy managers and persons with power of attorney for individual acts or categories of acts, can also be referred by the Board to the Managing Directors and the General Managers.

Article 12

The Board shall meet at the invitation of the Chairman or whomsoever is acting on his behalf, at the registered office of the company or in any other place stated in the letter of convocation, every time he considers it in the best interests of the company, or whenever a meeting has been requested **in writing** by one of the Managing Directors **or by one fifth of the directors in office** or by at least two standing statutory auditors.

PARAGRAPH TRANSFERRED (the fourth paragraph of this article)

The Chairman communicates the matters for discussion at the board meeting in advance and sees that adequate information about the matters for examination are provided to all the directors, taking into account the situation at hand.

Board meetings shall be convened by means of a letter,

telegram, telex or fax sent to the address of each director and each standing statutory auditor, at least five days before (or in urgent cases at least six hours before) the day set for the meeting.

Meetings of the Board and of the Executive Committee may be held by teleconference or videoconference. In this case the following must be guaranteed:

- a) identification of all the participants at each point in the connection;
- b) the possibility for each participant to intervene, to orally put forward same's own opinion, to view, receive and transmit all documentation, as well as the contextuality of considerations and resolutions.

Meetings of the Board of Directors and of the Executive Committee are considered to be held in the place in which the Chairman and the Secretary must be simultaneously.

The presence of at least the majority of the members is necessary for the resolutions of the Board to be deemed valid, and the favorable vote of the majority of those present is required. In the event of a tie in votes, the casting vote shall be that of the Chairman.

The resolutions of the Board, even when passed by meetings held by teleconference or by videoconference, are recorded in a special book signed by the Chairman and the Secretary. Any copies and extracts thereof, that have not been drawn up by a notary public, shall be certified as true copies by the Chairman.

Article 13

Legal representation of the company vis-à-vis third parties and in court proceedings shall be the duty, separately, of the Chairman of the Board of Directors and, if appointed, of the Deputy Chairmen and Managing Directors, within the limits of the powers granted to them by the Board of Directors. Each one of the aforesaid shall in any case have full powers to take legal action and file appeals before any judicial authority and any court of any degree, including in revocation or cassation (supreme court) proceedings, to file statements and prosecute in criminal cases, to sue on behalf of the company in criminal proceedings, to begin legal proceedings and file petitions before all administrative jurisdictions, to intervene and protect the company's interests in case of proceedings and claims against the company, granting for this purpose all necessary mandates and powers of attorney ad litem.

The Board of Directors and, within the limits of the powers granted to them by said Board, the Chairman of the Board and, if appointed, the Deputy Chairmen and the Managing

telegram, fax **or e-mail** sent to the address of each director and each standing statutory auditor, at least five days before (or in urgent cases at least six hours before) the day set for the meeting.

However, the Board may validly pass resolutions, even failing any formal convocation, if all the board members and all the standing statutory auditors in office are present.

Participation at the meetings of the Board and of the Executive Committee, if appointed, may take place - whenever the Chairman or whomsoever is acting on his behalf, ascertains the necessity - through means of telecommunication that allow all the participants to take part in the discussion and have the same information.

Meetings of the Board of Directors and of the Executive Committee, **if appointed**, are considered to be held in the place in which the Chairman and the Secretary must be simultaneously.

The presence of at least the majority of the members is necessary for the resolutions of the Board to be deemed valid, and the favorable vote of the majority of those present is required. In the event of a tie in votes, the casting vote shall be that of the Chairman.

The resolutions of the Board, even when passed by meetings held **through means of telecommunication**, are recorded in a special book signed by the Chairman and the Secretary. Any copies and extracts thereof, that have not been drawn up by a notary public, shall be certified as true copies by the Chairman.

Article 13

Legal representation of the company vis-à-vis third parties and in court proceedings shall be the duty, separately, of the Chairman of the Board of Directors and, if appointed, of the Deputy Chairmen and Managing Directors, within the limits of the powers granted to them by the Board of Directors. Each one of the aforesaid shall in any case have full powers to take legal action and file appeals before any judicial authority and any court of any degree, including in revocation or cassation (supreme court) proceedings, to file statements and prosecute in criminal cases, to sue on behalf of the company in criminal proceedings, to begin legal proceedings and file petitions before all administrative jurisdictions, to intervene and protect the company's interests in case of proceedings and claims against the company, granting for this purpose all necessary mandates and powers of attorney ad litem.

