



Accomandita per Azioni

Registered Offices in Milan Via G. Negri, 10

Share Capital - Euros 324,789,013.64 fully paid up

Milan Companies Registry and Tax Code No. 00860340157

2000 Annual Report - 129<sup>th</sup> Year



## **PIRELLI & C.** Accomandita per Azioni

Leopoldo Pirelli

*Honorary Chairman*

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### BOARD OF MANAGING PARTNERS

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Marco Tronchetti Provera

*Chairman*

Alberto Pirelli

*Deputy Chairman*

Carlo Buora

Luigi Orlando

Carlo Alessandro Puri Negri

Sergio Lamacchia

*Secretary to the Board*

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### BOARD OF STATUTORY AUDITORS

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Roberto Bracchetti

*Chairman*

Paolo Lazzati

*Standing Auditor*

Salvatore Spiniello

*Standing Auditor*

Paolo Colombo

*Alternate*

Marco Reboa

*Alternate*

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### GENERAL MANAGER

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Luciano Gobbi

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### INDEPENDENT AUDITORS

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PricewaterhouseCoopers S.p.A.

Note: See page 31 under “Corporate Governance”.

# **NOTICE OF ANNUAL GENERAL SHAREHOLDERS' MEETING**

Notice is hereby given that the Annual General Meeting of the shareholders of Pirelli & C. - Accomandita per Azioni, in ordinary and extraordinary sessions, will be held in Milan, at the Istituto per gli Studi di Politica Internazionale in Via Clerici 5 at 10:30 A.M.

- Monday, April 30, 2001 in first call
  - Thursday, May 10, 2001 in second call
- to discuss the following

## **AGENDA**

### **Ordinary session**

- 1) Report of the Managing Partners; Report of the Board of Statutory Auditors; financial statements for the year ended December 31, 2000; appropriation of net income.
- 2) Proposed purchase and disposition of treasury shares, after canceling the resolution voted by the shareholders' meeting of May 11, 2000, as it was not used.  
Inherent and consequent resolutions.  
Conferring of powers.
- 3) Determination of fees payable to the managing partners.

### **Extraordinary session**

- 1) Amendment to articles 11 (meetings and convening meetings of the Board of Managing Partners) and 15 (appointment of the Board of Statutory Auditors) of the by-laws.  
Inherent and consequent resolutions.  
Conferring of powers.

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## FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

(in millions of euros)

|   | 2000    | 1999   | 1998   | 1997   | 1996   |
|---|---------|--------|--------|--------|--------|
| Sales revenues                          | 7,697   | 6,654  | 5,655  | 6,095  | 5,355  |
| Gross operating profit                  | 850     | 699    | 733    | 700    | 631    |
| Operating profit                        | 432     | 322    | 397    | 403    | 356    |
| Net income                              | 3,759   | 293    | 282    | 314    | 227    |
| Net income attributable to Pirelli & C. | 1,405   | 86     | 74     | 77     | 41     |
| Earnings per share (in euros)           | 2.28    | 0.14   | 0.12   | 0.17   | 0.09   |
| Fixed assets                            | 3,728   | 3,312  | 2,916  | 2,439  | 2,304  |
| Net working capital                     | 659     | 1,401  | 1,256  | 1,182  | 1,115  |
| Net invested capital                    | 4,395   | 4,713  | 4,172  | 3,621  | 3,419  |
| Shareholders' equity                    | 5,844   | 2,313  | 2,245  | 2,469  | 2,130  |
| Provisions                              | 1,178   | 803    | 731    | 686    | 588    |
| Net financial position                  | (2,635) | 1,597  | 1,196  | 466    | 701    |
| Net equity attributable to Pirelli & C. | 2,171   | 809    | 748    | 598    | 563    |
| Equity per share (in euros)             | 3.52    | 1.35   | 1.25   | 1.33   | 1.25   |
| Gross operating profit / Sales revenues | 11.04%  | 10.50% | 12.96% | 11.48% | 11.78% |
| Operating profit / Sales revenues       | 5.61%   | 4.84%  | 7.02%  | 6.61%  | 6.65%  |
| Net income / Net equity                 | 64.32%  | 12.67% | 12.56% | 12.72% | 10.66% |
| Operating profit / Net invested capital | 9.83%   | 6.83%  | 9.52%  | 11.13% | 10.41% |
| Net financial position / Net equity     | (0.45)  | 0.69   | 0.53   | 0.19   | 0.33   |

## REPORT OF THE MANAGING PARTNERS

Dear Shareholders,

The consolidated financial statements of Pirelli & C. Group for the year ended December 31, 2000 show a net income of Euros 3,759 million compared to Euros 293 million in the prior year.

The result not only reflects the improvement in operating profit, which rose from Euros 322 million to Euros 432 million, but also the extraordinary transactions regarding both the Pirelli S.p.A. group (sale of the Optical Components business to Corning, sale of the Terrestrial Optical Systems business to Cisco Systems and expenses in connection with the restructuring and rationalization of productive operations) and the Pirelli & C. Real Estate S.p.A. group, the new name of Milano Centrale S.p.A. (acquisition of UNIM).

The net balance of these extraordinary items generated a net extraordinary income, before income taxes, of Euros 4,521 million compared to Euros 93 million in the prior year.

Sales revenues amount to Euros 7,697 million, with an increase of 15.7 percent compared to 1999.

The increase is mainly due to the change in the scope of consolidation (+6 percent) (BICC and NKF in the Cables and Systems Sector and the full-year consolidation of Alexandria Tyre Co S.A.E. in the Tyres Sector), volume increases (+4 percent), positive



*The Cables and Systems factory in Erith, Great Britain, acquired from BICC.*

price effects (+2.6 percent) and positive exchange effects from the translation in Euros (+6.4 percent), countered by the deconsolidation of the Terrestrial Optical Systems and the Optical Components operations (-3.3 percent).

Gross operating profit amounts to Euros 850 million, with an increase of 21.6 percent compared to Euros 699 million in 1999.

Aside from the operating factors of growth and efficiency, the supply agreement with Cisco Systems also contributed to this improvement for Euros 83 million.

Operating profit totals Euros 432 million and is equal to 5.6 percent of sales revenues compared to Euros 322 million in the prior year (4.8 percent of sales revenues).

The net financial position went from a debt position of Euros 1,597 million at December 31, 1999 to a liquidity position of Euros 2,635 million.

The increase is principally due to the aforementioned sales of the Terrestrial Optical Systems and Optical Components businesses.

The financial statements at December 31, 2000 of Pirelli & C., the parent company, show a net income of Euros 260 million compared to Euros 39 million in the prior year.

Beginning from this year, in agreement with the independent audit firm, the dividends of the subsidiaries are taken to income on the accrual basis; this led to the recording of higher dividends for Euros 115 million.



*Realization by Pirelli & C. Real Estate: the Research and Development building of the Pirelli Tyre Sector in Milan.*

## THE GROUP

The year 2000 was characterized by important transactions involving both the industrial operations represented by the investment in Pirelli S.p.A. and the real estate business of Pirelli & C. Real Estate S.p.A., the new name of Milano Centrale S.p.A..

2000 was marked by an ever-increasingly competitive scenario, with pressure over both raw materials and sales prices.

On January 14, 2000, the majority interest was acquired in Pirelli Telecom Cables Co. Ltd Wuxi (China), now equal to 66.5 percent of share capital, mainly from Upper Bright Ltd and from Xishan Xue Lang Industry and Commerce General Company.

On January 31, 2000 and March 3, 2000, Pirelli Cavi e Sistemi finalized the acquisition of a part of the NFK power cables business. The business includes the production of high, medium and low voltage power cables for utilities with two factories, at Delft (Holland) and Pikkala (Finland).

On February 10, 2000, an understanding was reached by the Pirelli Group with BICCGeneral for the purchase of the power cables business, at a total price of Euros 194 million, which had belonged to the British BICC group and had been bought in 1999 by the US group General Cable. In July, the European Commission granted authorization for the transaction. Thus, on August 25, 2000 the purchases were finalized for the units in Italy, the United Kingdom and Zimbabwe, on September 29, 2000 for those in China and Southeast Asia and on October 2, 2000 for the unit in Mozambique, concluding the entire deal. The companies acquired in Italy, the United Kingdom, China and Southeast Asia have been consolidated in the financial statements at December 31, 2000, with effect from the date of the actual acquisition. The companies acquired in Zimbabwe and Mozambique have been valued at cost.

On February 14, 2000, the sale of the Terrestrial Optical Systems to Cisco Systems was finalized. The price (net of the debt transferred) was US \$1,551 million; taking into



*The logo of Pirelli & C. Real Estate, new name of Milano Centrale.*

account the expenses connected with the sale, the gain was Euros 1,409 million, before income taxes.

As part of the agreement, in August 2000, Cisco Systems acquired a 10 percent stake in our two companies operating in the sector for optical components and submarine systems for telecommunications for an investment of US \$25 million and US \$75 million, respectively.

On September 27, 2000, Pirelli and Corning announced that they had reached an understanding for the sale, to Corning, of Optical Technologies USA Corp., an American company engaged in the production of optical components with headquarters in Delaware, for US \$3.9 billion, as well as other assets, entirely owned by Pirelli Cavi e Sistemi, for US \$100 million. The share capital of the company was held 90 percent indirectly by Pirelli S.p.A. and 10 percent by Cisco Systems. Originally, the creation of Optical Technologies USA Corp. and the alliance with Cisco Systems had the primary objective of increasing the value of this business over time, also by listing the shares on the U.S.A. market whenever the conditions to do so proved favorable: this would have allowed the company to take advantage of opportunities offered by the United States market from the standpoint of finances as well as management, customers and technologies. The acceptance of Corning's offer, instead, has led to the sale of all Optical Technologies USA Corp. stock. When the deal was finalized, in December 12, 2000, after approval by the Antitrust Authorities, Corning paid Pirelli a sum of US \$3.61 billion, including US \$180 million as a consequence of certain pre-set business targets having been reached, and US \$100 million for the sale of other assets held by Pirelli Cavi e Sistemi. The net proceeds for Pirelli amounted to about Euros 3,360 million, after taking into account the exercise of the options that were at one time given to Marco Tronchetti Provera, Giuseppe Morchio, Carlo Buora (equal to 12.5 percent of share capital, of which 6 percent to Marco Tronchetti Provera, 4 percent to Giuseppe Morchio and 2.5 percent to Carlo Buora) at a unit subscription price of US \$50 per share (equal to the price paid by Cisco Systems for the acquisition of the 10 percent stake), the assignment of specific benefits to personnel as well as the costs of the deal. Thanks also to the proceeds from this sale, Pirelli further stepped up its investments in cutting-edge technology in fiber optics, optical cables and submarine systems, in power transmission and tyres, seeking to seize every market opportunity that can contribute to creating value for the company.

The sale led to a gain, before income taxes, of Euros 3,351 million.

In November 2000, Pirelli proceeded to delist the shares of the two Brazilian affiliates, Pirelli Cabos S.A. and Pirelli Pneus S.A., from the San Paolo stock exchange following the successful takeover bid for all their outstanding shares. The total cost, was about Euros 90 million.

On December 27, 2000, Pirelli Cavi e Sistemi S.p.A. successfully concluded the takeover bid for all of Pirelli Cables Australia Ltd outstanding shares aimed at delisting the shares from the Australian stock exchange, which in effect took place on January 4, 2001. The stake now owned is equal to 98 percent of the share capital of the company. The remaining shares were later acquired on January 24, 2001. The total outlay was about Euros 22 million.

The real estate business recorded a strong growth which led Pirelli & C. Real Estate and its subsidiaries to affirm themselves and become the leading Italian operator in asset management and in specialized services in the real estate sector.

Thanks to acquisitions and internal development, the group manages assets worth approximately Euros 8 billion, of which half are owned by third parties and half by companies controlled by American real estate mutual funds and by Italian investors, in which Pirelli & C. Real Estate S.p.A. holds minority stakes.

The main transactions entered into by the Group during 2000 include the acquisitions of Unim, part of the Risanamento Napoli portfolio and the RCS real estate portfolio. Subsequent to the purchases acquired in both the prior and current years, specialized joint ventures have been set up with investors in which the assets have been differentiated according to the type and profile of risk (offices, residential properties, commercial and multisale properties, re-utilization of industrial buildings) for management by dedicated structures. Minority stakes have also been acquired in the Grand Stations project and in CasaClick.it, the first real estate portal for residential properties arising from the merger of DomusClick and Casapark.

In 2000, Pirelli & C. and Pirelli & C. Luxembourg S.A. purchased on the market No. 55,752,000 Pirelli S.p.A. ordinary shares at an average price per share of Euros 2.98.

At December 31, 2000, Pirelli & C. holds, directly or indirectly, 33.41 percent of the voting share capital (31.93 percent of total share capital) of Pirelli S.p.A., through Pirelli & C. Luxembourg S.A..



The homepage of Pirelli & C. Real Estate's Internet website.

The consolidated financial statements of the Group at December 31, 2000 can be summarized as follows:

|   | (in millions of euros) |             |
|---|------------------------|-------------|
|   | <b>2000</b>            | <b>1999</b> |
| Sales revenues                                    | 7,697                  | 6,654       |
| Gross operating profit                            | 850                    | 699         |
| % of sales revenues                               | 11.0%                  | 10.5%       |
| Operating profit                                  | 432                    | 322         |
| % of sales revenues                               | 5.6%                   | 4.8%        |
| Financial income and expenses                     | (120)                  | (28)        |
| Extraordinary items                               | 4,521                  | 93          |
| Income taxes                                      | (1,074)                | (94)        |
| Net income  | 3,759                  | 293         |
| % of sales revenues                               | n.s.                   | 4.4%        |
| Net income attributable to Pirelli & C.           | 1,405                  | 86          |
| Attributable earnings per share (in euros)        | 2.28                   | 0.14        |
| Shareholders' equity                              | 5,844                  | 2,313       |
| Shareholders' equity attributable to Pirelli & C. | 2,171                  | 809         |
| Attributable net equity per share (in euros)      | 3.52                   | 1.35        |
| Net financial position                            | (2,635)                | 1,597       |
| Capital expenditures                              | 570                    | 476         |
| R&D expenditures                                  | 213                    | 200         |

**Sales revenues** amount to Euros 7,697 million compared to Euros 6,654 million in the prior year.

The increase of 15.7 percent is detailed below:

|   |       |
|---|-------|
| – Currency exchange effect                | +6.4% |
| – Prices                                  | +2.6% |
| – Volumes                                 | +4.0% |
| – Mix and other                           | –0.1% |
| – Effect of consolidating units purchased | +6.0% |
| – Effect of deconsolidating units sold    | –3.2% |
|   | 15.7% |

The breakdown of sales revenues by sector is as follows:

| <b>Sector</b>  | <b>2000</b> | <b>1999</b> |
|--|-------------|-------------|
| Pirelli S.p.A. group   |             |             |
| – Cables and Systems   | 59.7%       | 58.9%       |
| – Tyres  | 37.4%       | 38.5%       |
| Total Pirelli S.p.A. group   | 97.1%       | 97.4%       |
| Real estate (Pirelli & C Real Estate S.p.A., formerly Milano Centrale group) | 2.8%        | 2.2%        |
| Other  | 0.1%        | 0.4%        |
|  | 100.0%      | 100.0%      |

**Operating profit** is equal to Euros 432 million, an increase of 34.2 percent compared to Euros 322 million in the prior year, representing 5.6 percent of sales revenues (4.8 percent in 1999).

Besides the operating factors of growth and efficiency, Euros 83 million of the improvement is also due to the supply agreement with Cisco Systems. Moreover, depreciation and amortization also increased from Euros 377 million to Euros 418 million.

**Extraordinary items**, shows an income balance of Euros 4,521 million compared to Euros 93 million in 1999.

The balance, as previously explained, includes the gain, before income taxes, on the sale of the Terrestrial Optical Systems business to Cisco Systems (Euros 1,409 million) and the gain, before income taxes, of the Optical Components business to Corning (Euros 3,351 million) and net extraordinary income, always before income taxes, on the acquisition of Unim by Pirelli & C. Real Estate S.p.A. (Euros 208 million) offset by productive restructuring and rationalization expenses of Euros 433 million.

Details are provided in the Notes to consolidated financial statements.

**Net income** totals Euros 3,759 million compared to Euros 293 million in 1999.

The improvement in the operating profit (+Euros 110 million) and the increase in the income balance of extraordinary items (+Euros 4,428 million) compare to a higher net financial expense balance (-Euros 92 million). This is due to both the reduction in the real interest rates in Turkey and Brazil, extraordinary exchange gains in 1999 and the financial expenses incurred for the Unim acquisition.

Income taxes went from Euros 94 million to Euros 1,074 million, mainly as a consequence of the extraordinary transactions.

**Shareholders' equity** went from Euros 2,313 million to Euros 5,844 million, with an increase of Euros 3,531 million. Details of the increase are as follows:

|  |       |       |
|--|-------|-------|
| • Translation adjustment                                     |       | (8)   |
| • Net income   |       | 3,759 |
| • Dividends to third parties paid by:                        |       | (154) |
| – Pirelli & C.   | (37)  |       |
| – Pirelli S.p.A.   | (101) |       |
| – Other Group companies                                      | (16)  |       |
| • Purchase of treasury shares (Pirelli S.p.A.)               |       | (73)  |
| • Purchase of treasury shares (Pirelli & C.)                 |       | (137) |
| • Purchase of treasury shares (Pirelli & C. Luxembourg S.A.) |       | (29)  |
| • Goodwill paid on the above purchases                       |       | 124   |
| • Conversion of Pirelli & C. 1998/2003 bonds                 |       | 44    |
| • Other changes  |       | 5     |
|  |       | <hr/> |
|  |       | 3,531 |
|  |       | <hr/> |

The attributable shareholders' equity went from Euros 809 million to Euros 2,171 million and attributable net equity per share from Euros 1.35 to Euros 3.52.

**Net financial position** went from a debt position of Euros 1,597 million at December 31, 1999 to liquidity position of Euros 2,635 million at December 31, 2000, with an improvement of Euros 4,232 million.

Details of the main changes contributing to the increase are as follows:

|  |         |                   |
|--|---------|-------------------|
| • <b>Exchange difference</b>                 |         | (18)              |
| • Operating profit                           | 432     |                   |
| • Depreciation and amortization              | 418     |                   |
| • Net investments:                           | (598)   |                   |
| – Pirelli S.p.A. group                       | (597)   |                   |
| – other                                      | (1)     |                   |
| • Change in working capital                  | 8       |                   |
| • Change in provisions and other changes     | (84)    |                   |
| • <b>Free cash flow</b>                      | 176     |                   |
| • Effect of acquisitions/sales               | (365)   |                   |
| • Purchase of Pirelli S.p.A. shares          | (241)   |                   |
| • Financial income and expenses              | (120)   |                   |
| • Extraordinary items                        | 4,521   |                   |
| • Income taxes                               | (1,074) |                   |
| • Dividends paid                             | (155)   |                   |
| • Other changes                              | 1,376   |                   |
| <b>Net cash flows</b>                        |         | 4,118             |
| <b>Other changes in shareholders' equity</b> |         | 132               |
|  |         | <hr/> 4,232 <hr/> |

“Other changes” include the effect of the deconsolidation of the businesses sold (Euros 153 million), the change in the provisions of an extraordinary nature (Euros 433 million), the change in tax receivables / payables (Euros 781 million).

**Capital expenditures** total Euros 570 million compared to Euros 479 million in 1999.

**R&D expenditures** are entirely charged to the statement of income and amount to Euros 213 million, compared to Euros 200 million in 1999. They represent 2.8 percent of sales revenues (3 percent in 1999).

**Personnel** number 42,509 compared to 40,369 at December 31, 1999.

The change is the result of the balance between the increase due to the acquisitions and the decrease in the other companies.

## **SIGNIFICANT SUBSEQUENT EVENTS**

On December 28, as a result of the sharp growth in the Cables and Systems Sector owing to the recent international acquisitions and with the aim of improving the strategic focus and operational effectiveness of the sector, Pirelli S.p.A. decided to separate the Energy Cables and Systems from the Telecom Cables and Systems operations.

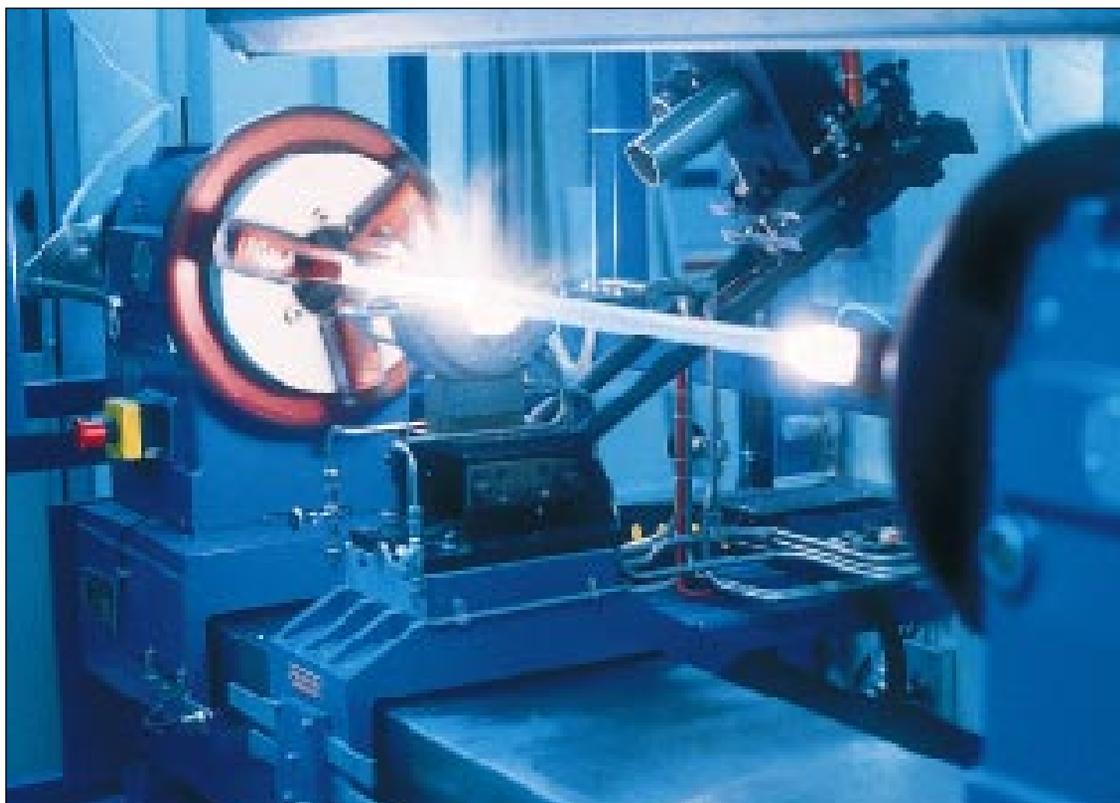
Since the beginning of the year, Pirelli S.p.A. has sold No. 32,023,550 treasury shares for net proceeds of Euros 124.4 million, realizing a gain of Euros 30.2 million.

## **OUTLOOK FOR THE CURRENT YEAR**

During 2001, the Group will pursue the established plan to strengthen its strategic and competitive position on the main international markets in its core businesses.

Overall, the company intends to invest approximately Euros 850 million, divided as follows:

- approximately Euros 400 million destined for telecommunications to increase the productive capacity of fiber optic cables and augment research in new technologies;
- approximately Euros 120 million earmarked mainly for the technological modernization of the production facilities of the Cables and Systems Sector - Energy and the industrialization of the new high voltage air-bag cable;



*In 2001, the Group will invest approximately Euros 400 million to increase the productive capacity of fiber optic cables and augment research in new technologies.*

– approximately Euros 330 million allocated to the Tyres Sector, of which Euros 150 million will be used to build new production plants using MIRS (Modular Integrated Robotized System) technology.

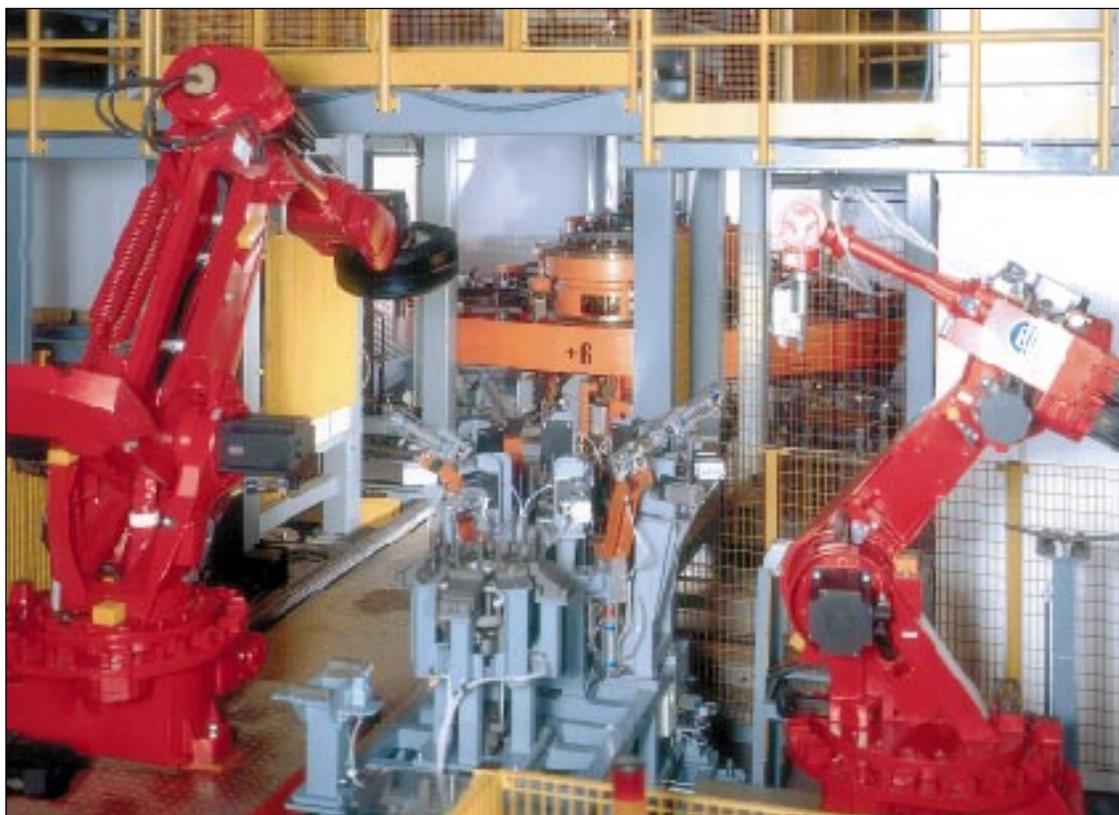
As for the real estate sector, the trend in operations makes it appear as though 2001 will show an improvement in the operating profit compared to 2000.

For the current year, provided that there is no further deterioration in the general economic and financial scenario, we expect to achieve a result, both in terms of operating profit and net income (without, of course, taking into account the extraordinary items of the past year) that is at least in line with that of 2000.

## **RELATED PARTY DISCLOSURE**

In reference to the disclosure requirements according to Consob Communication No. 97001574 of February 20, 1997 and No. 98015375 of February 27, 1998 regarding transactions by Group companies with related parties, a statement is made to the effect that all the transactions, including those between Pirelli & C. and its subsidiaries, and those among subsidiaries, fall under the ordinary operations of the Group, are governed by market terms, and there are no transactions of an unusual and exceptional nature or in potential conflict of interest.

