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

Quarterly Report

1st Quarter 2004

PIRELLI & C. Società per azioni

Registered office in Milan, Via G. Negri 10

Share Capital - Euros 1,799,908,725.68

Milan Companies Register No. 00860340157

Economic Administrative File (REA) No. 1055

PIRELLI & C. S.p.A.

Board of Directors

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

Board of Statutory Auditors

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

General Managers

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

PIRELLI & C. S.p.A. - MILAN
Quarterly Report – 1st Quarter 2004

CONTENTS

REPORT ON OPERATIONS

Performance of the Group

After the fundamental completion in 2003 of the far-reaching actions aimed at the simplification and financial strengthening of the Group, on the one hand, and at the adaptation of the industrial structures to reflect the change in the market conditions of the Energy and Telecom Cables and Systems Sectors, on the other, the first quarter of 2004 shows a significant improvement in all the economic indicators, compared to the same period of the prior year.

As far as **industrial activities** are concerned, there was an increase in net sales, partly due to the rise in the prices of metals in the Energy Sector, and a considerable growth in operating profit, which jumped from Euros 62 million to Euros 88 million, a gain of more than 40 percent.

In particular, in the Energy Cables and Systems Sector, in a market that was generally stable, the steps taken to reorganize operations and focus on the segments creating the greatest value generated positive results.

In the Tyres Sector, the results confirm the growth of business, both in terms of volumes, where increases were reported in all segments, and in terms of profitability.

With regard to the Telecommunications Cables and Systems Sector, the slight recovery of volumes in the cables and fibers segment in Europe and North America was again offset by strong pressure on prices, whereas business for broadband access increased both in terms of volumes and profit margins.

Compared to the first quarter of 2003, the **real estate sector**, represented by the Pirelli & C. Real Estate group, ended the first quarter with a growth of 24 percent in operating profit including earnings (losses) from equity investments, the parameter which best identifies the business model, achieving the objectives set in the Three-Year Plan 2003-2005.

For purposes of comparison, the data at March 31, 2003 has been restated to take into account the allocation of the merger surplus, the effects of which are retroactive for accounting purposes to January 1, 2003. These effects have thus given rise to a positive adjustment in the first quarter of 2003 of Euros 7 million.

<u>The parent company Pirelli & C. S.p.A.</u>

The net result of the parent company, Pirelli & C. S.p.A., for the three months ended March 31, 2004, was a loss of Euros 19 million compared to a loss of Euros 7 million for the first quarter of 2003. It should be pointed out that the data for the first quarter does not include dividends paid out by the subsidiaries.

For purposes of comparison, furthermore, the result for the first quarter of 2003 takes into account the merger of Pirelli S.p.A. and the company Pirelli & C. Luxembourg S.p.A. which took place on the basis of the balance sheet data of the merged companies as at August 4, 2003, effective for economic and tax effects from January 1, 2003.

It should also be recalled that the first quarter of 2003 had benefited from the settlement reached with Ciena over patent use for a total of Euros 10 million.

Major events in the first quarter

- In January, Pirelli finalized the purchase of 10 percent of Pirelli Submarine Telecom Systems Holding B.V. from Cisco Systems, to which it had sold the stake in 2000 for an equivalent amount of approximately US$ 75 million. This transaction took place following the exercise of Cisco System's right – as stated in the agreements concluded on August 3, 2000 – to resell the above holding to Pirelli for the same amount. Pirelli, after this transaction, holds the entire share capital.

- In January, Pirelli won two important contracts for the supply of 4,000 km of OPGW (Optical Ground Wire) cables and services to the Algerian utilities company Sonelgaz, through the system integrator TCIL (Telecommunications Consultants of India). These two projects with enable Sonelgaz to build a new broadband telecommunications network for voice, data and multimedia services that will encourage development within Algeria.

- On February 13, 2004 the Group signed preliminary contracts for the acquisition of four real estate properties in Naples from Milano Zerotre/Banca Intesa for a total purchase price of Euros 46.1 million; part of the payment will be deferred. On April 8, the deed was signed by Tau S.r.l., in which third parties will shortly become shareholders.

- In March, Pirelli Cables Ltd – a British affiliate of Pirelli Cavi e Sistemi Energia S.p.A. – and Draka Holding N.V. signed a long-term contract under which Pirelli will supply Draka with low-voltage cables for the British market to be used for the electrical cabling of non-industrial and industrial buildings.

- In the early months of 2004, Pirelli & C. S.p.A. 2003-2006 warrants totaling 3,917,896 (equal to 0.25 percent of those issued) were exercised; accordingly 979,474 ordinary shares were issued.

- March 1, 2004 marked the date of the conclusion of the public sale offer and listing of the Tecla Fondo Uffici, the first listed fund, by private contribution, promoted by Pirelli Real Estate S.g.r. S.p.A.. Demand exceeded the offer by 44 percent with oversubscriptions for both the public offer and the institutional placement, with more than 37,000 subscriptions. The offer price was fixed at Euros 505 per share.

- On March 29, 2004, Pirelli RE and Morgan Stanley signed an agreement in principle which calls for the development of a strategic platform dedicated to the acquisition and management of non-performing loans (loans in dispute secured by mortgages). The understanding will be executed by the signing of an exclusive agreement for the purchase of new large-size portfolios in which Pirelli RE will take part, in accordance with its business model, with a qualified minority stake of between 20 and 25 percent. Pirelli Re will also purchase a qualified minority stake – equal to a 15 percent investment – in the loan portfolio owned by Morgan Stanley Real Estate Funds, which has been securitized and has a residual gross value of about Euros 2.5 billion. At the same time, Pirelli RE will obtain a 49 percent equity interest in SIB S.p.A. (Servizi Immobiliari Banche), a rated company dedicated to the special servicing (legal and out-of-court credit management and the underlying buildings) of non-performing loan portfolios, including those under the agreement, and market leader among the independent operators.

