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

Six-Months Interim Report
at June 30, 2005

PIRELLI & C. Società per Azioni

Registered office in Milan, Via G. Negri 10

Share Capital - Euros 2,764,021,430.56 fully paid-in

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PIRELLI & C. S.p.A. - MILAN
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PIRELLI & C. S.p.A.

Board of Directors [1]

Honorary Chairman	Leopoldo Pirelli
Chairman [2]	Marco Tronchetti Provera
Deputy Chairman [2]	Alberto Pirelli
Deputy Chairman [2]	Carlo Alessandro Puri Negri
Managing Director [2] and General Manager	Carlo Buora
Directors	Carlo Acutis *
	Carlo Angelici * ○
	Gilberto Benetton
	Franco Bruni * ○
	Carlo De Benedetti *
	Gabriele Galateri di Genola
	Mario Garraffo *
	Dino Piero Giarda *
	Berardino Libonati * □
	Giulia Maria Ligresti
	Massimo Moratti
	Giovanni Perissinotto
	Giampiero Pesenti * □
	Aldo Roveri * □
	Carlo Secchi * ○
	Paolo Vagnone

* Independent director
○ Member of the Internal Control and Corporate Governance Committee
□ Member of the Remuneration Committee

Secretary to the Board	Anna Chiara Svelto

Board of Statutory Auditors [3]

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

General Managers

Tyres Sector	Francesco Gori
Administration and Control	Claudio De Conto
Finance	Luciano Gobbi

Independent Auditors [4]
PricewaterhouseCoopers S.p.A.

1 Appointment: April 28, 2005. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2007.
2 Office conferred by the board of directors' meeting held on April 28, 2005.
3 Effective date of appointment: August 4, 2003. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2005.
4 Appointment conferred by the shareholders' meeting held on April 28, 2005.

INTRODUCTORY COMMENTS

The interim consolidated financial statements of Pirelli & C. S.p.A. for the six months ended June 30, 2005 and the periods presented for comparison have been prepared in accordance with IAS/IFRS standards.
The comments and the comparisons in this report are therefore using principles applied on a consistent basis.

The section "5. Transition to IAS/IFRS" presents the following information in detail:

1. accounting treatments elected among the accounting options provided by IAS/IFRS;

2. reconciliations of consolidated net equity under previous accounting principles (GAAP) and under IAS/IFRS at the following dates:
   - January 1, 2004: date of transition to IAS/IFRS;
   - December 31, 2004: closing date of the last annual reporting period in accordance with previous GAAP;
   - January 1, 2005: date of transition to IAS 32 and IAS 39;

3. reconciliation of the net income shown in the last annual consolidated financial statements prepared in accordance with previous GAAP (year 2004) and the net consolidated income in accordance with IAS/IFRS for the same year;

4. comments on the main changes in the net financial position following the introduction of the new accounting principles.

REPORT ON OPERATIONS

Disposal of the Energy and Telecom Cables and Systems activities

On July 28, 2005, after obtaining approval from the relevant authorities, the June 1, 2005 agreement between Pirelli & C. S.p.A. and Goldman Sachs Capital Partners was executed for the purchase of Pirelli's Energy and Telecom Cable and Systems activities by Goldman Sachs Capital Partners.

These activities were valued for a total amount of approximately Euros 1.3 billion inclusive of the intellectual property rights and a license for the use of the Pirelli trademark for two years.

Pirelli was also assigned a warrant entitling it to obtain economic benefits equivalent to 5 percent of the capital of the vehicle company used by Goldman Sachs Capital Partners for the transaction; this will allow Pirelli to take advantage of any opportunities arising from the future growth of the business.
The agreement provides that the pension funds of the affiliates in the United Kingdom will be carried by Pirelli, with an effect of approximately Euros 98 million.

The sale led to an improvement in the net financial position of about Euros 1.2 billion, of which Euros 490 million refers to the equity value of the transaction (Euros 135 million of which is represented by a vendor loan) and about Euros 700 million to the deconsolidated net debt.

In total, on consolidation, also taking into account transaction costs and possible accruals for guarantees provided, which are still in the evaluation and definition stage, the impact on the statement of income should be a gain of approximately Euros 30 million.

As a result of the application of IAS/IFRS, the Energy and Telecom Cables and Systems activities of the Pirelli Group have been accounted for in these financial statements as discontinued operations (assets held for sale).

Therefore, the results of these activities are shown in the 2005 statement of income (and in the restated 2004 financial statements) in a separate line ("Income from discontinued operations") after "Income from continuing operations" and before "Net income for the period"; in the 2005 balance sheet, the assets and liabilities of these activities are presented in only two captions ("Total assets held for sale" and "Total liabilities related to assets held for sale").

At the end of the report on operations, brief comments are provided on the performance of the two Sectors in the first half of 2005.

In order to provide full disclosure, a proforma table is presenting showing the impact of the sale of the Pirelli Energy and Telecom Cables and Systems activities on the balance sheet and the statement of income of the Pirelli Group, using the balance sheet and economic data at December 31, 2004 as a basis of reference.

PIRELLI & C. S.p.A. proforma data

(in millions of euros)	**Consolidated financial statements 12/31/2004 Pirelli & C. S.p.A. prepared in accordance with IAS/IFRS**	**Proforma adjustments**			**Consolidated financial statements 12/31/2004 Pirelli & C. S.p.A. proforma**
		Derecognition of activities sold	**Effect of sale**	**Total proforma adjustments**	
Condensed statement of income					
Net sales	7,298	(3,331)		(3,331)	3,967
Operating profit (loss)	399	(130)		(130)	269
Share of earnings (losses) of equity invest.	140	(5)		(5)	135
Financial income (expenses)	(139)	39		39	(100)
Income taxes	(96)	9		9	(87)
Net income (loss) *	304	(87)		(87)	217
** of which: Extraordinary income (expenses)*	*20*	*(11)*		*(11)*	*9*
Net income attributable to Pirelli & C. S.p.A	251	(87)		(87)	164
Reclassified balance sheet					
Fixed assets	6,180	(784)		(784)	5,396
Net working capital	401	(157)		(157)	244
Total net invested capital	6,581	(941)		(941)	5,640
Financed by:					
Shareholders' equity	3,894	(222)	392	170	4,064
- of which, net equity attributable to Pirelli & C. S.p.A.	*3,555*	*(222)*	*392*	*170*	*3,725*
Provisions	1,086	(263)	98	(165)	921
Net financial (liquidity)/debt position	1,601	(456)	(490)	(946)	655

The first column represents the condensed consolidated financial statements of Pirelli & C. at December 31, 2004 prepared in accordance with IAS/IFRS.

The column "Derecognition of activities sold" refers to the condensed data at December 31, 2004 of the two discontinuing sectors.

The column "Effect of sale" shows the receipt of the equity value of Euros 490 million and the booking of the pension funds of the United Kingdom affiliates by Pirelli for an amount of some Euros 98 million, as established in the agreements.

The accounting effects, however, that will be booked in the consolidated financial statements of the Pirelli Group in 2005 will refer to the value of the activities sold as of the date of sale.

Performance of the Group

All economic indicators of the Pirelli & C. S.p.A. Group show a significant improvement during the first six months of the year. In particular, a further increase in profitability has been recorded, confirming Pirelli's strategy to focus on a selected number of businesses that offer higher margins, with segmentation towards the top-of-the-line markets.

Once again, it should be mentioned that the statement of income for the six months to June 30, 2005 does not consider the Energy and Telecom Cables and Systems Sectors in the individual captions but, since they are being sold, their results are reported on one single line of the Pirelli & C. consolidated statement of income ("Income from discontinued operations") after "Income from continuing operations".

Consolidated **net sales** for the first six months amount to Euros 2,281 million. This is an increase of 13.1 percent compared to Euros 2,016 million for the same period of 2004, on a comparable consolidation basis and with increases in all sectors of business. Excluding the exchange effect and using the same scope of consolidation, revenues grew by 10.6 percent on a comparable basis.

Consolidated **operating profit** is equal to Euros 202 million, an increase of 33 percent compared to 152 million in the first half of 2004, on a comparable consolidation basis. The percentage of operating profit to net sales is 8.9 percent, up from 7.5 percent in 2004.

In the first half of 2005, **Olimpia S.p.A.** contributed a profit of Euros 86 million compared to Euros 8 million in the first half of 2004. This is due to both the improvement in the result of the associate Telecom Italia S.p.A. and the increase in the interest held in that company compared to the prior year. It should be pointed out that the financial statements of Olimpia, included in consolidation, have been prepared in accordance with IAS/IFRS and account for the investment in Telecom Italia S.p.A. by the equity method.

The consolidated **net income** is equal to Euros 210 million compared to Euros 104 million in the first half of 2004.

The **net financial position** of the Group at June 30, 2005 is a debt position of Euros 2,338 million (of which Euros 715 million relates to the Cables and Systems activities). Taking into account the positive impact from the sale of the Cables and Systems operations of some Euros 1.2 billion, the net financial position declines to approximately Euros 1,140 million. The positive change compared to the first quarter of 2005 (at March 31, 2005, the net financial position was negative for Euros 2,120 million) is mainly due to the effects of the payment of dividends (Euros 145 million) and the purchase of 38.7 million Telecom Italia shares (some Euros 100 million). The change from Euros 1,601 million at the end of 2004 is also due to the usual seasonal factors and the negative difference between the subscription of the Olimpia S.p.A. share capital increase of Euros 1,344 million and the Pirelli & C. capital increase of Euros 1,062 million voted January 21, 2005.

The **Tyres Sector** recorded a further increase in profitability, confirming the strategy to focus on products with high margin. Sales grew by 8 percent and the operating profit rose by 21 percent, representing 10.4 percent as a percentage of sales.

The growth in volumes and the continuous focus on the product mix have contributed to the positive performance even though the prices of raw materials have further increased and market demand is not impressive.

The Consumer business (Car and Motorcycle tyres) registered a positive growth in volumes and net sales. This is due to the increase in the sales, especially in North America, of Premium products such as the PZero Rosso, PZero Nero and Scorpion Zero tyres, in all the areas and the new homologations by the major world automobile manufacturers.

The Industrial business recorded growth in original equipment, in particular.

Moreover, during the first half of 2005, Pirelli confirmed its position of technological leadership with the presentation of innovative systems to control pressure and manage the tyre and new devices placed on the tyre rims that interact with the system controlling the dynamics of the vehicle.

A growth in activities was also reported by **Pirelli Broadband Solutions**, the company dedicated to broadband access products and the development of second-generation photonics. Sales in the first six months of 2005 (Euros 64 million) are equal to those recorded for the entire year 2004.

The positive trend in sales is driven by ADSL access products which show good prospects for growth. The consolidation of the company’s leadership position in Italy was confirmed in the first half of 2005 with the acquisition of new customers, thanks particularly to the launch of the new VoIP services using Pirelli solutions.

In second-generation photonics, during the first six months of 2005, the process commenced for the introduction on the market of the DTL (Dynamically Tunable Laser), a cutting-edge technological product in this sector. Furthermore, the development stage of solutions such as CWDM (Coarse Wavelength Division Multiplexing) has ended and numerous contacts have started worldwide to develop partnership alliances that will see the sale of these products as early as the end of the current year.