The effects deriving from the transactions between Pirelli & C. and its subsidiaries are disclosed in the financial statements of the parent company and in the notes and, as for those between subsidiaries, are eliminated upon the preparation of the consolidated financial statements.



*New MIRS technology production units are currently being built.*

## **PERFORMANCE OF MAJOR GROUP COMPANIES**

### **PIRELLI S.p.A. GROUP**

The key consolidated figures for the year ended December 31, 2000 are presented below:

Sales revenues amount to Euros 7,477 million, compared to Euros 6,482 million in the prior year. The increase of 15.4 percent is due mainly to the change in the scope of consolidation (+6 percent), volume increases (+4 percent), positive price effects (+2.6 percent) and positive exchange effects on the translation in Euros (+6.4 percent), countered by the deconsolidation of the Terrestrial Optical Systems and the Optical Components operations (-3.3 percent). The breakdown by sector is Cables and Systems 61 percent and Tyres 39 percent.

Operating profit is equal to Euros 437 million, an increase of 32 percent compared to Euros 331 million in 1999, representing 5.9 percent of sales revenues (5.1 percent in 1999).

Extraordinary items show an income balance of Euros 4,277 million compared to Euros 89 million in 1999. The increase over the prior year is principally due to the gain, before income taxes, on the sale of the Terrestrial Optical Systems business to Cisco Systems (Euros 1,409 million) and the gain, before income taxes, of the Optical Components business to Corning (Euros 3,351 million), offset by productive restructuring and rationalization expenses of Euros 433 million.

Net income totals Euros 3,626 million (Euros 305 million in 1999) after income taxes for Euros 1,013 million (Euros 91 million in 1999).

The net income attributable to Pirelli S.p.A. is Euros 3,632 million (Euros 293 million in 1999) which corresponds to Euros 1.82 per share (Euros 0.15 in 1999).

Shareholders' equity is equal to Euros 5,958 million (Euros 2,454 million at December 31, 1999).

The shareholders' equity attributable to Pirelli S.p.A. is equal to Euros 5,756 million (Euros 2,275 million at December 31, 1999) which corresponds to Euros 2.89 per share (Euros 1.15 at December 31, 1999).

The net financial position went from a debt position of Euros 1,017 million at December 31, 1999 to a liquidity position of Euros 3,495 million at December 31, 2000; the reasons for the change are mainly due to the previously mentioned sales.

Capital expenditures total Euros 562 million compared to Euros 469 million in 1999.

R & D expenditures are entirely charged to the statement of income and amount to Euros 213 million, compared to Euros 200 million in 1999. They represent 2.8 percent of sales revenues (3.1 percent in 1999).

Personnel now number 41,914 as a result of the acquisitions (40,103 units at December 31, 1999).

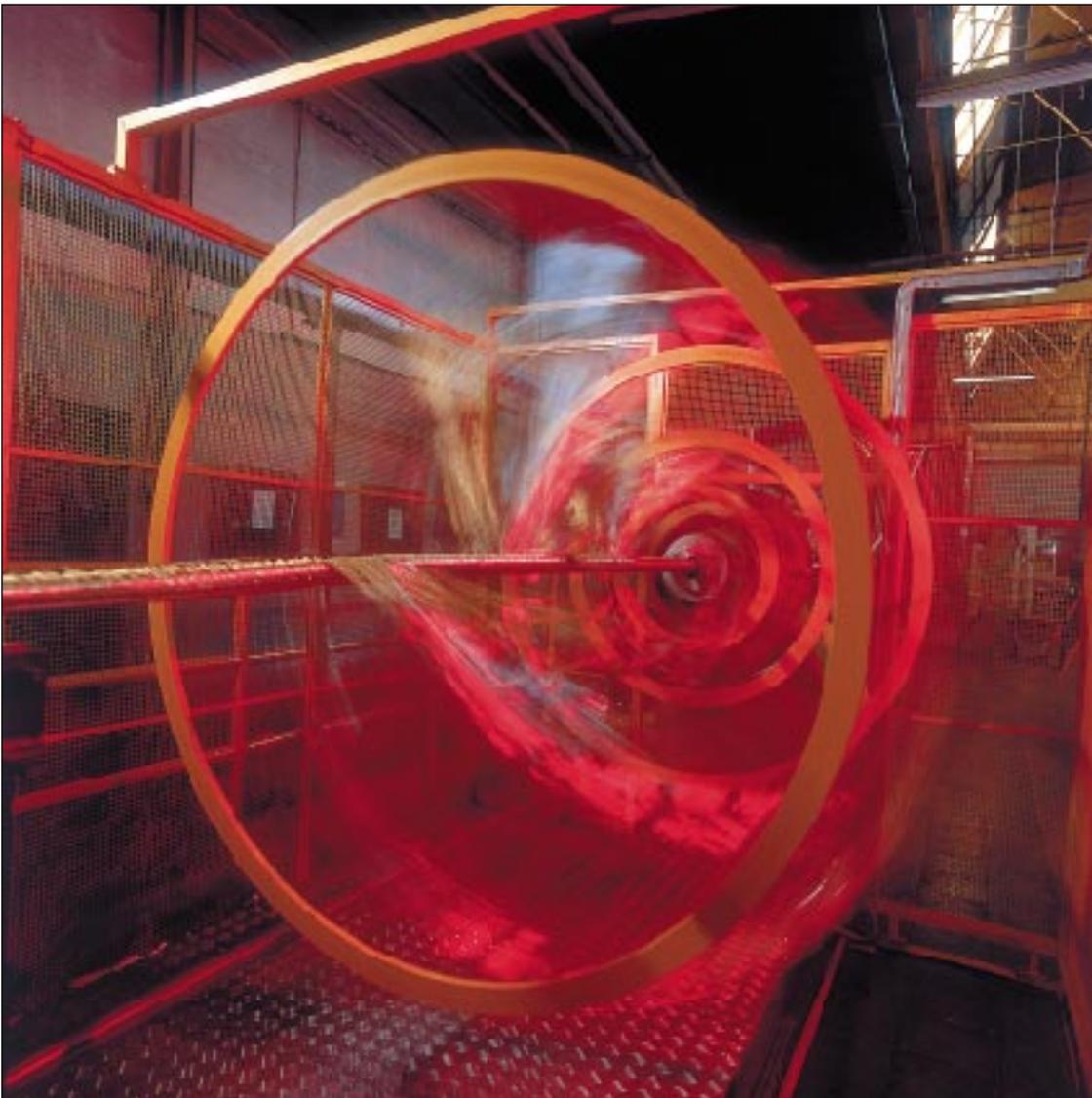
For the current year, results are expected to be reached, both in terms of operating profit and net income (without, of course, taking into account the extraordinary items of the past year) that are at least in line with those of 2000.

## Cables and Systems Sector

The operating profit of the sector shows an improvement compared to the prior year (+58 percent), reaching a return on sales of 6.3 percent thanks to the contribution made by telecom cables activities, where there was a significant growth in volumes and margins, due to the increase in world demand. Energy cables and systems operations were hurt by tensions over prices, particularly on the utilities market, and by a temporary slowdown in the area of submarine cables while the supply agreement with Cisco Systems had a positive impact.

The net income includes gains realized on the sale of the Terrestrial Optical Systems to Cisco Systems and the Optical Components business to Corning and the restructuring costs set aside mainly for the rationalization of former BICC operations.

The integration of acquisitions from Siemens in Europe, Metal Manufactures in Australia and NKF in Holland and Finland continued and steps were taken to begin to rationalize and integrate the power cables division acquired from BICC General.



*Wrapping of a prototype superconductor cable.*

Sales revenues amount to Euros 4,591 million, of which Euros 355 million are from the units acquired (+17.1 percent compared to 1999, +8.4 percent excluding the acquisitions).

Operating profit totals Euros 289 million (6.3 percent of sales revenues) compared to Euros 183 million in 1999 (4.7 percent of sales revenues).

Extraordinary items show an income balance of Euros 2,173 million and include the gains on the sales of the Terrestrial Optical Systems business to Cisco Systems (Euros 1,409 million) and the Optical Components business to Corning (Euros 1,081 million) as well as restructuring expenses of Euros 233 million that mainly refer to the reorganization of the operations acquired from BICC.

Net income is equal to Euros 1,780 million compared to Euros 136 million in the prior year.

Net financial position presents a liquidity position of Euros 1,644 million compared to a debt position of Euros 700 million at December 31, 1999.

Investments in fixed assets in 2000 total Euros 337 million compared to Euros 209 million in 1999.

R&D, which is coordinated at the worldwide level, is conducted by an integrated structure of research centers and development and engineering units in various nations. A total of 961 persons was involved in R&D during the year just ended and expenditures totaled Euros 100 million, equal to 2.2 percent of total sales.

The results of these first few months of 2001 confirm the substantial improvement in telecommunications operations and the consolidation of power cables activities, after the acquisition of the BICC cables business.

Despite the uncertainties caused by certain unstable markets, it is felt that the result from ordinary operations in the current year will be in line with that of the year just ended.

## Tyres Sector

Sales revenues, equal to Euros 2,880 million, record an increase of 12.5 percent compared to 1999, due to the favorable trend in the volumes/mix and the currency exchange effect, which was only partly countered by the drop in sales prices.

Operating profit went from Euros 185 million (7.2 percent of sales revenues) to Euros 180 million (6.3 percent of sales revenues).

The positive contribution by the volumes and mix and the measures taken to reduce costs almost completely compensated the fall in sales prices and the increase in the prices of raw materials.

The net loss, after restructuring expenses of Euros 200 million, is Euros 172 million.

The net financial position presents a debt position which went from Euros 535 million at December 31, 1999 to Euros 748 million, with an increase of Euros 213 million, mainly due to the deterioration of working capital.

During the year, capital expenditures total Euros 216 million, equal to 121 percent of depreciation.

In particular, in Europe, investments have begun in order to increase productive capacity using MIRS technology (Modular Integrated Robotized System) for the manufacture of



*P6 and P7 are the Tyre Sector's new top of the range car tyres.*

high-performance tyres; the productive capacity has been increased in Brazil, Turkey and Egypt, mainly in the truck tyre sector, in order to meet market demand.

R&D expenditures total Euros 113 million, equal to 3.9 percent of sales revenues. In 2000, the first products developed exclusively for the web were launched by Pirelli, in line with the e-Pirelli project.

### **Pirelli S.p.A.**

The financial statements at December 31, 2000 of Pirelli S.p.A. show a net income of Euros 1,733 million compared to Euros 229 million in 1999.

Beginning from this year, in agreement with the independent audit firm, the dividends of the subsidiaries are taken to income on the accrual basis; this led to the recording of higher dividends for Euros 1,500 million.

The shareholders' equity is equal to Euros 3,767 million and reflects the net income for the year and the payment of dividends relating to the prior year.

The Board of Directors of Pirelli S.p.A. will put forth a proposal at the shareholders' meeting, convened for April 27, 2001 in first call and, eventually, for May 8, 2001 in second call, for the payment of dividends of Euros 0.1550 for each ordinary share and Euros 0.1654 for each savings share.



*PZero Rosso for the highest performances cars.*

## **PIRELLI & C. LUXEMBOURG S.A. - Luxembourg**

The company ended the year with a net income of Swiss francs 174.7 million compared to Swiss francs 54 million in the prior year.

The net income includes the gain of Swiss francs 23.3 million realized on the sale, in July 2000, of No. 2,420,964 Falck S.p.A. shares at a price per share of Euros 9.

The result also includes Swiss francs 192.3 million of dividends from Pirelli S.p.A. (Swiss francs 49.7 million last year) and financial expenses of Swiss francs 43.4 million (Swiss francs 19.7 million last year).

The increase in financial expenses is connected with the increase in interest rates and higher average net debt.

It should be pointed out that last year the result also included the gain of Swiss francs 24.1 million realized on the sale of Banca Commerciale Italiana S.p.A. shares.

During the year, the company purchased No. 100,000,000 Pirelli S.p.A. ordinary shares from Pirelli & C. at a price per share of Euros 2.75 (equal to the average listed price in the 30 days prior to the transaction) and No. 10,535,000 Pirelli S.p.A. ordinary shares on the market at a price per share of Euros 2.77.

The company now holds No. 527,813,101 Pirelli S.p.A. ordinary shares, equal to 27.73 percent of the voting share capital and 26.51 percent of the entire share capital.

As a result of these purchases, the net debt rose from Swiss francs 981.9 million to Swiss francs 1,425.8 million.



*Pistoia, Palazzo del Governo: one of the privatized buildings from the portfolio of the G6 consortium, in which Pirelli & C. Real Estate has a stake.*

## **PIRELLI & C. REAL ESTATE S.p.A. (formerly MILANO CENTRALE S.p.A.)**

Pirelli & C. Real Estate is the company in the Pirelli & C. Group which operates in Real Estate Asset Management (Residential and Commercial), ensuring strategic management services and participating in qualified venture capital initiatives with minority stakes, in both Specialist Services (Residence Agency, Commercial Agency, Project Management, Urban Promotion and Property & Facility Management) for the same initiatives and directly on behalf of third party clients.

The consolidated financial statements for the year ended December 31, 2000 show a net income attributable to the parent company of Euros 152.4 million, compared to Euros 11.0 million in 1999. The result from extraordinary operations totals Euros 132.3 million and that from ordinary operations is equal to Euros 20.1 million, with an increase of 83 percent over the prior year.

The year 2000 was characterized by some important events:

### **Important events during the year**

- On January 7, 2000, with the payment of Euros 2,044.6 million, Pirelli & C. Real Estate S.p.A. formally purchased 88.88 percent of the entire share capital of Unione Immobiliare (UNIM) following a takeover bid, in the second half of 1999, for all the shares of the company. The takeover bid for the remaining UNIM shares pursuant to art. 108 of Legislative Decree No. 58/98 was concluded in the following April. 84.3 percent of all shares still on the market were tendered. Taking into account the treasury shares held by UNIM, Pirelli & C. Real Estate's stake in UNIM rose to 98.78 percent of the entire share capital. Pirelli & C. Real Estate then took advantage of the



*Pirelli & C. Real Estate portfolios: building in Via Principe Amedeo 3, Milan.*

right, as provided by art. 111 of the Testo Unico, to purchase the remaining shares still outstanding.

- On January 25, a service contract was signed between the Ministry of Labor and Social Security and Consorzio G6 Advisor, in which the company has a stake. The business purpose of the consortium is to organize, coordinate and perform, through the individual consortium members, all the activities and services necessary to dispose of a real estate portfolio of the social securities agencies worth over Euros 1,500 million.
- In February, the company, along with the Benetton group and Caltagirone/Vianini, won the bid for the “Grand Stations” Project. The project, drawn up by the State Railway, is aimed at the re-qualification, utilization and integrated management of thirteen train stations in the major Italian cities.
- In June, in accordance with the industrial program for Unim’s operations defined in the takeover bid, the following was finalized: the contributions of the residential buildings by Unim to its subsidiary Auriga, the commercial buildings by Unim to its subsidiary Uniorias Due and the property management business segment by Unim to the dedicated company Pirelli & C. Property Management (formerly Milano Centrale Cagisa).
- 75 percent of the company Uniorias Due, which took over the Unim office properties, was sold to a leading American real estate mutual fund. The company kept a 25 percent stake.
- 64 percent of the company Auriga, the company to which the residential properties were contributed, was sold to two leading Italian banks and two American real estate mutual funds. The company kept a 36 percent stake.
- Auriga and Uniorias Due sold the stores in their real estate portfolios to a newly incorporated company, owned 75 percent by a leading American mutual fund. The company kept a 25 percent stake.
- The company also took over the management of the portal for homes “CasaClick” (a company deriving from the merger of Domusclick and Brainworks) and signed an agreement of understanding with Gabetti Holding for a commercial partnership in the residential sector.
- In October, an understanding was reached with Regus for the development of a chain of temporary offices in Italy over the next five years.
- In December, the company led the acquisition for the RCS real estate portfolio on behalf of two companies in which Hdp and Morgan Stanley have different percentage holdings. The company kept an average of about a 20 percent stake.
- Again in December, about 50 percent of the “Risanamento Napoli” portfolio was purchased along with other investors, which led to the incorporation of a company whose shareholders include leading Italian banks and top operators in the sector. The company has about a 32 percent stake.
- For all the real estate properties purchased, the company will act as the Asset Manager and provide all the necessary specialized services.

### **Summary data**

The following is a comparative summary of the key figures of the consolidated financial statements for the years ended December 31, 2000 and 1999.

Beginning from the 2000 financial statements, Pirelli & C. Real Estate S.p.A. has changed its fiscal year-end to June 30 of every year, thus the consolidated financial statements will be prepared as of that date.

The closing of the statutory financial statements of Pirelli & C. Real Estate S.p.A. at June 30, 2000 enabled the company to pay dividends in the second half of the year for a total of Euros 100 million.

|  | (in millions of euros) |            |
|--|------------------------|------------|
|  | 12.31.2000             | 12.31.1999 |
| <b><i>Economic data</i></b>                  |                        |            |
| Value of production                          | 244                    | 203        |
| Operating income                             | 35                     | 20         |
| Financial income and expenses                | (42)                   | (4)        |
| Extraordinary items                          | 206                    | –          |
| Income before taxes                          | 199                    | 16         |
| - % of net invested capital                  | 40%                    | 13%        |
| Income taxes                                 | (47)                   | (5)        |
| Net income                                   | 152                    | 11         |
| Net income attributable                      | 152                    | 11         |
| <b><i>Balance sheet data</i></b>             |                        |            |
| Fixed assets                                 | 168                    | 11         |
| Net working capital                          | 324                    | 109        |
| – of which inventories                       | 308                    | 296        |
| % to be sold                                 | 49%                    | 58%        |
| Net invested capital                         | 492                    | 120        |
| Net financial position                       | 364                    | 78         |
| Shareholders' equity attributable            | 74                     | 29         |
| <b><i>Other data</i></b>                     |                        |            |
| No. of employees (excluding auxiliary staff) | 496                    | 188        |



Realization by Pirelli & C. Real Estate: a model of Milan's Deutsche Bank headquarters, now under construction in the Bicocca area.

## **Economic review**

Consolidated *value of production* in 2000 is Euros 244.4 million, compared to Euros 203.2 million in 1999. Net of the effects of the Unim deal and the acquisitions (Euros 38.0 million compared to Euros 110.4 million in 1999), the value of production is Euros 142.6 million compared to Euros 92.8 million in 1999, with an increase of 54 percent over the prior year.

The *operating income* is Euros 34,5 million against Euros 19.9 million in 1999, with an increase of 73 percent over the prior year. The result is more or less entirely generated by operations comparable to those of the prior year, since the effect of extraordinary transactions is practically zero at the level of income from ordinary operations.

*Income before taxes* is Euros 198.3 million, compared to Euros 15.6 million in 1999. The result from extraordinary operations totals Euros 167.7 million and the result from ordinary operations is equal to Euros 30.6 million, with an increase of 96 percent over the prior year.

*Net income* is Euros 152.4 million, compared to Euros 11.0 million in 1999. The result from extraordinary operations totals Euros 132.3 million and the result from ordinary operations is equal to Euros 20.1 million, with an increase of 83 percent over the prior year.



*Realization by Pirelli e C. Real Estate: the Siemens Group head office, Milan.*

## **Balance sheet review**

*Fixed assets* amount to Euros 168 million compared to Euros 11 million at December 31, 1999. The increase is essentially attributable to new investments in associated companies, in addition to a securities portfolio hedged by an equity swap contract equal to Euros 96.4 million at December 31, 2000.

*Net working capital* is Euros 324.2 million compared to Euros 108.8 million at December 31, 1999. The increase of Euros 215.4 million is mainly the result of an increase in tax credits on Unim dividends (Euros 168.1 million).

The consolidated inventories are equal to Euros 308.3 million (already sold for about 51 percent) compared to Euros 295.6 million at December 31, 1999; they refer to areas for building, property under construction or in renovation, properties completed and for sale.

*Net financial position*, always net of a loan relating to a deal which has already been concluded for which a type of finance project contract was used, amounts to Euros 364.4 million, compared to Euros 78.0 million at December 31, 1999. Such debt is equal to Euros 29.1 million if the debt guaranteed by the securities portfolio covered by the equity swap, equal to Euros 335.5 million, is excluded.

## **Subsequent events**

- With a view to increasing the volumes managed and entering new market sectors, negotiations are in the advanced stages to acquire or conclude alliances with leading companies operating in the Facility Management sector.
- Exclusive negotiations have also begun for the purchase of both commercial and residential real estate properties.

## **PIRELLI AMBIENTE S.p.A.**

Over the course of its existence, the company has operated in the sectors of ecology and power co-generation. During this year, a program has begun to abandon the co-generation sector through the sale of the investments in the subsidiaries with the intent of using the resources from such sales to step up development in the ecology sector.

In 2000, the investment in Turk Pirelli Energji S.A. was sold to Sondel International B.V. (a company in the Falck group) for US \$9.5 million, realizing a gain of Euros 5.3 million.

The sale of the investment in Pirelli Energie Deutschland A.G. took place in January 2001 at a price of Euros 1.6 million, realizing a gross gain of Euros 0.5 million.

The consolidated result of the company for the year ended December 31, 2000 shows a profit of Euros 2.5 million compared to a loss of Euros 0.8 million in the prior year.

Future operations will be directed to introducing the company into the field of energy from waste through innovative and economically self-sufficient projects.



*Realization by Pirelli & C. Real Estate: a model of the main theater in the Teatro degli Arcimboldi, being built in the Bicocca area.*



## INVESTMENTS HELD BY MANAGING PARTNERS

Pursuant to article 79 of Consob Regulation approved by resolution No. 11971 of May 14, 1999, the following information is provided as regards the investments held in the company Pirelli & C. and its subsidiaries by the Managing Partners, as well as spouses, not legally separated, and minor children, either directly or through subsidiaries, trustee companies or individual persons, as resulting from the shareholders' register at December 31, 2000, from notices received or other information acquired from the same Managing Partners.

| Name                        | Investment held in  | No. of shares held at prior year-end | No. of shares purchased | No. of shares sold | No. of shares held at current year-end |
|-----------------------------|---|--------------------------------------|-------------------------|--------------------|--|
| Tronchetti Provera Marco    | Pirelli & C.  | 1,870                                |                         |                    | 1,870                                  |
|                             | Pirelli & C. (indirectly)   | 131,831,278                          | 41,202,000              |                    | 173,033,278                            |
|                             | Pirelli S.p.A. (indirectly)                                       |                                      | 27,513,000              |                    | 27,513,000                             |
| Pirelli Alberto             | Pirelli & C.  | 4,000                                |                         |                    | 4,000                                  |
| Buora Carlo                 | Pirelli & C.  | 3,000                                |                         |                    | 3,000                                  |
|                             | Pirelli S.p.A.  | 42,517                               |                         |                    | 42,517                                 |
| Puri Negri Carlo Alessandro | Pirelli & C.  | 10,000                               |                         |                    | 10,000                                 |
|                             | Pirelli S.p.A.  | 780,000                              |                         | 780,000            | 0                                      |
|                             | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.) | 1,350                                |                         |                    | 1,350                                  |
| Orlando Luigi               | Pirelli & C.  | 3,933                                |                         |                    | 3,933                                  |
| Gobbi Luciano               | Pirelli S.p.A.  | 101,200                              |                         |                    | 101,200                                |

- (1) No statutory auditor holds investments in Pirelli & C. and its subsidiaries
- (2) No stock options have been assigned (as regards the stock option plans of the subsidiary Pirelli & C. Real Estate S.p.A., formerly Milano Centrale S.p.A., reference should be made to the following comments in this report, whereas for those of the subsidiary Pirelli S.p.A., reference should be made to its annual report)

## **STOCK OPTIONS PLANS**

During 2000, the subsidiary Milano Centrale S.p.A. (now Pirelli & C. Real Estate S.p.A.) voted to increase share capital through the issue of a maximum of No. 25,713 shares at a price per share of Lire 2,279,000, reserved for subscription by Pirelli & C..

The latter company, in turn, offered to sell the shares, at the same price, to employees and associates of the Milano Centrale group. A commitment was undertaken to re-purchase such shares in the future at a price that would take into account the appreciation of the assets of the company. These actions have been taken in consideration of the contribution made by the staff in conjunction with the positive conclusion of the UNIM deal.

The beneficiaries – to whom the offer was made on February 16, 2001 – will be able to exercise the above option rights by June 30, 2001 and will be able to re-sell them to Pirelli & C. between January 1, 2004 and January 31, 2005.

The payment of the price per share of Lire 2,279,000, plus annual interest calculated at the official bank rate at the end of each year, will be paid by compensation against the amount that will be paid to the beneficiary when the optioned shares are re-purchased by Pirelli & C. and, in any case, by December 31, 2005; this form of financing will not be used by Mr. Carlo Alessandro Puri Negri, to whom 21,922 option rights have been assigned, in view of the post he holds as a managing partner in Pirelli & C..

The above-described plan is in addition to another plan previously begun following the other capital increase, voted by the shareholders of Milano Centrale on December 22, 1999, used to assign No. 7,115 bonus Milano Centrale shares to the staff of the group; also in this case Pirelli & C. is committed to re-purchasing the assigned shares during the period between September 20, 2001 and November 30, 2001, at a price to be agreed according to current criteria but with the understanding that the economic and financial data of Milano Centrale that will be used to value the shares will be net of the effects deriving from the acquisition of UNIM.

Overall, the percentage of Pirelli & C. Real Estate S.p.A. share capital covered by the aforementioned stock option plans, involving a total of 54 staff, is equal to 9.86 percent.

## **CORPORATE GOVERNANCE**

### **Introduction**

On November 16, 1999, the Company informed the market that it had adopted the “Code of Self-discipline of listed companies” (hereinafter “Code”), recommended by Borsa Italiana S.p.A.

In conformity with the Instructions for the Regulations of the markets organized and managed by Borsa Italiana, here below, the Company wishes to represent its corporate governance system which has gradually come to be formed over time.

With the following presentation, which has been specially written for easy reading, it is hoped that everyone interested in knowing the governing system of Pirelli & C. and its Group can readily evaluate whether said system and to what extent it already conforms to the principles inspired by the aforementioned Code.

Mention should be made of the fact that an exact application of all the recommendations contained in the Code is difficult because of the particular type of Company (which has always been a limited partnership with share capital) and the salient feature which distinguishes the figure of the managing partner.

It should also be added that the managing partners are aware of the possibilities and the opportunities that might arise from making future improvements to the system based on indications received from the authorities, future experience and any requests from the market or its operators.

## **1. Board of Managing Partners**

### **1.1 The role of the Board of Managing Partners**

Pursuant to the by-laws (art. 10), the Board is empowered with the management of the company and, for this purpose, is invested with the fullest powers for finance and administration, except those, which according to the by-laws or by law, are reserved for the shareholders' meetings.

The Board, in fact, exercises its powers in conformity with point 1.2 of the Code, that is:

- examines the corporate, industrial and financial plans of the company and the corporate structure of the Group;
- assigns and revokes the delegation of powers to the managing partners, establishing the limits and manner of exercising such powers;
- establishes, after examining the proposals of the specific remuneration committee and after having consulted the Board of Statutory Auditors, the fee to be paid to the managing partners and those who hold specific posts;
- monitors the general performance of operations, with special attention being paid to the conflicts of interest, taking into account, in particular, the information received from the executive directors and the audit committee, as well as periodically comparing the results with the budgets;
- examines and approves transactions that have a significant economic, financial or equity impact, with particular reference to related party transactions;
- generally, at the board meetings, held at least quarterly, the Board of Statutory Auditors is kept informed of the activities conducted and the most important transactions entered into, also by the subsidiaries;
- verifies the adequacy of the general organizational and administrative structure of the company and group as organized by the managing directors;
- keeps the shareholders informed at the shareholders' meetings.