The agreement calls for a put & call option on the remaining 51 percent beginning from June 2006. Lastly, Pirelli RE will purchase, from Morgan Stanley, 5 percent of FONSPA S.p.A. (Credito Fondiario Industriale), a credit institution specialized in master servicing activities (credit accounting, administration and reporting) and in the disbursement of loans, with a call option to take over another 10 percent (until the maximum limit allowed by law of 15 percent is reached) by June 2006. Pirelli RE's investment in this first stage of the deal will be about Euros 36 million, in addition to any earn-outs in relation to the performance of the investments.

- On March 31, 2004, the group consisting of Pirelli RE, as the lead company, together with Unicredit RE, Vianini Lavori and Roma Ovest Costruzioni Edilizie (Caltagirone Group) has presented a technical offer and an economic offer for the bidding held by Società Sviluppo Sistema Fiera S.p.A. (on behalf of Fondazione Ente Autonomo Fiera Internazionale di Milano), for the purpose of the sale of a part of the historical "Fiera di Milano" quarter with the obligation to execute the requalification project proposed by the buyer.

THE GROUP

The highlights of the consolidated financial data of the Group for the first quarter of 2004 can be summarized as follows

(in millions of euros)

	1st Quarter 2004	1st Quarter 2003 (:)	2003
. Net sales	**1,677**	1,572	6,671
. Gross operating profit	**172**	154	628
% of net sales	**10.3%**	9.8%	9.4%
. Operating profit	**83**	68	268
% of net sales	**4.9%**	4.3%	4.0%
. Share of earnings (losses) of equity investments	**(3)**	(11)	(51)
. Operating profit (loss) incl. share of earnings (losses) of equity invest.	**80**	57	217
. Financial income (expenses)	**(35)**	(36)	(134)
. Extraordinary items	**(2)**	(8)	(9)
. Income taxes	**(33)**	(33)	(70)
. Net income (loss)	**10**	(20)	4
% of net sales	**0.6%**	n.s.	0.1%
. Net income (loss) attributable to Pirelli & C. S.p.A.	**2**	(12)	(39)
. Earnings per share (in euros)	**0.00**	(0.02)	(0.01)
. Shareholders' equity	**3,751**	4,474	3,678
. Net equity attributable to Pirelli & C. S.p.A.	**3,486**	1,925	3,429
. Equity per share (in euros)	**1.01**	2.95	0.99
. Net financial (liquidity)/debt position	**1,959**	2,302	1,745
. R&D expenditures	**51**	50	204
. Employees (at period end)	**36,663**	35,767	36,337
. Factories (number)	**77**	77	77
. Pirelli & C. S.p.A. ordinary shares (No. in millions)	**3,326.6**	618.3	3,325.6
. Pirelli & C. S.p.A. savings shares (No. in millions)	**134.8**	34.4	134.8
. Total Pirelli & C. S.p.A. shares (No. in millions)	**3,461.4**	652.7	3,460.4

(:) data adjusted to include the positive effect of the allocation of the merger surplus

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

(in millions of euros)

	Energy Cables & Systems		Telecom Cables & Systems		Tyres		INDUSTR. AGGREGATE	
	1st Quarter 2004	1st Quarter 2003 (:)	1st Quarter 2004	1st Quarter 2003 (:)	1st Quarter 2004	1st Quarter 2003 (:)	1st Quarter 2004	1st Quarter 2003 (:)
. Net sales	**671**	623	**96**	89	**819**	741	**1,586**	1,453
. Gross operating profit (loss)	**40**	32	**2**	(4)	**120**	109	**162**	137
% of net sales	**6.0%**	5.1%	**2.1%**	n.s.	**14.7%**	14.7%	**10.2%**	9.4%
. Operating profit (loss)	**20**	9	**(7)**	(13)	**75**	66	**88**	62
% of net sales	**3.0%**	1.4%	**n.s.**	n.s.	**9.2%**	8.9%	**5.5%**	4.3%
. Share of earnings (losses) of equity investments	**-**	-	**-**	-	**-**	-	**-**	-
. Op. profit (loss) incl. share of earnings (losses) of eq. inv.	**20**	9	**(7)**	(13)	**75**	66	**88**	62
. Financial income (expenses)	**(7)**	(9)	**(3)**	(5)	**(10)**	(14)	**(20)**	(28)
. Extraordinary items	**-**	8	**-**	1	**-**	-	**-**	9
. Income taxes	**(6)**	(5)	**(1)**	-	**(27)**	(19)	**(34)**	(24)
. Net income (loss)	**7**	3	**(11)**	(17)	**38**	33	**34**	19
% of net sales	**1.0%**	0.5%	**n.s.**	n.s.	**4.6%**	4.5%	**(2.1%)**	1.3%
. Net financial (liquidity)/debt position	**444**	418	**308**	465	**404**	595	**1,156**	1,478

(:) data adjusted to include the positive effect of the allocation of the merger surplus

:

(in millions of euros)

	Industrial Aggregate		Pirelli & C. Real Estate		Other			TOTAL	
	1st Quarter 2004	1st Quarter 2003 (:)	1st Quarter 2004	1st Quarter 2003	1st Quarter 2004		1st Quarter 2003	1st Quarter 2004	1st Quarter 2003 (:)
. Net sales	**1,586**	1,453	**103**	127	**(12)**		(8)	**1,677**	1,572
. Gross operating profit (loss)	**162**	137	**15**	14	**(5)**		3	**172**	154
% of net sales	**10.2%**	9.4%	**-**	-	**-**		-	**10.3%**	9.8%
. Operating profit (loss)	**88**	62	**10**	11	**(15)**	*	(5)	**83**	68
% of net sales	**5.5%**	4.3%	**-**	-	**-**		-	**4.9%**	4.3%
. Share of earnings (losses) of equity invest.	**-**	-	**21**	14	**(24)**	**	(25)	**(3)**	(11)
. Op. profit (loss) incl. share of earnings (losses) of eq. inv.	**88**	62	**31**	25	**(39)**		(30)	**80**	57
. Financial income (expenses)	**(20)**	(28)	**-**	-	**(15)**		(8)	**(35)**	(36)
. Extraordinary items	**-**	9	**(1)**	-	**(1)**		(17)	**(2)**	(8)
. Income taxes	**(34)**	(24)	**(5)**	(5)	**6**		(4)	**(33)**	(33)
. Net income (loss)	**34**	19	**25**	20	**(49)**		(59)	**10**	(20)
% of net sales	**2.1%**	1.3%	**-**	-	**-**		-	**0.6%**	n.s.
. Net financial (liquidity)/debt position	**1,156**	1,478	**38**	20	**765**		804	**1,959**	2,302