The Board of Directors and, within the limits of the powers granted to them by said Board, the Chairman of the Board and, if appointed, the Deputy Chairmen and the Managing

Directors, are authorized to grant managers and staff in general, and when necessary third parties, the power to represent the company vis-à-vis third parties and in court proceedings.

Article 14

The members of the Board of Directors are entitled to annual compensation established by the shareholders' meeting and shall be reimbursed for all expenses incurred during the course of their duties.

The compensation to directors invested with special duties is established by art. 2389, paragraph 2, of the Italian Civil Code.

Article 15

If, due to resignation or any other cause, more than half the Directors should leave office, then the entire Board of Directors is considered to have resigned with effect as from the time of its re-constitution.

BOARD OF STATUTORY AUDITORS

Article 16

The Board of Statutory Auditors is composed of three standing statutory auditors and two alternate statutory auditors who must hold the requisites required by existing laws and regulations; to this end, account will be taken that the matters and sectors of business strictly inherent to those of the company are those indicated in the corporate business purpose with particular reference to companies or entities operating in the industrial, banking, insurance, real estate and services sectors in general.

The ordinary shareholders' meeting shall elect the Board of Statutory Auditors and determine its compensation. The minority shareholders shall appoint one standing statutory auditor and one alternate statutory auditor.

With the exception of the provisions of the second last paragraph of the present article, the appointment of the Board of Statutory Auditors shall be made on the grounds of slates put forward by the shareholders in which candidates are listed under consecutive numbers.

Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.

All shareholders who, alone or together with other shareholders, represent at least 2 percent of the shares with voting rights in the ordinary shareholders' meeting, have the right to put forward a slate.

Directors, are authorized to grant managers and staff in general, and when necessary third parties, the power to represent the company vis-à-vis third parties and in court proceedings.

Article 14

The members of the Board of Directors are entitled to annual compensation established by the shareholders' meeting and shall be reimbursed for all expenses incurred during the course of their duties.

The compensation to directors invested with special duties is established **by the Board of Directors after hearing the opinion of the Board of Statutory Auditors.**

Article 15

If, due to resignation or any other cause, more than half the Directors should leave office, then the entire Board of Directors is considered to have resigned with effect as from the time of its re-constitution.

BOARD OF STATUTORY AUDITORS

Article 16

The Board of Statutory Auditors is composed of three standing statutory auditors and two alternate statutory auditors who must hold the requisites required by existing laws and regulations; to this end, account will be taken that the matters and sectors of business strictly inherent to those of the company are those indicated in the corporate business purpose with particular reference to companies or entities operating in the industrial, banking, insurance, real estate and services sectors in general.

The ordinary shareholders' meeting shall elect the Board of Statutory Auditors and determine its compensation. The minority shareholders shall appoint one standing statutory auditor and one alternate statutory auditor.

With the exception of the provisions of the **third** last paragraph of the present article, the appointment of the Board of Statutory Auditors shall be made on the grounds of slates put forward by the shareholders in which candidates are listed under consecutive numbers.

Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.

All shareholders who, alone or together with other shareholders, represent at least 2 percent of the shares with voting rights in the ordinary shareholders' meeting, have the right to put forward a slate, **with the obligation of proving ownership of the number of shares necessary to put forward the slates within two days prior to the shareholders' meeting in first call. Each shareholder may put forward or take part in putting forward only one slate.**

The slates of candidates, undersigned by the parties presenting them, must be filed at the company's registered office at least ten days before the day fixed for the meeting in first call. A description of the professional résumé of the individuals standing for election must be enclosed with the slates together with statements whereby the single candidates accept the nomination and attest, under their own personal responsibility, that no circumstances exist for ineligibility or incompatibility, and that they comply with requirements prescribed by law or by the bylaws for the position.

Any slates put forward which do not comply with the aforesaid provisions shall be considered not to have been put forward.

Each candidate may be included on only one slate, under penalty of ineligibility.

Likewise, any individuals who are not in possession of the requisites established by the applicable rules and regulations or who already hold the position of standing statutory auditor in more than five companies with stocks listed on regulated Italian markets, with the exception of the subsidiaries of Pirelli & C. may not be appointed as statutory auditors.

Each individual with voting rights may vote for only one slate. The election of the members of the Board of Statutory Auditors is performed as follows: two standing statutory members and one alternate member are taken from the slate which has obtained the highest number of votes, in the consecutive order in which they are listed thereon; the remaining standing statutory member and the other alternate member are taken from the slate which has obtained the highest number of votes from the meeting after the first slate, again in the consecutive order in which same are listed thereon; in the event of several slates obtaining the same number of votes, a new run-off vote between the said slates will be cast by all the shareholders present at the meeting, and the candidates on the slate which obtains the simple majority of the votes will be appointed.