### **1.2 The appointment of managing partners**

In conformity with point 7 of the Code, from now on, as a normal rule, the proposals for the post of managing partner will be accompanied by exhaustive disclosure concerning the personnel and professional characteristics of the candidates and will be deposited at the corporate offices at least ten days prior to the expected date of the shareholders' meeting.

The Board of Managing Partners did not deem it necessary to form an internal committee to propose candidates for the post of managing partner, since, at present, the company does not fall under the considerations upon which the provision was contemplated in the Code and, particularly because no special difficulties are envisaged in proposing candidates, in view of the actual shareholder base.

### **1.3 The composition of the Board of Managing Partners**

The Board of Managing Partners is composed of the following:

Dott. Marco Tronchetti Provera

Dott. Alberto Pirelli

Dott. Carlo Buora

Dott. Luigi Orlando

Carlo Alessandro Puri Negri

Currently, therefore, the Board is composed of 5 managing partners, of whom 4 are executive. By executive, is meant, according to point 2.1 of the Code, - the Chairman Dott. Marco Tronchetti Provera, entrusted with delegated powers, the Deputy Chairman Dott. Alberto Pirelli (who carries out management functions in the subsidiary Pirelli Cavi e Sistemi), Dott. Carlo Buora, the Managing Director

and General Manager of Finance and Administration in the subsidiary Pirelli S.p.A., and Carlo Alessandro Puri Negri, the Deputy Chairman and General Manager in the subsidiary Pirelli & C. Real Estate S.p.A. and Deputy Chairman, entrusted with delegated powers, in Pirelli Ambiente S.p.A..

The Code, at point 3, provides a definition of “independent directors”, which, in view of, but especially on account of the particular features which distinguish the managing partners, none of them can be qualified as such.

#### 1.4 Meeting of the Board

A Chairman, and if necessary, one or more Deputy Chairmen shall be appointed from amongst the members of the Board.

In the event of the Chairman being absent, the chair shall be taken by the senior in age of the Deputy Chairmen present.

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

The Board shall meet at the invitation of the Chairman or, if appointed, by a Deputy Chairman or a Managing Director, at the registered office of the Company or in any other place just so long as it is in Italy, or whenever a meeting has been requested by two managing partners or by at least two standing statutory auditors.

Meetings of the Board may be held through an audiovisual connection.

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;
- c) meetings of the Board of Managing Partners are considered to be held in the place in which the Chairman and the Secretary must be simultaneously.

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

The presence of at least half the members plus one is necessary for the resolutions of the Board to be deemed valid, and the favorable vote of the majority of those present is required. Nevertheless, for the appointment of the Chairman and one or more Deputy Chairman, in addition to the appointment of the Managing Director and the granting of powers by the Board of Managing Partners to one or more of its members, a favorable vote cast by all the members is required.

The resolutions of the Board, even when passed by meetings held through videoconference, are recorded in a special book signed by the Chairman and the Secretary. In 2000, there were seven Board meetings held.

#### 1.5 The emoluments of the managing partners

The emoluments of the Board of Managing Partners, besides the reimbursement for expenses in connection with their duties, consist of an annual fee established by the shareholders’ meeting.

The emoluments of the managing partners invested with specific responsibilities are established by the provisions of art. 2389, paragraph 2 of the Italian Civil Code.

The Board has internally set up the “Remuneration Committee”, establishing that:

- a) as regards its functions:
  - proposals are presented to the Board for the remuneration of the managing partners having specific responsibilities and the remuneration of the top management of the company;

- preliminary examinations are made of the proposals for stock option plans;
- b) as regards its composition:
  - in general, it is composed of at least three managing partners who shall appoint the Chairman and a Secretary, who need not necessarily be a member of the Board;
  - the Board of Statutory Auditors and the Chairman of the Board of Managing Partners shall also attend the Board meetings;
  - the managing partners invested with specific responsibilities shall absent themselves from the meeting when their remuneration is being discussed and also in the event of discussions which interest them personally;
- c) as to its working format:
  - meetings are held at least twice a year, before the Board meetings for the approval of the annual financial statements and the six-month financial statements, or at any time the Chairman deems it necessary or a request has been made by another member;
  - for convening meetings and for the validity of its constitution and the resolutions, the same rules apply as those stated in the by-laws for the meetings of the Board of Managing Partners.

The “Remuneration Committee” is currently composed of the managing partners Dott. Luigi Orlando, who is Chairman, Dott. Alberto Pirelli and Dott. Carlo Buora.

## **2. Granting of power. Information provided to the Board of Managing Partners.**

The Board of Managing Partners conferred powers, to the Chairman Dott. Marco Tronchetti Provera and the Deputy Chairman Dott. Alberto Pirelli, necessary to carry out all the acts pertaining to corporate activity, to be exercised with single signature powers, with the exception of the power to issue guarantees for obligations of the Company and the subsidiaries in excess of single amounts of Lire 50 billion or guarantees in the interest of third parties for obligations in excess of single amounts of Lire 20 billion.

Also during 2000, as in the past, the above managing partners (as well as those to whom specific powers were granted) only used the powers conferred to them to carry out the normal operations of the company - of which the other managing partners of the company 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 same Board of Managing Partners. In accordance with art. 10 of the by-laws, the Board of Managing Partners and the Board of Statutory Auditors have been kept informed about the activities and any important economic, financial or equity transactions carried out by the company or the subsidiaries as well as transactions involving any potential conflicts of interest. Finally, the Chairman of the Board, also using information provided by the responsible internal functions, informs the managing partners and, if necessary, discuss any major new legislation and regulations that regard the company and the corporate boards.

## **3. Internal control**

Reporting directly to the Chairman of Pirelli & C. s.a.p.a. is the Auditing Function (not involved in financial operating activities and in the preparation of the financial statements and period statements) which has the main responsibility for seeing that the system of internal control of both the Pirelli & C. Group and the Group headed by the subsidiary Pirelli S.p.A. is functioning and is adequate in terms of effectiveness

and efficiency. To this end, it should be pointed out that in 2000, activities continued to spread and develop the methodology for managing operating risk within all the major units of the Group.

Moreover, the relative procedure has been issued and it is hoped that, through such initiatives, the internal control system of the Group will aim towards the best levels reached on this subject in international practice.

Furthermore, the Board of Managing Partners has internally set up an “Audit Committee”, establishing that:

a) as to its functioning:

- advisory and proposal functions shall be provided to the Board of Managing Partners and, in particular:
- the adequacy of the internal control system shall be evaluated;
- the work plan prepared by those in charge of internal control shall be evaluated and reports shall be received from same periodically;
- the proposals formulated by the audit firms in order to be appointed as auditors shall be evaluated as well as the audit work plan and the results expressed in the report and letter of recommendations;
- at least every six months, at the time of the approval of the annual financial statements and six-month financial statements, the Board shall be informed about the work carried out and the adequacy of the system of internal control;
- the additional tasks assigned by the Board of Managing Partners shall be performed, particularly in relation to the reports of the audit firm;

b) as to its composition:

- it is composed of at least three managing partners who shall appoint the Chairman and a Secretary, who need not necessarily be a member of the Board;
- the Board of Statutory Auditors and the Chairman of the Board of Managing Partners shall also attend the Board meetings, as well as, by invitation, the person in charge of the Internal Audit function;

c) as to its working format:

- meetings are held at least twice a year, before the Board meetings for the approval of the annual financial statements and the six-month financial statements, or at any time the Chairman deems it necessary or a request has been made by another member or a managing director;
- for convening meetings and for the validity of its constitution and the resolutions, the same rules apply as those stated in the by-laws for the meetings of the Board of Managing Partners.

The “Audit Committee” is currently composed of the managing partners Dott. Luigi Orlando, who is Chairman, Dott. Carlo Buora and Mr. Carlo Alessandro Puri Negri.

#### **4. The Board of Statutory Auditors**

It is felt that the entire article 15 of the by-laws should be reported herein, as follows: “The Board of Statutory Auditors is composed of three standing statutory auditors and two alternate statutory auditors.

The ordinary General Meeting shall appoint the Board of Statutory Auditors and determine the fees thereof. 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 is made on the grounds of lists put forward by the shareholders in which candidates are listed under progressive numbers.

Each list contains 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 general meeting, have the right to put forward a list.

The lists 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 lists together with statements whereby the single candidates accept the nomination and attest, under their own personal responsibility, to the non-existence of any reasons for ineligibility or incompatibility as well as to the existence of the requisites prescribed by law or by the articles for the position.

Any lists 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 list, 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 statutory auditor in more than five companies with stocks listed on official Italian markets, with the exception of the subsidiaries of Pirelli & C..

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

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 list which has obtained the highest number of votes, in the progressive order in which same are listed thereon; the remaining statutory member and the other alternate member are taken from the list which has obtained the highest number of votes from the meeting after the first list, again in the progressive order in which same are listed thereon; in the event of several lists obtaining the same number of votes, a new run-off vote between the said lists will be cast by all the shareholders present at the meeting, and the candidates on the list which obtains the simple majority of the votes will be appointed.

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

In case of death, waiver or resignation of a Statutory Auditor, the deputy belonging to the same list as the resigned statutory auditor all take the place of same. In the event of substitution of the Chairman of the Board of Statutory Auditors, the chair shall be taken by the other statutory member on the list 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 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 list have to be replaced, then the appointment is made with a relative majority vote without being tied to any list; if on the other hand statutory auditors appointed by the minority shareholders have to be replaced, the meeting shall replace same with a relative majority vote choosing names where possible from amongst the candidates indicated on the list on which the statutory auditor to be substituted appeared.

If only one single list has been put forward, then the meeting shall cast its vote regards same; if the list obtains a relative majority, then the first three candidates on the list in progressive 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 list 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, same shall be replaced respectively by an alternate statutory auditor and a standing statutory auditor in the order arising from the progressive numbering of the said list. Failing any lists, the Board of Statutory Auditors and its Chairman shall be appointed by the general meeting with the majorities prescribed by law.

Resigning statutory auditors may be re-appointed.”.

In addition, the shareholders’ meeting to which the financial statements for the year ended December 31, 2000 will be submitted, in the extraordinary session, will be asked to change the above article, in order to provide that the statutory auditors must hold the requisites required by the existing laws and also by regulations, stating precisely that the business areas and sectors strictly inherent to those of the Company are those indicated in the corporate business purpose (art. 2 of the by-laws), with particular reference to companies operating in the industrial, banking, insurance, real estate and services sectors in general.

#### **5. The shareholders’ meetings**

It is the 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 issues and, therefore, where necessary, by informing the market of such information.

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 managing partners and statutory auditors try to attend the shareholders’ meetings, in particular the directors who, because of the posts they hold, can make a useful contribution to the discussion.

Lastly, the Board of Managing Partners makes known that it does not feel – at the present time – that the Company has a need to establish rules for conducting shareholders’ meetings, deeming that what is envisaged in the by-laws on this matter is sufficient for the orderly and proper functioning of the shareholders’ meetings.

#### **6. 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 has been set up in the Group, entrusted to Dott. Alberto Borgia.

#### **7. Treatment of confidential information**

The management of confidential information, with special reference to price sensitive information, is under the direct responsibility of the Chairman of the Board of Managing Partners.

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 the Corporate Secretary for communications to the authorities and the shareholders, by the External Relations function for communications to the press and 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.

## THE PARENT COMPANY - PIRELLI & C.

The financial statements at December 31, 2000 of Pirelli & C. show a net income of Euros 259.7 million compared to a net income of Euros 39.6 million in the prior year. The condensed statement of income is as follows:

| (in thousands of euros)                                    |                |               |                |
|--|----------------|---------------|----------------|
| STATEMENT OF INCOME  | 2000           | 1999          | Change         |
| Financial income and expenses                              | 23,575         | 9,128         | 14,447         |
| Dividends and tax credits                                  | 284,802        | 50,736        | 234,066        |
| Gains on sales of securities                               | 54             | 23            | 31             |
| Value adjustments to financial assets                      | (4,656)        | (11)          | (4,645)        |
| Depreciation and amortization                              | (1,701)        | (1,704)       | 3              |
| Other operating income and expenses                        | (5,979)        | (5,429)       | (550)          |
| <b>Income from ordinary operations before income taxes</b> | <b>296,095</b> | <b>52,743</b> | <b>243,352</b> |
| Extraordinary items  | 56,784         | 341           | 56,443         |
| Income taxes   | (93,204)       | (13,495)      | (79,709)       |
| <b>Net income</b>  | <b>259,675</b> | <b>39,589</b> | <b>220,086</b> |

An analysis of the main components of the statement of income shows that financial income, net increased on account of higher average interest rates than the prior year and a better average liquidity position.

Dividends, including tax credits of Euros 69.2 million, are equal to Euros 284.8 million compared to Euros 50.7 million in the prior year.

Beginning from this year, in agreement with the independent audit firm, the dividends of the subsidiaries are taken to income on the accrual basis; this led to the recording of higher dividends of Euros 114.6 million.

Dividends include mainly dividends (including tax credits) from the subsidiaries Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.) (Euros 155.7 million), Pirelli & C. Luxembourg S.A. (Euros 97.8 million) and Pirelli S.p.A. (Euros 26.6 million).

Gains on sales of securities refer to the gains realized on the sale of “Assicurazioni Generali S.p.A. shares reserved for holders of warrants”.

Other operating expenses, net of income from the recovery of expenses for services rendered to Group companies and other income, went from Euros 5.4 million to Euros 5.9 million.

Extraordinary items, mainly include the 1999 dividends of the subsidiaries received in 2000 and recorded in extraordinary items, net, since, as previously described, the accounting treatment has remained unchanged (Euros 36.5 thousand), and the gains

from the sale to third parties of the investments in Cofide S.p.A. (Euros 8.7 million), Acquadotto de Ferrari Galliera S.p.A. (Euros 6 million), Falck S.p.A. (Euros 2.7 million), Futuro S.p.A. (Euros 1.3 million) and SMI S.p.A. (Euros 1.2 million).

The condensed balance sheet is as follows:

| (in thousands of euros)                             |                      |                      |                |
|---|----------------------|----------------------|----------------|
| <b>BALANCE SHEET</b>                                | <b>Dec. 31, 2000</b> | <b>Dec. 31, 1999</b> | <b>Change</b>  |
| Property, plant and equipment and intangible assets | 3,506                | 5,132                | (1,626)        |
| Financial assets                                    |                      |                      |                |
| Investments   | 482,571              | 621,137              | (138,566)      |
| Other securities                                    | 19,109               | 19,109               | -              |
| Treasury shares                                     | 4,678                | 4,678                | -              |
| Financial receivables                               | 777,318              | 554,269              | 223,048        |
| Current financial assets                            | 8,396                | 8,350                | 46             |
| Other assets  | 176,224              | 53,930               | 122,294        |
|   | <b>1,471,802</b>     | <b>1,266,605</b>     | <b>205,197</b> |
| Shareholders' equity                                | 1,155,147            | 888,196              | 266,951        |
| Provisions  | 7,372                | 4,974                | 2,398          |
| Financial payables                                  | 265,334              | 350,041              | (84,707)       |
| Other liabilities                                   | 43,949               | 23,394               | 20,555         |
|   | <b>1,471,802</b>     | <b>1,266,605</b>     | <b>205,197</b> |

Investments show a decrease of Euros 138.6 million due mainly to the sale of No. 100,000,000 Pirelli S.p.A. ordinary shares (Euros 274.6 million) to the subsidiary Pirelli & C. Luxembourg S.A. and the purchase of No. 45,217,000 Pirelli S.p.A. ordinary shares (Euros 137 million) on the market.

A complete analysis is provided in the notes.

Shareholders' equity at December 31, 2000 is equal to Euros 1,155.1 million compared to Euros 888.2 million at December 31, 1999.

The increase is the result of the net income for the year (Euros 259.7 million), net of dividends paid (Euros 37.3 million), and the partial conversion of 2.5% 1998-2003 bonds (Euros 44.5 million).

The net financial position shows a liquidity balance of Euros 520.4 million at December 31, 2000 compared to Euros 212.6 million at the end of the prior year.

| (in thousands of euros)  |                      |                      |                |
|--------------------------|----------------------|----------------------|----------------|
|                          | <b>Dec. 31, 2000</b> | <b>Dec. 31, 1999</b> | <b>Change</b>  |
| Financial receivables    | 777,318              | 554,270              | 223,048        |
| Current financial assets | 8,396                | 8,350                | 46             |
| Financial payables       | (265,334)            | (350,041)            | 84,707         |
|                          | <b>520,380</b>       | <b>212,579</b>       | <b>307,801</b> |

The change in the net financial position derives from the following movements:

|  | (in thousands of euros) |
|--|-------------------------|
|  | <b>12.31.2000</b>       |
| Share capital increase and reserves          | 44,559                  |
| Cash flows generated by operating activities | 143,554                 |
| Financial investments, net                   | 156,971                 |
| Dividends paid to shareholders               | (37,283)                |
|  | <b>307,801</b>          |

Other assets mainly consist of receivables from the tax authorities (Euros 27.8 million), receivables from the subsidiary Optical Technologies the Netherlands N.V. in respect of the Corning deal (Euros 23.9 million) and dividends receivable (Euros 114.6 million).

Other liabilities chiefly comprise payables for the payment of the unified VAT return filed for the entire Group, with a contra-entry to other assets (Euros 20.4 million), taxes payable, social security agencies payable and withholding taxes payable (Euros 18 million).

In view of the positive trend of all the investment holdings, the result for the current year is expected to be in line with that of 2000.

# RESOLUTIONS

## Appropriation of net income

The year ended December 31, 2000 shows a net income of Euros 259,675,306.

The Board proposes the distribution of dividends, gross of withholding taxes, of:

- Euros 0.2065 for each ordinary share  
and
- Euros 0.2169 for each savings share.

A tax credit equal to 58.73 percent is due on the dividends proposed for distribution.

In relation to the estimated availability of the taxes pursuant to art. 105, paragraph 1, letter a) (ordinary tax credit) and letter b) (limited tax credit), a proposal is put forward to assign the ordinary and limited tax credit to the dividends as follows:

- ordinary shares  
tax credit Euros 0.12128, of which Euros 0.10915 with refund rights and Euros 0.01213 without refund rights;
- savings shares  
tax credit Euros 0,12738, of which Euros 0.11464 with refund rights and Euros 0.01274 without refund rights.

If in agreement with our proposal, we ask you to pass the following

### Resolution

The shareholders' meeting:

- having examined the Report of the Managing Partners;
- having examined the Report of the Board of Statutory Auditors;
- having examined the financial statements at December 31, 2000, which show a net income of Euros 259,675,306

### Votes

a) to approve:

- the Report of the Managing Partners;
- the balance sheet, statement of income, the notes to financial statements for the year ended December 31, 2000 as presented by the Board of Managing Partners in their entirety, in their individual items, with the accruals proposed;

b) to appropriate the net income of Euros 259,675,306 as follows:

- to the legal reserve (until it reaches one-fifth of share capital) 

|       |           |
|-------|-----------|
| Euros | 2,801,369 |
|-------|-----------|
- to the shareholders:

|   |       |             |
|---|-------|-------------|
| Euros 0.2065 to No. 588,096,264 (*) ordinary shares, for a total of | Euros | 121,441,879 |
| Euros 0.2169 to No. 34,418,257 savings shares, for a total of       | Euros | 7,465,320   |

with the assignment of the tax credit as proposed by the Board of Managing Partners
- to retained earnings 

|       |             |
|-------|-------------|
| Euros | 127,966,738 |
|-------|-------------|

(\*) net of No. 2,617,500 shares currently held by the Company.

c) to assign the following tax credits to the dividends:

to the ordinary shares Euros 0.12128, of which:

- Euros 0.10915 as the ordinary tax credit (art. 105 paragraph 1, letter a) of D.P.R. 917/86);
- Euros 0.01213 as the limited tax credit (art. 105, paragraph 1, letter b) of D.P.R. 917/86);

to the savings shares Euros 0.12738, of which:

- Euros 0.11464 as the ordinary tax credit (art. 105, paragraph 1, letter a) of D.P.R. 917/86);
- Euros 0.01274 as the limited tax credit (art. 105, paragraph 1, letter b) of D.P.R. 917/86);

d) to authorize the managing partners, in the event treasury shares are purchased before the dividend coupon is presented in the preceding point b), to appropriate the dividends to which such shares are entitled to retained earnings.

### **Proposal for the purchase and disposition of treasury shares**

Dear Shareholders,

In the resolution passed on May 11, 2000, you authorized the purchase of treasury shares (ordinary and savings shares) up to a maximum amount of Euros 25 million and for a period of 18 months from the date of the resolution.

The above authorization will expire on next November 10, 2001.

With regard to the purchase of treasury shares, the same opportunities now exist which persuaded the managing partners to propose to you the May 2000 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, canceling the existing 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 with our proposal, we ask you to pass the following

### **Resolution**

“The shareholders' meeting,

- having taken note of the proposal of the managing partners;
- 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 No. 2,617,500 ordinary shares, equal to 0.42 percent of share capital, amounting to Euros 324,789,013.64.

## Votes

- a) to cancel the resolution passed by the shareholders on May 11, 2000 authorizing the purchase of treasury shares and the disposition of the same, as not used;
- b) to authorize the purchase of treasury shares (ordinary and savings shares) of par value Euro 0.52 each for a maximum amount of Euros 100 million, establishing that:
- the purchase can be made in one or more instances within 18 months of the date of this resolution;
  - 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 maximum number of shares purchased shall not be higher than that representing 5 percent of the shares constituting the entire share capital each time, also in observance of the total limit of ownership of 10 percent of share capital established by law;
  - the purchase shall be made by using retained earnings and/or the share premium reserve as shown in the latest approved financial statements, setting up a reserve for treasury shares in the manner and limits established by law;
  - the Board of Managing Partners can dispose, without any time limit, of the treasury shares already held or thus purchased even before having completed all the purchases; the sale can occur in one or more instances; the shares shall be sold through a sale or exchange (also through a public offer, to the shareholders, to employees and/or associates - also as part of any stock option plans -); in the event of sale, the price shall not be lower than the purchase prices; the shares can also be sold by being attached to bonds or warrants for their exercise.
- c) to confer to the Board of Managing Partners and on its behalf the Chairman and Deputy Chairman, 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.”

## Emoluments of the Managing Partners

The shareholders' meeting of May 22, 1998 established the annual remuneration payable to each managing partner in Lire 100,000,000, for each year in which the post is held, from January 1, 1998 to December 31, 2000.

Thus, the remuneration must be determined for the three-year period January 1, 2001 to December 31, 2003 and we propose that the amount should remain unchanged (expressed in Euros).

If in agreement with our proposal, we ask you to pass the following

## Resolution

“The shareholders' meeting,  
having examined article 13 of the by-laws

## **Votes**

to establish the gross remuneration payable to each managing partner in Euros 51,500 for each year in which the post is held, for the period January 1, 2001 to December 31, 2003.”

Milan, March 22, 2001

The Board of Managing Partners

**CONSOLIDATED FINANCIAL STATEMENTS  
AT DECEMBER 31, 2000**

# CONSOLIDATED BALANCE SHEETS

## ASSETS

(in thousands of euros)

|   | 12.31.2000       | 12.31.1999       |
|---|------------------|------------------|
| <b>A) CAPITAL SUBSCRIPTION RIGHTS</b>                 |                  |                  |
| Portion uncalled                                      | -                | 24               |
| <b>B) FIXED ASSETS</b>                                |                  |                  |
| <b>I) Intangible assets</b>                           |                  |                  |
| Formation costs                                       | 8,302            | 12,540           |
| Patents and design patent rights                      | 5,365            | 7,530            |
| Concessions, licenses, trademarks and similar rights  | 6,469            | 3,729            |
| Goodwill  | 8,066            | 12,988           |
| Difference on consolidation                           | 558,865          | 463,513          |
| Intangible assets in progress and payments on account | 5,327            | 3,367            |
| Other intangible assets                               | 78,563           | 72,365           |
| <b>TOTAL INTANGIBLE ASSETS</b>                        | <b>670,957</b>   | <b>576,032</b>   |
| <b>II) Property, plant and equipment</b>              |                  |                  |
| Land and buildings                                    | 729,737          | 654,333          |
| Plant and machinery                                   | 1,363,544        | 1,362,773        |
| Industrial and commercial equipment                   | 130,240          | 143,875          |
| Other property, plant and equipment                   | 161,402          | 158,163          |
| Assets under construction and payments on account     | 233,077          | 149,144          |
| <b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>            | <b>2,618,000</b> | <b>2,468,288</b> |
| <b>III) Financial assets</b>                          |                  |                  |
| Investments in:                                       |                  |                  |
| a) Subsidiaries                                       | 5,895            | 9,286            |
| b) Associated companies                               | 86,491           | 34,070           |
| c) Other companies                                    | 321,274          | 199,778          |
| Financial receivables:                                |                  |                  |
| a.1) Subsidiaries due within 1 year                   | 4,093            | -                |
| a.2) Subsidiaries due beyond 1 year                   | 14,662           | 14,662           |
| b.1) Associated companies due within 1 year           | 203,251          | 20,058           |
| b.2) Associated companies due beyond 1 year           |                  | 14,041           |
| d.1) Other companies due within 1 year                | 21,477           | 11,700           |
| d.2) Other companies due beyond 1 year                | 83,340           | 62,281           |
| Other securities                                      | 27,681           | 40,605           |
| Treasury shares                                       | 4,678            | 4,678            |
| <b>TOTAL FINANCIAL ASSETS</b>                         | <b>772,842</b>   | <b>411,159</b>   |
| <b>TOTAL FIXED ASSETS</b>                             | <b>4,061,799</b> | <b>3,455,479</b> |

**ASSETS (continued)**

(in thousands of euros)

|  | <b>12.31.2000</b> | <b>12.31.1999</b> |
|--|-------------------|-------------------|
| <b>C) CURRENT ASSETS</b>                         |                   |                   |
| I) Inventories                                   |                   |                   |
| Raw materials, auxiliaries and consumables       | 355,940           | 275,105           |
| Work in process and semifinished products        | 307,523           | 357,764           |
| Work in progress against orders                  | 210,865           | 132,107           |
| Finished products and goods for resale           | 633,252           | 641,395           |
| Advances   | 15,105            | 12,476            |
| <b>TOTAL INVENTORIES</b>                         | <b>1,522,685</b>  | <b>1,418,847</b>  |
| II) Receivables                                  |                   |                   |
| Trade  | 1,868,776         | 1,585,018         |
| Subsidiaries                                     | 5,819             | 563               |
| Associated companies                             | 28,358            | 33,441            |
| Other receivables                                | 1,154,621         | 1,025,735         |
| <b>TOTAL RECEIVABLES</b>                         | <b>3,057,574</b>  | <b>2,644,757</b>  |
| III) Current financial assets                    |                   |                   |
| Other investments                                | 250               | 225               |
| Other securities                                 | 1,246,487         | 230,449           |
| <b>TOTAL CURRENT FINANCIAL ASSETS</b>            | <b>1,246,737</b>  | <b>230,674</b>    |
| IV) Cash and banks                               |                   |                   |
| Bank and postal deposits                         | 3,713,089         | 524,367           |
| Checks   | 10,188            | 5,104             |
| Cash on hand                                     | 8,873             | 3,843             |
| <b>TOTAL CASH AND BANKS</b>                      | <b>3,732,150</b>  | <b>533,314</b>    |
| <b>TOTAL CURRENT ASSETS</b>                      | <b>9,559,146</b>  | <b>4,827,592</b>  |
| <b>D) ACCRUED INCOME AND PREPAID EXPENSES</b>    |                   |                   |
| Accrued income                                   | 121,878           | 79,475            |
| Prepaid expenses                                 | 32,810            | 35,609            |
| <b>TOTAL ACCRUED INCOME AND PREPAID EXPENSES</b> | <b>154,688</b>    | <b>115,084</b>    |
| <b>TOTAL ASSETS</b>                              | <b>13,775,633</b> | <b>8,398,179</b>  |