* of which, goodwill amortization on purchases of Pirelli S.p.A. shares, Euros 6 million (Euros 6 million in 2003)
** accounting for Olimpia S.p.A. using the equity method, Euros 24 million (Euros 25 million in 2003)
(:) data adjusted to include the positive effect of the allocation of the merger surplus

Net sales

Net sales amount to Euros 1,677 million for the three months ending March 31, 2004, with an increase of 6.7 percent compared to the corresponding period of the prior year. Excluding the foreign exchange effect and the price of metals, the increase would be 4.6 percent.

Gross operating profit

Gross operating profit grew by 12 percent increasing from Euros 154 million to Euros 172 million. Gross operating profit is equal to 10.3 percent of net sales, compared to 9.8 percent for the first three months of 2003.

Operating profit

Operating profit for the first three months 2004 is Euros 83 million, representing 4.9 percent of net sales compared to Euros 68 million for the corresponding period of 2003 (4.3 percent of net sales).

Contributing to the operating profit are the industrial sector with Euros 88 million (Euros 62 million in the first three months of 2003) and the real estate sector with Euros 10 million (Euros 11 million in the corresponding period of 2003).

The result for the first quarter of 2003 had benefited from the settlement reached with Ciena regarding the dispute over its use of patents (Euros 10 million).

The change can be summarized as follows:

		(in millions of euros)
Operating profit 1st quarter 2003		**68**
• Currency exchange effect	(1)	
• Prices (excluding metals)/mix	(17) (*)	
• Volumes	28	
• Production factors per unit cost	(4) (**)	
• Efficiencies	18	
• Depreciation	2	
• Other	(11)	
		15
Operating profit 1st quarter 2004		**83**

(*) including South America for + Euros 14 million

(**) including South America for raw materials for + Euros 8 million

Share of earnings (losses) of equity investments

The share of the earnings (losses) of equity investments is a negative balance of Euros 3 million compared to a negative balance of Euros 11 million for the first quarter 2003. It includes the results of the companies in the real estate sector which show earnings of Euros 21 million (Euros 14 million for the first quarter of 2003). The figure also includes the share of the loss of Olimpia S.p.A. of Euros 24 million (Euros 25 million for the first quarter of 2003). It should be pointed out that Olimpia S.p.A.'s result for the first quarter of 2004 does not include dividends from Telecom Italia S.p.A. which will be booked in the statement of income on the cash basis when they are received, most probably in the second quarter.

Extraordinary items

Extraordinary items show an expense balance of Euros 2 million compared to an expense balance of Euros 8 million in the first three months of 2003.

Net income (loss)

The net result for the three months ending March 31, 2004 is a net income of Euros 10 million (after income tax expenses of Euros 33 million) compared to a net loss of Euros 20 million for the first three months of 2003. Excluding the impact of Olimpia's loss, the result would have been a net income of Euros 34 million.

The net income attributable to Pirelli & C. S.p.A. for the three months to March 31, 2004 is Euros 2 million compared to a net loss of Euros 12 million for the first quarter of 2003.

Shareholders' equity

Consolidated shareholders' equity went from Euros 3,678 million at December 31, 2003 to Euros 3,751 million at March 31, 2004.

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

(in millions of euros)

. Translation adjustments		62
. Net income for the period		10
. Dividends to third parties paid by:		(1)
- other Group companies	(1)	
. Other changes		2
		73

The shareholders' equity attributable to Pirelli & C. S.p.A. went from Euros 3,429 million (Euros 0.99 per share) at December 31, 2003 to Euros 3,486 million (Euros 1.01 per share) at March 31, 2004.

Net financial position

The net debt position at March 31, 2004 is Euros 1,959 million compared to Euros 1,745 million at December 31, 2003. The change is principally due to seasonal factors, which caused an increase in working capital, and can be summarized as follows:

(in millions of euros)

. Operating profit		83	
. Depreciation and amortization		90	
. Net investments:		(54)	
- intangible assets and property, plant and equipment	(50)		
- financial assets	(4)		
. Change in working capital		(266)	
. Change in provisions and other		(7)	
. **Free cash flows**		**(154)**	
. Extraordinary items		(2)	
. Financial income (expenses)		(35)	
. Income taxes		(33)	
. Dividends paid		(1)	
. Other changes		9	
. **Net cash flows from ordinary operations**			**(216)**
. Changes in shareholders' equity			
. **Total changes in shareholders' equity**			**0**
. **Translation adjustments**			**2**
. **Change in net financial position**			**(214)**

R & D expenditures

R&D expenditures borne by the Group and completely expensed in the statement of income went from Euros 50 million in the first three months of 2003 (3.4 percent of the industrial aggregate net sales) to Euros 51 million in the first quarter of 2004 (3.2 percent of the industrial aggregate net sales).

Employees

At March 31, 2004, employees number 36,663 (including 2,912 temporary employees), compared to 36,337 at December 31, 2003. The increase is entirely due to a higher number of persons with fixed term contracts.