The Chairman of the Board of Statutory Auditors shall be the standing statutory member indicated as the first candidate on the slate which obtained the highest number of votes. In case of death, waiver or resignation of a Statutory

The slates of candidates, undersigned by the parties presenting them, must be filed at the company's registered office, **available to anyone on request**, at least ten days before the day fixed for the meeting in first call. A description of the professional résumé of the individuals standing for election must be enclosed with the slates together with statements whereby the single candidates accept the nomination and attest, under their own personal responsibility, that no circumstances exist for ineligibility or incompatibility, and that they comply with requirements prescribed by law or by the bylaws for the position.

Any slates put forward which do not comply with the aforesaid provisions shall be considered not to have been put forward.

Each candidate may be included on only one slate, under penalty of ineligibility.

Likewise, any individuals who are not in possession of the requisites established by the applicable rules and regulations or who already hold the position of standing statutory auditor in more than five companies with stocks listed on regulated Italian markets, with the exception of the subsidiaries of Pirelli & C. may not be appointed as statutory auditors.

The slates have two sections: one for the candidates for standing statutory auditors and one for the candidates for alternate statutory auditors. The first candidate of each section must be taken from among the members of the Register of Accounting Auditors who have exercised the activity of legal control of accounts for a period of not less than three years.

Each individual with voting rights may vote for only one slate. The election of the members of the Board of Statutory Auditors is performed as follows:

- a) two standing statutory members and one alternate member are taken from the slate (**the so-called majority slate**) which has obtained the highest number of votes, in the consecutive order in which they are listed thereon;
- b) the remaining standing statutory member and the other alternate member are taken from the slate which has obtained the highest number of votes from the meeting after the first slate (**the so-called minority slate**) again in the consecutive order in which same are listed thereon; in the event of several slates obtaining the same number of votes, a new run-off vote between the said slates will be cast by all the shareholders present at the meeting, and the candidates on the slate which obtains the simple majority of the votes will be appointed.

The Chairman of the Board of Statutory Auditors shall be the standing statutory member indicated as the first candidate on the slate which obtained the highest number of votes. In case of death, waiver or resignation of a Statutory

Auditor, the alternate belonging to the same slate as the resigned statutory auditor shall replace him. In the event of replacement of the Chairman the Board of Statutory Auditors, the chair shall be taken by the other standing statutory member on the slate to which the resigning Chairman belonged; if it is not possible to perform substitutions and replacements as set out hereinabove, then a meeting shall be convened to integrate and complete the Board of Statutory Auditors and which shall pass resolutions with a relative majority.

When the meeting has to make provisions, pursuant to the terms of the foregoing paragraph or to the terms of law, for the appointment of standing statutory auditors and/or alternates needed to complete the Board of Statutory Auditors, it shall proceed as follows: if statutory auditors appointed from the majority slate have to be replaced, then the appointment is made with a relative majority vote without being tied to any slate; if, on the other hand, statutory auditors appointed by the minority shareholders have to be replaced, the meeting shall replace them with a relative majority vote choosing names where possible from amongst the candidates indicated on the slate on which the statutory auditor to be replaced appeared.

If only one single slate has been put forward, then the meeting shall cast its vote in relation to that slate; if the slate obtains a relative majority, then the first three candidates on the slate in consecutive order shall be appointed as the standing statutory auditors, and the fourth and fifth candidate shall be appointed as alternate statutory auditors; Chairman of the Board of Statutory Auditors shall be the person indicated at the top of the slate put forward; in case of death, waiver or resignation of a statutory auditor, and in the event of substitution of the Chairman of the Board of Statutory Auditors, they shall be replaced respectively by an alternate statutory auditor and a standing statutory auditor in the order arising from the consecutive numbering of the said slate.

Failing any slates, the Board of Statutory Auditors and its Chairman shall be appointed by the shareholders' meeting with the majorities prescribed by law.

Resigning statutory auditors may be re-elected.

Auditor, the alternate belonging to the same slate as the resigned statutory auditor shall replace him. In the event of replacement of the Chairman the Board of Statutory Auditors, the chair shall be taken by the other standing statutory member on the slate to which the resigning Chairman belonged; if it is not possible to perform substitutions and replacements as set out hereinabove, then a meeting shall be convened to integrate and complete the Board of Statutory Auditors and which shall pass resolutions with a relative majority.