# CONSOLIDATED BALANCE SHEETS

## LIABILITIES AND SHAREHOLDERS' EQUITY

(in thousands of euros)

|  | 12.31.2000        | 12.31.1999       |
|--|-------------------|------------------|
| <b>A) SHAREHOLDERS' EQUITY</b>   |                   |                  |
| - Of Pirelli & C.  | 2,171,261         | 808,525          |
| I) Share capital   | 320,959           | 310,989          |
| II) Share premium reserve  | 485,617           | 451,028          |
| III) Revaluation reserve   | 707               | 707              |
| IV) Legal reserve  | 62,212            | 61,773           |
| V) Reserve for treasury shares in portfolio                              | 4,678             | 4,678            |
| VII) Other reserves: (including consolidation reserve already amortized) | (128,870)         | (125,832)        |
| VIII) Retained earnings  | 21,298            | 19,432           |
| IX) Net income for the year  | 1,404,660         | 85,750           |
| - Minority interest  | 3,672,662         | 1,504,043        |
| a) Capital and reserves  | 1,318,038         | 1,296,595        |
| b) Net income for the year   | 2,354,624         | 207,448          |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>  | <b>5,843,923</b>  | <b>2,312,568</b> |
| <b>B) PROVISIONS FOR LIABILITIES AND EXPENSES</b>                        |                   |                  |
| Pension and similar obligations  | 215,686           | 224,746          |
| Income taxes   | 201,919           | 157,389          |
| Other provisions   | 582,185           | 250,117          |
| <b>TOTAL PROVISIONS FOR LIABILITIES AND EXPENSES</b>                     | <b>999,790</b>    | <b>632,252</b>   |
| <b>C) PROVISION FOR EMPLOYEES' LEAVING INDEMNITY</b>                     | <b>178,309</b>    | <b>170,511</b>   |
| <b>D) PAYABLES</b>   |                   |                  |
| Bonds  | 655,027           | 649,119          |
| Convertible bonds  | 106,561           | 152,233          |
| Bank borrowings  | 1,473,710         | 1,621,041        |
| Other financial companies  | 450,773           | 154,208          |
| Advances from customers  | 291,907           | 360,741          |
| Trade  | 1,448,664         | 1,299,455        |
| Subsidiaries   | 232               | 44               |
| Associated companies   | 13,814            | 23,157           |
| Taxes  | 1,242,716         | 295,226          |
| Social security agencies   | 56,662            | 52,455           |
| Other payables   | 633,208           | 376,801          |
| <b>TOTAL PAYABLES</b>  | <b>6,373,274</b>  | <b>4,984,480</b> |
| <b>E) ACCRUED LIABILITIES AND DEFERRED INCOME</b>                        |                   |                  |
| Accrued liabilities  | 343,580           | 274,365          |
| Deferred income  | 36,757            | 24,003           |
| <b>TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME</b>                     | <b>380,337</b>    | <b>298,368</b>   |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                        | <b>13,775,633</b> | <b>8,398,179</b> |

**MEMORANDUM ACCOUNTS**

(in thousands of euros)

|  | <b>12.31.2000</b> | <b>12.31.1999</b> |
|--|-------------------|-------------------|
| <b>PERSONAL GUARANTEES</b>                                 |                   |                   |
| - Sureties on behalf of other companies                    | 152,176           | 167,803           |
| - Endorsements on behalf of other companies                | 25,279            | 396               |
|  | 177,455           | 168,199           |
| <b>THIRD PARTY ASSETS HELD IN DEPOSIT</b>                  |                   |                   |
| - Securities held in deposit                               | 142,175           | 78,899            |
| - Goods in process   | 1,997             | 2,305             |
|  | 144,172           | 81,204            |
| <b>ASSETS HELD BY THIRD PARTIES</b>                        |                   |                   |
| - Securities held as guarantees and guarantee deposits     | 114,542           | 23,433            |
| - Shares held in deposit                                   | 310,948           | 589,444           |
| - Goods in process   | 7,752             | 8,988             |
|  | 433,242           | 621,865           |
| <b>COMMITMENTS</b>   |                   |                   |
| - Purchase of equity investments                           | -                 | 2,044,615         |
| - Capital expenditures                                     | 124,701           | 27,396            |
| - Securities to be delivered                               | 335,237           | -                 |
|  | 459,938           | 2,072,011         |
| <b>OTHER MEMORANDUM ACCOUNTS</b>                           |                   |                   |
| - Potential losses for risk of default on discounted bills | 241               | 240               |
|  | 241               | 240               |
| <b>TOTAL MEMORANDUM ACCOUNTS</b>                           | <b>1,215,048</b>  | <b>2,943,519</b>  |

# CONSOLIDATED STATEMENTS OF INCOME

(in thousands of euros)

|  | 2000               | 1999               |
|--|--------------------|--------------------|
| <b>A) PRODUCTION VALUE</b>   |                    |                    |
| Revenues from sales and services   | 7,696,567          | 6,654,017          |
| Changes in inventories of work in process, semifinished and finished products          | 66,279             | 70,543             |
| Changes in work in progress against orders   | (40,278)           | (69,710)           |
| Increase in property, plant and equipment  | 13,501             | 19,404             |
| Other revenues and income:   |                    |                    |
| a) Miscellaneous   | 214,105            | 109,430            |
| b) Government grants   | 11,525             | 7,519              |
| <b>TOTAL PRODUCTION VALUE</b>  | <b>7,961,699</b>   | <b>6,791,203</b>   |
| <b>B) PRODUCTION COSTS</b>   |                    |                    |
| Raw materials, auxiliaries, consumables and goods for resale                           | (3,982,920)        | (3,262,512)        |
| Service expenses   | (1,229,467)        | (1,074,913)        |
| Lease and rent expenses  | (96,347)           | (65,301)           |
| Personnel costs  | (1,623,539)        | (1,437,809)        |
| Amortization, depreciation and write-downs:  |                    |                    |
| a) Amortization of intangible assets   | (76,268)           | (60,539)           |
| b) Depreciation of property, plant and equipment                                       | (341,825)          | (315,961)          |
| c) Other write-downs of fixed assets   |                    | (998)              |
| d) Write-downs of receivables included in current assets and cash and banks            | (19,675)           | (19,837)           |
| Changes in inventories of raw materials, auxiliaries, consumables and goods for resale | 88,932             | 34,512             |
| Accruals for liabilities   | (155)              | (129)              |
| Other accruals   | (17,234)           | (30,195)           |
| Other operating expenses   | (231,680)          | (235,495)          |
| <b>TOTAL PRODUCTION COSTS</b>  | <b>(7,530,178)</b> | <b>(6,469,177)</b> |
| <b>DIFFERENCE BETWEEN PRODUCTION VALUE AND PRODUCTION COSTS</b>                        | <b>431,521</b>     | <b>322,026</b>     |
| <b>C) FINANCIAL INCOME AND EXPENSES</b>  |                    |                    |
| Investment income  | 14,348             | 34,883             |
| Other financial income:  |                    |                    |
| a) from receivables included in fixed assets   |                    |                    |
| - associated companies   | 37                 | 133                |
| - other companies  | 556                | 911                |
| b) from securities included in fixed assets  | 2,048              | 926                |
| c) from securities included in current assets  | 13,989             | 12,695             |
| d) Income other than the above   | 306,265            | 343,063            |
| Interest and other financial expenses  | (450,998)          | (420,241)          |
| <b>TOTAL FINANCIAL INCOME AND EXPENSES</b>   | <b>(113,755)</b>   | <b>(27,630)</b>    |

(continued)

(in thousands of euros)

|   | 2000             | 1999           |
|---|------------------|----------------|
| <b>D) VALUATION ADJUSTMENTS TO FINANCIAL ASSETS</b> |                  |                |
| Revaluations  | 17,342           | 2,734          |
| Write-downs   | (23,027)         | (2,942)        |
| <b>TOTAL ADJUSTMENTS</b>                            | <b>(5,685)</b>   | <b>(208)</b>   |
| <b>E) EXTRAORDINARY ITEMS</b>                       |                  |                |
| Extraordinary income                                | 5,633,530        | 226,351        |
| Extraordinary expenses                              | (1,112,168)      | (133,127)      |
| <b>TOTAL EXTRAORDINARY ITEMS</b>                    | <b>4,521,362</b> | <b>93,224</b>  |
| <b>INCOME BEFORE INCOME TAXES</b>                   | <b>4,833,443</b> | <b>387,412</b> |
| Income taxes  | (1,074,159)      | (94,214)       |
| <b>NET INCOME FOR THE YEAR</b>                      | <b>3,759,284</b> | <b>293,198</b> |
| <b>GROUP</b>  | <b>1,404,660</b> | <b>85,750</b>  |
| <b>MINORITY INTEREST</b>                            | <b>2,354,624</b> | <b>207,448</b> |

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2000**

### **FORM AND CONTENT**

The consolidated financial statements for the year ended December 31, 2000 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., the parent company, and the companies in which Pirelli & C. holds, directly or indirectly, control as defined by Legislative Decree 127/91, art. 26.

Also included in the consolidation area are some companies in which Pirelli & C. owns less than 50 percent of the share capital in joint venture with other operators to carry out specific real estate initiatives.

These companies, in which no one shareholder has the controlling interest, are consolidated proportionally. The companies which fall under the cases indicated in Legislative Decree 127/91, art. 28 are excluding from the scope of consolidation.

The list of companies in consolidation, the statement of cash flows and the statement of changes in shareholders' equity are presented in the supplementary information.

All amounts are expressed in thousands of euros, unless otherwise indicated.

PricewaterhouseCoopers S.p.A. has been appointed the auditors for the consolidated financial statements pursuant to art. 159 of Legislative Decree No. 58 of February 24, 1998 and taking into account CONSOB recommendation of February 20, 1997, as voted by the shareholders' meeting of May 25, 1999 which appointed said audit firm for the three-period 1999-2001. The agreed fee is equal to Euros 12 thousand per year.

The fees for the audit of the individual Group companies have been borne directly by the companies concerned; the fees for the year 2000 have amounted to approximately Euros 2,935 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, 2000 prepared for approval by the shareholders of the individual companies adjusted, where necessary, to agree with the "Common Accounting Principles" of the Group which conform to those established by Legislative Decree 127/91 and the principles set forth 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 rates ruling at year-end.

The differences arising from the translation of beginning shareholders' equity at year-end exchange rates have been recorded in translation adjustments.

The exchange rates which have been applied are presented under “Other information” in the notes.

The principles of consolidation are as follows:

- For companies consolidated using the full and proportional consolidation methods, the accounting value of each investment is eliminated against the underlying net equity. For companies accounted for using the equity method, the cost of acquisition is adjusted to the underlying share of net equity at December 31, 2000, as shown by the related financial statements.  
For investments in consolidated companies and for those valued using the equity method, the differences, at acquisition, between the carrying value of the investments and the corresponding share of net equity have been accounted for as follows:
  - 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;
  - 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”.
- The assets, liabilities, revenues and costs among consolidated companies, as well as intragroup dividends, have been eliminated.
- The gains and losses arising from transactions between consolidated companies, if not yet realized through transactions with third parties, have been eliminated.
- The minority interest in the share of the net equity and the results of operations are shown separately, respectively, under shareholders' equity in the balance sheet and in the statement of income.

The reconciliation between the net results and shareholders' equity of Pirelli & C. at December 31, 2000 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. Unless otherwise indicated, the accounting principles applied in the valuation of the components of the consolidated financial statements are in conformity 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”, relative to the acquisition of investments, is amortized over a period of between ten and 20 years; this period identifies the possible period of utilization.

The caption “other intangible assets” includes sundry costs benefiting future periods, and in particular refers to:

- applied software acquisition costs, amortized over a period of five years;
- leasehold improvements, amortized over the duration of the lease and, in any case, not more than five years;
- loan acquisition costs, amortized over a period not exceeding the duration of the loan and, in any case, not more than five years;
- image awareness costs benefiting future periods, amortized over the duration of the contract and, in any case, not more than five years.

## **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are stated at purchase or production cost including directly attributable incidental expenses and increased by revaluations effected in accordance with specific laws.

Depreciation is calculated starting from the month in which 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, as follows:

|                     |     |   |     |
|---------------------|-----|---|-----|
| 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 there is a permanent diminution to below their 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 associated companies are valued using the equity method, in accordance with article 2359 of the Italian Civil Code.

Equity investments in unconsolidated subsidiaries and other companies are valued at cost and reduced, if necessary, to account for any permanent diminution in value.

The original amount is reinstated whenever the reasons for the adjustment no longer apply.

### **- Other securities**

Other securities are stated at cost, reduced for any permanent diminution in value.

### **- Treasury shares**

Treasury shares are recorded at purchase cost.

In accordance with article 2357-ter of the Italian Civil Code, an undistributable reserve has been recorded in shareholders' equity for an amount corresponding to the carrying value.

## **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 or the agreed exchange rates under hedging contracts; the effects of the hedging contracts are recorded in accrued income and accrued liabilities; related exchange gains or losses are recorded in the statement of income in accordance with the accrual concept.

## **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.

Inventories of real estate consist of areas for building, property under renovation, property under construction, property completed and intended for sale, real estate property for sale and construction in progress against orders.

Areas for building are stated at the lower of purchase cost, plus incremental expense and interest expense capitalized in the pre-construction phase, and the corresponding realizable value.

Property under construction and/or in the process of being renovated also take into account the income earned on the construction order. This income is calculated on the basis of the total agreed sales price in proportion to the stage of completion of the work determined as a percentage of total cumulative costs incurred up to the balance sheet date in relation to estimated costs to completion.

Property under construction and/or in the process of being renovated, for which a preliminary lease agreement has been signed, is valued at the lower of cost plus incremental expenses and interest expense, and the corresponding realizable value.

Real estate property for sale is valued at the lower of cost and market value. Incremental expenses incurred up to the time of sale are added to the purchase cost.

Construction in progress is valued according to the agreed sales price in relation to the stage of completion of the project.

Any losses to complete the project are charged entirely in the year in which they become known.

Inventories also include requests for higher expenditures incurred in constructing university buildings, according to a conservative estimate of their recognition.

Requests for additional amounts over the contract price are recorded in the financial statements if the amounts are reasonably certain.

Penalties for late delivery of the property are accrued whenever such delays are chargeable to the contractor and not the principal.

## **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.

## **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 included in specific laws but covered by local labor agreements, and benefit plans operating at some Group companies. The principle applied is that of allocating the entire cost at maturity over the service lives of the employees based on entitlement earned, using actuarial methods.

In accordance with accounting principles in the United States, which state that local companies must set up or adjust existing provisions in the financial statements so that they reflect the payment of future benefits, Pirelli Group has decided to amortize the amount prospectively over a period of 20 years starting from the year 1993.

### **- Provision for income taxes**

The provision for income taxes includes the liabilities for income taxes likely to be incurred but uncertain as to amount or as to the date on which they will arise; definite and certain taxes payable are recorded in a specific caption of the balance sheet.

This caption also includes deferred income taxes.

### **- Other**

Other provisions include liabilities likely to be incurred but uncertain as to amount or as to 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.

## **ACCRUALS AND DEFERRALS**

Accruals and deferrals are accounted for on the accrual basis.

## **Guarantees and commitments**

Guarantees given to third parties are recorded at the contract value of the commitment assumed on behalf of the beneficiary.

Third party securities held in deposit are recorded at nominal value.

## **FINANCIAL INSTRUMENTS**

Forward contracts and derivatives used for hedging purposes are recorded under commitments at the time the contract is stipulated, 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 when incurred.

## **DIVIDENDS**

Dividends are recorded in the year in which dividend payments are voted; any tax credit is recorded at the time of the receipt of the dividends.

## **INCOME TAXES**

Current income tax liabilities are determined on the basis of a realistic estimate of the tax expenses payable under current tax laws; the related liability is shown net of advance payments, withholdings and tax credits in the Taxes payable.

Deferred taxes are calculated on the timing difference 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 recorded only where there is a reasonable certainty of recovery and these are recorded in “Other receivables”.

## CONSOLIDATED BALANCE SHEETS

### Assets

#### B) Fixed assets

##### 1) Intangible assets

Intangible assets can be analyzed as follows:

|  | 12.31.1999     | Translation adjustment | Change in the scope of consolidation | Increase       | Decrease        | Amortization    | 12.31.2000     |
|--|----------------|------------------------|--------------------------------------|----------------|-----------------|-----------------|----------------|
| • Formation costs                                      | 12,540         | 74                     | (104)                                | 942            | (47)            | (5,103)         | 8,302          |
| • Patents and design patent rights                     | 7,530          | -                      | -                                    | 1,516          | (1,500)         | (2,181)         | 5,365          |
| • Concessions, licenses, trademarks and similar rights | 3,729          | 23                     | -                                    | 4,834          | -               | (2,117)         | 6,469          |
| • Goodwill   | 12,988         | 30                     | -                                    | 3,249          | (2,689)         | (5,512)         | 8,066          |
| • Difference on consolidation                          | 463,513        | -                      | -                                    | 156,542        | (30,493)        | (30,697)        | 558,865        |
| • Other  | 75,732         | 959                    | (4,613)                              | 55,880         | (13,410)        | (30,658)        | 83,890         |
|  | <b>576,032</b> | <b>1,086</b>           | <b>(4,717)</b>                       | <b>222,963</b> | <b>(48,139)</b> | <b>(76,268)</b> | <b>670,957</b> |

The increase in “patents and design patent rights” refers mainly to costs incurred by Pirelli Cavi e Sistemi S.p.A. to file industrial patents. The decrease can be ascribed mainly to the write-off, by Pirelli Cavi e Sistemi S.p.A., of the remaining costs on the patents inherent to the Terrestrial Optical Systems after its sale to Cisco Systems.

“Concessions, licenses, trademarks and similar rights” principally include the costs incurred for the acquisition of software rights, to extend the number of users, inherent to the use of the new integrated information system (SAP/Oracle) by Pirelli S.p.A..

The reduction in “goodwill” is due to the write-off of the remaining goodwill, by Pirelli Cavi e Sistemi S.p.A., on the purchase of a business segment in 1997 for the activities of the photonics sector that was sold to Cisco Systems in 2000.

“Difference on consolidation” at December 31, 2000 includes Euros 490,792 thousand representing the difference between the price paid and the underlying net equity of the consolidated company Pirelli S.p.A. which arose following the purchases of shares by Pirelli & C. and by Pirelli & C. Luxembourg S.A. net of amortization (calculated over a period of 20 years).

The increase refers to Euros 124,287 thousand for the purchase of Pirelli S.p.A. shares during the year and the remaining amount relates to the recent acquisitions following the take-over bids for Pirelli Cable Australia Ltd., Pirelli Cabos S.A. and Pirelli Pneus S.A., in addition to the purchase of a further stake in Alexandria Tire Co. S.A.E..

The decrease mainly refers to the write-down of the difference on consolidation on the acquisitions in Brazil, Australia and The Netherlands.

The major items included in “other” refer to software applications costs, corporate reorganization expenses, loan acquisition costs and leasehold improvements.

The column “Change in the scope of consolidation” refers to the deconsolidation of Terrestrial Optical Systems sold to Cisco.

## II) Property, plant and equipment

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

|                                  | (in thousands of euros) |                  |
|----------------------------------|-------------------------|------------------|
|                                  | 12.31.2000              | 12.31.1999       |
| <b>Gross value</b>               |                         |                  |
| Opening balances                 | 5,876,459               | 5,267,618        |
| Translation adjustment           | 79,183                  | 52,970           |
| Change in scope of consolidation | (14,628)                | 331,610          |
| Additions                        | 569,566                 | 476,386          |
| Disposals                        | (247,046)               | (252,125)        |
|                                  | <b>6,263,534</b>        | <b>5,876,459</b> |
| <b>Accumulated depreciation</b>  |                         |                  |
| Opening balances                 | 3,408,171               | 3,165,406        |
| Translation adjustment           | 63,233                  | 7,124            |
| Change in scope of consolidation | (12,782)                | 107,409          |
| Depreciation charge for the year | 341,825                 | 315,961          |
| Disposals                        | (154,913)               | (187,729)        |
|                                  | <b>3,645,534</b>        | <b>3,408,171</b> |
| <b>Net values</b>                | <b>2,618,000</b>        | <b>2,468,288</b> |

The net increase in comparison with 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, and due to the weakness of the euro against the currencies in the countries in which the Group companies operate;
- the change in the scope of consolidation representing the net effect of the power cables companies purchased from BICC and the deconsolidation of the companies sold by Pirelli S.p.A. to Cisco Systems S.p.A. and Corning and the company Turk Energji A.S. sold by Pirelli Ambiente S.p.A. during the year;
- additions during the year equal to 1.67 times depreciation;
- disposals, largely plant, following the rationalization of productive activities;
- depreciation, which increased by more than 8 percent over 1999.

Gross values include about Euros 9,092 thousand of assets which are no longer in use and are being held for transfer to other Group companies or disposal to outside parties.

## III) Financial assets

“Investments in subsidiaries” amount to Euros 5,895 thousand and principally consist of companies recently acquired by the subsidiary Pirelli S.p.A. (Euros 5,476 thousand) and not consolidated line-by-line as it was not possible to obtain the necessary information on a timely basis and was not material to the consolidated financial statements.

The remaining amount represents companies recently formed and/or insignificant to the consolidated financial statements in terms of net equity or results of operations.

They can be analyzed as follows:

|                                       |              |              | (in thousands of euros) |
|---------------------------------------|--------------|--------------|-------------------------|
| Company                               | Country      | %<br>holding | Amount                  |
| Tianijn Top Power Cables Co. Ltd.     | China        | 51.15%       | 5,243                   |
| AFCAB Holding (Proprietary) Ltd.      | South Africa | 50.00%       | 197                     |
| Fin Zeta S.r.l.                       | Italy        | 100.00%      | 157                     |
| Milano Centrale Partecipazioni S.p.A. | Italy        | 100.00%      | 155                     |
| Other minor companies                 | Other        |              | 143                     |
|                                       |              |              | <b>5,895</b>            |

“Investments in associated companies” amount to Euros 86,491 thousand compared to Euros 34,070 thousand at December 31, 1999.

The increase is mainly due to the new initiatives by the real estate group (Euros 49,636 thousand), the acquisition of the BICC power cables business (Euros 10,428 thousand) and the sale of 50 percent of Upper Bright Ltd. (Euros 4,838 thousand) and Futuro S.p.A. (Euros 1,284 thousand).

The most important investments are as follows:

|   |  | (in thousands of euros) |
|---|--|-------------------------|
| Schema Ventiquattro S.r.l. (Italy)              |  | 18,280                  |
| Auriga S.p.A. (Italy)                           |  | 10,991                  |
| Power Cables Malaysia Sdn Bhd (Malaysia)        |  | 10,428                  |
| Orione S.r.l. (Italy)                           |  | 8,163                   |
| M.S.M.C. Holding B.V. (The Netherlands)         |  | 7,122                   |
| Drathcord Saar & Co. K.G. (Germany)             |  | 5,736                   |
| Rodco Ltd. (United Kingdom)                     |  | 5,005                   |
| Domusclick com S.p.A. (Italy)                   |  | 3,754                   |
| SICREM S.p.A. (Italy)                           |  | 3,644                   |
| Kabeltrommel GmbH & Co. K.G. (Germany)          |  | 2,810                   |
| SMP Melfi S.r.l. (Italy)                        |  | 2,760                   |
| K.M.P. Cabos Especiais e Sistemas Ltda (Brazil) |  | 2,357                   |
| Progetto Bicocca La Piazza S.r.l. (Italy)       |  | 861                     |
| Trelleborg Wheel Systems S.p.A. (Italy)         |  | 413                     |
| Other minor companies                           |  | 4,167                   |
|   |  | <b>86,491</b>           |

“Investments in other companies” can be summarized as follows:

|   |  |                | (in thousands of euros) |
|---|--|----------------|-------------------------|
|   |  | 12.31.2000     | 12.31.1999              |
| Investments in Italian listed companies   |  | 250,372        | 142,424                 |
| Investments in Italian unlisted companies |  | 32,727         | 25,681                  |
| Investments in foreign unlisted companies |  | 38,175         | 31,673                  |
|   |  | <b>321,274</b> | <b>199,778</b>          |

The change in “Investments in Italian listed companies” is mainly due to the shares from the acquisition of Unim (Euros 96,383 thousand), the purchase of Caltagirone Editore S.p.A. shares (Euros 37,203 thousand)

and the sale of Cartiere Burgo S.p.A. shares (Euros 11,344 thousand), Sirti S.p.A. shares (Euros 3,846 thousand), Cofide S.p.A. shares (Euros 3,638 thousand), Acquedotto de Ferrari Galliera S.p.A. shares (Euros 6,566 thousand), SMI S.p.A. shares (Euros 5,828 thousand) and Falck S.p.A. shares (Euros 6,226 thousand).

**“Financial receivables from other companies due beyond one year”** amount to Euros 83,340 thousand and include:

- Euros 7,670 thousand of fixed rate loans; the carrying value approximates fair value at the end of the year;
- Euros 45,919 thousand of fixed rate obligatory deposits;
- Euros 20,874 thousand of floating rate loans;
- Euros 5,173 thousand of non-interest bearing guarantee deposits;
- Euros 3,704 thousand of non-interest bearing loans.

Receivables due beyond five years total Euros 46,927 thousand.

**“Other securities”** total Euros 27,681 thousand and include Finenergia S.p.A. and Fenera Holding S.p.A. bonds and investment securities of Pirelli Financial Services Company N.V. (Pirelli S.p.A. group).

**“Treasury shares”** consist of No. 2,617,500 ordinary shares, equal to 0.42 percent of share capital (0.44 percent of ordinary share capital).

As provided by art. 2357-ter of the Italian Civil Code, a “Reserve for treasury shares in portfolio” has been established for the same amount.

## C) CURRENT ASSETS

### *1) Inventories*

Inventories total Euros 1,522,685 thousand compared to Euros 1,418,847 thousand in the prior year, and can be analyzed as follows:

|                                       | (in thousands of euros) |                   |
|---------------------------------------|-------------------------|-------------------|
|                                       | <b>12.31.2000</b>       | <b>12.31.1999</b> |
| Pirelli S.p.A. group                  |                         |                   |
| • Cables and Systems Sector           | 778,346                 | 689,143           |
| • Tyres Sector                        | 453,620                 | 446,722           |
| • Other                               | 2                       | 4                 |
| Total Pirelli S.p.A. group            | 1,231,968               | 1.135,869         |
| Pirelli & C. Real Estate S.p.A. group | 308,261                 | 295,569           |
| • Other                               | (17,544)                | (12,591)          |
|                                       | <b>1,522,685</b>        | <b>1,418,847</b>  |

## II) Receivables

Receivables total Euros 3,057,574 thousand compared to Euros 2,644,757 thousand in the prior year, and can be analyzed as follows:

(in thousands of euros)

|                      | 12.31.2000    |                  | 12.31.1999    |                  |
|----------------------|---------------|------------------|---------------|------------------|
|                      | Financial     | Trade and other  | Financial     | Trade and other  |
| Trade                | -             | 1,868,776        | -             | 1,585,018        |
| Subsidiaries         | 82            | 5,737            | -             | 563              |
| Associated companies | 2,205         | 26,153           | 4,653         | 28,788           |
| Other receivables    | 19,737        | 1,134,884        | 80,919        | 944,816          |
|                      | <b>22,024</b> | <b>3,035,550</b> | <b>85,572</b> | <b>2,559,185</b> |

- **Trade receivables** from customers may be analyzed by due date as follows:

(in thousands of euros)

|                                    | 12.31.2000       | 12.31.1999       |
|------------------------------------|------------------|------------------|
| Due within 12 months               | 1,957,970        | 1,667,407        |
| Due beyond 12 months               | 3,971            | 1,053            |
| Allowance for doubtful receivables | (93,165)         | (83,442)         |
|                                    | <b>1,868,776</b> | <b>1,585,018</b> |

No receivables are due beyond five years.