Related party disclosure

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

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

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

- **revenues for goods and services**, relating mainly to the supply of telecommunications cables and services rendered by Pirelli & C. S.p.A., Shared Service Center S.c.r.l. and Pirelli & C. Real Estate S.p.A. (Euros 44 million);

- **costs for goods and services**, mainly relating to telephone and computer services and the supply of electrical energy (Euros 11 million);

- **trade receivables**, relating to the supply of the goods and services described above (Euros 63 million);

- **trade payables,** relating to telephone and computer services and the supply of electrical energy described above (Euros 22 million).

<u>Significant events subsequent to the end of the first quarter</u>

- On April 5, 2004, Pirelli Cavi e Sistemi Energia was awarded the contract to build a high-voltage turnkey link on behalf of the Singapore national electricity company SP Power Assets Ltd.. to expand the southeast Asian country's electrical network. The contract is worth approximately Euros 50 million,.

  The project – the most important to be assigned in Asia in 2004 – will help to tackle the increase in demand for electrical power in Singapore, ensuring considerable advantages in terms of compensating peaks of demand for electrical power.

- On April 6, 2004, Pirelli, through the subsidiary Pirelli Finance Luxembourg S.A., exercised the right to purchase 47,155,300 Telecom Italia ordinary shares (equal to 0.46 percent of ordinary share capital) at an exercise price per share of Euros 2.12 for an equivalent amount of approx. Euros 100 million, as established in the call option contract regarding Telecom Italia shares signed in November 2001 with JP Morgan.

- On April 28, 2004, the Pirelli & C. S.p.A.'s Shareholders' Manual was presented at the headquarters of Borsa Italiana. The manual was conceived with the intent of keeping readers updated on the corporate governance of the Company: from the full adoption of the recommendations contained in the "Self-Regulatory Code of listed companies" to the rationalization of the corporate structure which transferred all the main activities to one single operating holding company: from the adoption of the Code of Ethics to the improvements to a rigorous and modern Internal Control System and to an environmental management system and corporate social responsibility, that are among the most advanced, up to the decision to propose a series of amendments to the bylaws to the Shareholders' Meeting in order to further boost the participation of all the shareholders in the life of the company. These amendments include, in particular, the introduction of slates for the nomination of the Board of Directors.

- On April 29, 2004, Pirelli & C. S.p.A. subscribed to Eurostazioni S.p.A.'s share capital increase for Euros 33.3 million. At the same time, Eurostazioni repaid the outstanding loan from the shareholders for Euros 33.4 million.

- On April 30, 2004, Pirelli RE, under a joint venture with Morgan Stanley Real Estate Funds (67 percent MSREF, 33 percent Pirelli RE) concluded the purchase of Conforama Italia S.p.A. for a total value of about Euros 145 million. This company is involved in the retailing of non-food products (home furnishings and clothing) with eights sales structures located in central and northern Italy, with a total space of more than 150,000 m^2. The deal – concluded following a bidding procedure – falls under Pirelli RE's broader strategy of increasing its direct investments in structures used specifically in the retail & entertainment sector with the aim of setting up, by the end of 2004, a new real estate fund by contribution specialized in these types of buildings.

- On May 6, 2004, Alcatel and Pirelli signed an agreement regarding their respective submarine telecommunications systems. The agreement calls for Alcatel's purchase of certain activities of Pirelli in this area and that certain intellectual property rights are granted to it in the same sector. At the same time, Pirelli will purchase a 5 percent equity interest in Alcatel's submarine telecommunications systems business with reciprocal put and call options.

  The transactions will be finalized once approval is obtained from the Antitrust Authorities, presumably by the end of June 2004.

Outlook for the current year

The results achieved in the first quarter of the year make it possible to confirm the Group's expectations for the entire year 2004 for a significant improvement in results in all sectors at both the levels of operating profit and net income.

In the Tyres Sector, in a growing market, Pirelli expects to improve its results further thanks to the high-performance range of products in Europe, the Truck market in South America and the increase in market share in North America.

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

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

With regard to real estate activities, on the basis of available information, a growth in operating profit, including the share of earnings of equity investments, can reasonably be expected for 2004, in line with the Three-year Plan 2003-2005.

The net result of the Group will also benefit from the improvement in the values of Olimpia, which, thanks to the transactions entered into during 2003 and the receipt of dividends from Telecom Italia S.p.A., will reach economic and financial equilibrium.

ENERGY CABLES AND SYSTEMS SECTOR

The highlights of the consolidated financial data of the Energy Cables and Systems Sector for the first quarter of 2004 can be summarized as follows:

(in millions of euros)

	1st Quarter 2004	**1st Quarter 2003 (:)**	**2003**
. Net sales	**671**	623	2,637
. Gross operating profit	**40**	32	169
% of net sales	**6.0%**	5.1%	6.4%
. Operating profit	**20**	9	83
% of net sales	**3.0%**	1.4%	3.1%
. Financial income (expenses)	**(7)**	(9)	(23)
. Extraordinary items	**-**	8	(5)
. Income taxes	**(6)**	(5)	(16)
. Net income	**7**	3	39
% of net sales	**1.0%**	0.5%	1.5%
. Net financial (liquidity)/debt position	**444**	418	354
. R&D expenditures	**8**	9	33
. Employees (at period end)	**10,912**	11,282	10,746
. Factories (number)	**48 ***	48	48

* four of these are shared with the Telecom Cables and Systems Sector
(:) data adjusted to include the positive effect of the allocation of the merger surplus

Net sales for the three months ending March 31, 2004 amount to Euros 671 million and present an increase of 7.7 percent compared to the same period of the prior year. Net of the effects of foreign exchange and metal prices, net sales are more or less in line with those of the corresponding period of the prior year.