When the meeting has to make provisions, pursuant to the terms of the foregoing paragraph or to the terms of law, for the appointment of standing statutory auditors and/or alternates needed to complete the Board of Statutory Auditors, it shall proceed as follows: if statutory auditors appointed from the majority slate have to be replaced, then the appointment is made with a relative majority vote without being tied to any slate; if, on the other hand, statutory auditors elected from the minority slate have to be replaced, the meeting shall replace them with a relative majority vote choosing names where possible from amongst the candidates indicated on the slate on which the statutory auditor to be replaced appeared.

For the appointment of the statutory auditors who, for whatsoever reason, were not appointed by the procedures described herein, the meeting shall elect the statutory auditors by the majorities prescribed by law.

Resigning statutory auditors may be re-elected.

Participation at the meetings of the Board of Statutory Auditors may take place - whenever the Chairman or whomsoever is acting on his behalf, ascertains the necessity - through means of telecommunication that allow all the participants to take part in the discussion and have the same information.

FINANCIAL STATEMENTS – PROFIT DISTRIBUTION**Article 17**

The company's financial period shall end on the December 31 each year.

Article 18

After all the appropriations to the reserves prescribed by law have been carried out, the annual profits shall be distributed as follows:

a) savings shares shall be attributed an amount of up to seven per cent of their par value; if, in any financial period, a dividend of less than seven per cent of the par value has been distributed to the savings shares, the said difference is calculated as an increase to be added to the preference dividend during the following two financial periods; any profits remaining after the aforesaid appropriations and provisions and which the meeting resolves to distribute, shall be distributed amongst all the shares in such a manner that the savings shares shall receive a total dividend which is increased, compared to the dividend received by the ordinary shares, by an amount equivalent to two percent of their par value;

b) aside from what has been established above in respect of the total higher dividends attributed to the savings shares, the ordinary shares shall be attributed an amount up to five percent of their par value.

The profits remaining shall be distributed among all the shares, in addition to the attribution described in the preceding letters a) and b), unless the shareholders' meeting, based upon the proposal of the Board of Directors, votes special appropriations to the extraordinary reserves, or other destination or decides to appropriate a part of such profits to retained earnings.

In the event of distribution of reserves, savings shares shall have the same rights as the other shares.

Interim dividends can be paid, in observance of the law.

GENERAL PROVISIONS**Article 19**

Insofar as their relationships with the company are concerned, the domicile of the shareholders is understood, for all legal purposes, to be that shown in the Shareholders' Register.

Article 20

All matters not provided for in the present bylaws shall be governed by the provisions of law.

FINANCIAL STATEMENTS – PROFIT DISTRIBUTION**Article 17**

The company's financial period shall end on the December 31 each year.

Article 18

After all the appropriations to the reserves prescribed by law have been carried out, the annual profits shall be distributed as follows:

a) savings shares shall be attributed an amount of up to seven per cent of their par value; if, in any financial period, a dividend of less than seven per cent of the par value has been distributed to the savings shares, the said difference is calculated as an increase to be added to the preference dividend during the following two financial periods; any profits remaining after the aforesaid appropriations and provisions and which the meeting resolves to distribute, shall be distributed amongst all the shares in such a manner that the savings shares shall receive a total dividend which is increased, compared to the dividend received by the ordinary shares, by an amount equivalent to two percent of their par value;

b) aside from what has been established above in respect of the total higher dividends attributed to the savings shares, the ordinary shares shall be attributed an amount up to five percent of their par value.

The profits remaining shall be distributed among all the shares, in addition to the attribution described in the preceding letters a) and b), unless the shareholders' meeting, based upon the proposal of the Board of Directors, votes special appropriations to the extraordinary reserves, or other destination or decides to appropriate a part of such profits to retained earnings.

In the event of distribution of reserves, savings shares shall have the same rights as the other shares.

Interim dividends can be paid, in observance of the law.

GENERAL PROVISIONS**Article 19**

Insofar as their relationships with the company are concerned, the domicile of the shareholders is understood, for all legal purposes, to be that shown in the Shareholders' Register.

Article 20

All matters not provided for in the present bylaws shall be governed by the provisions of law.

*Graphic project Ippolito Fassati, CRM S.r.l. - www.crm.it
Lucini printig, Milan*



Printed on recycled paper