Compared to the first half of 2004, the **Real Estate Sector**, represented by the Pirelli & C. Real Estate Group, ends the first half with a growth of 38 percent in operating profit including earnings from equity investments, the parameter which best identifies the business model.
The driving force behind the result was the significant increase in the fees from Funds and from Asset Management and better profitability from Service Provider activities. During the first half, expansion efforts continued for Franchising, with 700 agencies now under contract, a figure in line with targets.

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

The net result of the parent company, Pirelli & C. S.p.A., for the six months ended June 30, 2005, prepared in accordance with Italian GAAP, is a loss of Euros 32 million compared to a loss of Euros 55 million for the first half of 2004.
The loss is due to financial expenses and investment writedowns that were not compensated by dividends from subsidiaries which are recorded on the accrual basis and will be included in the financial statements at December 31, 2005.

A decision will be made by the end of the year as regards the preparation of separate statutory financial statements in accordance with IAS/IFRS starting from 2005, an option granted to listed companies by Legislative Decree No. 38 dated February 28, 2005 (IAS/IFRS financial statements are mandatory starting from 2006).

<u>Significant events in the first six months</u>

Significant events which occurred during the first six months of 2005 are described below:

Corporate

- On January 28, 2005, an agreement was signed by the shareholders of Olimpia S.p.A. (Pirelli & C. S.p.A., Edizione Finance International S.A., Hopa S.p.A., Banca Intesa S.p.A. and Unicredito Italiano S.p.A.) amending and integrating the pacts stipulated by them in 2003.

  The integration to the agreement, in particular, gives the shareholders the right – always to the extent that the total does not exceed, taking into account also the shares already held by Olimpia and its shareholders, the ownership threshold of 30 percent of Telecom Italia S.p.A. share capital – to purchase Telecom Italia S.p.A. ordinary shares in the quantities described:

Pirelli & C. S.p.A.	300 million shares
Ediz. Finance International SA/Ediz. Holding S.p.A.	100 million shares
Hopa S.p.A.	100 million shares
Banca Intesa S.p.A.	100 million shares
Unicredito Italiano S.p.A.	100 million shares

  The Olimpia shareholders also agreed to amend certain understandings concerning the increase premium to which Hopa S.p.A. would be entitled in the event of the spin-off of Olimpia. In particular, the parties have established an all-inclusive amount of Euros 208 million in the event the spin-off occurs as a result of a deadlock or the pact is not renewed at its expiration date of May 8, 2006.

- March 17, 2005 marked the date of the entirely successful closing of the share capital increase by Pirelli & C. S.p.A. – voted by the extraordinary shareholders' meeting of January 21, 2005 – with the subscription of all 1,517,672,178 new ordinary shares at the price of Euros 0.70 each, for a total equivalent amount of Euros 1,062,370,524.60, without the need for the intervention of the underwriting syndicate promoted, arranged and conducted by Banca Caboto S.p.A. (Intesa Group), JPMorgan, MCC S.p.A. – Capitalia Banking Group, Mediobanca S.p.A. and UBM.

  The resources raised by the capital increase were designated for the subscription of the capital increase of Euros 2 billion by Olimpia S.p.A., with the objective being both to raise the investment in Telecom Italia S.p.A. and to neutralize the diluting effect consequent to the announced Telecom Italia merger. In particular, Pirelli & C. subscribed to its share of the increase (50.4 percent) and the shares of the increase that were not subscribed to by the banks (16.8 percent), with an outlay of Euros 1,344 million. At the end of the subscription period, Pirelli & C.'s investment in Olimpia rose to 57.7 percent.

- In April 2005, Pirelli Ambiente, the Pirelli Group's new environmental pool, developed an innovative system to treat exhaust gases that will reduce the fine dust emissions generated by diesel engines by approximately 90 percent. The technology is based on filters made of porous silicon carbide, a material which has unique properties in terms of heat resistance and sudden changes in temperature. The capacity of the new Pirelli filters to reduce dramatically the finer dust emissions from diesel engines was demonstrated by tests conducted by the ENI Tecnologie laboratories and by the European Commission's JRC Research Center at Ispra.

- In June 2005, Pirelli Finance Luxembourg S.A., a wholly-owned subsidiary of Pirelli & C., purchased 38,707,885 Telecom Italia S.p.A. ordinary shares on the market at an average price per share of Euros 2,568 for a total outlay of Euros 99.4 million.

Tyres Sector

- During the first half, Pirelli and Continental started up steelcord manufacturing at the Slatina (Romania) factory of the company Cord Romania, the joint venture in which Pirelli holds an 80 percent stake and Continental a 20 percent interest.
  A total investment of Euros 40 million will be made at the new factory over an extended period of time and will allow Cord Romania to meet the growing demand in the area for this important component of tyres, which today is twice the supply.
  Cord Romania will enable Pirelli to strengthen its position on the European market of steelcord and add to the supply produced by the plants at Figline Valdarno (Italy), Merzig (Germany) and Izmit (Turkey).
  The investment falls under the company's strategy to expand its operations in Romania which, by the end of 2006, will lead to the start-up of a new enormous plant for the manufacture of high performance car tyres at Slatina in order to satisfy the strong growth in demand from East European markets.

Real estate activities

- On May 6, 2005, the Pirelli & C. Real Estate S.p.A. and Deutsche Bank Real Estate Global Opportunities joint venture grouped together with the Borletti family and Investitori Associati and concluded its first transaction, formalizing the purchase of Rinascente S.p.A. from Eurofind Textile S.A. for Euros 888 million, after receiving approval from the antitrust authority. The Pirelli RE - DB Real Estate joint venture holds 50 percent of Tamerice S.r.l., the vehicle used to complete the transaction, while the remaining 50 percent is shared by Investitori Associati and the Borletti family. Pirelli RE indirectly holds 20 percent of Rinascente S.p.A.

- On March 24, 2005, Morgan Stanley Real Estate Funds (MSREF) and Pirelli RE along with the Special Situations Group of Morgan Stanley, specialized in the purchase and management of corporate loans, executed an agreement for the purchase of a portfolio of mortgage loans and corporate loans from BNL for Euros 77.5 million. The acquired portfolio consists of receivables for loans, more than half of which are guaranteed by industrial properties.

- On March 31, 2005, Orione Immobiliare Prima purchased various units mainly destined for service-related occupation located in various cities in Italy from the company Spinoffer Real Estate for a total amount of Euros 127.9 million.

- During the first half of 2005, in execution of the agreement signed in 2004 between Pirelli & C. Real Estate and Morgan Stanley Real Estate Funds (MSREF) in the non-performing loan business, the following transactions were carried out:
  - the sale, on March 24, 2005, by Pirelli RE, of the 100 percent stake in Pirelli & C. Real Estate Credit Servicing S.p.A. (now New Credit servicing) to SIB - Servizi Immobiliari Banche S.p.A. and the sale, on the part of MSREF, of 47 percent of SIB to Pirelli RE. A subsequent merger of the two companies is planned in order to create one of the leading operators in Italy for the management of non-performing loans. The new company resulting from the merger will be held indirectly by MSREF (mainly through FONSPA – Istituto di Credito Fondiario e Industriale S.p.A.) for a 53 percent interest and by Pirelli RE for a 47 percent stake, with a call option by Pirelli RE for 53 percent of the company exercisable from January 2007 and a put option by MSREF exercisable from January 2008;
  - set-up of the company Asset Management NPL, in which Pirelli RE has a 75 percent stake and MSREF a 25 percent stake which manages non-performing loan portfolios currently owned by the two Groups.

- On April 29, 2005, Pirelli RE purchased an additional 10 percent of the portfolio of about Euros 1.1 billion (net book value) of non-performing loans owned by MSREF for a total amount of Euros 22.8 million.

- On April 29, 2005, the Pirelli RE and Morgan Stanley Real Estate Funds (MSREF) joint venture signed a binding agreement with Glenbrook Operae for the purchase of a portfolio of 131 buildings, mainly for office use, for a total value of Euros 255 million. At June 30, 2005, deeds of purchase had been drawn up for a total amount of Euros 218.1 million.

- On June 20, 2005, Pirelli RE with Lehman Brothers and Roev Italia won the tender for the purchase of Castello S.r.l. (ex-Immobiliare Serico), a company in the BPU Banca Group, for approximately Euros 150 million. The closing took place on July 28, 2005.

THE GROUP

The highlights of the consolidated financial data for the six months ending June 30, 2005 can be summarized as follows:

(in millions of euros)

	1st half 2005	**1st half 2004**	**Year 2004**
. Net sales	**2,281**	2,016	3,967
. Gross operating profit	**306**	252	470
% of net sales	**13.4%**	12.5%	11.8%
. Operating profit	**202**	152	269
% of net sales	**8.9%**	7.5%	6.8%
. Share of earnings of equity investments	**112**	33	135
. Operating profit incl. share of earnings of equity	**314**	185	404
. Financial income (expenses)	**(66)**	(35)	(100)
. Income taxes	**(71)**	(59)	(87)
. Income from continuing operations	**177**	91	217
% of net sales	**7.8%**	4.5%	5.5%
. Income from discontinued operations	**33**	13	87
. Total net income	**210**	104	304
. Net income attributable to Pirelli & C. S.p.A.	**179**	85	251
. Earnings per share (in euros) *	**0.038**	0.025	0.072
. Shareholders' equity	**5,458**	3,431	3,894
. Net equity attributable to Pirelli & C. S.p.A.	**5,098**	3,195	3,555
. Equity per share (in euros)	**0.96**	0.92	1.03
. Net financial (liquidity)/debt position	**2,338**	2,178	1,601
of which assets held for sale	***715***	*683*	*456*
. Capital expenditures	**118**	113	281
of which assets held for sale	***21***	*36*	*85*
. R&D expenditures	**103**	106	198
of which assets held for sale	***21***	*33*	*57*
. Employees (number at period-end)	**38,483**	37,120	37,154
of which assets held for sale	***12,433***	*12,925*	*12,364*
. Factories (number)	**74**	77	74
of which assets held for sale	***51***	*55*	*52*
Pirelli & C. shares outstanding at 6/30/2005			
. ordinary shares (number in millions)	**5,180.6**	3,326.7	3,327.5
. savings shares (number in millions)	**134.8**	134.8	134.8
. Total shares outstanding at 6/30/2005	**5,315.4**	3,461.5	3,462.3

* calculated on the weighted average shares outstanding

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

(in millions of euros)

CONTINUING OPERATIONS	Tyres		Pirelli Broadband		Pirelli & C. Real Estate		Other		TOTAL	
	1st half 2005	1st half 2004	**1st half 2005**	1st half 2004	**1st half 2005**	1st half 2004	**1st half 2005**	1st half 2004	**1st half 2005**	1st half 2004
. Net sales	**1,796**	1,659	**64**	28	**363**	297	**58**	32	**2,281**	2,016
. Gross operating profit (loss)	**280**	243	**(2)**	(4)	**40**	23	**(12)**	(10)	**306**	252
% of net sales	**15.6%**	14.6%	**n.s.**	n.s.					**13.4%**	12.5%
. Operating profit (loss)	**187**	154	**(3)**	(4)	**36**	18	**(18)**	(16)	**202**	152
% of net sales	**10.4%**	9.3%	**n.s.**	n.s.					**8.9%**	7.5%
. Share of earnings (losses) of equity investments	-	-	-	-	**44**	40	**68 ***	(7)	**112**	33
. Operating profit (loss) incl. share of earnings (losses) of equity invest.	**187**	154	**(3)**	(4)	**80**	58	**50**	(23)	**314**	185
. Financial income (expenses)	**(16)**	(19)	**(1)**	(1)		3	**(49)**	(18)	**(66)**	(35)
. Income taxes	**(55)**	(52)			**(20)**	(13)	**4**	6	**(71)**	(59)
. Net income (loss)	**116**	83	**(4)**	(5)	**60**	48	**5**	(35)	**177**	91
% of net sales	**6.5%**	5.0%	**n.s.**	n.s.					**7.8%**	4.5%
. Net financial (liquidity)/debt position	**350**	375	**3**	22	**43**	46	**1,227**	1,052	**1,623**	1,495