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

•	Volumes	+	3.0%
•	Prices/mix	-	2.7%
	Change on a comparable basis	**+**	**0.3%**
•	Currency exchange effect	-	1.4%
•	Metal prices	+	8.8%
	Total change	**+**	**7.7%**

An analysis of net sales by geographical area shows an increase of net sales in Europe due largely to the effect of the prices of metals, while the increase in volumes has offset the reduction in prices and the mix.

Sales performance in South America is good thanks to both volume increases and better prices, mix and exchange rates.

On the contrary, net sales in North America are down, in that the positive effect of the prices of metals was not sufficient to offset the significant negative impact of the weakness of the U.S. dollar.

Net sales in the Asia Pacific area (Australia, Indonesia and China) show a reduction due to the decline in sales volumes.

In particular, the positive performance of sales is most evident in the Trade and Installers segment while sales of Utilities and the Industrial Market are in line with the corresponding period of the prior year.

Operating profit for the three months ending March 31, 2004 is Euros 20 million, compared to Euros 9 million for the first three months of the prior year. Operating profit is equal to 3.0 percent of net sales and compares to 1.4 percent for the same period of the prior year.

The change in operating profit is due to the following:

		(in millions of euros
Operating profit 1st quarter 2003		**9**
• Currency exchange effect	-	
• Prices (excluding metals)/mix	(2) (*)	
• Volumes	7	
• Production factors per unit cost	(3)	
• Efficiencies	5	
• Depreciation	2	
• Other	2	
		11
Operating profit 1st quarter 2004		**20**

(*) including South America for + Euros 2 million

Net income for the first three months of 2004 is Euros 7 million (after financial expenses of Euros 7 million and income tax expenses of Euros 6 million) compared to a net income of Euros 3 million for the same period of the prior year, thanks to the improvement in operating profit.

The **net financial position** is a net debt position of Euros 444 million compared to Euros 354 million at December 31, 2003. The increase is due to seasonal factors which caused an increase in working capital.

At March 31, 2004, **employees** number 10,912 (including 759 temporary employees). This is an increase of 166 persons compared to 10,746 at December 31, 2003, due entirely to the increase of employees with fixed term contacts.

The number of **factories** has remained unchanged compared to December 31, 2003 at 48 units.

TELECOM CABLES AND SYSTEMS SECTOR

The highlights of the consolidated financial data of the Telecom Cables and Systems Sector for the first quarter of 2004 can be summarized as follows:

(in millions of euros)

	1st Quarter 2004	**1st Quarter 2003 (:)**	**2003**
. Net sales	**96**	89	427
. Gross operating profit (loss)	**2**	(4)	(1)
% of net sales	**2.1%**	n.s.	n.s.
. Operating loss	**(7)**	(13)	(39)
% of net sales	**n.s.**	n.s.	n.s.
. Financial income (expenses)	**(3)**	(5)	(20)
. Extraordinary items	**-**	1	4
. Income taxes	**(1)**	-	(1)
. Net loss	**(11)**	(17)	(56)
% of net sales	**n.s.**	n.s.	n.s.
. Net financial (liquidity)/debt position	**308**	465	302
. R&D expenditures	**8**	9	34
. Employees (at period end)	**2,123**	2,348	2,218
. Factories (number)	**11 ***	11	11

* four of these are shared with the Energy Cables and Systems Sector
(:) data adjusted to include the positive effect of the allocation of the merger surplus

Net sales for the three months ending March 31, 2004 amount to Euros 96 million, with an increase of 7.9 percent compared to the same period of the prior year. Excluding the foreign exchange effect, the increase would be 10.3 percent.

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

•	Volumes	+	19.8%
•	Prices/mix	-	9.5%
	Change on a comparable basis	+	**10.3%**
•	Currency exchange effect	-	2.4%
	Total change	+	**7.9%**

There was a recovery of volumes especially in Europe and North America. The South American market reported a slight increase whereas, in the area of Oceania, Asia and Africa, volumes remained stable. Pressure on prices continued both in Europe and North America but prices remained constant in the other geographical areas.

Given the increase in production volumes of optical cables, there was a corresponding increase in volumes of optical fibers, although, on a world scale, demand showed no real signs of a recovery.

Although the segment of OPGW cables is affected by general market conditions, it continues to be the strong point of activities in a field where Pirelli retains the leading market share worldwide.

The operating profit is starting to benefit from the positive effects of the consolidation of the performance of broadband access operations, both in terms of volumes and margins. This first quarter of 2004 is beginning to see the results of the product development activities conducted during the prior year. In particular, new opportunities with Telecom Italia S.p.A. have arisen and, elsewhere, relations with regard to long-standing customers such as Fastweb were consolidated.

The acquisition of the contract with British Telecom constitutes yet another step towards achieving the ambitious goals set for the current year.
Submarine Telecommunications Systems activities were typical of that on a global level, dominated by a lack of infrastructure connections of any real size and a substantial slump in the sector as a whole.

In this highly varied scenario, it should be emphasized that, despite persisting difficult conditions, during the first quarter of 2004, this Sector succeeded in achieving a positive gross operating profit. This can be attributed to the strengthening of its market position in the various segments, and the restructuring process, which has made the sector more compatible with the conditions of the market.

The **operating loss** for the first quarter of 2004 amounts to Euros 7 million, compared to Euros 13 million for the first quarter of the prior year.

The change can be summarized as follows:

(in millions of euros)

Operating loss 1st quarter 2003		**(13)**
• Currency exchange effect	1	
• Prices (excluding metals)/mix	(17)	
• Volumes	5	
• Production factors per unit cost	3	
• Efficiencies	7	
• Depreciation	2	
• Other	5	
		6
Operating loss 1st quarter 2004		**(7)**

The **net result** for the first three months of 2004 is a net loss of Euros 11 million (after financial expenses of Euros 3 million and income tax expenses of Euros 1 million) compared to Euros 17 million for the same period of the prior year, thanks to an improvement in the operating result.

The **net financial position** is a net debt position of Euros 308 million. This is a slight increase compared to Euros 302 million at December 31, 2003.