The carrying value of receivables, adjusted for probable future losses, approximates estimated fair value at the end of the year.

- **receivables from associated companies** include financial receivables referring almost entirely to Drahtcord Saar & Co. of Euros 2,081 thousand (compared to Euros 4,650 thousand at December 31, 1999) consequent to transactions with Pirelli Deutschland A.G..

The most significant trade and other receivables refer to the associated companies of Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.) of Euros 22,872 thousand (Euros 5,812 thousand at December 31, 1999) and Trelleborg Wheel Systems S.p.A. of Euros 1,442 thousand (Euros 4,760 thousand at December 31, 1999) consequent to transactions with Pirelli Pneumatici S.p.A..

All amounts are receivable within one year.

- **other receivables** include financial receivables of Euros 19,737 thousand primarily consisting of receivables from banks on forward exchange and currency swap operations.

Trade and other receivables of Euros 1,134,884 thousand include the balance of deferred tax assets of Euros 139,331 thousand; amounts due from the tax authorities of Euros 621,456 thousand; receivables from the sale of fixed assets of Euros 6,768 thousand; advances to suppliers of Euros 25,352 thousand; receivables from employees of Euros 8,914 thousand and receivables from social security agencies, export refunds and other minor amounts of Euros 287,324 thousand.

The amount due beyond one year and within five years is Euros 258,656 thousand, while the amount due beyond five years is Euros 43,572 thousand.

### **III) Current financial assets**

- **other securities** amount to Euros 1,246,487 thousand and consist of:

Euros 136,230 thousand of fixed rate securities issued and guaranteed by banking institutions;  
Euros 84,207 thousand of floating rate securities issued and guaranteed by banking institutions;  
Euros 14,173 thousand of floating rate securities issued and guaranteed by governments of various nations;  
Euros 938,593 thousand of bonds issued and guaranteed by primary issuers;  
Euros 73,284 thousand of equity shares intended for sale.

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 deposit market at leading banking counterparts primarily at interest rates in line with market rates. The increase in liquidity, compared to 1999, is mainly due to the sales of the Terrestrial Optical Systems to Cisco Systems and Optical Components to Corning.

### **D) ACCRUED INCOME AND PREPAID EXPENSES**

- **accrued income** went from Euros 79,475 thousand to Euros 121,878 thousand. The amount is determined on the accrual basis and mainly relates to the portion of exchange gains on hedging transactions (Euros 94,123 thousand), insurance, interest income, rent, hedging revenues and other minor items.
- **prepaid expenses** went from Euros 35,609 thousand to Euros 32,810 thousand and mainly refer to prepaid insurance, property rent and other minor items.

## LIABILITIES AND SHAREHOLDERS' EQUITY

### A) SHAREHOLDERS' EQUITY

#### *OF PIRELLI & C.*

At December 31, 2000, share capital totals Euros 320,959,210 and consists of No. 582,810,993 ordinary shares and No. 34,418,257 savings shares, all with a par value of Euros 0.52 per share and normal dividend rights.

During 2000, No. 19,173,246 ordinary shares were issued against the conversion of the same number of 2.5% 1998-2003 bonds.

At the beginning of the current year, another No. 7,365,007 ordinary shares were issued against the conversion of the same number of 2.5% 1998-2003 bonds.

The share premium reserve went from Euros 451,028 thousand to Euros 485,617 thousand following the aforementioned conversion of 2.5% 1998-2003 bonds.

The revaluation reserve ex Law No. 413/1991 and the reserve for treasury shares in portfolio have remained unchanged compared to December 31, 1999.

The legal reserve went from Euros 61,773 thousand to Euros 62,212 thousand subsequent to resolutions passed by the shareholders' meeting of May 11, 2000.

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

#### *MINORITY INTEREST*

The minority interest in shareholders' equity is Euros 3,672,662 thousand compared to Euros 1,504,043 thousand at December 31, 1999.

The increase is largely due to the net income for the year.

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

|                | 12.31.2000 | 12.31.1999 |
|----------------|------------|------------|
| Pirelli S.p.A. | 64.94%     | 68.41%     |

### B) PROVISIONS FOR LIABILITIES AND EXPENSES

#### *Provisions for pensions and similar obligations*

These provisions include accruals for pensions, health care and other benefits in favor of employees, not governed by specific laws but covered by local labor agreements and benefit plans operating at some Group companies.

They also include funds which the United States companies must set aside in accordance with US accounting principles that are being amortized prospectively over a period of 20 years. At December 31, 2000, the liabilities still to be accrued for this purpose amount to Euros 13,111 thousand.

### *Provisions for income taxes*

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

|                              | (in thousands of euros) |                   |
|------------------------------|-------------------------|-------------------|
|                              | <b>12.31.2000</b>       | <b>12.31.1999</b> |
| Provision for current taxes  | 30,033                  | 31,203            |
| Provision for deferred taxes | 171,886                 | 126,186           |
|                              | <b>201,919</b>          | <b>157,389</b>    |

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

|                | (in thousands of euros) |               |
|----------------|-------------------------|---------------|
|                | <b>2000</b>             | <b>1999</b>   |
| Current taxes  | 1,083,220               | 101,473       |
| Deferred taxes | (9,061)                 | (7,259)       |
|                | <b>1,074,159</b>        | <b>94,214</b> |

Income taxes represented 22 percent of pretax income of the Group (compared to 24 percent last year), less than the average tax rate in the various countries in which the Group operates. This effect is mainly made possible by the taxation of gains realized in 2000 at a 19 percent tax rate, which led to the higher tax charge than in 1999, in absolute value.

Furthermore, by using dividend tax credits it was possible to recover a part of the income taxes payable by subsidiary companies.

Current income taxes which are definite and certain in amount are shown under income taxes payable.

The tax rates in the principal countries in which the Group operates are as follows:

|                |        |               |           |
|----------------|--------|---------------|-----------|
| Italy          | 41.25% | United States | 35%       |
| France         | 40.66% | Canada        | 43% - 46% |
| Spain          | 35%    | Australia     | 36%       |
| Germany        | 45%    | Argentina     | 35%       |
| United Kingdom | 30%    | Brazil        | 33%       |
| Turkey         | 42.8%  | Venezuela     | 34%       |

### *Other provisions*

The movements during the year in other provisions are as follows:

|                                     | (in thousands of euros) |                |                |
|-------------------------------------|-------------------------|----------------|----------------|
|                                     | <b>Restructuring</b>    | <b>Other</b>   | <b>Total</b>   |
| <b>Balance at December 31, 1999</b> | <b>148,858</b>          | <b>101,259</b> | <b>250,117</b> |
| Translation adjustment              | 693                     | 297            | 990            |
| Utilization                         | (77,981)                | (1,070)        | (79,051)       |
| Increase                            | 213,876                 | 196,253        | 410,129        |
| <b>Balance at December 31, 2000</b> | <b>285,446</b>          | <b>296,739</b> | <b>582,185</b> |

Utilizations of the provision for restructuring costs were in respect of the Cables and Systems Sector for Euros 41,219 thousand and the Tyres Sector for Euros 36,762 thousand of the Pirelli S.p.A. group.

The balance of the provision relates to the Cables and Systems Sector for Euros 220,739 thousand and the Tyres Sector for Euros 64,707 thousand.

The increase in the provision for restructuring costs is mainly in reference to the reorganization plan for the industrial structures and the recent acquisitions.

The total of other provisions of Euros 296,739 thousand consists of accruals for litigation, industrial risks and claims, product warranties; the increase should be considered in relation to the recent acquisitions.

## D) PAYABLES

Payables increased from Euros 6,373,274 thousand to Euros 4,984,480 thousand and may be analyzed as follows:

|                           | 12.31.2000       |                  | 12.31.1999       |                  |
|---------------------------|------------------|------------------|------------------|------------------|
|                           | Financial        | Trade and other  | Financial        | Trade and other  |
| Bonds                     | 655,027          | -                | 649,119          | -                |
| Convertible bonds         | 106,561          | -                | 152,233          | -                |
| Bank borrowings           | 1,473,710        | -                | 1,621,041        | -                |
| Other financial companies | 450,773          | -                | 154,208          | -                |
| Advances from customers   | -                | 291,907          | -                | 360,741          |
| Trade -                   | 1,448,664        | -                | 1,299,455        | -                |
| Subsidiaries              | -                | 232              | -                | 44               |
| Associated companies      | 1,072            | 12,742           | 4,125            | 19,032           |
| Taxes -                   | 1,242,716        | -                | 295,226          | -                |
| Social security agencies  | -                | 56,662           | -                | 52,455           |
| Other payables            | 3,828            | 629,380          | -                | 376,801          |
|                           | <b>2,690,971</b> | <b>3,682,303</b> | <b>2,580,726</b> | <b>2,403,754</b> |

An analysis of payables by due date is as follows:

### Financial payables

|                           | 12.31.2000     |                  | 12.31.1999     |                  |
|---------------------------|----------------|------------------|----------------|------------------|
|                           | within 1 year  | beyond 1 year    | within 1 year  | beyond 1 year    |
| Bonds                     | 4              | 655,023          | 4              | 649,115          |
| Convertible bonds         | 2,600          | 103,961          | 3,713          | 148,520          |
| Bank borrowings           | 435,670        | 1,038,040        | 597,838        | 1,023,203        |
| Other financial companies | 395,441        | 55,332           | 98,711         | 55,497           |
| Associated companies      | 1,072          | -                | 4,125          | -                |
| Other payables            | 3,828          | -                | -              | -                |
|                           | <b>838,615</b> | <b>1,852,356</b> | <b>704,391</b> | <b>1,876,335</b> |

Financial payables are secured by liens and mortgages for Euros 151,848 thousand.

Financial payables due beyond five years total Euros 638,891 thousand.

Additional disclosure is provided as follows:

## BONDS

(in thousands of euros)

|                                      | Non-convertible  |                  | Convertible      |                  | Pirelli S.p.A. shares to be issued<br>in the event of conversion<br>Number |
|--------------------------------------|------------------|------------------|------------------|------------------|--|
|                                      | within<br>1 year | beyond<br>1 year | within<br>1 year | beyond<br>1 year |  |
| Pirelli & C. (Italy)                 |                  |                  |                  |                  |  |
| Lire 287.9 billion 1998-2003         |                  |                  |                  |                  |  |
| 2.5% convertible Pirelli & C. shares | -                | -                | 2,600            | 103,961          | 44,732,424   |
| Pirelli S.p.A. (Italy)               |                  |                  |                  |                  |  |
| Euros 500 million 1998-2008 4.875%   |                  |                  |                  |                  |  |
| Unredeemed bonds                     | 4                | -                | -                | -                | -  |
| Pirelli & C. Luxembourg S.A.         |                  |                  |                  |                  |  |
| Euros 150 million 1999-2009 5.125%   |                  |                  |                  |                  |  |
|                                      |                  | 155,023          |                  |                  |  |
| <b>Total</b>                         | <b>4</b>         | <b>655,023</b>   | <b>2,600</b>     | <b>103,961</b>   | <b>44,732,424</b>  |

Convertible bonds total Euros 104 million and relate to the residual amount of the 2.5% 1998-2003 bonds originally issued for Lire 287.9 billion (Euros 148.7 million), authorized by a resolution passed at the extraordinary shareholders' meeting of Pirelli & C. on May 22, 1998.

### Bank borrowings

Bank borrowings due within one year amount to Euros 435,670 thousand and include the current portion of long-term debt for Euros 38,801 thousand.

Bank borrowings due beyond one year amount to Euros 1,038,040 thousand and consist of floating rate loans for Euros 773,235 thousand and fixed rate loans for Euros 264,805 thousand.

### Payables to other financial companies

The amount due beyond one year includes Euros 38,079 thousand payable after five years.

### Associated companies

As regards financial payables, the amount refers to loans payable by Pirelli & C. Real Estate S.p.A. to Progetto Bicocca Università S.r.l..

### Trade and other payables

(in thousands of euros)

|                          | 12.31.2000       |                  | 12.31.1999       |                  |
|--------------------------|------------------|------------------|------------------|------------------|
|                          | within<br>1 year | beyond<br>1 year | within<br>1 year | beyond<br>1 year |
| Advances from customers  | 291,907          | -                | 359,450          | 1,291            |
| Trade                    | 1,417,909        | 30,755           | 1,271,119        | 28,336           |
| Subsidiaries             | 232              | -                | 44               | -                |
| Associated companies     | 12,375           | 367              | 18,994           | 38               |
| Taxes                    | 1,159,307        | 83,409           | 213,253          | 81,973           |
| Social security agencies | 56,662           | -                | 48,522           | 3,933            |
| Other payables           | 556,597          | 72,783           | 318,503          | 58,298           |
|                          | <b>3,494,989</b> | <b>187,314</b>   | <b>2,229,885</b> | <b>173,869</b>   |

### ***Payables to associated companies***

As for trade payables, the most significant amounts refer to SICREM S.p.A. (Euros 7,230 thousand) and Trelleborg Wheel Systems S.p.A. (Euros 5,050 thousand).

### ***Taxes payable***

The increase in taxes payable is mainly due to the higher tax charge resulting from the extraordinary sales transactions regarding the Terrestrial Optical Systems and the Optical Components businesses.

### ***Other payables***

These amount to Euros 629,380 thousand and include payables to employees for Euros 125,924 thousand, guarantee deposits from customers for packaging for Euros 26,654 thousand, legal and consulting fees for Euros 28,548 thousand, purchases of fixed assets and urbanization fees for Euros 90,064 thousand, notes payable for Euros 55,589 thousand and other minor items for the difference.

## **E) ACCRUED LIABILITIES AND DEFERRED INCOME**

### ***- Accrued liabilities***

Accrued liabilities went from Euros 274,365 thousand to Euros 343,580 and include the portion of exchange losses on hedging transactions, interest expense, property leases payable, hedging costs, etc..

### ***- Deferred income***

Deferred income went from Euros 24,003 thousand to Euros 36,757 thousand and refers to rent income paid in advance and insurance premiums.

## **MEMORANDUM ACCOUNTS**

Memorandum accounts total Euros 1,215,048 thousand compared to Euros 2,943,519 thousand in the prior year.

### ***Personal guarantees***

“Sureties on behalf of other companies” are mainly to guarantee loans received and guarantees against job orders in the process of being delivered or tested.

The amount also includes Euros 79,269 thousand of bank guarantees of the subsidiary Milano Centrale Opere Generali S.p.A. given to the City of Milan to guarantee performance of works to be realized and to be deducted from the urbanization fees.

### ***Third party assets held in deposit***

“Securities held in deposit” include securities stated at par value, owned by third parties and held in deposit by Pirelli S.p.A., in addition to securities entrusted for administration.

### ***Assets held by third parties***

“Securities held as guarantees and guarantee deposits” include Euros 93,295 thousand for the equivalent amount of the equity swap operation by Pirelli & C. Real Estate S.p.A. on the securities portfolio, the ownership of which has been temporary transferred to the related counterparts, and the Auriga Immobiliare S.r.l. quotas held by Pirelli & C. Real Estate S.p.A. pledged in favor of the banks for the loan granted to the associated company.

“Shares held in deposit” are in safekeeping.

### **Commitments**

“Securities to be delivered” relate to the amount fixed by contract with the counterparts Morgan Stanley and Merrill Lynch for the equity swap operation described above.

## **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 derivatives to protect its operating results from unfavorable fluctuations regarding exchange and interest rates and the prices of raw materials. The Group has a policy of being party to financial instruments in the normal course of business and not for speculative purposes. With an overall view towards reducing exposure to risk the Group deals exclusively with leading bank counterparts and in highly liquid instruments.

The following positions refer to transactions in the major currencies:

|                                 | (in millions of euros)   |                   |                                       |                                       |
|---------------------------------|--|-------------------|---------------------------------------|---------------------------------------|
|                                 | <b>Gross contractual<br/>amounts (at year-<br/>end exchange<br/>rates)</b> | <b>Fair value</b> | <b>Maturing<br/>within<br/>1 year</b> | <b>Maturing<br/>beyond<br/>1 year</b> |
| <b>Exchange rate risk</b>       |  |                   |                                       |                                       |
| - Forward contracts             | 2,689  | 2,615             | 2,510                                 | 105                                   |
| - Futures contracts             | 40   | 56                | 56                                    | -                                     |
| - Swap contracts                | 218  | 18                | 18                                    | -                                     |
| <b>Interest rate risk</b>       |  |                   |                                       |                                       |
| - Forward rate agreement        | 4  | 5                 | 5                                     | -                                     |
| - Interest rate swaps           | 45   | 43                | 43                                    | -                                     |
| <b>Raw materials price risk</b> |  |                   |                                       |                                       |
| - Futures contracts             | 97   | 96                | 96                                    | -                                     |

The fair value of the financial instruments used to hedge exchange and interest rate 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)

|                                       | 2000             |                | 1999             |                |
|---------------------------------------|------------------|----------------|------------------|----------------|
| <b>Geographical area</b>              |                  |                |                  |                |
| Italy                                 | 1,003,848        | 13.04%         | 917,859          | 13.79%         |
| Other European countries              | 3,279,349        | 42.61%         | 2,948,339        | 44.31%         |
| North America                         | 1,209,675        | 15.72%         | 986,737          | 14.83%         |
| Central and South America             | 1,230,545        | 15.99%         | 1,128,686        | 16.96%         |
| Oceania, Africa and Asia              | 973,150          | 12.64%         | 672,396          | 10.11%         |
| <b>Total</b>                          | <b>7,696,567</b> | <b>100.00%</b> | <b>6,654,017</b> | <b>100.00%</b> |
| <b>Sector</b>                         |                  |                |                  |                |
| Pirelli S.p.A. Group                  |                  |                |                  |                |
| - Cable and Systems                   | 4,591,108        | 59.65%         | 3,920,956        | 58.93%         |
| - Tyres                               | 2,880,380        | 37.42%         | 2,558,777        | 38.45%         |
| - Other and interelimination          | 5,183            | 0.07%          | 2,602            | 0.04%          |
| Total Pirelli S.p.A. Group            | 7,476,671        | 97.14%         | 6,482,335        | 97.42%         |
| Pirelli & C. Real Estate S.p.A. Group | 213,032          | 2.77%          | 145,475          | 2.19%          |
| Other and interelimination            | 6,864            | 0.09%          | 26,207           | 0.39%          |
| <b>Total</b>                          | <b>7,696,567</b> | <b>100.00%</b> | <b>6,654,017</b> | <b>100.00%</b> |

#### *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*

Service expenses total Euros 1,229,467 thousand and include selling expenses (Euros 349,882 thousand), ordinary maintenance (Euros 86,466 thousand), outside processing costs (Euros 14,047 thousand), electrical power (Euros 148,091 thousand), EDP expenses (Euros 43,388 thousand), insurance (Euros 33,362 thousand), consulting fees (Euros 45,223 thousand), expenses for managing the assets of third parties (Euros 29,263 thousand), technical assistance, etc..

#### *Lease and rent expenses*

Lease and rent expenses mainly consist of rent expenses of Euros 71,147 thousand, operating lease installments of Euros 16,093 thousand and patent utilization rights of Euros 8,960 thousand.

### ***Personnel costs***

Personnel costs consist of the following:

(in thousands of euros)

|                           | <b>2000</b>      | <b>1999</b>      |
|---------------------------|------------------|------------------|
| Salaries and wages        | 1,266,507        | 1,122,931        |
| Social security costs     | 267,822          | 242,034          |
| Leaving indemnity         | 35,739           | 36,847           |
| Pension and similar costs | 22,481           | 6,507            |
| Other costs               | 30,990           | 29,490           |
|                           | <b>1,623,539</b> | <b>1,437,809</b> |

### ***Amortization, depreciation and write-downs***

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

(in thousands of euros)

|                                     | <b>2000</b>    | <b>1999</b>    |
|-------------------------------------|----------------|----------------|
| Buildings                           | 33,073         | 30,682         |
| Plant and machinery                 | 225,203        | 209,905        |
| Commercial and industrial equipment | 44,764         | 40,993         |
| Other assets                        | 38,785         | 34,381         |
|                                     | <b>341,825</b> | <b>315,961</b> |

### ***Other operating expenses***

Other operating expenses decreased from Euros 235,495 thousand to Euros 231,680 thousand and include administrative expenses (Euros 23,066 thousand), travel expenses (Euros 65,635 thousand), revenue stamps and local taxes (Euros 31,712 thousand), losses on the elimination of property, plant and equipment (Euros 2,506 thousand), legal fees (Euros 8,823 thousand), association dues (Euros 8,412 thousand), entertainment, audit and other minor items.

## **C) FINANCIAL INCOME AND EXPENSES**

### ***Investment income***

Investments income includes:

(in thousands of euros)

|                                     | <b>2000</b>   | <b>1999</b>   |
|-------------------------------------|---------------|---------------|
| Dividends from subsidiaries         | 1,421         | 1,080         |
| Dividends from associated companies | 394           | 8,629         |
| Dividends from other companies      | 12,479        | 25,151        |
| Other income                        | 54            | 23            |
|                                     | <b>14,348</b> | <b>34,883</b> |

Other investment income refers to gains on the sale of securities.

### *Other financial income*

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

|                                    | (in thousands of euros) |                |
|------------------------------------|-------------------------|----------------|
|                                    | <b>2000</b>             | <b>1999</b>    |
| Interest from subsidiaries         | 545                     | -              |
| Interest from associated companies | 9,904                   | 1,586          |
| Bank interest                      | 119,998                 | 96,141         |
| Other interest                     | 4,386                   | 4,143          |
| Miscellaneous financial income     | 53,809                  | 78,525         |
| Gains on exchange                  | 117,623                 | 162,668        |
|                                    | <b>306,265</b>          | <b>343,063</b> |

**Miscellaneous financial income** includes revenues on forward exchange contracts, gains on the sale of fixed rate securities, interest on receivables to be collected from the tax authorities and other minor items.

### *Interest and other financial expenses*

These expenses include:

|                                  | (in thousands of euros) |                |
|----------------------------------|-------------------------|----------------|
|                                  | <b>2000</b>             | <b>1999</b>    |
| Interest to associated companies | 2,316                   | 331            |
| Bond interest                    | 35,683                  | 38,173         |
| Bank interest                    | 153,927                 | 109,305        |
| Miscellaneous financial expenses | 130,100                 | 99,239         |
| Losses on exchange               | 128,972                 | 173,193        |
|                                  | <b>450,998</b>          | <b>420,241</b> |

**Miscellaneous financial expenses** include costs on forward exchange contracts, losses on the sale of fixed rate securities, bank commissions, etc..

Financial expenses, net, excluding amounts not directly associated with receivables and payables, amount to Euros 57,093 thousand.

## **D) VALUATION ADJUSTMENTS TO FINANCIAL ASSETS**

Revaluations (Euros 17,342 thousand) mainly comprise the net income of the associated companies of Pirelli & C. Real Estate S.p.A. accounted for using the equity method (Euros 17,146 thousand).

Write-downs (Euros 23,027 thousand) include Euros 17,365 thousand for the losses of the associated companies of Pirelli & C. Real Estate S.p.A. accounted for using the equity method and Euros 4,642 thousand for the write-downs of investments in other companies included in the Pirelli & C. portfolio (Superga S.p.A., Dix.it and Hermes S.p.A.).

## **E) EXTRAORDINARY ITEMS**

### *Extraordinary income*

Extraordinary income totals Euros 5,633,530 thousand compared to Euros 226,351 thousand in the prior year, and can be analyzed as follows:

(in thousands of euros)

|                   | 2000             | 1999           |
|-------------------|------------------|----------------|
| Gains on disposal | 121,212          | 108,473        |
| Miscellaneous     | 5,512,318        | 117,878        |
|                   | <b>5,633,530</b> | <b>226,351</b> |

“**Gains on disposals**” mainly refer to the gains on the sale of Cofide S.p.A. shares (Euros 17,464 thousand), Cartiere Burgo S.p.A. shares (Euros 14,392 thousand), IMMSI S.p.A. shares (Euros 13,714 thousand), Falck S.p.A. shares (Euros 17,663 thousand), Sirti S.p.A. shares (Euros 8,389 thousand), Acquedotto de Ferrari Galliera S.p.A. shares (Euros 6,026 thousand), SMI S.p.A. shares (Euros 2,717 thousand) and the sale of the buildings owned by Unim S.p.A. (Euros 4,656 thousand).

“**Miscellaneous**” comprises mainly the income on the sale of the Terrestrial Optical Systems business to Cisco (Euros 1,625 million) and the Optical Components business to Corning (Euros 3,549 million), the tax credits released to income (in Pirelli & C. Real Estate S.p.A. for Euros 167 million) and income connected with the Unim deal (Euros 134 million).

### *Extraordinary expenses*

Extraordinary expenses amount to 1,112,168 thousand compared to Euros 133,127 thousand in the prior year, and may be analyzed as follows:

(in thousands of euros)

|                     | 2000             | 1999           |
|---------------------|------------------|----------------|
| Losses on disposals | 47,582           | 26,296         |
| Miscellaneous       | 1,064,586        | 106,831        |
|                     | <b>1,112,168</b> | <b>133,127</b> |

“**Losses on disposals**” mainly refer to the sale of the stake in Immobiliare Uniorias Due S.r.l. (Euros 46,518 thousand) as part of the reorganization following the Unim acquisition.

“**Miscellaneous**” mainly includes restructuring costs of the industrial structure (Euros 433 million), costs relating to the sales of the Terrestrial Optical Systems business to Cisco (Euros 216 million) and the Optical Components business to Corning (Euros 198 million) and costs connected with the Unim deal (Euros 75 million).