* share of earnings of Olimpia S.p.A. accounted for by the equity method Euros 86 million (Euros 8 million in 2004)

(in millions of euros)

DISCONTINUED OPERATIONS	Energy Cables & Systems		Telecom Cables & Systems		Eliminations/Other		TOTAL	
	1st half 2005	1st half 2004	**1st half 2005**	1st half 2004	**1st half 2005**	1st half 2004	**1st half 2005**	1st half 2004
. Net sales	**1,651**	1,499	**177**	177	**(37)**	(24)	**1,791**	1,652
. Gross operating profit (loss)	**113**	97	**7**	3	**(3)**	-	**117**	100
% of net sales	**6.8%**	6.5%	**4.0%**	1.7%			**6.5%**	6.1%
. Operating profit (loss)	**78**	59	**(4)**	(11)	**(3)**	-	**71**	48
% of net sales	**4.7%**	3.9%	**n.s.**	n.s.			**4.0%**	2.9%
. Share of earnings (losses) of equity investments	**(2)**	-	**1**	-	**1**	-	**-**	-
. Operating profit (loss) incl. share of earnings (losses) of equity invest.	**76**	59	**(3)**	(11)	**(2)**	-	**71**	48
. Financial income (expenses)	**(16)**	(15)	**(6)**	(5)	**-**	-	**(22)**	(20)
. Income taxes	**(15)**	(14)	**(1)**	(1)	**-**	-	**(16)**	(15)
. Net income (loss)	**45**	30	**(10)**	(17)	**(2)**	-	**33**	13
% of net sales	**2.7%**	2.0%	**n.s.**	n.s.			**1.8%**	0.8%
. Net financial (liquidity)/debt position	**399**	400	**316**	283	**-**	-	**715**	683

Net sales

Net sales amount to Euros 2,281 million for the six months ending June 30, 2005, with an increase of 10.6 percent compared to the corresponding period of the prior year. Increases were recorded in all sectors.

The change is due to:

• Volumes	+	4.8%
• Prices/mix	+	5.8%
Change on a comparable basis	**+**	**10.6%**
• Foreign exchange effect	+	1.0%
• Change in scope of consolidation	+	1.5%
Total change	**+**	**13.1%**

Gross operating profit

Gross operating profit is equal to Euros 306 million (13.4 percent of net sales) compared to Euros 252 million in the first half of 2004 (12.5 percent of net sales).

Operating profit

Operating profit for the first six months of 2005 is equal to Euros 202 million, representing 8.9 percent of net sales compared to Euros 152 million for the corresponding period of 2004 (7.5 percent of net sales).

With regard to the Group, the change is represented as follows:

Operating profit 1st half 2004		**152**
. Foreign exchange effect	6	
. Tyres Sector	28	
. Pirelli Broadband Solutions	1	
. Pirelli Real Estate	18	
. Other	(3)	
		50
Operating profit 1st half 2005		**202**

Share of earnings (losses) of equity investments

The share of the earnings (losses) of equity investments is an earnings balance of Euros 112 million compared to earnings of Euros 33 million in the first half of 2004.
The caption includes the share of the earnings of Olimpia S.p.A., accounted for by the equity method, for Euros 86 million (Euros 8 million in the first half of 2004). It should be pointed out that the financial statements of Olimpia, included in the consolidated financial statements of the Group, comprise, in accordance with IAS/IFRS, the valuation of the investment in Telecom Italia S.p.A. by the equity method.

The figure also include writedowns of investments for Euros 17 million and the earnings (losses) of the companies in the real estate sector valued using the equity method, which amount to earnings of Euros 44 million (Euros 40 million in the first half of 2004).

Financial income (expenses)

Financial income (expenses) shows a net expense balance of Euros 66 million compared to Euros 35 million for the same period of 2004.
This item includes a negative component of Euros 45 million arising from the fair value measurement of the financial derivatives on Telecom Italia S.p.A. securities that were included in the financial statements at December 31, 2004 (Convertible Bond Asset Swaps on Telecom Italia convertible bonds and Share Swaps on Telecom Italia shares and convertible bonds held by Pirelli Finance Luxembourg S.A.).

Net income from continuing operations

The net income from continuing operations for the six months ending June 30, 2005 is Euros 177 million (after income tax expenses of Euros 71 million) compared to a net income of Euros 91 million for the first six months of 2004 (after income tax expenses of Euros 59 million).

Net income

The net income for the six months ending June 30, 2005 is Euros 210 million (after the income from discontinued operations of Euros 33 million) compared to a net income of Euros 104 million for the first six months of 2004 (after the income from discontinued operations of Euros 13 million).

The net income attributable to Pirelli & C. S.p.A. for the six months to June 30, 2005 is Euros 179 million compared to a net income of Euros 85 million for the first half of 2004.

Shareholders' equity

Consolidated shareholders' equity went from Euros 3,894 million at December 31, 2004 to Euros 5,458 million at June 30, 2005, with an increase of Euros 1,564 million.

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

		(in millions of euros)
. Effect of the adoption of IAS 32/39 at January 1, 2005		137
. Translation differences		158
. Net income for the period		210
. Dividends to third parties paid by:		(148)
- Pirelli & C. S.p.A.	(113)	
- Pirelli & C. Real Estate S.p.A.	(32)	
- Other Group companies	(3)	
. Pirelli & C. capital increase (net of costs incurred)		1,048
. Exercise of Pirelli & C. S.p.A. warrants		1
. Exercise of Pirelli & C. Real Estate S.p.A. stock options		11
. Fair value adjustment of available-for-sale financial assets		143
. Other changes		4
		1,564

The shareholders' equity attributable to Pirelli & C. S.p.A. went from Euros 3,555 million (Euros 1.03 per share) at December 31, 2004 to Euros 5,098 million (Euros 0.96 per share) at June 30, 2005.

Net financial position

The net debt position at June 30, 2005 is Euros 2,338 million (of which Euros 715 million refers to the Cables and Systems operations) compared to Euros 1,601 million at December 31, 2004 (of which Euros 456 million referred to the Cables and Systems operations).

R & D expenditures

R&D expenditures, excluding those relating to the Cables and Systems activities, went from Euros 73 million in the first six months of 2004 (3.6 percent of net sales) to Euros 82 million in the first half of 2005 (3.6 percent of net sales). They are completely expensed in the statement of income.

Employees

Headcount of employees at June 30, 2005 is 38,483 (including 4,085 temporary employees), compared to 37,154 at December 31, 2004 (including 3,513 temporary employees). This is a total increase of 1,279 persons mainly due to the higher utilization of workers with temporary contracts to meet the peaks in demand and the opening of the new steelcord manufacturing site in Romania.

Without taking into account the Cables and Systems sectors which are considered discontinued operations, the headcount increased from 24,790 at December 31, 2004 to 26,050 at June 30, 2005.

Significant events subsequent to the end of the first six months

- On July 29, 2005, the joint venture agreement announced last June 16 between Pirelli and Roadone Tyre Co. Ltd. was executed, after approval was received from the relevant authorities.

  The aim of the joint venture, in which Pirelli will be the majority shareholder with about a 60 percent stake in share capital, is the manufacture of truck radial tyres in the Shangdon Province. The company will serve the Chinese market and other markets in southeast Asian. The initial investment in the joint venture by Pirelli is U.S.$ 70 million (about Euros 60 million).

- On July 26, 2005, the board of directors of Pirelli RE SGR approved the interim management accounts at June 30, 2005 of the managed real estate funds and passed resolutions on the following:

  - Tecla Fondo Uffici, the payment of dividends equal to Euros 22.43 per share with a semiannual return of 4.7 percent. Considering also the dividends paid on June 30, and December 31, 2004, the Fund closes the first 16 months of operations with the distribution of total income of Euros 55.88 per share for an average annual return of 8.6 percent, based solely on dividends without taking into account the revaluation of NAV.

  - for Olinda Fondo Shops, the payment of dividends equal to Euros 16.90 per share with a semiannual return of 3.4 percent. The Fund closes its first seven months of operations with the distribution of total income of Euros 16.90 per share for an average annual return of 6 percent, based solely on dividends and without taking into account the revaluation of NAV.

- for Cloe Fondo Uffici, the payment of dividends equal to Euros 26,810.55 per share with a semiannual return of 10.7 percent. Considering also the dividends paid on December 31, 2004, the Fund closes its first months of operations with the distribution of total income of Euros 41,918.03 per share for an average annual return of 16.8 percent, based solely on dividends without taking into account the revaluation of NAV.

- for Clarice Light Industrial, for the second quarter of 2005, the distribution of dividends equal to Euros 5,751.49 per share, with a quarterly return of 2.3 percent. The Fund closes its first six months of operations with the distribution of total income of Euros 12,276.07 per share for an average annual return of 9.1 percent, based solely on dividends and without taking into account the revaluation of NAV.

- On July 14, 2005, the global offer for shares of Berenice Fondo Uffici ended well in advance of the July 26 deadline). This is the third listed real estate fund promoted by Pirelli RE SGR and is specialized in buildings for tertiary-office occupancy or reconvertible for that purpose. Total requests for shares were equal to 142 percent of the shares offered and the offering price was fixed at Euros 505 per share.

- On July 19, 2005, the first purchase of property took place for residential trading through the use of real estate funds with a view to increasing the real estate activities component on regulated markets. In particular, the Diomira reserved Fund was set up, seeded with 19 buildings from Enpam for a value of about Euros 149 million. The Fund has intention of making further acquisitions over the next quarter for the same amount. The offer, for a value of approximately Euros 70 million, was entirely place with qualified investors, including the Pirelli RE and Lehman Brothers joint venture for investments in the residential sector. Pirelli RE participates in the Fund with about a 32 percent interest.

- On July 29, 2005, an agreement was signed for Pirelli RE's investment in Turismo&Immobiliare, which holds a 49 percent interest in Italia Turismo. Pirelli RE purchased an 8.3 percent stake in the company from each of the current shareholders: Banca Intesa, the IFIL Group and the Marcegaglia Group. After the transaction is concluded, against payment of a total of Euros 3.4 million, Pirelli RE will hold a 25 percent stake in Turismo&Immobiliare. The execution of the agreement is subject to obtaining authorization from the antitrust authority.

- On August 3, 2005, Pirelli RE and a syndicate of Italian and international banks signed a contract for a 5-year revolving line of credit for Euros 450 million. The interest of the banks in the Pirelli RE Group was demonstrated by those offering to join the pool during the syndication period begun on June 29, 2005, which was higher than the demand for funding. The transaction, concluded by 12 foreign banks and six Italian banks, made it possible to reach the goal of optimizing total financial exposure with the banking system which is now on average higher than four years.