At March 31, 2004, total **employees** number 2,123 (including 77 employees with fixed term contracts), with a decrease of 95 compared to December 31, 2003.

There were 11 **factories**, unchanged compared to December 31, 2003.

TYRES SECTOR

The highlights of the consolidated financial data of the Tyres Sector for the first quarter of 2004 can be summarized as follows:

(in millions of euros)

	1st Quarter 2004	**1st Quarter 2003 (:)**	**2003**
. Net sales	**819**	741	2,970
. Gross operating profit	**120**	109	399
% of net sales	**14.7%**	14.7%	13.4%
. Operating profit	**75**	66	220
% of net sales	**9.2%**	8.9%	7.4%
. Financial income (expenses)	**(10)**	(14)	(45)
. Extraordinary items	**-**	-	(1)
. Income taxes	**(27)**	(19)	(45)
. Net income (loss)	**38**	33	129
% of net sales	**4.6%**	4.5%	4.3%
. Net financial (liquidity)/debt position	**404**	595	317
. R&D expenditures	**32**	31	123
. Employees (at period end)	**20,659**	20,144	20,437
. Factories (number)	**22**	22	22

(:) data adjusted to include the positive effect of the allocation of the merger surplus

Net sales for the three months ending March 31, 2004 amount to Euros 819 million, with an increase of 10.5 percent compared to the corresponding period of the prior year. Excluding the foreign exchange effect, the actual variation would be an increase of 12.5 percent.

The change in net sales can be attributed to:

• Volumes	+	11.0%
• Prices/mix	+	1.5%
Change on a comparable basis	**+**	**12.5%**
• Currency exchange effect	-	2.0%
Total change	**+**	**10.5%**

Volumes of **Passenger car/Light truck** tyres showed a double-digit increase compared to the same period of 2003. In the Replacements channel, there was generalized growth in all the main markets, while, in the Original Equipment channel, the increase was particularly attributable to North America and South America.

Volumes in the **Truck** segment showed an increase compared to the first quarter of 2003, both in the Replacements channel, with increases in all the main markets, and in the Original Equipment channel.

Volumes in the **Motorcycle** segment showed a significant increase compared to the first quarter of the prior year, both in the Replacements channel (where marked increases were reported in Europe and North America) and in Original Equipment.

The positive trend of prices and the mix confirm the growth strategy in the Performance segments, where the focus is on higher added value, and the success of Pirelli's new technologies and new products.

Operating profit for the three months ending March 31, 2004 is Euros 75 million compared to Euros 66 million for the corresponding period of the prior year.

The percentage of operating profit to net sales is 9.2 percent, compared to 8.9 percent in the first three months of 2003.

The change in operating profit can be summarized as follows:

(in millions of euros)

Operating profit 1st quarter 2003		**66**
• Currency exchange effect	(2)	
• Prices (excluding metals)/mix	2 (*)	
• Volumes	16	
• Production factors per unit cost	(3) (**)	
• Efficiencies	5	
• Depreciation	(2)	
• Other	(7)	
		9
Operating profit 1st quarter 2004		**75**

(*) including South America for + Euros 12 million

(**) including South America for raw materials for + Euros 8 million

Sales variations (volumes and prices/mix) are positive in all major geographical areas and compensate the higher cost of raw materials and the negative impact of the current exchange effect compared to the first quarter of 2003. Efficiencies offset the inflation of labor costs and other expenses.

Net income for the three months ending March 31, 2004 is Euros 38 million (after financial expenses of Euros 10 million and income tax expenses of Euros 27 million) and compares to Euros 33 million (after financial expenses of Euros 14 million and income tax expenses of Euros 19 million) for the first three months of 2003.

The **net financial position** is a net debt position of Euros 404 million compared to Euros 317 million at December 31, 2003. The increase compared to December 31, 2003 can principally be ascribed to operating requirements during the period.

At March 31, 2004, **employees** number 20,659, including 1,905 temporary employees. Compared to December 31, 2003, the increase is almost entirely due to the increase in temporary employees. Compared to the corresponding period of the prior year, the increase in the number of employees is principally the result of the increase in production capacity at the Bahia factory in Brazil.

Factories remained unchanged compared to December 31, 2003.

REAL ESTATE SECTOR

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

Economic review

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

(in millions of euros)	1st Quarter 2004	1st Quarter 2003	
Aggregate production value, net of acquisitions	**418.8**	**355.7**	18%
Consolidated production value	104.4	131.9	
- of which, net of acquisitions	*104.4*	*97.2*	
Operating profit including the share of earnings (losses) of equity investments	**30.6**	**24.7**	24%
Income before extraordinary items	31.0	25.0	
Net income from real estate operations - attributable	**25.0**	**20.0**	25%

Aggregate production value, net of acquisitions, amounts to Euros 418.8 million with a growth of 18 percent compared to Euros 355.7 million for the first quarter of 2003. Consolidated production value alone for the first three months ending March 31, 2004 is Euros 104.4 million, compared to Euros 131.9 million for the first quarter of 2003. Net of acquisitions, consolidated production value amounts to Euros 104.4 million compared to Euros 97.2 million for the first quarter of 2003.

The **operating profit (loss) including the share of earnings (losses) of equity investments** is a profit of Euros 30.6 million, compared to Euros 24.7 million for the first quarter of 2003 (+24 percent).

The **attributable consolidated net income from real estate operations** is Euros 25 million, compared to Euros 20 million for the first quarter of 2003, with a growth of 25 percent.