## **OTHER INFORMATION**

### *Directors' and statutory auditors' fees*

Fees to the directors and statutory auditors of Pirelli & C., who also carry out these functions in other companies included in consolidation, are as follows:

(in thousands of euros)

|                    |               |
|--------------------|---------------|
| Directors          | 37,512        |
| Statutory auditors | 192           |
|                    | <u>37,704</u> |

### *Employees*

At December 31, 2000, the average number of employees, by category, in companies included in consolidation is as follows:

|                        |               |
|------------------------|---------------|
| - Management           | 718           |
| - Staff                | 11,370        |
| - Operatives           | 26,162        |
| - Temporary employment | 3,102         |
|                        | <u>41,352</u> |

## Exchange rates

The main exchange rates used in the consolidated financial statements are as follows:

| (local currency against Euros) |            |            |           |            |            |           |
|--------------------------------|------------|------------|-----------|------------|------------|-----------|
|                                | Period-end |            | Change in | Average    |            | Change in |
|                                | 12.31.2000 | 12.31.1999 | %         | 2000       | 1999       | %         |
| <b>Europe</b>                  |            |            |           |            |            |           |
| Italian lira                   | 1,936.27   | 1,936.27   | 0.00%     | 1,936.27   | 1,936.27   | 0.00%     |
| German mark                    | 1.95583    | 1.95583    | 0.00%     | 1.95583    | 1.95583    | 0.00%     |
| Dutch guilder                  | 2.20371    | 2.20371    | 0.00%     | 2.20371    | 2.20371    | 0.00%     |
| French franc                   | 6.55957    | 6.55957    | 0.00%     | 6.55957    | 6.55957    | 0.00%     |
| Spanish peseta                 | 166.386    | 166.386    | 0.00%     | 166.386    | 166.386    | 0.00%     |
| Belgian franc                  | 40.3399    | 40.3399    | 0.00%     | 40.3399    | 40.3399    | 0.00%     |
| British pound                  | 0.6241     | 0.62170    | 0.39%     | 0.60946    | 0.6602     | (7.69%)   |
| Swiss franc                    | 1.5232     | 1.6051     | (5.10%)   | 1.5577     | 1.6002     | (2.66%)   |
| Hungarian forint               | 263.8400   | 254.7000   | 3.59%     | 260.0502   | 252.6834   | 2.92%     |
| Slovakian koruna               | 43.4897    | 42.2324    | 2.98%     | 42.7079    | 44.2004    | (3.38%)   |
| Greek drachma                  | 340.750    | 330.300    | 3.16%     | 336.6520   | 325.581    | 3.40%     |
| <b>North America</b>           |            |            |           |            |            |           |
| American dollar                | 0.9305     | 1.0046     | (7.38%)   | 0.9237     | 1.0680     | (13.51%)  |
| Canadian dollar                | 1.3965     | 1.4608     | (4.40%)   | 1.3709     | 1.5881     | (13.68%)  |
| <b>South America</b>           |            |            |           |            |            |           |
| Brazilian real                 | 1.8195     | 1.7972     | 1.24%     | 1.6899     | 1.9393     | (12.86%)  |
| Argentine peso                 | 0.9305     | 1.0046     | (7.38%)   | 0.9237     | 1.0680     | (13.51%)  |
| <b>Oceania</b>                 |            |            |           |            |            |           |
| Australian dollar              | 1.6770     | 1.5422     | 8.74%     | 1.5894     | 1.6554     | (3.99%)   |
| <b>Asia</b>                    |            |            |           |            |            |           |
| Chinese RMB                    | 7.7021     | 8.3176     | (7.40%)   | 7.6454     | 8.8410     | (13.52%)  |
| Singapore dollar               | 1.6130     | 1.6717     | (3.51%)   | 1.5913     | 1.8106     | (12.11%)  |
| Indonesian rupiah              | 8,956.0000 | 7,108.0000 | 26.00%    | 7,746.0000 | 8,375.0000 | (7.51%)   |
| <b>Africa</b>                  |            |            |           |            |            |           |
| Egyptian pound                 | 3.610      | 3.433      | 5.17%     | 3.2637     | 3.642      | (10.39%)  |
| Ivory Coast franc              | 655.957    | 655.957    | 0.00%     | 655.957    | 655.957    | 0.00%     |

### *Net financial position*

The composition of the net financial position presented below, and the change compared to December 31, 1999, are commented on in the introduction to the report:

|   | (in thousands of euros) |                   |
|---|-------------------------|-------------------|
|   | <b>12.31.2000</b>       | <b>12.31.1999</b> |
| Short-term financial payables                   | 886,669                 | 704,391           |
| Accrued interest expenses                       | 25,333                  | 18,187            |
| Cash and banks                                  | (3,732,150)             | (533,314)         |
| Other securities                                | (1,246,737)             | (230,674)         |
| Short-term financial receivables                | (42,248)                | (85,572)          |
| Accrued interest income                         | (13,373)                | (9,151)           |
| Capital subscription rights - portion called up | -                       | (24)              |
| <b>Net short-term liquidity</b>                 | <b>(4,125,506)</b>      | <b>(136,157)</b>  |
| Medium/long-term financial payables             | 1,804,302               | 1,876,335         |
| Medium/long-term financial receivables          | (305,156)               | (121,677)         |
| Other securities                                | (8,572)                 | (21,496)          |
| <b>Net medium/long-term debt</b>                | <b>1,490,574</b>        | <b>1,733,162</b>  |
| <b>Net financial (liquidity) debt position</b>  | <b>(2,634,932)</b>      | <b>1,597,005</b>  |

### *R & D expenditures*

In 2000, the Group, through the subsidiary Pirelli S.p.A., incurred research and development expenditures and technical management costs for a total of Euros 213 million, entirely charged to operating expenses, compared to Euros 200 million in the prior year. Expenditures represented 2.8 percent of consolidated sales revenues compared to 3 percent in the prior year.

The geographical breakdown of these expenditures is as follows:

|               |     |
|---------------|-----|
| Europe        | 91% |
| North America | 4%  |
| South America | 4%  |
| Oceania       | 1%  |

A number of research programs are subsidized by the governments of various countries. In particular, in Italy, where the research activities are mainly concentrated, the projects financed under the various laws are numerous and apply, in differing proportions, to all sectors of activity.



**SUPPLEMENTARY INFORMATION  
CONSOLIDATED FINANCIAL STATEMENTS  
AT DECEMBER 31, 2000**



## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of euros)

|  | 2000               | 1999               |
|--|--------------------|--------------------|
| <b>Net cash flow</b>                                   |                    |                    |
| Operating profit                                       | 431,521            | 322,026            |
| Depreciation and amortization                          | 418,093            | 376,500            |
| Investment in intangible assets                        | (93,077)           | (129,859)          |
| Investment in property, plant and equipment            | (569,566)          | (476,385)          |
| Investment in financial assets                         | (683,231)          | (216,518)          |
| Disposal of intangible assets                          | 5,269              | 1,894              |
| Disposal of property, plant and equipment              | 27,570             | 44,871             |
| Disposal of financial assets                           | 132,176            | 63,881             |
| Changes in inventories                                 | (76,603)           | (23,751)           |
| Changes in trade and other accounts receivable/payable | 63,060             | 7,842              |
| Changes in provisions                                  | (57,668)           | 62,286             |
| Other changes  | (26,544)           | 41,862             |
| <b>Free Cash Flow</b>                                  | <b>(429,000)</b>   | <b>74,649</b>      |
| Financial income/expenses, net                         | (119,440)          | (27,630)           |
| Income taxes, net                                      | (1,074,159)        | (94,214)           |
| Extraordinary items, net                               | 4,521,362          | 93,224             |
| Other changes  | 1,373,558          | (284,826)          |
| <b>Cash flow before dividends</b>                      | <b>4,272,321</b>   | <b>(238,797)</b>   |
| Dividends paid   | (154,650)          | (149,030)          |
| <b>Net cash flow</b>                                   | <b>4,117,671</b>   | <b>(387,827)</b>   |
| Share capital increase Pirelli & C                     | 44,559             | 69                 |
| Share capital increase Pirelli S.p.A.                  | 5,138              | -                  |
| Share capital increase (minority interests)            | 82,543             | 7,153              |
| <b>Changes in share capital</b>                        | <b>132,240</b>     | <b>7,222</b>       |
| Translation adjustments                                | (17,976)           | (20,206)           |
| <b>Changes in net debt</b>                             | <b>4,231,935</b>   | <b>(400,811)</b>   |
| <b>Net debt at beginning of the year</b>               | <b>(1,597,003)</b> | <b>(1,196,192)</b> |
| <b>Net debt at end of the year</b>                     | <b>2,634,932</b>   | <b>(1,597,003)</b> |

## Consolidated statements of changes in shareholders' equity for the years ended December 31, 1999 and 2000

(in thousands of euros)

|  | Share capital  | Share premium reserve | Legal reserve | Translation reserve | Other reserves retained earnings net income for the year | Total            |
|--|----------------|-----------------------|---------------|---------------------|--|------------------|
| <b>BALANCE AT DECEMBER 31, 1998</b>                                      | <b>308,855</b> | <b>466,878</b>        | <b>46,345</b> | <b>(5,615)</b>      | <b>(68,098)</b>  | <b>748,365</b>   |
| Appropriation of net income<br>(shareholders' resolution of May 25,1999) |                |                       |               |                     |  |                  |
| - Payment of dividends   | -              | -                     | -             | -                   | (31,107)   | (31,107)         |
| - Legal reserve  | -              | -                     | 1,643         | -                   | (1,643)  | -                |
| Integration of legal reserve<br>as per resolution of May 25, 1999        | -              | (13,785)              | 13,785        | -                   | -  | -                |
| Rounding off for conversion from Lire to Euros                           | 2,119          | (2,119)               | -             | -                   | -  | -                |
| Conversion of bonds 1998/2003  | 15             | 54                    | -             | -                   | -  | 69               |
| Adjustment to bring carrying values<br>in line with net equities         | -              | -                     | -             | -                   | (28,448)   | (28,448)         |
| Translation adjustment and other changes                                 | -              | -                     | -             | 33,896              | -  | 33,896           |
| Net income for the year  | -              | -                     | -             | -                   | 85,750   | 85,750           |
| <b>BALANCE AT DECEMBER 31, 1999</b>                                      | <b>310,989</b> | <b>451,028</b>        | <b>61,773</b> | <b>(28,281)</b>     | <b>(43,546)</b>  | <b>808,525</b>   |
| Appropriation of net income<br>(shareholders' resolution of May 11,1999) |                |                       |               |                     |  |                  |
| - Payment of dividends   | -              | -                     | -             | -                   | (37,284)   | (37,284)         |
| - Legal reserve  | -              | -                     | 439           | -                   | (439)  | -                |
| Conversion of bonds 1998/2003  | 9,970          | 34,589                | -             | -                   | -  | 44,559           |
| Adjustment to bring carrying values<br>in line with net equities         | -              | -                     | -             | -                   | (20,278)   | (20,278)         |
| Translation adjustment and other changes                                 | -              | -                     | -             | (28,921)            | -  | (28,921)         |
| Net income for the year  | -              | -                     | -             | -                   | 1,404,660  | 1,404,660        |
| <b>BALANCE AT DECEMBER 31, 2000</b>                                      | <b>320,959</b> | <b>485,617</b>        | <b>62,212</b> | <b>(640)</b>        | <b>1,303,113</b>   | <b>2,171,261</b> |

## RECONCILIATION OF NET INCOME AND SHAREHOLDERS' EQUITY OF THE GROUP HOLDING COMPANY AND THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of euros)

|  | Net income<br>for the year | Shareholders'<br>equity |
|--|----------------------------|-------------------------|
| <b>Balance at December 31, 2000, as reported in the Group holding company financial statements</b> | <b>259.675</b>             | <b>1.155.147</b>        |
| Share of earnings of:  |                            |                         |
| - consolidated subsidiaries  | 1.458.668                  | 1.458.668               |
| - companies valued using the equity method   | (214)                      | (214)                   |
| Elimination of dividends received from subsidiaries  | (284.122)                  | (284.122)               |
| Elimination of gains on the sale of intergroup investments   | (684)                      | (684)                   |
| Elimination of gains on intergroup sales   | (2.128)                    | (2.128)                 |
| Amortization of goodwill   | (26.535)                   | (26.535)                |
| Difference between share of net equity of consolidated companies and their carrying value:         |                            |                         |
| - consolidated subsidiaries  | -                          | (128.991)               |
| - affiliates valued using the equity method  | -                          | 120                     |
| <b>Balance at December 31, 2000, as reported in the consolidated financial statements</b>          | <b>1.404.660</b>           | <b>2.171.261</b>        |

## COMPANIES CONSOLIDATED USING THE FULL CONSOLIDATION METHOD

| Company   | Business           | Headquarters      | Share capital | % ownership | % of vote | Held by                                     |
|---|--------------------|-------------------|---------------|-------------|-----------|---|
| <b>EUROPE</b>   |                    |                   |               |             |           |   |
| <b>AUSTRIA</b>  |                    |                   |               |             |           |   |
| Pirelli Gesellschaft mbH  | Tyres              | Vienna            | Sh.A./000     | 10,000      | 100.00%   | Lunares S.A.                                |
| Pirelli-Oekw GmbH   | Cables and Systems | Vienna            | Euro          | 2,071,176   | 100.00%   | Pirelli Cable Holding N.V.                  |
| <b>BELGIUM</b>  |                    |                   |               |             |           |   |
| Pirelli Tyres Belux S.A.  | Tyres              | Brussels          | Euro          | 700,000     | 100.00%   | Lunares S.A.                                |
| <b>FINLAND</b>  |                    |                   |               |             |           |   |
| Pirelli Cables and Systems OY   | Cables and Systems | Helsinki          | Euro          | 10,000,000  | 100.00%   | Pirelli Cable Holding N.V.                  |
| <b>FRANCE</b>   |                    |                   |               |             |           |   |
| Pirelli Câbles et Systèmes S.A.<br>(formerly Cables Pirelli S.A.)               | Cables and Systems | Paron             | Euro          | 136,800,000 | 100.00%   | Pirelli Cable Holding N.V.                  |
| Eurelectric S.A.  | Cables and Systems | La Bresse         | Fr.F./000     | 26,325      | 100.00%   | Pirelli Câbles et Systèmes S.A.             |
| Pneus Pirelli S.A.  | Tyres              | Puteaux           | Euro          | 3,062,400   | 100.00%   | Lunares S.A.                                |
| <b>GERMANY</b>  |                    |                   |               |             |           |   |
| Bergmann Kabel und Leitungen GmbH   | Cables and Systems | Schwerin          | Euro          | 1,022,600   | 100.00%   | Pirelli Kabel und Systeme Holding GmbH      |
| Deutsche Pirelli Reifen Holding GmbH  | Financial          | Breuberg/Odenwald | Euro          | 7,694,943   | 100.00%   | Pirelli Tyre Holding N.V.                   |
| Industriekraftwerk Breuberg GmbH<br>(formerly Pirelli Energie Deutschland GmbH) | Energy             | Breuberg/Odenwald | Euro          | 1,533,877   | 51.00%    | Pirelli Ambiente S.p.A.                     |
|   |                    |                   |               |             | 19.00%    | Pirelli Deutschland A.G.                    |
| ISO Industrie Spedition Odenwald GmbH   | Tyres              | Breuberg/Odenwald | Euro          | 25,565      | 100.00%   | Pirelli Reifenwerke GmbH & Co. K.G.         |
| Materialwertungsgesellschaft Breuberg GmbH                                      | Tyres              | Breuberg/Odenwald | Euro          | 25,565      | 100.00%   | Deutsche Pirelli Reifen Holding GmbH        |
| Metzeler Reifen GmbH  | Tyres              | Breuberg/Odenwald | Euro          | 16,361,340  | 100.00%   | Pirelli Deutschland A.G.                    |
| Pirelli Deutschland A.G.  | Tyres              | Breuberg/Odenwald | Euro          | 26,075,886  | 98.94%    | Deutsche Pirelli Reifen Holding GmbH        |
| Pirelli Kabel und Systeme Holding GmbH  | Cables and Systems | Berlin            | Euro          | 26,000      | 99.00%    | Pirelli Cable Holding N.V.                  |
|   |                    |                   |               |             | 1.00%     | Pirelli Cavi e Sistemi S.p.A.               |
| Pirelli Kabel Grundstücksverwaltungs GmbH                                       | Cables and Systems | Berlin            | Euro          | 25,600      | 100.00%   | Pirelli Kabel und Systeme Holding GmbH      |
| Pirelli Kabel und Systeme Beteiligungs GmbH                                     | Cables and Systems | Berlin            | Euro          | 25,600      | 100.00%   | Pirelli Kabel und Systeme Holding GmbH      |
| Pirelli Kabel und Systeme GmbH & Co. KG   | Cables and Systems | Berlin            | Euro          | 5,113,000   | 100.00%   | Pirelli Kabel und Systeme Beteiligungs GmbH |
| Pirelli Kabel und Systeme Verwaltungs GmbH                                      | Cables and Systems | Berlin            | Euro          | 25,600      | 100.00%   | Pirelli Kabel und Systeme Beteiligungs GmbH |
| Pirelli Reifenwerke GmbH & Co. K.G.   | Tyres              | Breuberg/Odenwald | Euro          | 35,790,943  | 100.00%   | Pirelli Deutschland A.G.                    |
| Pirelli Reifenwerke Geschäftsführungs GmbH                                      | Service            | Breuberg/Odenwald | Euro          | 25,565      | 100.00%   | Deutsche Pirelli Reifen Holding GmbH        |
| Pneumobil GmbH  | Tyres              | Breuberg/Odenwald | Euro          | 259,225     | 99.62%    | Pirelli Reifenwerke GmbH & Co. K.G.         |
| Veith Wohnungsbau GmbH  | Real estate        | Breuberg/Odenwald | Euro          | 127,823     | 100.00%   | Pirelli Deutschland A.G.                    |
| <b>UNITED KINGDOM</b>   |                    |                   |               |             |           |   |
| Aberdare Cables Ltd   | Cables and Systems | London            | Lst./000      | 610         | 100.00%   | Pirelli General plc                         |
| Comergy Ltd   | Cables and Systems | London            | Lst./000      | 1,000       | 100.00%   | Pirelli & C Luxembourg S.A.                 |

| Company   | Business                | Headquarters | Share capital | % ownership | % of vote | Held by  |
|---|-------------------------|--------------|---------------|-------------|-----------|--|
| Pirelli Cables (Industrial) Limited (formerly BICC General Industrial Cables Limited) | Cables and Systems      | London       | Lst.          | 100         | 100.00%   | Pirelli General plc  |
| Pirelli Cables (Rod Rollers) Limited (già BICC General Rod Rollers Limited)           | Cables and Systems      | London       | Lst.          | 1           | 100.00%   | Pirelli General plc  |
| Pirelli Cables (2000) Limited (già BICC General Uk Cables Limited)                    | Cables and Systems      | London       | Lst.          | 100         | 100.00%   | Pirelli General plc  |
| CTC 1994 Limited  | Tyres                   | London       | Lst.          | 984         | 100.00%   | Centrale Tyre Ltd  |
| Central Tyre Ltd  | Tyres                   | London       | Lst./000      | 100         | 100.00%   | Pirelli UK Tyres Ltd   |
| Courier Tyre Company Ltd  | Tyres                   | London       | Lst./000      | 10          | 100.00%   | Pirelli UK Tyres Ltd   |
| CPK Auto Products Ltd   | Tyres                   | London       | Lst./000      | 10          | 100.00%   | Pirelli UK Tyres Ltd   |
| Pirelli Cables Ltd  | Cables and Systems      | London       | Lst./000      | 100         | 100.00%   | Pirelli General plc  |
| Pirelli Cables and Systems International Ltd  | Cables and Systems      | London       | Euro          | 100,000     | 100.00%   | Pirelli Cable Holding N.V.   |
| Pirelli Construction Company Ltd  | Cables and Systems      | London       | Lst./000      | 8,000       | 100.00%   | Pirelli General plc  |
| Pirelli Focom Limited   | Cables and Systems      | London       | Lst./000      | 6,447       | 100.00%   | Pirelli General plc  |
| Pirelli General plc   | Cables and Systems      | London       | Lst./000      | 102,100     | 100.00%   | Pirelli UK plc "B"   |
| Pirelli International Limited   | Financial               | London       | Euro          | 250,000,000 | 100.00%   | Pirelli Finance (Luxembourg) S.A.  |
| Pirelli Tyres Ltd   | Tyres                   | London       | Lst./000      | 16,000      | 100.00%   | Pirelli UK Tyres Ltd   |
| Pirelli UK Employee Share Trustee Limited   | Financial               | London       | Lst           | 2           | 100.00%   | Pirelli UK plc "C"   |
| Pirelli UK Finance Ltd  | Financial               | London       | Lst./000      | 6,969       | 100.00%   | Pirelli UK plc "C"   |
| Pirelli UK plc "A"  | Tyre Holding Company    | London       | Lst./000      | 57,354      | 100.00%   | Pirelli Tyre Holding N.V.  |
| Pirelli UK plc "B"  | Cable Holding Company   | London       | Lst./000      | 54,299      | 100.00%   | Pirelli Cable Holding N.V.   |
| Pirelli UK plc "C"  | Finance Holding Company | London       | Lst./000      | 11,626      | 100.00%   | Pirelli S.p.A.   |
| Pirelli UK Tyres Ltd  | Tyres                   | London       | Lst./000      | 56,819      | 100.00%   | Pirelli UK plc "A"   |
| <b>GREECE</b>   |                         |              |               |             |           |  |
| Antem Representations & Trading Co. Ltd. (in liquidazione)                            | Tyres                   | Athens       | Drs./000      | 1,000       | 100.00%   | Pirelli Hellas S.A.  |
| Diafimis Roda Ltd (in liquidation)  | Advertising             | Athens       | Drs./000      | 3,000       | 99.33%    | Elastika Pirelli S.A.  |
|   |                         |              |               |             | 0.33%     | Antem Repr.& Trading Co. Ltd   |
| Elastika Pirelli S.A.   | Tyres                   | Athens       | Drs./000      | 557,000     | 99.90%    | Lunares S.A.   |
|   |                         |              |               |             | 0.10%     | Pirelli Pneumatici Holding S.p.A.  |
| Pirelli Hellas S.A. (in liquidation)  | Tyres                   | Athens       | US\$/000      | 22,050      | 79.86%    | Pirelli Tyre Holding N.V.  |
| <b>ITALY</b>  |                         |              |               |             |           |  |
| Alfa S.r.l.   | Real estate             | Milan        | Euro          | 2,600,000   | 100.00%   | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.)                |
| Alfa Due S.p.A.   | Real estate             | Milan        | Euro          | 1,300,000   | 100.00%   | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.)                |
| Altofim S.r.l.  | Financial               | Milan        | Euro          | 78,000      | 100.00%   | Pirelli & C.A.p.A.   |
| Beta S.r.l.   | Real estate             | Milan        | Euro          | 26,000      | 100.00%   | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.)                |
| Cagisa S.p.A.   | Real estate             | Milan        | Lit./mil.     | 1,200       | 100.00%   | Pirelli & C. Property Management S.p.A. (formerly Milano Centrale Cagisa S.p.A.) |
| CEAT Cavi S.r.l. (formerly BICC General Ceat Cavi Italia S.p.A.)                      | Cables and Systems      | Milan        | Euro          | 41,600,000  | 100.00%   | Pirelli Cavi e Sistemi S.p.A.  |

| Company  | Business              | Headquarters     | Share capital | % ownership   | % of vote | Held by  |
|--|-----------------------|------------------|---------------|---------------|-----------|--|
| Centro Servizi Amministrativi Pirelli S.r.l.                                 | Service               | Milan            | Euro          | 51,000        | 100.00%   | Pirelli S.p.A.   |
| Fibre Ottiche Sud - F.O.S. S.p.A.  | Optical fibers        | Battipaglia (SA) | Euro          | 5,200,000     | 100.00%   | Pirelli Cavi e Sistemi S.p.A.  |
| Fintheta S.p.A.  | Real estate           | Milan            | Euro          | 255,000       | 100.00%   | Pirelli S.p.A.   |
| Holdim S.r.l.  | Real estate           | Milan            | Euro          | 14,404        | 100.00%   | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| Kallithea Immobiliare S.r.l.   | Real estate           | Milan            | Euro          | 10,400        | 100.00%   | Pirelli S.p.A.   |
| Kappa S.r.l.   | Real estate           | Milan            | Euro          | 10,400        | 100.00%   | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| Iota S.r.l.  | Real estate           | Milan            | Euro          | 93,600        | 100.00%   | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| Istituto Piero Pirelli S.p.A. (in liquidation)                               | Training              | Milan            | Euro          | 135,000       | 80.00%    | Pirelli S.p.A.   |
|  |                       |                  |               |               | 10.00%    | Pirelli Pneumatici Holding S.p.A.                                    |
|  |                       |                  |               |               | 10.00%    | Pirelli Cavi e Sistemi S.p.A.  |
| Italgom S.r.l.   | Tyres                 | Varese           | Lit./mil.     | 100           | 98.00%    | Agom S.A. Bioggio  |
| Lambda S.r.l.  | Real estate           | Milan            | Euro          | 624           | 100.00%   | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| Localto S.p.A.   | Financial             | Milan            | Euro          | 510,000       | 100.00%   | Pirelli & C.A.p.A.   |
| Maristel S.p.A.  | Cables and Systems    | Milan            | Euro          | 1,020,000     | 100.00%   | Pirelli Cavi e Sistemi S.p.A.  |
| Milano Centrale Altofim S.p.A.   | Financial             | Milan            | Euro          | 5,200,000     | 100.00%   | Pirelli & C.A.p.A.   |
| Milano Centrale Opere Generali S.p.A.  | Real estate           | Milan            | Euro          | 104           | 100.00%   | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| Milano Centrale Servizi S.p.A.   | Real estate           | Milan            | Lit./mil.     | 1,600         | 100.00%   | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| Neri Gomme & C. S.r.l. (in liquidation)                                      | Tyres                 | Milan            | Lit./mil.     | 20            | 100.00%   | Sistema Puntogomme S.p.A.  |
| Pirelli Ambiente S.p.A.  | Environment           | Milan            | Euro          | 3,060,000     | 100.00%   | Pirelli & C.A.p.A.   |
| Pirelli Cavi e Sistemi S.p.A.  | Cable Holding Company | Milan            | Euro          | 182,694,200   | 98.75%    | Pirelli S.p.A.   |
|  |                       |                  |               |               | 1.25%     | Pirelli Finance (Luxembourg) S.A.                                    |
| Pirelli Informatica S.p.A.   | Information system    | Milan            | Euro          | 520,000       | 100.00%   | Pirelli S.p.A.   |
| Pirelli Metzeler Motovelo S.r.l.   | Tyres                 | Milan            | Euro          | 4,590,000     | 100.00%   | Metzeler Reifen GmbH   |
| Pirelli Nastri Tecnici S.p.A. (in liquidation)                               | Sundry                | Milan            | Euro          | 384,642       | 100.00%   | Pirelli S.p.A.   |
| Pirelli Pneumatici Europa S.r.l.   | Service               | Milan            | Euro          | 1,000,000     | 100.00%   | Pirelli Pneumatici Holding S.p.A.                                    |
| Pirelli Pneumatici Holding S.p.A.  | Financial             | Milan            | Euro          | 59,800,000    | 100.00%   | Pirelli Tyre Holding N.V.  |
| Pirelli Pneumatici S.p.A.  | Tyres                 | Milan            | Euro          | 190,320,000   | 100.00%   | Pirelli Pneumatici Holding S.p.A.                                    |
| Pirelli S.p.A.   | Holding               | Milan            | Euro          | 1,035,261,026 | 5.42%     | 5.67% Pirelli & C. A.p. A.   |
|  |                       |                  |               |               | 26.51%    | 27.74% Pirelli & C. Luxembourg S.A.                                  |
|  |                       |                  |               |               | 9.81%     | 0.00% Pirelli S.p.A.   |
| Pirelli Servizi Finanziari S.p.A.  | Financial             | Milan            | Euro          | 1,976,000     | 100.00%   | Pirelli S.p.A.   |
| Pirelli Submarine Telecom System Italia S.p.A.                               | Cables and Systems    | Milan            | Euro          | 25,000,000    | 100.00%   | Pirelli Submarine Telecom<br>Systems Holding B.V.                    |
| Pirelli & C. Agency S.p.A.<br>(formerly Milano Centrale Mediaimpresa S.p.A.) | Real estate           | Milan            | Lit./mil.     | 1,000         | 100.00%   | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |

| Company   | Business      | Headquarters | Share capital | % ownership | % of vote | Held by  |
|---|---------------|--------------|---------------|-------------|-----------|--|
| Pirelli & C. Casa S.p.A.<br>(formerly Milano Centrale Mediaca S.p.A.)                                 | Real estate   | Milan        | Lit./mil.     | 1,000       | 100.00%   | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| Pirelli & C. Project Management S.p.A.<br>(formerly Milano Centrale Servizi di Sviluppo S.p.A.)       | Real estate   | Milan        | Euro          | 520,000     | 100.00%   | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| Pirelli & C. Property Management S.p.A.<br>(formerly Milano Centrale Cagisa S.p.A.)                   | Real estate   | Milan        | Lit./mil.     | 220         | 92.00%    | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.)                                  | Real estate   | Milan        | Lit./mil.     | 30,711      | 97.68%    | Pirelli & C. A.p. A.   |
| Polo Viaggi S.r.l.  | Travel Agency | Milan        | Euro          | 46,800      | 100.00%   | Pirelli S.p.A.   |
| Progetto Ambiente Alfa S.r.l.   | Environment   | Milan        | Euro          | 25,500      | 100.00%   | Pirelli Ambiente S.p.A.  |
| Progetto Ambiente Beta S.r.l.   | Environment   | Milan        | Euro          | 25,500      | 100.00%   | Pirelli Ambiente S.p.A.  |
| Progetto Ambiente Gamma S.r.l.  | Environment   | Milan        | Euro          | 25,500      | 100.00%   | Pirelli Ambiente S.p.A.  |
| Progetto Bicocca Centro Tecnologico S.r.l.  | Real estate   | Milan        | Euro          | 93,600      | 100.00%   | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| Progetto Bicocca Il Centro S.r.l.   | Real estate   | Milan        | Euro          | 93,000      | 100.00%   | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| Progetto Grande Bicocca S.r.l.  | Real estate   | Milan        | Euro          | 93,600      | 100.00%   | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| Progetto Navigli S.r.l.   | Real estate   | Milan        | Euro          | 52,000      | 60.50%    | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| Promedil '84 S.r.l.   | Real estate   | Milan        | Euro          | 10,400      | 100.00%   | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| Servizi Amministrativi Real Estate S.p.A.<br>(formerly Milano Centrale Servizi Amministrativi S.p.A.) | Real estate   | Milan        | Lit./mil.     | 1,000       | 100.00%   | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| Servizi Aziendali Pirelli S.C.p.A.  | Service       | Milan        | Euro          | 104,000     | 93.00%    | Pirelli S.p.A.   |
|   |               |              |               |             | 1.00%     | Alfa Due S.p.A.  |
|   |               |              |               |             | 1.00%     | Milano Centrale Servizi S.p.A.                                       |
|   |               |              |               |             | 1.00%     | Pirelli & C. A.p. A.   |
|   |               |              |               |             | 1.00%     | Pirelli Cavi e Sistemi S.p.A.  |
|   |               |              |               |             | 1.00%     | Pirelli Pneumatici S.p.A.  |
|   |               |              |               |             | 1.00%     | Polo Viaggi S.r.l.   |
|   |               |              |               |             | 1.00%     | Pirelli Pneumatici Holding S.p.A.                                    |
| Sistema Puntogomme S.p.A.   | Tyres         | Milan        | Euro          | 3,060,000   | 100.00%   | Pirelli Pneumatici Holding S.p.A.                                    |
| Stella Polare S.r.l. (in liquidazione)  | Real estate   | Milan        | Lit./mil.     | 560         | 100.00%   | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| Tau S.r.l.  | Real estate   | Milan        | Euro          | 93,600      | 100.00%   | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| Trefin S.r.l.   | Financial     | Milan        | Euro          | 4,242,476   | 100.00%   | Pirelli S.p.A.   |
| <b>LUXEMBOURG</b>   |               |              |               |             |           |  |
| Gamirco Holding S.A. (formerly Gamirco S.A.)  | Financial     | Luxembourg   | Fr.Sv./000    | 2,100       | 100.00%   | Pirelli Société Générale S.A.  |
| Pirelli Finance (Luxembourg) S.A.   | Financial     | Luxembourg   | Euro          | 270,228,168 | 100.00%   | Pirelli S.p.A.   |
| Pirelli & C. Luxembourg S.A.  | Financial     | Luxembourg   | Fr.Sv./000    | 270,000     | 100.00%   | Pirelli & C.A.p.A.   |

| Company  | Business               | Headquarters    | Share capital    | % ownership | % of vote | Held by                         |
|--|------------------------|-----------------|------------------|-------------|-----------|---------------------------------|
| <b>NORWAY</b>  |                        |                 |                  |             |           |                                 |
| Pirelli Kabler og Systemer AS                                      | Cables and Systems     | Ski             | Nok              | 100,000     | 100.00%   | Pirelli Cables and Systems OY   |
| <b>THE NETHERLANDS</b>   |                        |                 |                  |             |           |                                 |
| Optical Technologies The Netherlands B.V.                          | Cables and Systems     | Delft           | Euro             | 183,235,100 | 100.00%   | Pirelli S.p.A.                  |
| Pirelli Cable Holding N.V.   | Cables Holding Company | Delft           | Euro             | 272,515,065 | 100.00%   | Pirelli Cavi e Sistemi S.p.A.   |
| Pirelli Cable Overseas N.V.  | Cables and Systems     | Delft           | Euro             | 5,000,000   | 100.00%   | Pirelli Cavi e Sistemi S.p.A.   |
| Pirelli Cables and Systems N.V.                                    | Cables and Systems     | Delft           | Euro             | 10,000,000  | 100.00%   | Pirelli Cavi e Sistemi S.p.A.   |
| Pirelli Submarine Telecom Systems Holding B.V.                     | Cables and Systems     | Delft           | Euro             | 4,500,000   | 90.00%    | Pirelli Cavi e Sistemi S.p.A.   |
| Pirelli Technology and Intellectual Property Licensing N.V.        | Service                | Breukelen       | Euro             | 50,000      | 100.00%   | Pirelli & C. A.p.A.             |
| Pirelli Tyre Holding N.V.  | Tyres Holding Company  | Amsterdam       | Euro             | 558,396,000 | 100.00%   | Pirelli S.p.A.                  |
| Pirelli Tyres Nederland B.V.                                       | Tyres                  | Breukelen       | Euro             | 18,152      | 100.00%   | Lunares S.A.                    |
| Sipir Finance N.V.   | Financial              | Rotterdam       | Euro             | 41,146,522  | 100.00%   | Pirelli Tyre Holding N.V.       |
| <b>POLAND</b>  |                        |                 |                  |             |           |                                 |
| Pirelli Polska Sp.zo.o.  | Tyres                  | Warsaw          | Zloty/mil.       | 6,258       | 100.00%   | Lunares S.A.                    |
| <b>PORTUGAL</b>  |                        |                 |                  |             |           |                                 |
| Descos Fabrica Portuguesa de Material Electrico e Electronico S.A. | Cables and Systems     | Arcozelo Vngaia | Escudos/000      | 309,000     | 70.91%    | Pirelli Câbles et Systèmes S.A. |
|  |                        |                 |                  |             | 29.09%    | Eurelectric S.A.                |
| <b>SLOVAK REPUBLIC</b>   |                        |                 |                  |             |           |                                 |
| Kablo Bratislava Spol. S.R.O.                                      | Cables and Systems     | Bratislava      | Corone Slovacche | 523,334,000 | 100.00%   | Pirelli Cable Holding N.V.      |
| Pirelli Slovakia S.R.O.  | Tyres                  | Bratislava      | Corone Slovacche | 200,000     | 100.00%   | Lunares S.A.                    |
| <b>RUMANIA</b>   |                        |                 |                  |             |           |                                 |
| S.C. Pirelli Romania Cabluri si Sisteme S.A.                       | Cables and Systems     | Slatina         | Leu Rumeni/000   | 42,221,625  | 100.00%   | Pirelli Cable Holding N.V.      |
| <b>SPAIN</b>   |                        |                 |                  |             |           |                                 |
| Fercable S.A.  | Cables and Systems     | Barcelona       | Ptas./000        | 600,000     | 100.00%   | Pirelli Cables y Sistemas S.A.  |
| Omnia Motor S.A.   | Tyres                  | Barcelona       | Ptas./000        | 250,000     | 100.00%   | Pirelli Neumaticos S.A.         |
| Pirelli Cables y Sistemas S.A.                                     | Cables and Systems     | Barcelona       | Ptas./000        | 5,700,000   | 100.00%   | Pirelli Cable Holding N.V.      |
| Pirelli Neumaticos S.A.  | Tyres                  | Barcelona       | Ptas./000        | 7,500,000   | 100.00%   | Pirelli Tyre Holding N.V.       |
| Pirelli Esmar S.A.   | Cables and Systems     | Torredembarra   | Ptas./000        | 1,450,000   | 100.00%   | Pirelli Cables y Sistemas S.A.  |
| <b>SWEDEN</b>  |                        |                 |                  |             |           |                                 |
| Pirelli Kablar och System AB (formerly AB Grundstenen 88826)       | Cables and Systems     | Hoganas         | Kr.Sw./000       | 100         | 100.00%   | Pirelli Cables and Systems OY   |
| Pirelli Tyre Nordic AB   | Tyres                  | Stockolm        | Kr.Sw./000       | 950         | 100.00%   | Lunares S.A.                    |
| <b>SWITZERLAND</b>   |                        |                 |                  |             |           |                                 |
| Agom S.A.  | Tyres                  | Conthey         | Frs./000         | 50          | 75.00%    | Lunares S.A.                    |
| Agom S.A. Bioggio  | Tyres                  | Bioggio         | Frs./000         | 250         | 75.00%    | Lunares S.A.                    |
| Agom S.A. Locarno  | Tyres                  | Locarno         | Frs./000         | 50          | 75.00%    | Lunares S.A.                    |
| Agom S.A. Lugano   | Tyres                  | Lugano          | Frs./000         | 102         | 75.00%    | Lunares S.A.                    |
| Biasi S.A.   | Tyres                  | Lugano          | Frs./000         | 250         | 75.00%    | Lunares S.A.                    |
| Lunares S.A.   | Tyre Holding Company   | Basel           | Frs./000         | 10,000      | 100.00%   | Pirelli Tyre Holding N.V.       |

| Company   | Business           | Headquarters          | Share capital | % ownership | % of vote | Held by                             |
|---|--------------------|-----------------------|---------------|-------------|-----------|-------------------------------------|
| Pirelli Cables and Systems S.A.                             | Cables and Systems | Basel                 | Frs./000      | 500         | 100.00%   | Pirelli Cable Holding N.V.          |
| Pirelli Produkte Holding A.G.                               | Cables and Systems | Basel                 | Frs./000      | 9,500       | 100.00%   | Pirelli Cable Holding N.V.          |
| Pirelli Société de Services S.a.r.l.                        | Financial          | Basel                 | Frs./000      | 50          | 100.00%   | Pirelli Société Générale S.A.       |
| Pirelli Société Générale S.A.                               | Financial          | Basel                 | Frs./000      | 140,000     | 100.00%   | Pirelli S.p.A.                      |
| Pirelli Submarine Telecom Systems S.A. Systems Holding B.V. | Cables and Systems | Basel                 | Frs./000      | 100         | 100.00%   | Pirelli Submarine Telecom           |
| Pirelli Tyre (Europe) S.A.                                  | Tyres              | Basel                 | Frs./000      | 1,000       | 100.00%   | Lunares S.A.                        |
| <b>TURKEY</b>   |                    |                       |               |             |           |                                     |
| Celikord A.S.   | Tyres              | Istanbul              | TL/mil.       | 5,260,000   | 49.75%    | Pirelli Tyre Holding N.V.           |
|   |                    |                       |               |             | 0.71%     | Sipir Finance N.V.                  |
|   |                    |                       |               |             | 0.27%     | Pirelli Pneumatici Holding S.p.A.   |
|   |                    |                       |               |             | 0.27%     | Pirelli Deutschland A.G.            |
| Turk-Pirelli Lastikleri A.S.                                | Tyres              | Istanbul              | TL/mil.       | 29,400,000  | 60.01%    | Pirelli Tyre Holding N.V.           |
|   |                    |                       |               |             | 1.57%     | Sipir Finance N.V.                  |
|   |                    |                       |               |             | 0.08%     | Pirelli Deutschland A.G.            |
|   |                    |                       |               |             | 0.08%     | Pirelli UK Tyres Ltd                |
|   |                    |                       |               |             | 0.08%     | Pirelli Pneumatici S.p.A.           |
|   |                    |                       |               |             | 0.08%     | Lunares S.A.                        |
|   |                    |                       |               |             | 0.08%     | Pirelli Pneumatici Holding S.p.A.   |
|   |                    |                       |               |             | 0.08%     | Metzeler Reifen GmbH                |
|   |                    |                       |               |             | 0.08%     | Pirelli Reifenwerke GmbH & Co. K.G. |
|   |                    |                       |               |             | 0.08%     | Pirelli Neumaticos S.A.             |
| Turk-Pirelli Kablo ve Sistemleri A.S.                       | Cables and Systems | Mudania/Bursa         | TL/mil.       | 3,780,000   | 83.75%    | Pirelli Cable Holding N.V.          |
| Zalsan Zirai Arac Lastikleri A.S.                           | Tyres              | Istanbul              | TL/mil.       | 1,400,000   | 70.00%    | Turk-Pirelli Lastikleri A.S.        |
| <b>HUNGARY</b>  |                    |                       |               |             |           |                                     |
| MKM Magyar Kabel Muvek RT.                                  | Cables and Systems | Budapest              | HUF/000       | 6,981,070   | 100.00%   | Pirelli Cable Holding N.V.          |
| Kabel Keszletertesito BT.                                   | Cables and Systems | Budapest              | HUF/000       | 1,239,841   | 100.00%   | MKM Magyar Kabel Muvek Rt.          |
| Pirelli Construction Hungary Limited                        | Cables and Systems | Budapest              | HUF/000       | 3,000       | 100.00%   | Pirelli Cable Holding N.V.          |
| Pirelli Hungary Tyre Trading and Services Limited           | Tyres              | Budaors               | HUF/000       | 3,000       | 100.00%   | Lunares S.A.                        |
| <b>NORTH AMERICA</b>  |                    |                       |               |             |           |                                     |
| <b>CANADA</b>   |                    |                       |               |             |           |                                     |
| Pirelli Cables and Systems Inc.                             | Cables and Systems | St Jean sur Richelieu | Can.\$/000    | 40,000      | 100.00%   | Pirelli Cable Holding N.V.          |
| Pirelli Tire Inc.   | Tyres              | Ottawa                | Can.\$/000    | 6,000       | 100.00%   | Lunares S.A.                        |
| <b>U.S.A.</b>   |                    |                       |               |             |           |                                     |
| Metzeler Motorcycle Tire North America Corp.                | Tyres              | Seattle (Washington)  | US.\$/000     | 150         | 100.00%   | Metzeler Reifen GmbH                |
| Pirelli Cables and Systems LLC                              | Cables and Systems | Wilmington (Delaware) | US.\$/000     | 50,000      | 100.00%   | Pirelli North America Inc. "B"      |
| Pirelli Construction Services Inc.                          | Cables and Systems | Dover (Delaware)      | US.\$/000     | 1           | 100.00%   | Pirelli Cables and Systems LLC      |
| Pirelli Jacobson Inc.                                       | Cables and Systems | Dover (Delaware)      | US.\$/000     | 2           | 100.00%   | Pirelli Cables and Systems LLC      |
| Pirelli North America Inc. "A"                              | Tyres              | Wilmington (Delaware) | US.\$         | 3           | 100.00%   | Pirelli Tyre Holding N.V.           |

| Company   | Business           | Headquarters          | Share capital | % ownership | % of vote | Held by  |
|---|--------------------|-----------------------|---------------|-------------|-----------|--|
| Pirelli North America Inc. "B"                                | Cables and Systems | Wilmington (Delaware) | US.\$         | 7           | 100.00%   | Pirelli Cavi e Sistemi S.p.A.  |
| Pirelli Tire LLC  | Tyres              | Wilmington (Delaware) | US.\$         | 1           | 100.00%   | Pirelli North America Inc. "A"                                       |
| <b>CENTRAL/SOUTH AMERICA</b>                                  |                    |                       |               |             |           |  |
| <b>DUTCH ANTILLES</b>   |                    |                       |               |             |           |  |
| Pirelli Financial Services Company N.V.                       | Financial          | Curaçao               | US.\$/000     | 11,000      | 100.00%   | Pirelli Finance (Luxembourg) S.A.                                    |
| Pirelli Insurance & Reinsurance Company N.V.                  | Insurance          | Curaçao               | US.\$/000     | 10,000      | 100.00%   | Pirelli Financial Services Co NV                                     |
| <b>ARGENTINA</b>  |                    |                       |               |             |           |  |
| Fipla S.A.  | Cables and Systems | Buenos Aires          | Peso          | 130         | 66.97%    | Pirelli Cons. Cond.Inst. SAIC  |
| Pirelli Consultora Conductores e Instalaciones S.A.I.C.       | Cables and Systems | Buenos Aires          | Peso          | 2,227       | 100.00%   | Pirelli Cable Holding N.V.   |
| Pirelli Argentina de Mandatos S.A.                            | Service            | Buenos Aires          | Peso/000      | 500         | 100.00%   | Pirelli Société Générale S.A.  |
| Pirelli Cables S.A.I.C.                                       | Cables and Systems | Buenos Aires          | Peso/000      | 44,509      | 74.73%    | Pirelli Cons. Cond.Inst. SAIC  |
|   |                    |                       |               |             | 24.69%    | Pirelli Cable Holding N.V.   |
| Pirelli Neumaticos S.A.I.C.                                   | Tyres              | Buenos Aires          | Peso/000      | 19,017      | 99.02%    | Pirelli Tyre Holding N.V.  |
|   |                    |                       |               |             | 0.98%     | Pirelli Pneumatici Holding S.p.A.                                    |
| Tel 3 S.A.  | Cables and Systems | Buenos Aires          | Peso/000      | 11,075      | 51.00%    | Pirelli Cables S.A.I.C.  |
| <b>BRAZIL</b>   |                    |                       |               |             |           |  |
| MCM Empreendimentos Imobiliarios<br>Empresa Pirelli & C. Ltda | Real estate        | Santo André           | Real          | 2,000,000   | 60.00%    | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
|   |                    |                       |               |             | 30.00%    | Pirelli S.A.   |
| Muriaé Ltda   | Financial          | Santo André           | Real          | 80,000,000  | 100.00%   | Pirelli Pneus S/A  |
| Pirelli Pneus Nordeste Ltda                                   | Tyres              | Feira de Santana      | Real          | 29,991,402  | 100.00%   | Pirelli Pneus S/A  |
| Pirelli Produtos Especiais Ltda                               | Cables and Systems | Cerquillo             | Real          | 43,143,421  | 100.00%   | Pirelli Cabos S/A  |
| Pirelli S.A.  | Financial          | Santo André           | Real          | 196,645,308 | 100.00%   | Pirelli S.p.A.   |
| Pirelli Pneus S/A   | Tyres              | Santo André           | Real          | 264,618,982 | 42.45%    | 0,00% Pirelli Pneumatici S.p.A.                                      |
|   |                    |                       |               |             | 41.32%    | 79,78% Pirelli Tyre Holding N.V.                                     |
|   |                    |                       |               |             | 15.41%    | 19,20% Pirelli S.A.  |
| Pirelli Cabos S/A   | Cables and Systems | Santo André           | Real          | 162,806,011 | 73.81%    | 68,40% Pirelli Cavi e Sistemi S.p.A.                                 |
|   |                    |                       |               |             | 25.05%    | 30,26% Pirelli S.A.  |
| Pneuc Comercial e Importadora Ltda                            | Tyres              | San Paolo             | Real          | 12,913,526  | 100.00%   | Pirelli Pneus S/A  |
| Same da Amazonia Ltda   | Cables and Systems | Manaus                | Real          | 48,291,480  | 99.99%    | Pirelli Cabos S/A  |
|   |                    |                       |               |             | 0.01%     | Pneuc Com. e Import. Ltda  |
| Solac - Laminadora de Cobre Ltda                              | Cables and Systems | Jacarei               | Real          | 8,485,100   | 89.00%    | Pirelli Cabos S/A  |
| <b>CHILE</b>  |                    |                       |               |             |           |  |
| Pirelli E y T S.A.  | Cables and Systems | Santiago              | Peso Cil./000 | 3,072,471   | 99.82%    | Pirelli Instalaciones Chile S.A.                                     |
| Pirelli Instalaciones Chile S.A.                              | Cables and Systems | Santiago              | Peso Cil./000 | 918,707     | 90.00%    | Pirelli Cons. Cond. Inst. SAIC                                       |
|   |                    |                       |               |             | 10.00%    | Cite S.A.  |
| Pirelli Neumaticos Chile Limitada                             | Tyres              | Santiago              | US.\$/000     | 20          | 95.00%    | Pirelli Pneus S/A  |
|   |                    |                       |               |             | 5.00%     | Pneuc Com. e Import. Ltda  |

| Company   | Business           | Headquarters       | Share capital      |             | % ownership | % of vote | Held by                                 |
|---|--------------------|--------------------|--------------------|-------------|-------------|-----------|---|
| <b>COLOMBIA</b>   |                    |                    |                    |             |             |           |   |
| Pirelli de Colombia S.A.  | Tyres              | Santa Fe De Bogota | Peso Col./000      | 3,478,290   | 94.94%      |           | Pirelli Pneus S.A.                      |
|   |                    |                    |                    |             |             | 4.98%     | Pirelli de Venezuela C.A.               |
|   |                    |                    |                    |             |             | 0.03%     | Muriaé Ltda                             |
|   |                    |                    |                    |             |             | 0.03%     | Pirelli Pneus Nordeste Ltda             |
|   |                    |                    |                    |             |             | 0.02%     | Pneuc Com. e Import. Ltda               |
| <b>MEXICO</b>   |                    |                    |                    |             |             |           |   |
| Pirelmex S.A. de C.V.   | Tyres              | Mexico City        | Peso Mess.         | 16,445,200  | 99.95%      |           | Pirelli Pneus S.A.                      |
|   |                    |                    |                    |             |             | 0.05%     | Pneuc Comercial e Importadora Ltda      |
| <b>URUGUAY</b>  |                    |                    |                    |             |             |           |   |
| Cite S.A.   | Cables and Systems | Montevideo         | Peso Ur./000       | 4,900       | 100.00%     |           | Pirelli Cables S.A.I.C.                 |
| <b>VENEZUELA</b>  |                    |                    |                    |             |             |           |   |
| Comercializadora de Neumaticos 2050 C.A.                                | Tyres              | Valencia           | Bol.               | 100,000     | 100.00%     |           | Pirelli de Venezuela C.A.               |
| Pirelli de Venezuela C.A.   | Tyres              | Valencia           | Bol./000           | 13,062,679  | 96.22%      |           | Pirelli Tyre Holding N.V.               |
| <b>AFRICA</b>   |                    |                    |                    |             |             |           |   |
| <b>IVORY COST</b>   |                    |                    |                    |             |             |           |   |
| SICABLE - Société Ivoirienne de Cables S.A.                             | Cables and Systems | Abidjan            | Fr.CFA/mil.        | 740         | 51.00%      |           | Pirelli Câbles et Systèmes S.A.         |
| <b>EGYPT</b>  |                    |                    |                    |             |             |           |   |
| Alexandria Tire Company S.A.E.  | Tyres              | Alexandria         | EGP                | 300,000,000 | 74.54%      |           | Pirelli Pneumatici Holding S.p.A.       |
|   |                    |                    |                    |             |             | 8.19%     | Pirelli Pneumatici S.p.A.               |
| International Tire Company Limited Liability Company                    | Tyres              | Alexandria         | EGP                | 50,000      | 96.00%      |           | Alexandria Tire Company S.A.E.          |
| <b>SOUTH AFRICA</b>   |                    |                    |                    |             |             |           |   |
| Pirelly Tyre (Pty) Ltd<br>(formerly Italian Tyre (Proprietary) Limited) | Tyres              | Sandton            | Rand South African | 1           | 100.00%     |           | Lunares S.A.                            |
| <b>OCEANIA</b>  |                    |                    |                    |             |             |           |   |
| <b>AUSTRALIA</b>  |                    |                    |                    |             |             |           |   |
| Pirelli Cables Australia Ltd  | Cables and Systems | Liverpool - N.S.W. | Austr.\$/000       | 21,500      | 95.21%      |           | Pirelli Cavi e Sistemi S.p.A.           |
| Pirelli Tyres Australia Pty Ltd   | Tyres              | Pymble - N.S.W.    | Austr.\$/000       | 150         | 100.00%     |           | Lunares S.A.                            |
| <b>NEW ZELAND</b>   |                    |                    |                    |             |             |           |   |
| Pirelli Cables NZ Ltd   | Cables and Systems | Auckland           | \$nz/000           | 10          | 100.00%     |           | Pirelli Cables Australia Ltd            |
| Pirelli Tyres (NZ) Ltd  | Tyres              | Wellington         | \$nz               | 100         | 100.00%     |           | Pirelli Tyres Australia Pty Ltd         |
| <b>ASIA</b>   |                    |                    |                    |             |             |           |   |
| <b>CHINA</b>  |                    |                    |                    |             |             |           |   |
| BICC Cables China Ltd   | Cables and Systems | Hong Kong          | \$ Hong Kong       | 2,000       | 100.00%     |           | BICCGeneral Asia Pacific Cables Pte Ltd |
| BICCGeneral Baosheng Cable Co. Ltd                                      | Cables and Systems | Jiangsu            | US.\$              | 19,500,000  | 67.00%      |           | BICCGeneral Asia Pacific Cables Pte Ltd |
| Pirelli Cables (Shanghai) Trading Co. Ltd                               | Cables and Systems | Shanghai           | US.\$              | 200,000     | 100.00%     |           | BICCGeneral Asia Pacific Holdings       |
| Pirelli Telecom Cables Co. Ltd Wuxi                                     | Cables and Systems | Xuelang Town       | US\$/000           | 25,141      | 66.47%      |           | Pirelli Cable Overseas N.V.             |
| <b>JAPAN</b>  |                    |                    |                    |             |             |           |   |
| P & A K.K.  | Tyres              | Tokyo              | Yen/000            | 1,700,000   | 51.00%      |           | Pirelli Tyre Holding N.V.               |

| <b>Company</b>                          | <b>Business</b>    | <b>Headquarters</b> | <b>Share capital</b> | <b>% ownership</b> | <b>% of vote</b> | <b>Held by</b>                          |
|---|--------------------|---------------------|----------------------|--------------------|------------------|---|
| Pirelli K.K.                            | Tyres              | Tokyo               | Yen/000              | 40,000             | 100.00%          | Lunares S.A.                            |
| <b>INDIA</b>                            |                    |                     |                      |                    |                  |   |
| Pirelli Cables (India) Private Limited  | Cables and Systems | New Delhi           | Rupian               | 10,000,000         | 100.00%          | Pirelli Cable Holding N.V.              |
| <b>INDONESIA</b>                        |                    |                     |                      |                    |                  |   |
| PT Pirelli Cables Indonesia             | Cables and Systems | Jakarta             | US.\$/000            | 50,000             | 99.30%           | Pirelli Cable Holding N.V.              |
|   |                    |                     |                      |                    | 0.70%            | Pirelli Cable Overseas N.V.             |
| <b>MALAYSIA</b>                         |                    |                     |                      |                    |                  |   |
| BICC (Malaysia) Sdn Bhd                 | Cables and Systems | Jalan Sultan Ismail | Ringgit/000          | 100                | 100.00%          | BICCGeneral Asia Pacific Cables Pte Ltd |
| Submarine Cable Installation Sdn Bhd    | Cables and Systems | Kuala Lumpur        | Ringgit/000          | 10                 | 99.00%           | Pirelli Cavi e Sistemi S.p.A.           |
|   |                    |                     |                      |                    | 1.00%            | Pirelli Cable Systems Pte Ltd           |
| <b>MAURITIUS</b>                        |                    |                     |                      |                    |                  |   |
| BICCGeneral Asia Pacific Holdings       | Cables and Systems | Port Louis          | US.\$                | 2                  | 100.00%          | BICCGeneral Asia Pacific Cables Pte Ltd |
| <b>SINGAPORE</b>                        |                    |                     |                      |                    |                  |   |
| BICC Cables Malaysia Pte Ltd            | Cables and Systems | Singapore           | \$ Sing.             | 2                  | 100.00%          | BICCGeneral Asia Pacific Cables Pte Ltd |
| BICC Energy Cables Pte Ltd              | Cables and Systems | Singapore           | \$ Sing./000         | 3,000,000          | 100.00%          | BICCGeneral Asia Pacific Cables Pte Ltd |
| BICCGeneral Asia Pacific Cables Pte Ltd | Cables and Systems | Singapore           | \$ Sing./000         | 213,324            | 100.00%          | Pirelli Cable Overseas N.V.             |
| Pirelli Asia Pte Ltd                    | Tyres              | Singapore           | \$ Sing.             | 2                  | 100.00%          | Lunares S.A.                            |
| Pirelli Cable Systems Pte Ltd           | Cables and Systems | Singapore           | \$ Sing./000         | 25                 | 50.00%           | Pirelli General plc                     |
|   |                    |                     |                      |                    | 50.00%           | Pirelli Cable Holding N.V.              |
| Trans-Power Cables PTE Ltd              | Cables and Systems | Singapore           | \$ Sing./000         | 15,000             | 100.00%          | Pirelli & C. Luxembourg S.A.            |