Outlook for the current year

The results reached during the first half of the year allow the Group to confirm its expectations for a significant improvement in operating profit for the full-year 2005, unless external extraordinary events occur which cannot be foreseen at this time.
In particular, in the Tyres Sector, although pressure over raw material costs has intensified, the tendency towards improvement is expected to continue, taking into account seasonal factors. As for Pirelli Broadband Solutions, the significant market share for broadband access products is expected to hold and the first sales should start for second-generation photonics products.

As regards real estate activities, based upon the results recorded in the first six months of the year and available information, an increment in the operating profit including the share of earnings (losses) of equity investment is forecast for 2005 such as to reach the growth targets already communicated to the market.

TYRES SECTOR

The highlights of the consolidated financial data of the Tyres Sector for the six months ending June 30, 2005 can be summarized as follows:

(in millions of euros)

	1st half 2005	1st half 2004	Year 2004
. Net sales	**1,796**	1,659	3,253
. Gross operating profit	**280**	243	452
% of net sales	**15.6%**	14.6%	13.9%
. Operating profit	**187**	154	275
% of net sales	**10.4%**	9.3%	8.4%
. Financial income (expenses)	**(16)**	(19)	(33)
. Income taxes	**(55)**	(52)	(74)
. Net income	**116**	83	168
% of net sales	**6.5%**	5.0%	5.2%
. Net financial (liquidity)/debt position	**350**	375	214
. Capital expenditures	**93**	72	190
. R&D expenditures	**73**	64	124
. Employees (number at period-end)	**22,824**	21,150	21,513
. Factories (number)	**23**	22	22

Net sales for the six months ending June 30, 2005 amount to Euros 1,796 million, with an increase of 8.3 percent compared to the corresponding period of the prior year. Net of the foreign exchange effect, there is an increase of 7.1 percent.

The change in net sales can be attributed to:

• Volumes	+	2.0%
• Prices/mix	+	5.1%
Change on a comparable basis	+	**7.1%**
• Foreign exchange effect	+	1.2%
Total change	+	**8.3%**

The distribution of net sales is as follows:

Geographical Area	1st Half 2005	1st Half 2004
Italy	13%	14%
Other European countries	42%	43%
North America	8%	7%
South America	25%	23%
Africa/Asia/Oceania	12%	13%

Product category	1st Half 2005	1st Half 2004
Car tyres	61%	60%
Truck tyres	26%	26%
Motorcycle tyres	9%	9%
Steelcord/Other tyres	4%	5%

Operating profit for the six months ending June 30, 2005 is equal to Euros 187 million. This is an increase of more than 21 percent over the same period of the prior year. As a percentage of net sales, operating profit is 10.4 percent compared to Euros 154 million, equal to 9.4 percent in the first half of 2004.

In particular, the favorable trend in the prices/mix more than compensated the increase in the cost of production factors.

The change in operating profit can be summarized as follows:

Operating profit 1st half 2004		**154**
. Foreign exchange effect	5	
. Prices/mix	58	
. Volumes	19	
. Production factors per unit cost	(47)	
. Efficiencies	4	
. Depreciation	2	
. Other	(8)	
		33
Operating profit 1st half 2005		**187**

Net income for the six months ending June 30, 2005 is equal to Euros 116 million (after financial expenses of Euros 16 million and income tax expenses of Euros 55 million) and compares to Euros 83 million for the first six months of 2004 (after financial expenses of Euros 19 million and income tax expenses of Euros 52 million).

The **net financial position** is a net debt position of Euros 350 million compared to Euros 214 million at December 31, 2004. The negative change is mainly due to the payment of dividends to the parent company Pirelli & C. S.p.A. for Euros 120 million.

Headcount of **employees** at June 30, 2005 is 22,824, including 3,406 employees with temporary contracts, compared to 21,513 at December 31, 2004 (including 2,576 persons with temporary contracts). The increase in the number of employees with temporary contracts was mainly for the purpose of meeting seasonal peaks in manufacturing activities, mainly in Turkey, Argentina and Brazil.

Factories, now at 23, grew in number from December 31, 2004 with the addition of the site in Romania and the DrahtCord Saar's Steelcord unit which entered the scope of consolidation offset by the sale of the site in Little Rock (U.S.A.) for the manufacture of vulcanization rooms.

Consumer Market

Although the markets showed signs of growing competitiveness, Pirelli's business operations reported a positive increase in volumes and sales compared to the first half of 2004. There was a steady increase, with above-average performance in South America, thanks particularly to the positive trend of the demand for Original Equipment in Brazil (+12 percent) and in North America, despite a fall in demand for Original Equipment (-5 percent) compensated by an increase in the Replacements market (+2 percent).

In Europe, there was a negative demand for both Original Equipment (-4 percent) and Replacements (-1 percent).

In May of this year, the Paul Ricard race track in the south of France was host to an event called ‘Technology in Revolution’. Almost 1,000 guests, including international journalists, representatives of Europe’s leading car manufacturers and customers took part in the presentation and watched the dynamic tests of the renewed Run Flat product range, including Eufori@, PZero Nero, Winter Sottozero and Winter Snowsport. The Pirelli range is highly diversified and covers most of the tyres for the vehicles which fit Run Flat tyres.

To reinforce the idea that 2005 is Innovation Year for Pirelli, its innovative systems for controlling pressure and controlling the status of tyres were presented as part of a world preview: the new X-PRESSURE range of direct systems for monitoring tyre pressure, based on a new-generation sensor, which is extremely simple to use and fit and has a very good function-cost ratio.

Other new devices based on the rim/tyre unit and which interact with the on-board computer (SWS, CyberTyre and CyberWheel) were also presented in static and dynamic modes.

In 2005, there was further proof of Pirelli’s leadership in terms of technology and performance when the PZero Nero came top in tests devised by German specialist car magazines, achieving a very high performance.

The homologation portfolio continues to expand.
The main homologations obtained were as follows:

P Zero Rosso	Alfa Romeo, Audi, Bentley, BMW, Daimler Chrysler, Jaguar, Porsche, Seat, Saab, Volkswagen, Volvo
P Zero Corsa	Audi Quattro, BMW M
Scorpion Zero	Daimler Chrysler, Ford, Land Rover

New homologations were also obtained for:

P7	Alfa Romeo, Audi, Cadillac, Fiat, Ford, Volvo
P6	Skoda
Eufori@	Audi, BMW, Cadillac
P6 Four Seasons	Audi, Daimler Chrysler, GM, Saab
Scorpion ATR	Ford

In the United States, the performance of the P6 Four Seasons and the P Zero Nero M+S received acknowledgments from leading car manufacturers and the market. The SUV line was also successful with the Scorpion STR and the new ATR.

Pirelli's leadership in terms of technology, high quality and service led to the company being selected for the 'Gold World Excellence Award', an award made by the Ford Motor Company to its best supplier.

This year, Pirelli participated in the Geneva International Motor Show and again had a high profile with a 20 percent share. It presented its latest products, particularly for the SUV segment, with the new extreme sizing fitment of the Scorpion Zero Asimmetrico (up to 26").

The 2005 Motorsport season has seen Pirelli participating at a high level, both on the race track and on the road.
In the World Rally Championship, half-way through the championship, Peugeot-Pirelli is in the lead in the manufacturers class, whereas the Norwegian driver Petter Solberg (Subaru-Pirelli) is in second position behind the reigning champion Loeb (Citroen) thanks to two victories, one on snow in Sweden and one on dirt roads in Mexico. Mitsubishi also performed well, and is the third team fitted with Pirelli tyres participating in the championship.

In the FIA GT Championship, the Maserati MC12 fitted with Pirelli tyres performed brilliantly in all the races (gaining the highest points at Magny Cours and Silverstone) and is battling it out for the final victory, both in the team and driver categories. The P Zero Racing range was also successful in the FIA GT race at Imola, with the Corvette C5. Starting this year, Maserati models with Pirelli tyres are also competing in the ALMS championship in the U.S.A. Other Pirelli victories on the race track resulted with the Ferrari 550, which competed in the long-distance races of the LMES series in Europe.

Pirelli’s experience as the Official Tyre Supplier of the World Superbike and Supersport championships is also proving positive and the motorcycle tyre business has expanded in all the market segments.

Industrial Market

The industrial vehicles market reflects two very different situations compared to the prior year:

Original Equipment: growth in all segments

Replacements: growth in Latin America (+3 percent), a significant reduction in Europe (-8 percent)

Some of the most important business decisions implemented include:

- A policy of strong action with regard to prices, with generalized increases in all areas.
- Focus on the product mix, with the launch of more sizes for the high-performance Amaranto range using SATT (Spiral Advanced Technology for Trucks) technology.
- Development/consolidation of sales of this top-of-the-range line for the European bus and truck markets and introduction of these products to Latin America.
- Participation in the Barcelona-Dakar Raid with an innovative product (PS22) of standard production in extreme conditions with excellent results in its category. Having passed demanding performance tests, the product is to be supplied to the German army.
- Growth of production volumes, especially in Latin America.

In China, a joint venture was signed in which Pirelli is the majority shareholder. The joint venture will have a production capacity of approximately 600,000 all-steel radial truck tyres a year, and is strategically located in the province of Shandong, one of the Chinese provinces which is furthest ahead in terms of industrialization and growth rate. As a result of this venture, the truck tyre business has entered one of the world’s largest markets, thus completing its strategic positioning in markets with a high growth rate.

Steelcord products ended the first half of 2005 with a sales increase that was in line with market growth.

In the first half of 2005, world consumption of Steelcord reported an estimated increase of about 4 percent, in line with long-term average growth but lower than the rates recorded in 2003 and 2004 (+8 percent). China, Latin America and Eastern Europe were again the areas with the highest rates of growth.

The trend of increased steel prices which began at the beginning of the prior year continued into the first months of 2005. Having reached levels that were as much as 80 percent higher than average prices in recent years, today, the situation seems to be showing signs of stabilizing. To date, increases in the cost of the raw material have resulted in an increase in the prices of finished products.

Production capacity continues to grow in areas where the market is expanding rapidly and costs are competitive. At the Sumarè factory in Brazil, production increased by 40 percent compared to the prior year and, in March 2005, production began at the new factory at Slatina in Romania, a joint venture in which Pirelli holds an 80 percent stake and Continental a 20 percent stake.

Business outlook

Despite further pressure on the costs of raw materials, the improvement in the economic result compared to the prior year is expected to continue. However, this may be attenuated by the typical low seasonal sales during the second half of the year.

PIRELLI BROADBAND SOLUTIONS

The highlights of the consolidated financial data of the Pirelli Broadband Solutions for the six months ending June 30, 2005 can be summarized as follows:

(in millions of euros)

	1st half 2005	**1st half 2004**	**Year 2004**
. Net sales	**64**	28	63
. Gross operating loss	**(2)**	(4)	(8)
% of net sales	**n.s.**	n.s.	n.s.
. Operating loss	**(3)**	(4)	(8)
% of net sales	**n.s.**	n.s.	n.s.
. Financial income (expenses)	**(1)**	(1)	(4)
. Net loss	**(4)**	(5)	(12)
% of net sales	**n.s.**	n.s.	n.s.
. Net financial (liquidity)/debt position	**3**	22	27
. Employees (number at period-end)	**112**	n.d.	79

Net sales for the six months ending June 30, 2005 amount to Euros 64 million compared to Euros 28 million in the first half of 2004; they consist entirely of broadband access products.