Balance sheet and financial review

(in millions of euros)	03/31/2004	12/31/2003
Fixed assets	**322.0**	**313.4**
of which, investments in real estate funds and investment companies	*156.0*	*149.7*
Net working capital	**204.3**	**162.3**
of which inventories	*318.9*	*325.0*
Net invested capital	**526.3**	**475.7**
Shareholders' equity	**450.0**	**424.8**
of which minority interest	5.1	3.2
Provisions	**38.7**	**41.7**
Net financial (liquidity)/debt position	**37.6**	**9.2**
Financed	**526.3**	**475.7**

Attributable shareholders' equity at March 31, 2004 is Euros 444.9 million compared to Euros 421.6 million at the end of 2003. The increase is mainly due to the net income for the period.

The **net financial position** shows a net debt position of Euros 37.6 million, compared to a net debt position of Euros 9.2 million at the end of 2003. The change is principally attributable to payments relating to the acquisition of properties made during previous years and new investments.

The **adjusted net financial position** (expressed before financing made to minority-owned companies) is a net debt position of Euros 271.5 million compared to Euros 223.7 million at the end of 2003.

The **gearing** ratio is 0.60 compared to 0.53 at December 31, 2003.

Outlook for the current year

On the basis of available information, a growth in operating profit, including the share of earnings of equity investments, can reasonably be expected for 2004, in line with the Three-year Plan 2003-2005.

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

PROFORMA DATA

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

Proforma consolidated financial data at March 31, 2004 of Pirelli & C. S.p.A. is presented below, assuming the consolidation line-by-line of Olimpia S.p.A. and the use of the equity method to value the investment in Telecom Italia S.p.A..

(in millions of euros)	Consolidated financial data 3/31/2004 Pirelli & C. S.p.A. (1)	Proforma adjustments					Proforma consolidated financial data 3/31/2004 Pirelli & C. S.p.A. (2)
		Elimination of Olimpia S.p.A net result attributable to Pirelli & C. S.p.A. (50.4%)	Olimpia S.p.A. line-by-line consolidation	Adjustments to Olimpia financial statements to take into account the valuation made by Pirelli when the merger surplus was allocated	Consolidation adjustments and valuation of investment in Telecom Italia S.p.A. using the equity method	Total proforma adjustments	
Condensed statement of income							
- Net sales	1,677	-	-	-	-	-	1,677
- Operating profit	83	-	-	-	-	-	83
- Financial income (expenses)/ valuation adjustments to financial assets	(38)	23	(45)	-	(19)	(41)	(79)
- Extraordinary items	(2)	-	-	-	-	-	(2)
- Income taxes	(33)	-	-	-	-	-	(33)
- Net income (loss)	10	23	(45)	-	(19)	(41)	(31)
- Net income loss - Pirelli & C. S.p.A.	2	23	(23)	-	(9)	(9)	(7)
- Goodwill amortization effect	1	-	-	-	84	84	85
- Net income (loss) (excluding goodwill amortization)	11	23	(45)	-	65	43	54
- Net income (loss) - Pirelli & C. S.p.A. (excluding goodwill amortization)	3	23	(23)	-	34	34	37
Reclassified balance sheet							
- Fixed assets	5,908	23	9,561	(1,245)	(5,249)	3,090	8,998
- Net working capital	843	-	43	-	-	43	886
- Total net invested capital	6,751	23	9,604	(1,245)	(5,249)	3,133	9,884
- Financed by:							
- Shareholders' equity	3,751	23	6,279	(1,245)	(5,249)	(192)	3,559
- of which shareholders' equity - Pirelli & C. S.p.A.	3,486	23	3,165	(627)	(3,907)	(1,347)	2,139
- Provisions	1,041	-	-	-	-	-	1,041
- Net financial (liquidity)/debt position	1,959	-	3,325	-	-	3,325	5,284

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

The proforma consolidated financial data has been prepared using the statutory financial statements of Olimpia S.p.A. at March 31, 2004 and the consolidated financial statements of the Telecom Italia S.p.A. group at the same date.

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

- in the column "Elimination of Olimpia S.p.A. net result attributable to Pirelli & C. S.p.A. (50.4%)": elimination of the statement of income and balance sheet effects of valuing Olimpia S.p.A. with the equity method in the Pirelli & C. S.p.A. consolidated financial statements at March 31, 2004;
- in the column "Olimpia S.p.A. line-by-line consolidation": inclusion of the assets, liabilities, revenues and costs resulting from the financial statements for the first quarter ended March 31, 2004 of Olimpia S.p.A., attributing the share of net equity and results of operations to the minority interest;
- in the column "Adjustments to Olimpia financial statements to take into account the valuation made by Pirelli when the merger surplus was allocated" the amount of Euros 1,245 million derives from the effect of the allocation of the merger surplus of Pirelli & C S.p.A. in 2003 which was booked as a deduction of the goodwill posted by Olimpia on the investment in Telecom Italia S.p.A.;
- in the column "Consolidation adjustments and valuation of investment in Telecom Italia S.p.A. using the equity method": inclusion of the effect of accounting for Telecom Italia S.p.A. using the equity method, giving rise to a negative valuation adjustment of Euros 19 million, of which Euros 49 million relates to the amortization of implicit goodwill for three months out of a total twenty-year period, and Euros 30 million to Olimpia S.p.A.'s share of the first-quarter 2004 net income of the Telecom Italia Group.

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

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

- in the column “Consolidated financial statements at March 31, 2004 Pirelli & C. S.p.A.”, the amount of Euros 1 million refers to the amortization charge for the period on the goodwill booked by Pirelli & C. S.p.A. in respect of Olimpia S.p.A.;
- in the column “Consolidation adjustments and valuation of investment in Telecom Italia S.p.A. using the equity method”, the amount of Euros 84 million includes Euros 49 million for the goodwill booked by Olimpia S.p.A. in respect of Telecom Italia S.p.A. and Euros 35 million for the original goodwill booked by Olivetti S.p.A. in 1999 in respect of Telecom Italia S.p.A..