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**COMPANIES CONSOLIDATED USING THE PROPORTIONAL METHOD**

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| <b>Company</b>                     | <b>Business</b> | <b>Headquarters</b> | <b>Share capital</b> | <b>% ownership</b> | <b>% of vote</b> | <b>Held by</b>   |
|------------------------------------|-----------------|---------------------|----------------------|--------------------|------------------|--|
| <b>EUROPE</b>                      |                 |                     |                      |                    |                  |  |
| <b>ITALY</b>                       |                 |                     |                      |                    |                  |  |
| Progetto Bicocca Esplanade S.p.A.  | Real estate     | Milan               | Euro                 | 4,753,200          | 50.00%           | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| Progetto Bicocca Università S.r.l. | Real estate     | Milan               | Lit./mil.            | 1,680              | 34.00%           | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |

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## INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| Company  | Business           | Headquarters       | Share capital | % ownership | % of vote | Held by   |
|--|--------------------|--------------------|---------------|-------------|-----------|---|
| <b>EUROPE</b>                                      |                    |                    |               |             |           |   |
| <b>GERMANY</b>                                     |                    |                    |               |             |           |   |
| Drahtcord Saar Geschaefstfuehrungs GmbH            | Tyres              | Merzig             | DM/000        | 60          | 50.00%    | Pirelli Deutschland A.G.  |
| Drahtcord Saar GmbH & Co. K.G.                     | Tyres              | Merzig             | DM/000        | 30,000      | 50.00%    | Pirelli Deutschland A.G.  |
| Kabeltrommel Gesellschaft mbH & Co K.G.            | Cables and Systems | Cologne            | DM/000        | 20,000      | 27.48%    | Pirelli Kabel und Systeme GmbH & Co. KG                                   |
| <b>UNITED KINGDOM</b>                              |                    |                    |               |             |           |   |
| Rodco Ltd  | Cables and Systems | Gravesend          | Lst./000      | 5,000       | 40.00%    | Pirelli General plc   |
| <b>ITALY</b>                                       |                    |                    |               |             |           |   |
| Axxium Italia S.r.l.                               | Tyres              | Acqui Terme (AL)   | Lit./mil.     | 90          | 49.00%    | Sistema Puntogomme S.p.A.   |
| Acquario S.r.l.                                    | Real estate        | Genoa              | Lit./mil.     | 500         | 25.00%    | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.)         |
| Auriga Immobiliare S.r.l.                          | Real estate        | Rome               | Lit./mil.     | 51,204      | 36.02%    | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.)         |
| Domusclick S.p.A. (formerly Domusclick.com S.r.l.) | Real estate        | Milan              | Lit./mil.     | 18,819      | 46.30%    | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.)         |
| Hermes S.p.A.                                      | Financial          | Treviso            | Lit./mil.     | 20          | 14.17%    | Pirelli S.p.A.  |
|  |                    |                    |               |             | 14.17%    | Pirelli & C.A.p.A.  |
| Iniziativa Immobiliari S.r.l.                      | Real estate        | Milan              | Euro          | 4,312,591   | 32.47%    | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.)         |
| Orione Immobiliare Prima S.p.A.                    | Real estate        | Milan              | Lit./mil.     | 200         | 25.00%    | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale 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. (formerly Milano Centrale S.p.A.)         |
| Progetto Creativi S.r.l.                           | Real estate        | Milan              | Lit./mil.     | 99          | 33.00%    | Pirelli & C. Agency S.p.A. (formerly Milano Centrale Mediaimpresa S.p.A.) |
| Progetto Fontana S.r.l.                            | Real estate        | Milan              | Euro          | 500,000     | 23.00%    | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.)         |
| Progetto Grande Bicocca Multisala S.r.l.           | Real estate        | Milan              | Euro          | 1,530,000   | 33.00%    | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.)         |
| Progetto Lainate S.r.l.                            | Real estate        | Milan              | Euro          | 25,500      | 100.00%   | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.)         |
| Schemaventiquattro S.p.A.                          | Real estate        | Rome               | Lit./mil.     | 600         | 31.67%    | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.)         |
| Servizi 34 S.r.l.                                  | Real estate        | Milan              | Euro          | 10,000      | 35.00%    | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.)         |
| Sicrem S.p.A.                                      | Tyres              | Pizzighettone (CR) | Lit./mil.     | 18,000      | 33.33%    | Pirelli Pneumatici Holding S.p.A.   |
| SMP Melfi S.r.l.                                   | Tyres              | Melito (NA)        | Lit./mil.     | 6,800       | 50.00%    | Pirelli Pneumatici Holding S.p.A.   |
| <b>LUXEMBOURG</b>                                  |                    |                    |               |             |           |   |
| Inim Due S.a.r.l.                                  | Real estate        | Luxembourg         | Euro          | 240,950     | 25.00%    | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.)         |
| In Holdings 1 S.a.r.l.                             | Real estate        | Luxembourg         | Euro          | 50,000      | 25.00%    | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.)         |

| <b>Company</b>  | <b>Business</b>    | <b>Headquarters</b> | <b>Share capital</b> | <b>% ownership</b> | <b>% of vote</b> | <b>Held by</b>   |
|---|--------------------|---------------------|----------------------|--------------------|------------------|--|
| M.S.M.C. Solferino S.a.r.l.                                   | Real estate        | Luxembourg          | Euro                 | 136,700            | 31.25%           | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| <b>THE NETHERLANDS</b>  |                    |                     |                      |                    |                  |  |
| M.S.M.C. Italy Holding B.V.                                   | Real estate        | Amsterdam           | F.Ol./000            | 40                 | 25.00%           | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| <b>SPAIN</b>  |                    |                     |                      |                    |                  |  |
| Optiwire S.L.   | Cables and Systems | Barcelona           | Ptas./mil.           | 1                  | 50.00%           | Pirelli Cables y Sistemas S.A.                                       |
| <b>CENTRAL/SOUTH AMERICA</b>                                  |                    |                     |                      |                    |                  |  |
| <b>ARGENTINA</b>  |                    |                     |                      |                    |                  |  |
| Lineas de Transmision de Buenos Aires S.A.                    | Cables and Systems | Buenos Aires        | Peso/000             | 12                 | 20.00%           | Pirelli Argentina de Mandatos S.A.                                   |
| <b>BRAZIL</b>   |                    |                     |                      |                    |                  |  |
| K.M.P. Cabos Especiais e Sistemas Ltda                        | Cables and Systems | San Paolo           | Real                 | 6,600,916          | 40.00%           | Pirelli Cabos S.A.   |
| MCM Empreendimentos Imobiliarios<br>Empresa Pirelli & C. Ltda | Real estate        | Santo Andrè         | Real                 | 2,000,000          | 30.00%           | Pirelli S.A.   |
| <b>ASIA</b>   |                    |                     |                      |                    |                  |  |
| <b>SAUDI ARABIA</b>   |                    |                     |                      |                    |                  |  |
| Sicew-Saudi Italian Co. for Electrical Works Ltd              | Cables and Systems | Jeddah              | Saudi Rials/000      | 1,000              | 34.00%           | Pirelli Cable Holding N.V.   |

## OTHER INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

| Company   | Business           | Headquarters | Share capital | % ownership | % of vote        | Held by   |
|---|--------------------|--------------|---------------|-------------|------------------|---|
| <b>EUROPE</b>   |                    |              |               |             |                  |   |
| <b>AUSTRIA</b>  |                    |              |               |             |                  |   |
| Pirelli Kabelwerke und Systeme GmbH   | Cables and Systems | Vienna       | Sh.A./000     | 500         | 100.00%          | Pirelli Cavi e Sistemi S.p.A.                                     |
| <b>FRANCE</b>   |                    |              |               |             |                  |   |
| LDS France - Soc.de Transport et Distribution S.A.  | Distribution       | La Courneuve | Fr.F.         | 657,500     | 100.00%          | Pirelli S.p.A.  |
| <b>GERMANY</b>  |                    |              |               |             |                  |   |
| Movimento Fabrica, Haus Des Graphischen Gewerbes G.m.b.H.   | Real estate        | Berlin       | DM/000        | 50          | 25.00%           | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.) |
| <b>ITALY</b>  |                    |              |               |             |                  |   |
| Fine Zeta S.r.l.  | Real estate        | Milan        | Euro          | 93,600      | 100.00%          | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.) |
| Milano Centrale Partecipazioni S.p.A.   | Real estate        | Milan        | Euro          | 153,000     | 100.00%          | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.) |
| Parceggi Bicocca S.r.l.   | Real estate        | Milan        | Euro          | 25,500      | 75.00%           | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.) |
| Progetto Bicocca Le Torri S.r.l.  | Real estate        | Milan        | Euro          | 10,400      | 100.00%          | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.) |
| Trelleborg Wheel System S.p.A.  | Tyres              | Milan        | Lit./mil.     | 2,000       | 40.00%           | Pirelli Pneumatici S.p.A.   |
| <b>THE NETHERLANDS</b>  |                    |              |               |             |                  |   |
| Popoy Holding B.V.  | Real estate        | Rotterdam    | F.Ol.         | 53,100      | 100.00%          | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.) |
| Robino Holding Amsterdam B.V.   | Real estate        | Amsterdam    | F.Ol.         | 40,420      | 100.00%          | Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.) |
| <b>HUNGARY</b>  |                    |              |               |             |                  |   |
| Ipoly Kabeldob KFT.   | Cables and Systems | Szecsény     | HUF/000       | 36,330      | 25.16%           | MKM Magyar Kabel Muvek Rt.  |
| "Kabel" Gepgyarto Epitoipari Es Szolgaltato KFT. (in liquidazione)  | Cables and Systems | Budapest     | HUF/000       | 328,330     | 100.00%          | MKM Magyar Kabel Muvek Rt.  |
| <b>AFRICA</b>   |                    |              |               |             |                  |   |
| <b>MOZAMBIQUE</b>   |                    |              |               |             |                  |   |
| Celmoque Cabos de Energia e Telecomunicações de Moçambique (formerly Celmoque - Frabrica Nacional del Contadores Electricos Sarl) | Cables and Systems | Beira        | US.\$/000     | 15,000      | 29.00%<br>18.00% | Pirelli Cable Overseas N.V.<br>BICC CAFCA Limited                 |
| <b>SOUTH AFRICA</b>   |                    |              |               |             |                  |   |
| AFCAB Holdings (Proprietary) Ltd  | Cables and Systems | Sandton      | Rands         | 4,000       | 50.00%           | Pirelli Cable Holding N.V.  |
| African Cables Ltd  | Cables and Systems | Vereeniging  | Rands         | 9,886,098   | 100.00%          | AFCAB Holdings (Proprietary) Ltd                                  |
| ATC (Proprietary) Ltd   | Cables and Systems | Brits        | Rands         | 632,912     | 21.00%           | African Cables Ltd  |
| <b>ZIMBABWE</b>   |                    |              |               |             |                  |   |
| BICC CAFCA Limited  | Cables and Systems | Harare       | \$Zimbabwe    | 15,706,000  | 73.46%           | Pirelli Cable Overseas N.V.                                       |
| BICC (CENTRAL AFRICA) (Private) Limited   | Cables and Systems | Harare       | \$Zimbabwe    | 200,000     | 100.00%          | BCC CAFCA Limited   |
| Zimbabwe Cables (Pte) Limited   | Cables and Systems | Harare       | \$Zimbabwe    | 2           | 100.00%          | BCC CAFCA Limited   |

| <b>Company</b>   | <b>Business</b>    | <b>Headquarters</b>  | <b>Share capital</b> | <b>% ownership</b> | <b>% of vote</b> | <b>Held by</b>                          |
|--|--------------------|----------------------|----------------------|--------------------|------------------|---|
| <b>ASIA</b>  |                    |                      |                      |                    |                  |   |
| <b>CHINA</b>   |                    |                      |                      |                    |                  |   |
| Tianjin Top Power Cables Co. Ltd   | Cables and Systems | Tianjin Municipality | US\$/000             | 13,100             | 51.15%           | Pirelli Cable Holding N.V.              |
| <b>MALAYSIA</b>  |                    |                      |                      |                    |                  |   |
| Power Cables Malaysia Sdn Bhd<br>(formerly BICCGeneral Cables<br>(Malaysia) Sdn Bhd) | Cables and Systems | Selangor Darul Ehsan | Ringgit Malaysian    | 8,000,000          | 40.00%           | BiccGeneral Asia Pacific Cables Pte Ltd |
| <b>OCEANIA</b>   |                    |                      |                      |                    |                  |   |
| <b>AUSTRALIA</b>   |                    |                      |                      |                    |                  |   |
| MM Cables Energy Products Superannuation Pty Ltd                                     | Cables and Systems | Sydney               | Austr.\$             | 2                  | 100.00%          | Pirelli Cables Australia Ltd            |

**OTHER INVESTMENTS CONSIDERED SIGNIFICANT AS PER CONSOB RESOLUTION N. 11971 OF MAY 14, 1999**

| Company   | Business           | Headquarters         | Share capital     | % ownership | % of vote        | Held by  |
|---|--------------------|----------------------|-------------------|-------------|------------------|--|
| <b>AUSTRALIA</b>  |                    |                      |                   |             |                  |  |
| Optix Australia Ltd   | Cables and Systems | Tottenham (Victoria) | \$Austr.          | 4,000,000   | 15.00%           | Pirelli Cables Australia Ltd   |
| <b>BELGIUM</b>  |                    |                      |                   |             |                  |  |
| Euroqube S.A.   | Service            | Brussels             | Euro              | 39,450,500  | 17.86%           | Pirelli & C. Luxembourg S.A.   |
| <b>FRANCE</b>   |                    |                      |                   |             |                  |  |
| Pneu Holding S.A.   | Tyres Holding      | Grenoble             | F.F.              | 110,779,200 | 14.21%           | Sipir Finance N.V.   |
| <b>ITALY</b>  |                    |                      |                   |             |                  |  |
| Fin. Priv. S.r.l.   | Financial          | Milan                | Lit./mil.         | 20          | 6.25%<br>6.25%   | Pirelli & C. A.p.A.<br>Pirelli S.p.A.                                |
| Eurofly Service S.p.A.  | Service            | Caselle Torinese     | Lit./mil.         | 2,376       | 16.33%           | Pirelli S.p.A.   |
| F.C. Internazionale Milano S.p.A.                             | Sport              | Milan                | Lit./mil.         | 50,194      | 13.25%           | Pirelli S.p.A.   |
| Hermes S.p.A. (in liquidazione)                               | Financial          | Treviso              | Lit./mil.         | 900         | 14.17%<br>14.17% | Pirelli & C. A.p.A.<br>Pirelli S.p.A.                                |
| Servizio Titoli S.r.l.  | Service            | Turin                | Euro              | 105,000     | 12.38%           | Pirelli S.p.A.   |
| Superga S.p.A.  | Manufacturing      | Rivoli               | Lit./mil.         | 28,000      | 19.00%           | Pirelli & C. A.p.A.  |
| Tecnocittà S.r.l. (in liquidazione)                           | Real estate        | Milan                | Lit./mil.         | 1,073       | 12.00%           | Pirelli & C. Real Estate S.p.A.<br>(formerly Milano Centrale S.p.A.) |
| <b>THE NETHERLANDS</b>  |                    |                      |                   |             |                  |  |
| MB Venture Capital Fund I Participating Company G.N.V.        | Finance            | Amsterdam            | Euro              | 50,000      | 14.00%           | Pirelli Finance (Luxembourg) S.A.                                    |
| <b>TUNISIA</b>  |                    |                      |                   |             |                  |  |
| Société Tunisienne des Industries de Pneumatiques S.A.        | Tyres              | Tunis                | Dinari Tunisian   | 34,775      | 15.83%           | Pirelli Pneumatici S.p.A.  |
| <b>TURKEY</b>   |                    |                      |                   |             |                  |  |
| Türk Sodel Enerji A.S.<br>(formerly Türk-Pirelli Enerji A.S.) | Cogeneration       | Istanbul             | Lire Turkish/mil. | 900,000     | 13.98%<br>4.99%  | Türk-Pirelli Lastikleri A.S.<br>Celikord A.S.                        |

**AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW  
DECREE N° 58 DATED 24 FEBRUARY 1998**

To the shareholders of  
Pirelli & C. Accomandita per Azioni

- 1 We have audited the consolidated financial statements of Pirelli & c. Accomandita per Azioni and its subsidiaries ("Pirelli & C. group") as of and for the year ended 31 December 2000. These financial statements are the responsibility of Pirelli & C. Accomandita per Azioni's directors. 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 and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. 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 the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report dated 10 April 2000.

- 3 In our opinion, the consolidated financial statements of Pirelli & C. group as of 31 December 2000 comply with the laws governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and of the results of operations of the group.

Milan, 11 April 2001

PricewaterhouseCoopers SpA



Fabio Facchini  
(Partner)

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



# **EXTRAORDINARY SESSION**



## REPORT OF THE MANAGING PARTNERS

To the Shareholders,

You have been called to the extraordinary session of the shareholders' meeting to examine some proposed changes to the by-laws.

In particular:

- at art. 11, second paragraph, a clause is included stating that the time to call the meetings of the Board of Managing Partners, convened by means of a letter, telegram, telex or fax, shall be reduced from "two days before" to "six hours before"; this is to be able to pass important resolutions that would only be useful if voted as quickly as possible;
- at art. 11, third and last paragraph, a clause is included stating that the meetings of the Board of Managing Partners can be held not only by videoconference (audiovisual connection) but also by teleconference (telephone connection); this is to make it easier for the managing partners to attend the meetings, especially in the event of an urgent call;
- at art. 15, first paragraph (and, consequently, in the fifth paragraph), a clause is added stating that the standing statutory auditors and the alternate statutory auditors must hold the requisites required by law and also by regulations; this is in relation to the regulations adopted by the Ministry of Justice (Decree No. 162 of March 30, 2000) based on art. 148 of the Legislative Decree No. 58 of February 24, 1998.

Furthermore, in accordance with art. 1, third paragraph, of the aforementioned regulations, it is precisely stated that the business areas and sectors strictly inherent to those of the Company shall be those indicated in the corporate business purpose, with particular reference to companies operating in the industrial, banking, insurance, real estate and services sectors in general.

Finally, we would like to take this opportunity to state that the Board of Managing Partners, in its meeting of March 22, 2001, in taking into account art. 5 of the aforementioned regulations and later clarification made by the Ministry of Justice, has established that the standing statutory auditors and the alternate statutory auditors, whose term of office expires next year, are all in possession of the requisites of professionalism and rectitude according to the previously mentioned regulations: consequently, this made it possible to avoid appointing a board of statutory auditors before the term of office expired.

If you are in agreement with the above, we ask you to pass the following

## **RESOLUTION**

The shareholders' meeting, have taken note of the proposal by the managing partners

## **VOTES**

- 1) to change article 11, second paragraph of the by-laws, adopting the following wording: "Board meetings shall be convened by means of a letter, telegram, telex or fax sent at least five days before (or in urgent cases at least six hours before) the day set for the meeting to each managing partner and standing statutory auditor."
- 2) to change article 11, third paragraph of the by-laws, adopting the following wording: "Meetings of the Board of Managing Partners may be held by teleconference or videoconference."
- 3) to change article 11, last paragraph of the by-laws, adopting the following wording: "The resolutions of the Board, even when passed by meetings held by teleconference or by videoconference, shall be recorded in a special book signed by the Chairman and the Secretary."
- 4) to change article 15, first paragraph of the by-laws, adopting the following wording: "The Board of Statutory Auditors shall be composed of three standing statutory auditors and two alternate statutory auditors who must hold the requisites required by the existing laws and also by regulations; to this end, account shall be taken of the fact that the matters and sectors of business strictly inherent to those of the Company shall be those indicated in the corporate business purpose with particular reference to the companies or entities operating in the industrial, banking, insurance, real estate and services sectors in general."
- 5) to grant the Chairman and Deputy Chairman the fullest powers to make any change and/or integration, not substantive, to the resolutions passed by the shareholders' meetings, which become necessary, upon the request of every responsible authority, including the Companies Registry and, in general, to do all that is necessary to implement the above resolutions, with every power granted for this purpose considered necessary and opportune, with no exceptions or exclusions.

## Amendments to the by-laws

### Present wording

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#### Article 11

The Board shall meet at the invitation of the Chairman or, if appointed, a Deputy Chairman or a managing director or whenever a meeting has been requested by two managing partners or by at least two standing statutory auditors at the registered office of the Company or in any other place, provided that it is in Italy.

Board meetings shall be convened by means of a registered letter sent at least five days before (or in urgent cases at least two days before) the day set for the meeting to each managing partner and each standing statutory auditor.

Meetings of the Board may be held by audiovisual connections.

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 consideration and resolutions.

Meetings of the Board of Managing Partners are considered to be held in the place in which the Chairman and the Secretary must be simultaneously.

The meeting shall be presided over by the Chairman of the Board, and, in his absence, the chair shall be taken by the senior in age of the Deputy Chairmen present.

The presence of the majority of the Board 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. Nevertheless, for the appointment of the Chairman and one or more Deputy Chairmen, in addition to the appointment of the Managing Director and the granting of powers by the Board of Managing Partners to one or more of its members, a favorable vote cast by all the members is required. The resolutions of the Board, even when passed by meetings held by videoconference, shall be

### New wording

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#### Article 11

The Board shall meet at the invitation of the Chairman or, if appointed, a Deputy Chairman or a managing director or whenever a meeting has been requested by two managing partners or by at least two standing statutory auditors at the registered office of the Company or in any other place, provided that it is in Italy.

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

Meetings of the Board 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 consideration and resolutions.

Meetings of the Board of Managing Partners are considered to be held in the place in which the Chairman and the Secretary must be simultaneously.

The meeting shall be presided over by the Chairman of the Board, and, in his absence, the chair shall be taken by the senior in age of the Deputy Chairmen present.

The presence of the majority of the Board 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. Nevertheless, for the appointment of the Chairman and one or more Deputy Chairmen, in addition to the appointment of the Managing Director and the granting of powers by the Board of Managing Partners to one or more of its members, a favorable vote cast by all the members is required.

**The resolutions of the Board, even when passed by meetings held by teleconference or by**

recorded in a special book signed by the Chairman and the Secretary.

#### **Article 15**

The Board of Statutory Auditors is composed of three standing statutory auditors and two alternate statutory auditors.

The ordinary General Meeting shall appoint the Board of Auditors and determine the fees thereof. The minority shall appoint one standing statutory auditor and one alternate auditor.

With the exception of the provisions of the second last paragraph of the present article, the appointment of the Board of Auditors is made on the grounds of lists put forward by the shareholders in which candidates are listed under progressive numbers.

Each list contains 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 per cent of the shares with voting rights in the ordinary general meeting, have the right to put forward a list.

The lists 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 lists together with statements whereby the single candidates accept the nomination and attest, under their own personal responsibility, to the non-existence of any reasons for ineligibility or incompatibility as well as to the existence of the requisites prescribed by law or by the articles for the position.

Any lists 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 list, 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 official Italian markets, with the exception of controlling companies and subsidiaries of Pirelli S.p.A., may not be appointed as auditors.

**videoconference, shall be recorded in a special book signed by the Chairman and the Secretary.**

#### **Article 15**

The Board of Statutory Auditors is composed of three standing statutory auditors and two alternate statutory auditors **who must hold the requisites required by the existing laws and also by regulations; to this end, account shall be taken of the fact that the matters and sectors of business strictly inherent to those of the Company shall be those indicated in the corporate business purpose with particular reference to the companies or entities operating in the industrial, banking, insurance, real estate and services sectors in general.**

The ordinary General Meeting shall appoint the Board of Auditors and determine the fees thereof. The minority shall appoint one standing statutory auditor and one alternate auditor.

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Each list contains 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 per cent of the shares with voting rights in the ordinary general meeting, have the right to put forward a list.

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Any lists 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 list, under penalty of ineligibility.

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

The election of the members of the Board of Auditors is performed as follows: two statutory members and one alternate are taken from the list which has obtained the highest number of votes, in the progressive order in which same are listed thereon; the remaining statutory member and the other alternate member are taken from the list which has obtained the highest number of votes from the meeting after the first list, again in the progressive order in which same are listed thereon; in the event of several lists obtaining the same number of votes, a new run-off vote between the said lists will be cast by all the shareholders present at the meeting, and the candidates on the list which obtains the simple majority of the votes will be appointed.

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

In case of death, waiver or resignation of an auditor, the alternate belonging to the same list as the resigned auditor shall take the place of same. In the event of substitution of the Chairman of the Board of Auditors, the chair shall be taken by the other statutory member on the list 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 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 Auditors, it shall proceed as follows: if auditors appointed from the majority list have to be replaced, then the appointment is made with a relative majority vote without being tied to any list; if on the other hand auditors appointed by the minority have to be replaced, the meeting shall replace same with a relative majority vote choosing names where possible from amongst the candidates indicated on the list on which the auditor to be substituted appeared.

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 official Italian markets, with the exception of controlling companies and subsidiaries of Pirelli S.p.A., may not be appointed as auditors.

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

In case of death, waiver or resignation of an auditor, the alternate belonging to the same list as the resigned auditor shall take the place of same. In the event of substitution of the Chairman of the Board of Auditors, the chair shall be taken by the other statutory member on the list 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 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 Auditors, it shall proceed as follows: if auditors appointed from the majority list have to be replaced, then the

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

Failing any lists, the Board of Auditors and its Chairman shall be appointed by the general meeting with the majorities prescribed by law.

Resigning auditors may be re-appointed.

appointment is made with a relative majority vote without being tied to any list; if on the other hand auditors appointed by the minority have to be replaced, the meeting shall replace same with a relative majority vote choosing names where possible from amongst the candidates indicated on the list on which the auditor to be substituted appeared.

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