The positive trend in sales is driven by the sales of ADSL access products, which show good prospects for development. The company's leadership position in this field was consolidated in Italy in the first half of 2005 with the acquisition of new customers, in particular, thanks to the launch of new VoIP services using Pirelli solutions.

The **operating result** for the six months ending June 30, 2005 is a profit for broadband access activities while the start-up of second-generation photonics products resulted in an operating loss of Euros 3 million, with an improvement over the prior year.

The change in the operating loss can be summarized as follows:

Operating loss 1st half 2004		**(4)**
. Prices/mix	5	
. Volumes	1	
. Efficiencies	(4)	
. Other	(1)	
		1
Operating loss 1st half 2005		**(3)**

The **net financial position** is a net debt position of Euros 3 million.

Headcount of **employees** at June 30, 2005 is 112, with an increase of 33 compared to December 31, 2004, concentrated in the Engineering and Sales functions.

Broadband Access

The market displays enormous potential for development and the company is counting on this to acquire contracts and orders. The first half of 2005 was witness to the consolidation of the company’s leadership in Italy. This occurred as a result of the acquisition of other customers such as Tiscali and Eutelia for the launch of new VoIP services based on Pirelli solutions, the supply of more than 60 percent of Fastweb’s needs and the growth of business with Telecom Italia using solutions both for the residential and SMB (Small Medium Business) environment.

Sales activities in the first half also centered on the introduction of PBS solutions on the European and South American markets and the identification of potential commercial and technological partners to penetrate emerging markets and develop innovative broadband solutions.

Development of PMP (Pirelli Management Platform) continued as this will allow the company to introduce the “Solution” concept to the broadband access market and to add functions to the second-generation access gateways, namely telemanagement and automatic provisioning, and thus improve the quality of the service supplied to operators and reduce the operating costs of access equipment.

New Photonics Products

In the first half of 2005, the development stage ended for products such as CWDM (Coarse Wavelength Division Multiplexer). During this period, besides stabilization of the product, various contacts were established with different customers for the purpose of creating alliances and sealing agreements both in Europe and worldwide.
The commitment in the area of optical components is also continuing by means of the process to introduce the market to DTL (Digital Tunable Laser) as the most important product in the technological photonics range. Pre-mass produced prototypes of these products are in the process of being tested at major customers with excellent technical feedback which puts Pirelli’s product on the cutting-edge for technical solutions and competitiveness.

Outlook for the current year

The access market experienced a sharp gain especially in the first half of the year following the boost given by our main final customer in terms of both marketing and the number of contacts made. This “seasonal” effect, although continuing into the second part of the year, is destined to decline slightly due in part to the normal leveling off of demand which should nevertheless benefit to a certain extent from the “Christmas” campaign at the end of the year.
As for photonics, invoicing of the CWDM should start in the second part of the year following programs launched by Telecom Italia to cover 17 cities with IPTV services. DTL, too, after the testing phase is completed by customers, should start invoicing by the end of the year.

REAL ESTATE SECTOR

Economic review

The highlights of the statement of income are presented below. In reading these figures, it should be pointed out that the aggregate production value (which, under IAS/IFRS, are basically equivalent to the aggregate value of production net of acquisitions, used previously) and the operating result including the share of earnings (losses) of equity investments, because of the type of business conducted by the Pirelli & C. Real Estate S.p.A. Group, are the most important indicators expressing, respectively, the business volumes managed and the trend in results at the operating level.

(in millions of euros)	1st half 2005	1st half 2004
Aggregate production value	**1,741.7**	**1,213.5**
Consolidated production value	363.0	297.4
Operating profit including the share of earnings (losses) of equity investments	**80.3 (*)**	**58.2**
Net income - attributable	**59.8**	**48.0**

(*) includes Euros 1.1 million of income from real estate funds

Aggregate production value amounts to Euros 1,741.7 million, with an increase compared to Euros 1,213.5 million for the first six months of 2004 (+44 percent).

Consolidated production value for the first six months ending June 30, 2005 is Euros 363 million, with an increase compared to Euros 297.4 million for the first half ending June 30, 2004 (+22 percent).

The operating profit including the share of earnings (losses) of equity investments is a profit of Euros 80.3 million, with an increase of 38 percent compared to Euros 58.2 million for the first half of 2004.

The net income attributable to the parent company is Euros 59.8 million, compared to Euros 48.0 million for the first half ending June 30, 2004, with a growth of 25 percent.

Balance sheet and financial review

(in millions of euros)	6/30/2005	12/31/2004
Fixed assets	**360.8**	**375.7**
. including investments in real estate funds and investment companies	*258.6*	*241.5*
Net working capital	**186.2**	**204.6**
Net invested capital	**547.0**	**580.3**
Shareholders' equity	**459.2**	**491.9**
. of which attributable to the parent company	*454.0*	*485.5*
Provisions and contributions	**45.2**	**48.2**
Net financial (liquidity)/debt position	**42.6**	**40.2**
. Of which shareholder loans receivable	*(230.7)*	*(209.8)*
Total net invested capital financed	**547.0**	**580.3**
Net financial (liquidity)/debt position before shareholder loans receivable	**273.3**	**250.0**
Gearing ratio, financial position before shareholder loans receivable	**0.60**	**0.51**

Shareholders’ equity attributable to the parent company at June 30, 2005 is Euros 454 million compared to Euros 485.5 million at the end of 2004. The change is due to the combined effect of a reduction due to the payment of dividends (Euros 68.3 million) and the reclassification of treasury shares to shareholders’ equity and an increase due both to the income for the period and the increase in capital with a share premium to service the stock options (Euros 11.8 million).

The net financial position at June 30, 2005 shows a net debt position of Euros 42.6 million compared to a net debt position of Euros 40.2 million at December 31, 2004 and a net debt position of Euros 46.3 million at June 30, 2004.

The adjusted net financial position (expressed before shareholder loans made to minority-owned companies) is a net debt position of Euros 273.3 million compared to Euros 250 million at December 31, 2004 and a net debt position of Euros 281.1 million at the end of June 2004.

The gearing ratio is 0.60 compared to 0.51 at December 31, 2004 and 0.69 at the end of June 2004.

Fixed assets total Euros 360.8 million at June 30, 2005 compared to Euros 375.7 million at the end of 2004, with a decrease of Euros 14.9 million mainly attributable to the reclassification of treasury shares as mentioned above (Euros 32.9 million) which was partially compensated by the increase in equity investments and junior bonds subscribed (Euros 16.8 million).

Net working capital is equal to Euros 186.2 million, compared to Euros 204.6 million at the end of 2004. The decrease of Euros 18.4 million can principally be ascribed to the combined effect of the reduction in inventories following the sale of buildings during the first half (Euros 58.7 million) and the reduction in trade payables (Euros 38.8 million).

Outlook for the current year

On the basis of the results reported for the first half of the year and available information, an increase in the operating profit including the share of earnings (losses) of equity investment is forecast for 2005 such as to reach the growth targets already communicated to the market.

For additional information regarding the performance of the real estate group, reference can be made to the report prepared by Pirelli & C. Real Estate S.p.A..

PIRELLI & C. AMBIENTE HOLDING

The result of the company for the first half of 2005 is a loss of Euros 1.8 million.

At the end of the month of December 2004, Pirelli & C. Ambiente Holding S.p.A. (51 percent-owned by Pirelli & C., 45.3 percent by Camfin and 3.7 percent by Centrobanca Sviluppo Impresa SGR) bolstered the Group’s presence in the environmental sector by integrating the activities of Pirelli & C. Ambiente S.p.A., a company operating in the field of renewable energy sources through the production of a fuel derived from waste and in the sector of environmental redevelopment, and Cam Tecnologie S.p.A. (now Pirelli & C. Ambiente Tecnologie S.p.A.), a company already controlled by Camfin S.p.A. and a producer of low-impact environmental fuel Gecam™ - Il Gasolio Bianco.

In particular, Pirelli & C. Ambiente reported a loss of Euros 1.2 million for the first six months of 2005, compared to a loss of Euros 1.3 million for the corresponding period of 2004 and a loss of Euros 1.0 million for the same period of 2003.

During the year, the company continued its activities in the field of renewable energy sources with the production, through the associate I.D.E.A. Granda S.C.R.L., of a quality fuel (CDR-P) derived from solid waste for the subsequent start of renewable energy development through the replacement of primary fossil fuels, and in the sector of environmental redevelopment.

The company Pirelli & C. Ambiente Tecnologie S.p.A. (ex-Cam Tecnologie S.p.A.) reported a loss of Euros 0.6 million against a loss of Euros 0.4 million for the same period of the prior year.

Under the company's strategy to diversify production, additional emphasis was given to activities related to the development, fine-tuning and sale of post-treatment filtering systems to reduce polluting emissions from "heavy" diesel engines. To this end, the activities inherent to the order acquired in December 2004 for 317 post-treatment diesel engine systems to ATM Milan is proceeding according to plan. Delivery is scheduled to start from the second half of 2005 for a minimum invoiced amount of approximately Euros 1.2 million.

PERFORMANCE OF THE ASSETS HELD FOR SALE

ENERGY CABLES AND SYSTEMS SECTOR

The highlights of the consolidated financial data of the Energy Cables and Systems Sector for the six months ending June 30, 2005 can be summarized as follows:

(in millions of euros)

	1st half 2005		1st half 2004	Year 2004
. Net sales	**1,651**		1,499	3,051
. Gross operating profit	**113**		97	200
% of net sales	**6.8%**		6.5%	6.6%
. Operating profit	**78**		59	125
% of net sales	**4.7%**		3.9%	4.1%
. Share of earnings (losses) of equity investments	**(2)**		-	9
. Operating profit (loss) incl. share of earnings (losses) of equity invest.	**76**		59	134
. Financial income (expenses)	**(16)**		(15)	(31)
. Income taxes	**(15)**		(14)	(11)
. Net income	**45**		30	92
% of net sales	**2.7%**		2.0%	3.0%
. Net financial (liquidity)/debt position	**399**		400	182
. Capital expenditures	**14**		22	57
. R&D expenditures	**16**		17	32
. Employees (number at period-end)	**10,614**		10,882	10,385
. Factories (number)	**46**	*	48	46

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

Net sales for the six months ending June 30, 2005 amount to Euros 1,651 million, and show an increase of 10.1 percent compared to the same period of the prior year.

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

• Volumes	+	1.1%
• Prices/mix	+	6.5%
Change on a comparable basis	+	**7.6%**
• Change in scope of consolidation	-	3.0%
• Metal prices	+	5.5%
Total change	+	**10.1%**

Operating profit for the six months ending June 30, 2005 is Euros 78 million, compared to Euros 59 million for the same period of the prior year. Operating profit is equal to 4.7 percent of net sales and compares to 3.9 percent for the same period of the prior year.

The change in operating profit is due to the following:

Operating profit 1st half 2004		**59**
. Foreign exchange effect	1	
. Prices (excluding metals)/mix	41	
. Volumes	1	
. Production factors per unit cost	(29)	
. Efficiencies	3	
. Depreciation	3	
. Other	(1)	
		19
Operating profit 1st half 2005		**78**

Net income for the first six months of 2005 is Euros 45 million compared to a net income of Euros 30 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 399 million compared to Euros 182 million at December 31, 2004. The increase is mainly due to seasonal factors which caused an increase in working capital partly due to the trend in the prices of metals.