A comparison of shareholders’ equity and net debt between the consolidated financial statements of Pirelli & C. S.p.A. and the proforma consolidated financial data of Pirelli & C. S.p.A. at March 31, 2004 and March 31, 2003 is presented below, assuming:

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

(in millions of euros)	**Shareholders' equity**		**Net debt**		**Net debt/Shareholders' equity**		**Shareholders' equity - Pirelli & C. S.p.A.**	
	03/31/2004	**03/31/2003**	**03/31/2004**	**03/31/2003**	**03/31/2004**	**03/31/2003**	**03/31/2004**	**03/31/2003**
Pirelli & C. S.p.A. Group: consolidated financial statements at 3/31/2004	3,751	4,474	1,959	2,302	0.52	0.51	3,486	1,925
Pirelli & C. S.p.A. Group: proforma consolidated data with Olimpia S.p.A. consolidated line-by-line and Telecom Italia S.p.A. valued using the equity method	3,559	5,967	5,284	5,701	1.48	0.96	2,139	1,805
Pirelli & C. S.p.A. Group: proforma consolidated data with Olimpia S.p.A. and Telecom Group consolidated line-bv-line	22,955	23,548	36,070	37,592	1.57	1.60	2,139	1,805

The Board of Directors

Milan, May 11, 2004

QUARTERLY DATA

AND

COMMENTS

QUARTERLY DATA

(in millions of euros)

Statement of income	1st Quarter 2004	1st Quarter 2003 (:)	2003
. Net sales	**1,677**	**1,572**	**6,671**
. Other revenues	127	85	186
. Production value	**1,804**	**1,657**	**6,857**
. Cost of sales	(1,279)	(1,162)	(4,857)
. Labor cost	(352)	(339)	(1,371)
. Amortization and depreciation	(90)	(88)	(361)
. Operating profit	**83**	**68**	**268**
. Financial income (expenses), net	(38)	(47)	(185)
. Income before extraordinary items and income taxes	**45**	**21**	**83**
. Extraordinary items	(2)	(8)	(9)
. Income before taxes	**43**	**13**	**74**
. Income taxes	(33)	(33)	(70)
. Net income	**10**	**(20)**	**4**

(:) data adjusted to include the positive effect of the allocation of the merger surplus

(in millions of euros)

Balance Sheet	03/31/2004	12/31/2003
. Fixed assets	5,908	5,902
. Net working capital	843	566
. Net invested capital	**6,751**	**6,468**
. Shareholders' equity	3,751	3,678
. Provisions	1,041	1,045
. Net financial (liquidity)/debt position	1,959	1,745
. Financed	**6,751**	**6,468**

COMMENTS ON QUARTERLY DATA

Form and content

The accounting policies, valuation criteria and principles of consolidation used in preparing the quarterly data at March 31, 2004 are the same as those adopted for the financial statements at December 31, 2003 and disclosed in the previous annual report.

Economic review

Net sales

Net sales for the three months ending March 31, 2004 amount to Euros 1,677 million compared to Euros 1,572 million for the three months ending March 31, 2003.
The increase of 6.7 percent in net sales compared to the corresponding period of 2003 can be analyzed as follows:

• Volumes	+	5.5%
• Prices/mix	-	0.9%
Change on a comparable basis	**+**	**4.6%**
• Currency exchange effect	-	1.6%
• Metal prices	+	3.7%
Total change	**+**	**6.7%**

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

Sector	1st Quarter 2004	1st Quarter 2003
Energy Cables and Systems Sector	40%	40%
Telecom Cables and Systems Sector	6%	6%
Tyres Sector	48%	46%
Real Estate	6%	8%

Geographical area	1st Quarter 2004	1st Quarter 2003
Italy	25.4%	26.1%
Other European countries	40.9%	39.5%
North America	8.9%	9.8%
Central and South America	13.9%	11.8%
Australia, Africa and Asia	10.9%	12.8%

Labor costs

Labor costs for the first three months of 2004 amount to Euros 352 million and represent 21 percent of sales, compared to Euros 339 million for the corresponding period of the prior year (21.5 percent of sales).

Amortization and depreciation

Amortization and depreciation total Euros 90 million, of which Euros 19 million refers to the amortization charge of intangible assets and Euros 71 million to the depreciation charge of property, plant and equipment. The charges are in line with the corresponding period of the prior year.

Operating profit

Operating profit for the first three months of 2004 is Euros 83 million (4.9 percent of net sales),with a considerable increase over the same period of 2003.

Such change in operating profit is principally due to:

(in millions of euros)

Operating profit 1st quarter 2003		**68**
• Currency exchange effect	(1)	
• Prices (excluding metals)/mix	(17) (*)	
• Volumes	28	
• Production factors per unit cost	(4) (**)	
• Efficiencies	18	
• Depreciation	2	
• Other	(11)	
		15
Operating profit 1st quarter 2004		**83**

(*) including South America for + Euros 14 million

(**) including South America for raw materials for + Euros 8 million

<u>Net income</u>

The net result for the three months ending March 31, 2004 is a net income of Euros 10 million compared to a net loss of Euros 20 million for the first three months of 2003.

Net financial position

The net debt position at March 31, 2004 is Euros 1,959 million compared to Euros 1,745 million at December 31, 2003 and Euros 2,302 million at March 31, 2003. The change, compared to December 31, 2003 is chiefly due to seasonal factors which caused an increase in working capital.

(in millions of euros)

Net financial position	**03/31/2004**	**12/31/2003**
. Short-term financial payables	1,092	902
. Accrued and prepaid interest expenses	64	50
. Cash and banks	(265)	(264)
. Other securities in current assets	(298)	(284)
. Short-term financial receivables	(38)	(60)
. Accrued and deferred interest income	(14)	(14)
Net short-term liquidity	**541**	**330**
. Medium/long-term financial payables	1,720	1,695
. Medium/long-term financial receivables	(297)	(276)
. Other securities	(5)	(4)
Net medium/long-term debt	**1,418**	**1,415**
Net financial (liquidity)/debt position	**1,959**	**1,745**