Headcount of **employees** at June 30, 2005 is 10,614, an increase of 229 compared to 10,385 at December 31, 2004.

The number of **factories** has remained unchanged compared to December 31, 2004 at 46 units.

Trend of business

An analysis of sales by geographical area shows an increase of sales in Europe due mainly to higher prices, especially of metals, and an improvement in the mix.

In North America, too, despite the weakness of the U.S. dollar, sales record a growth in connection with the increase of prices.

In contrast, the trend of sales in South America posts a slight decline compared to the prior year since the increase in prices and the impact of favorable exchange rates do not totally compensate the reduction in volumes.

Sales in the Asia Pacific area (Australia, Indonesia and China) are higher as a result of higher sales volumes and prices.

The positive trend in sales was greater in the Trade and Installers segments (+11 percent) and Utilities (+28 percent). On the contrary, the Industrial Market activities records a decline (-5 percent) compared to the prior year.

Activities in the Energy Submarine area, in the first half of 2005, focused on the development of the Basslink contract (Australia – Tasmania link). The project involves the supply of the 295 kilometers of paper-insulated cable and 195 kilometers of extruded cable. Installation activities will be conducted by the Pirelli cable-laying vessel “Giulio Verne”. The overall value of the contract is approximately Euros 193 million.

During the same period, work continued on the Spain-Morocco II contract, which involves the supply and installation of an interconnection system between Spain and Morocco. The system will enable power transmission of approximately 700MW. The overall value of the contract is approximately Euros 58 million. Production of the power cable continued during the first half of 2005.

Moreover, mention is made of the Sar-Co (Euros 13 million) and Nantucket II (Euros 14 million) projects. The Sar-Co project is a link between Sardinia and Corsica for the supply and installation of an interconnection system for 150kV power transmission. The Nantucket II project, on the other hand, is a link between the island and the mainland for the supply and installation of an interconnection system for 46kV power transmission.
Lastly, business in 2005 also comprised the cable supply contract for barrow wind mills, as well as the installation of the Leyte-Cebu (Philippines) project.

With regard to sales activities, the Submarine Power Systems area won the contract – on behalf of the American company Neptune Regional Transmission System LCC – to design, supply and build a high-voltage direct current underwater connection between the New Jersey and the New York transmission grids worth U.S.$ 190 million.

A cable supply contract was also acquired for marine barrow wind mills at Near Shore (Holland) worth Euros 7 million and a cable supply contract for barrow wind mills at Orkney (Scotland).

As regards the Land Power Systems - High Voltage, operations in the first half of 2005 focused mostly on two contracts: “ADWEA 400 kV Abu Dhabi” (the United Arab Emirates) and “TERNA 380 kV Turbigo-Rho” (Italy).

The first contract covers the manufacture of a 400kV alternating current interconnection on the island of Abu Dhabi for Abu Dhabi Water and Electricity Authority. The project was awarded to a consortium equally-owned by Nexans and Pirelli. A first change in the order was made during the period for about Euros 2.5 million which brought the total value of the contract for Pirelli to Euros 33 million (AED 148 million) and extended the delivery date by six months to December 2006.

Work at the local site is proceeding according to plan and 12.5 kilometers had been laid by June 30, 2005.

As regards the project for the manufacture of the 380 kV connection between Pogliano Milanese and Rho for TERNA, the first six pieces of the XLPE extruded cable of approximately 4.5 kilometers out of an estimated total of 51 kilometers were completed at the Gron (France) factory in June. The executive design, work plan and receipt of the permits for excavation had been finalized in the preceding months. The total value of the contract is Euros 22 million, to be completed by the end of April 2006.

Finally, mention is made of the presentation of a bid for the 380kV plant in Turkey for the national operator Teias.

R&D expenditures

In the energy field, the most important activities include the following:

- Continuation of the development of **Airguard special types** products.

- Continuation of the introduction of **Air-Bag^{TM} light** technology to General Market products.

- Continuation of the development of protection systems using **Air-Bag^{TM}** technology in combination with metallic protection systems (Wire bag and Tape bag).

- Dissemination of the innovative P-Laser product process to our most important customers (ENEL, ACEA, AEM and NUON).

- Development, in collaboration with the Politecnico University of Milan, of two optical instruments for distributed temperature measurement, respectively for medium voltage systems and high voltage systems.

- Upgrading of the management and monitoring system of the Real Time Thermal Rating system for the China Light & Power link in Hong Kong. Load current monitoring has been added to the system.

- Study of the model of sea water longitudinal diffusion in a submarine cable, subsequent to accidental damage of the cable. The study defines the procedure for draining the sea water during the repair stage.

- Study of the project and development of a design model for induction oven cables (special power cables for high frequency);

- Completion of the first part of the manual for the development of Undergrounding (undergrounding of electrodes in insulated cables) in cooperation with GRTN. In the version currently developed the scenarios have been studied relating to the connections of Turbigo-Rho (400kV), Tavarnuzze-Casellina (400kV) and a possible rationalization of the 132kV-220kV Valtellina network.

- Design of the magnetic shielding apparatus using reclosable raceways, for a part of the Turbigo-Rho link.

- Continuation of research on the **Roundflat (Bus Energy Systems)** systems for Industrial and Specials: those systems will be introduced on the market in 2006.

- Continuation of the research and development of the **lead less** cable systems for land and submarine applications.

TELECOM CABLES AND SYSTEMS SECTOR

The highlights of the consolidated financial data of the Telecom Cables and Systems Sector for the six months ending June 30, 2005 can be summarized as follows:

(in millions of euros)

	1st half 2005	**1st half 2004**	**Year 2004**
. Net sales	**177**	177	372
. Gross operating profit	**7**	3	30
% of net sales	**4.0%**	1.7%	8.1%
. Operating profit	**(4)**	(11)	7
% of net sales	**n.s.**	n.s.	1.9%
. Share of earnings (losses) of equity investments	**1**	-	
. Operating profit (loss) incl. share of earnings (losses) of equity invest.	**(3)**	(11)	7
. Financial income (expenses)	**(6)**	(5)	(13)
. Income taxes	**(1)**	(1)	3
. Net income	**(10)**	(17)	(3)
% of net sales	**n.s.**	n.s.	n.s.
. Net financial (liquidity)/debt position	**316**	283	274
. Capital expenditures	**7**	14	28
. R&D expenditures	**5**	16	25
. Employees (number at period-end)	**1,819**	**2,043**	1,882
. Factories (number)	**8 ***	**11**	9

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

Net sales for the six months ending June 30, 2005 amount to Euros 177 million, unchanged compared to the same period of the prior year.

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

• Volumes	+	20.4%
• Prices/mix	-	21.8%
Change on a comparable basis	**-**	**1.4%**
• Foreign exchange effect	-	0.4%
• Metal prices	+	1.8%
Total change	**+**	**0.0%**

The **operating loss** for the first half of 2005 amounts to Euros 4 million, compared to an operating loss of Euros 12 million for the first half of the prior year.

The change can be summarized as follows:

Operating loss 1st half 2004		**(12)**
. Prices (excluding metals)/mix	(12)	
. Volumes	7	
. Efficiencies	5	
. Depreciation	1	
. Other	7	
		8
Operating loss 1st half 2005		**(4)**

The **net loss** for the first six months of 2005 is Euros 10 million compared to a net loss of Euros 19 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 316 million, with an increase compared to Euros 274 million at December 31, 2004.

Headcount of **employees** at June 30, 2005 is 1,768, with a decrease of 114 compared to December 31, 2004.

Trend of business

Gains in volumes were mainly reported in North America. South America and the Asia Pacific area displayed a slight increase, whereas volumes in Europe show a slight reduction. Prices continue to record pressure everywhere but particularly in North America. Prices are up only in China.

With regard to optical fiber, worldwide demand is showing signs of recovery but the higher volumes are compensating lower prices and an unfavorable mix.

Volumes of optical cables recorded an increase which is principally associated with the development project of the customer Verizon in the United States. The market of copper cables registers a slight gain in terms of volumes. The connectivity business is in line with that of the prior year.

PROFORMA DATA

Proforma consolidated financial data assuming the line-by-line consolidation of Olimpia S.p.A.

Proforma consolidated financial data at June 30, 2005 of Pirelli & C. S.p.A. is presented below, assuming the consolidation line-by-line of Olimpia S.p.A.

(in millions of euros) IAS/IFRS	Consolidated financial statements 6/30/2005 Pirelli & C. S.p.A. (1)	Proforma adjustments				Proforma consolidated financial statements 6/30/2005 Pirelli & C. S.p.A. (2)
		Elimination of Olimpia S.p.A net result attributable to Pirelli & C. S.p.A.	Olimpia S.p.A. line-by-line consolidation	Olimpia consolidation entries	Total proforma adjustments	
Condensed statement of income						
Net sales	2,281	-	-	-	-	2,281
Operating profit	202	-		-	-	202
Financial income (expenses)/ valuation adjustments to financial assets	46	(86)	143	-	57	103
Income taxes	(71)	-	-	-	-	(71)
Net income from continuing operations	177	(86)	143	-	57	234
Net income of assets held for sale	33					33
Total net income	210	(86)	143	-	57	267
Net income - attributable to Pirelli & C. S.p.A.	179	(86)	86	-	-	179
Reclassified balance sheet						
Shareholders' equity	5,458	(86)	8,376	(5,614)	2,676	8,134
- of which shareholders' equity - attributable to Pirelli & C. S.p.A.	5,098	(86)	5,063	(4,977)	-	5,098
Net financial (liquidity)/debt position	2,338	-	3,403	-	3,403	5,741

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

The proforma consolidated financial data has been prepared using:

- the interim financial statements of Olimpia S.p.A. at June 30, 2005, drawn up in accordance with IAS/IFRS, wherein the investment in Telecom Italia is accounted for by the equity method (on financial statements prepared in accordance with IAS/IFRS);
- the interim consolidated financial statements of Pirelli & C. S.p.A. at June 30, 2005 (prepared in accordance with IAS/IFRS) wherein Olimpia S.p.A. is accounted for, in turn, by the equity method.

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.": elimination of the statement of income and balance sheet effects of valuing Olimpia S.p.A. by the equity method in the Pirelli & C. S.p.A. consolidated financial statements for the six months ended June 30, 2005;

- in the column "Olimpia S.p.A. line-by-line consolidation": inclusion of the assets, liabilities, costs and revenues resulting from the financial statements for the six months ended June 30, 2005 of Olimpia S.p.A., prepared in accordance with IAS/IFRS consistent with the Pirelli Group, attributing the share of net equity and results of operations to the minority interest. The forward purchase of 124,129,937 Telecom Italia ordinary shares, concluded by Olimpia in 2001, was accounted for at original cost as an increase in the investment in Telecom Italia with a contra-entry to the relative payable account;

- in the column “Olimpia S.p.A. consolidation entries”, the carrying value of the Olimpia S.p.A. investment in the Pirelli & C. S.p.A. financial statements was eliminated against the underlying share of the accounting net equity.

  For purposes of this representation, the difference between the carrying value of the Olimpia S.p.A. investment in the Pirelli & C. S.p.A. consolidated financial statements and the underlying share of net equity (Euros 974 million for Pirelli & C. S.p.A.’s share equal to 60.4 percent and Euros 1,611 million for the entire amount) was directly deducted from shareholders’ equity (with a contra-entry to the carrying amount of the Telecom Italia investment).

A comparison of shareholders’ equity and net debt between the consolidated financial statements of Pirelli & C. S.p.A. and the proforma consolidated financial data of Pirelli & C. S.p.A. at December 31, 2004 and at June 30, 2005 is presented below, assuming:

- the line-by-line consolidation of Olimpia S.p.A.;

- the line-by-line consolidation of both Olimpia S.p.A. and the Telecom Italia Group.

(in millions of euros)	**Shareholders' equity**		**Net debt**		**Net debt/Shareholders' equity**		**Shareholders' equity - attributable to Pirelli & C.**	
IAS/IFRS	**6/30/2005**	**12/31/2004**	**6/30/2005**	**12/31/2004**	**6/30/2005**	**12/31/2004**	**6/30/2005**	**12/31/2004**
Pirelli & C. S.p.A. Group: consolidated financial statements	5,458	3,903	2,338	1,601	0.43	0.41	5,098	3,563
Pirelli & C. S.p.A. Group: proforma consolidated data with Olimpia S.p.A. consolidated line-by-line	8,134	6,417	5,741	5,175	0.71	0.81	5,098	3,563
Pirelli & C. S.p.A. Group: proforma consolidated data with Olimpia S.p.A. and Telecom Italia Group consolidated line-by-line	30,811	25,369	49,852	38,037	1.62	1.50	5,098	3,563

CORPORATE GOVERNANCE

The company's *corporate governance* system is based on the central role of the board of directors in providing strategic guidance, complete transparency of operational decisions, both internal and in relation to the market, efficient and effective internal controls, and rigorous rules governing conflicts of interest. As already described in the customary annual reports – in a specific section to which reference can be made – such system is based upon an aggregate of codes, principles and procedures which form the interconnecting weave of the system itself. The above codes, principles and procedures are periodically reviewed and updated, where necessary, to effectively respond, on the one hand, to changes in the law and international *best practices* and, on the other, to changes in the operating practices.

This section of the six-month report presents the updates and the additions to the *corporate governance* system of the company during the first half of the current year.
In particular, during the board meeting held on March 22, 2005 all the directors tendered their resignations as from the date of the shareholders' meeting called for April 28, 2005, one year before the normal termination of their appointments. This was done in order to immediately render applicable the mechanism of the so-called slates for the appointment of the members of the board of directors, introduced in the bylaws last year, and encourage – in line with international *best practices* – an evermore increasing participation of all the shareholders in the life of the company and in the decisions capable of determining the success of the company.
The ordinary shareholders' meeting held on April 28, 2005 therefore:

- established the period of the term of office of the entire board of directors in three years (and thus up to the approval of the financial statements ending December 31, 2007), fixing the total annual compensation of the board of directors in a maximum amount of Euros 1,200,000 pursuant to art. 2389, paragraph 1, of the Italian Civil Code;

- determined the number of the members of the board in twenty and proceeded to appoint the directors Marco Tronchetti Provera, Alberto Pirelli, Carlo Alessandro Puri Negri, Carlo Buora, Carlo Acutis, Gilberto Benetton, Carlo De Benedetti, Gabriele Galateri di Genola, Dino Piero Giarda, Berardino Libonati, Giulia Maria Ligresti, Massimo Moratti, Giovanni Perissinotto, Giampiero Pesenti, Carlo Secchi, Paolo Vagnone, Carlo Angelici, Franco Bruni, Mario Garraffo and Aldo Roveri.

  Leopoldo Pirelli was confirmed as Honorary Chairman of the company.

As a result of the adoption of the slate system, the minority shareholders elected four directors, equal to one fifth of the total (two lists, in fact, were presented: one by participants in the Pirelli & C. S.p.A. shareholders' agreement and another by certain Investment Management Companies (SGR).

Qualifying as independent directors are: Carlo Acutis, Carlo De Benedetti, Dino Piero Giarda, Berardino Libonati, Giampiero Pesenti, Carlo Secchi, Carlo Angelici, Franco Bruni, Mario Garraffo and Aldo Roveri, or half of the new board of directors.

At the end of the aforementioned shareholders' meeting, the board of directors met and confirmed Marco Tronchetti Provera as Chairman, Alberto Pirelli and Carlo Alessandro Puri Negri as Deputy Chairmen and Carlo Buora as Managing Director.

In the light of and consistent with the new corporate regulations pursuant to Legislative Decree No. 6/2003, the Chairman and Managing Director have been identically recognized as legal representative of the company, with the powers necessary to execute any act concerning the various aspects of the business. Moreover, the limits of power conferred – in line with those conferred in the previous mandate (see the annual report on Corporate Governance 2004) – have been qualified as internal limits for the relations between the delegating body and the delegated parties.

The Chairman has also been conferred the following functions of an organizational nature:

- relations with shareholders and disclosure to the same;
- coordination of the activities of the Managing Directors;
- the determination, in agreement with the Managing Directors, of the strategies regarding the general direction and the development policy of the company and the group, as well as extraordinary transactions, to be submitted to the board of directors;
- the proposals, in agreement with the Managing Directors, for the appointment of the members of the general management departments and, after discussing the matter with the Remuneration Committee, their compensation, to be submitted to the board of directors;
- the chairmanship of the management committees with strategic functions;
- communication to the market using every means, with right to delegate this to the Managing Directors.

The board of directors also appointed the new members of the Remuneration Committee, composed of Berardino Libonati (Chairman), Giampiero Pesenti and Aldo Roveri, and the Internal Control and Corporate Governance Committee, composed of Carlo Secchi (Chairman), Carlo Angelici and Franco Bruni.

The members of these committees are all independent directors.

The board of directors also appointed, under the Organizational Model 231 adopted by the company, the new Supervisory Panel – which will remain in office until the end of the term of office of the current board of directors – the members of which are Carlo Secchi, independent director and member of the Internal Control and Corporate Governance Committee, Paolo Francesco Lazzati, Chairman of the Board of Statutory Auditors, and Sergio Romiti, head of the Internal Audit Department of Pirelli & C. S.p.A. These members ensure that all the various professional areas that control corporate operations are represented on the Panel and at the same time fully ensure compliance with the character of autonomy required by the regulations.

The Supervisory Panel was attributed all the powers necessary to make certain that precise and efficient control is exercised over the functioning and observance of the organizational and management model adopted by the company.

Composition of the share capital

The share capital of Pirelli & C. S.p.A., as of September 12, 2005, amounts to Euros 2,764,021,430.56, for a total of 5,315,425,828 shares of par value Euros 0.52 each, consisting of 5,180,661,399 ordinary shares and 134,764,429 non-convertible savings shares.

Share capital may be increased up to a maximum par value of Euros 2,819,827,565.88 through the issue of a maximum number of 107,319,491 ordinary shares as a result of:

- the possible exercise of 212,374,566 Pirelli & C. 2003-2006 warrants for ordinary shares issued pursuant to the resolution approved by the shareholders' meeting held May 7, 2003. For every four warrants exercised, the warrant holder may subscribe – at the price of Euros 0.52 (equal to par value) – one Pirelli & C. ordinary share. The share capital indicated above already takes into account the exercise of 1,349,480,760 warrants;
- the issue of a maximum of 54,225,850 ordinary shares of par value Euros 0.52 each, at the price of Euros 1.15 each, with a share premium of Euros 0.63, for the possible exercise of options granted to the senior and junior executives of the company and its subsidiaries and their subsidiaries as part of the "Pirelli to People" and "Group Senior Executives" stock option plans set up by the merged company Pirelli S.p.A. in 2001.

To the best of the company's knowledge, no legal or natural person can exercise control pursuant to Article 93 of the Legislative Decree 58/1998.
It is nonetheless worth noting the existence of the "Pirelli & C. S.p.A. shareholders' agreement" aimed at ensuring the stability of Pirelli & C.'s shareholder structure and the unitary governance of the business. Extracts from this agreement are available on the company's website *www.pirelli.com* .

Relations with investors and other shareholders

In March 1999, the company established an Investor Relations Department to foster continuous dialogue with the financial market. The *Investor Relations Department*, which reports directly to Managing Director Carlo Buora, is headed by Alberto Borgia and has its own section in the company's *website* *www.pirelli.com*.

In this section of the website investors can find every document of interest, in English as well as Italian, as regards to financial reporting (for example, the annual financial statements and the half-yearly and quarterly reports) and the company's corporate governance system (for example, the Rules of conduct for transactions with related parties, the Procedure for satisfying the requirements of Article 150.1 of Legislative Decree 58/1998, the Insider Dealing Code and the minutes of shareholders' meetings). The section also gives access to the documentation that the company makes available to the financial community in presentations and/or meetings and information on the company's share capital and shareholders (including the publication of shareholders' agreements).

Investor queries may be sent to:
e-mail: ir@pirelli.com; tel.: +39.0264422949; fax: +39.0264424686

PIRELLI & C. S.p.A. – SUMMARY DATA

(in millions of euros)

BALANCE SHEET	6/30/2005	12/31/2004	6/30/2004
Intangible assets	22.5	9.6	11.3
Property, plant and equipment	54.7	55.9	56.0
Financial assets	6,346.6	4,834.4	4,683.9
Net working capital	64.6	243.8	60.2
	6,488.4	**5,143.7**	**4,811.4**
Shareholders' equity	4,490.2	3,571.0	3,192.4
Provisions	373.5	380.3	353.4
Net financial (liquidity)/debt position	1,624.7	1,192.4	1,265.6
	6,488.4	**5,143.7**	**4,811.4**

Balance sheet and financial position

The above statement presents the balance sheet and financial position of the company. The most significant changes refer to the following:

- **intangible assets** increased by Euros 12.9 million compared to December 31, 2004 as a result of the capitalization of the cost incurred for the share capital increase voted by the extraordinary shareholders’ meeting held on January 21, 2005;

- **financial assets** went from Euros 4,834.4 million to Euros 6,346.6 million. The net increase of Euros 1,512.2 million mainly refers to the subscription of the Olimpia S.p.A. share capital increase (Euros 1,344 million), the purchase of 41,930,000 Capitalia S.p.A. ordinary shares from the subsidiary Pirelli Finance (Luxembourg) S.A. (Euros 140 million) and the payment of Euros 20 million against the future capital increase of the subsidiary Pirelli Broadband Solutions S.p.A.;

- **net working capital** decreased by Euros 179.2 million mainly on account of the dividends recorded on the accrual basis at December 31, 2004 of Euros 164 million;

- the increase in **shareholders' equity** compared to December 31, 2004 is summarized in the following table:

(in millions of euros)

Shareholders' equity at 12/31/2004		**3,571.0**
Dividends paid	(113.6)	
Exercise of 2003 - 2006 warrants	0.5	
Share capital increase	1,064.6	
Net loss	(32.3)	
Total change		**919.2**
Shareholders' equity at 6/30/2005		**4,490.2**

- the decrease in **provisions** of Euros 6.8 million compared to December 31, 2004 is chiefly the result of the utilization of the provision for the recovery of abandoned areas for Euros 3.1 million, the utilization of the provision for investment writedowns for Euros 1.3 million, as a result of the writedowns of the investments in Eurofly Services S.p.A. and Altofim S.r.l., and the reduction in the provision for discounting interest flows to present value relating to the sale of the receivables from the tax authorities to Mediofactoring S.p.A. and Unicreditfactoring S.p.A. for Euros 0.9 million;

- **net financial debt position** went from Euros 1,192.4 million at December 31, 2004 to Euros 1,624.7 million at June 30, 2005. A summary of the changes is detailed in the following table;

	(in millions of euros)
Net loss	(32.3)
Investments in group companies	(1,344.0)
Other equity investments	(190.2)
Share capital increase	1,065.1
Dividends collected	174.8
Dividends paid	(113.6)
Others changes	7.9
Total change	**(432.3)**

STATEMENT OF INCOME

(in millions of euros)

STATEMENT OF INCOME	1st half 2005	1st half 2004	Year 2004
Financial income (expenses)	(30.9)	(25.6)	(49.7)
Investment income	11.6	1.2	176.8
Valuation adjustments to financial assets	(17.7)	(19.8)	(27.1)
Other operating income (expenses)	(4.5)	(11.6)	(24.3)
Income (loss) before extraordinary items and income taxes	**(41.5)**	**(55.8)**	**75.7**
Extraordinary items	-	1.1	46.0
Income taxes	9.2	-	27.9
Net income (loss)	**(32.3)**	**(54.7)**	**149.6**

The first half of 2005 ended with a net loss of Euros 32.3 million compared to a loss of Euros 54.7 million for the same period of the prior year.

Income (loss) before extraordinary items and income taxes went from a loss of Euros 55.8 million to a loss of Euros 41.5 million, with an improvement of Euros 14.3 million. This improvement is primarily attributable to higher dividends collected during the first half of 2005 compared to the same period of 2004 (Euros 9.5 million), lower writedowns to investments in portfolio (Euros 2.1 million) and a better operating result (Euros 7.1 million). Offsetting the above positive contributory factors are higher net financial expenses (Euros 5.3 million) due to higher average debt during the period compared to 2004.

Income taxes show a benefit of Euros 9.3 million after booking a net tax benefit under consolidated taxation for Euros 8.5 million. To this end, it should be recalled that during 2004, Pirelli & C. S.p.A. opted to file for consolidated taxation as head of the group.

The above data has been prepared by applying the principles used in the preparation of the annual statutory financial statements.

The interim statutory financial statements at June 30, 2005, prepared in accordance with IAS/IFRS, and used for the consolidation of the interim consolidated financial statements, show net income of Euros 130 million and shareholders' equity of Euros 4,687 million compared to a loss of Euros 32 million and shareholders' equity of Euros 4,490 million prepared in accordance with the principles already applied in the statutory financial statements for the year ended December 31, 2004.

The difference of Euros 162 million in the statement of income is due almost entirely to accounting for the dividends distributed by the subsidiaries on a cash basis, in the financial statements prepared in accordance with IAS/IFRS, and recorded on the accrual basis in the financial statements for the year ended December 31, 2004.

The increase in shareholders' equity is largely the result of fair value adjustments to investments in other companies.

The Board of Directors

Milan, September 12, 2005

PIRELLI GROUP

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(in thousands of euros)

	CONSOLIDATED BALANCE SHEETS	6/30/2005	12/31/2004
	ASSETS		
	NON-CURRENT ASSETS		
7	Property, plant and equipment	**1,466,146**	2,080,847
8	Intangible assets	**483,760**	512,877
9	Investments in associates	**273,288**	279,981
10	Investments in joint ventures	**4,103,185**	2,704,406
11	Available-for-sale financial assets	**1,020,644**	600,732
12	Deferred tax assets	**89,140**	97,110
13	Other receivables	**350,507**	322,886
	Non-current assets	**7,786,670**	6,598,839
	CURRENT ASSETS		
14	Inventories	**629,829**	1,057,965
13	Trade receivables	**1,049,382**	1,503,735
13	Other receivables	**1,099,050**	363,501
15	Financial assets held for trading	**305,491**	284,368
16	Cash and cash equivalents	**177,956**	509,055
	Current assets	**3,261,708**	3,718,624
38	Assets held for sale (Energy + Telecom) *	**2,474,577**	
	TOTAL ASSETS	**13,522,955**	10,317,463
	EQUITY		
17.1	Attributable to parent company shareholders	**5,097,965**	3,554,977
	Share capital	**2,762,625**	1,800,383
	Other reserves	**1,890,141**	1,266,549
	Retained earnings	**265,588**	237,090
	Net income for the period	**179,611**	250,954
17.2	Attributable to minority interest:	**360,502**	338,959
	Capital and reserves	**329,688**	285,832
	Net income for the period	**30,814**	53,128
	TOTAL EQUITY	**5,458,467**	3,893,936
	LIABILITIES		
	NON-CURRENT LIABILITIES		
23	Borrowings from banks and other financial companies	**1,913,044**	1,932,699
25	Other payables	**45,048**	62,231
21	Provisions for other liabilities and charges	**477,869**	389,811
19	Deferred tax liabilities	**61,087**	80,367
22	Employee benefit obligations	**416,615**	528,812
	Non-current liabilities	**2,913,663**	2,993,920
	CURRENT LIABILITIES		
23	Borrowings from banks and other financial companies	**1,328,013**	803,878
24	Trade payables	**1,014,059**	1,608,526
25	Other payables	**469,586**	770,202
21	Provisions for other liabilities and charges	**97,436**	167,927
20	Current tax payables	**116,551**	79,074
	Current liabilities	**3,025,645**	3,429,607
38	Liabilities related to assets held for sale (Energy + Telecom) *	**2,125,180**	
	TOTAL EQUITY AND LIABILITIES	**13,522,955**	10,317,463

* all current and non-current assets and liabilities

(in thousands of euros)

	CONSOLIDATED STATEMENTS OF INCOME	1st Half 2005	1st Half 2004
27	Revenues from sales and services	**2,281,419**	2,016,347
	Change in inventories of work in process, semifinished and finished products	**4,118**	(38,927)
	Increase in property, plant and equipment from internal work	**3,007**	7,167
28	Other income	**137,876**	125,878
	Total production value	**2,426,420**	2,110,465
	Raw materials and consumables used	**(868,869)**	(693,742)
29	Personnel costs	**(506,962)**	(473,186)
30	Amortization and depreciation	**(103,716)**	(98,856)
31	Other expenses	**(744,283)**	(692,474)
	Total production costs	**(2,223,830)**	(1,958,258)
	Operating profit	**202,590**	152,207
32	Financial income	**119,474**	245,630
33	Financial expenses	**(164,289)**	(293,373)
34	Dividends	**19,636**	13,126
35	Valuation of financial assets	**(57,873)**	(15,093)
36	Share of income (loss) of associates and joint ventures	**129,243**	48,561
	Income before income taxes	**248,781**	151,058
37	Income taxes	**(71,129)**	(59,699)
	Income from continuing operations	**177,652**	91,359
38	Income from discontinued operations	**32,773**	12,528
	Income for the period	**210,425**	103,887
	Attributable to:		
	Parent company shareholders	**179,611**	85,231
	Minority interest	**30,814**	18,656

39	**Earnings per share (euros per thousand of shares)**		
	Basic earnings per share	31.49	21.06
	continuing operations	7.05	3.61
	discontinued operations	38.54	24.67
	Diluted earnings per share	31.33	20.03
	continuing operations	7.01	3.43
	discontinued operations	38.34	23.46

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in millions of euros)	ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS								
	Share capital	Share premium reserve	Legal reserve	Reserve for translation adjustments	Reserve for measurement of AFS assets at fair value	Other reserves / Retained earnings	**Total attributable to parent company**	Minority interest	**Total**
Balance at January 1, 2004	**1,799**	**500**	**68**			**841**	**3,208**	**243**	**3,451**
Appropriation of income as per May 11, 2004 resolution:									
- legal reserve			7			(7)	**-**		**-**
- dividend payment						(109)	**(109)**		**(109)**
Other dividends paid to minority shareholders							**-**	(23)	**(23)**
Exercise of warrants 2003-2006	1						**1**		**1**
Exchange differences on translation of foreign currency financial statements				9			**9**	(2)	**7**
Capital increases / reimbursements									**-**
Net income for the first half						89	**89**	15	**104**
Other						(3)	**(3)**	3	**-**
Balance at June 30, 2004	**1,800**	**500**	**75**	**9**	**-**	**811**	**3,195**	**236**	**3,431**
Exchange differences on translation of foreign currency financial statements				15			**15**		**15**
Exercise of warrants 2003-2006						174	**174**		**174**
Income for the second half						162	**162**	34	**196**
Goodwill of companies purchased						6	**6**	5	**11**
PRE stock options exercised during the period							**-**	15	**15**
Sale of PRE treasury shares							**-**	17	**17**
Sale of 8.37% interest in PRE on market							**-**	36	**36**
Other						3	**3**	(4)	**(1)**
Balance at December 31, 2004	**1,800**	**500**	**75**	**24**	**-**	**1,156**	**3,555**	**339**	**3,894**
Adoption of IAS 32/39	(1)	(3)				141	**137**		**137**
Balance at January 1, 2005	**1,799**	**497**	**75**	**24**	**-**	**1,297**	**3,692**	**339**	**4,031**
Appropriation of income as per April 28, 2005 resolution:									
- legal reserve			7			(7)	**-**		-
- dividend payment						(113)	**(113)**		**(113)**
Other dividends paid to minority shareholders							-	(35)	**(35)**
Exercise of warrants 2003-2006	175					(174)	**1**		**1**
Exchange differences on translation of foreign currency financial statements				146			**146**	12	**158**
Pirelli & C. capital increase	789	259					**1,048**		**1,048**
PRE stock options exercised during period							**-**	11	**11**
Adjustment of available-for-sale financial assets to fair value					143		**143**		**143**
Income for the first half						179	**179**	31	**210**
Other						2	**2**	2	**4**
Balance at June 30, 2005	**2,763**	**756**	**82**	**170**	**143**	**1,185**	**5,098**	**360**	**5,458**

(in thousands of euros)

CONSOLIDATED STATEMENT OF CASH FLOWS		1st Half 2005	1st Half 2004
	Net income	177,652	91,359
	Amortization, depreciation / impairment losses & reversals of intangible assets and property, plant and equipment	103,716	98,856
	Finance expenses	164,289	293,373
	Financial income	(119,474)	(245,630)
	Dividends	(19,636)	(13,126)
	Valuation of financial assets	57,873	15,093
	Share of income (loss) of associated and joint ventures	(129,243)	(48,561)
	Change in inventories	(2,673)	59,803
	Change in trade receivables / payables	(41,419)	(114,369)
	Change in other receivables / payables	(61,453)	25,073
	Change in employee benefit obligations / other provisions	102,864	6,040
	Other changes	1,089	1,895
A	**Net cash flows provided by (used for) operating activities**	**233,585**	**169,806**
	Investments in property, plant and equipment	(105,999)	(77,762)
	Disposals of property, plant and equipment	11,245	6,855
	Investments in intangible assets	(2,370)	(18,058)
	Disposals of intangible assets	-	2,800
	Acquisition of investments in associates and joint ventures	(1,344,000)	-
	Acquisition of available-for-sale financial assets	(145,276)	(160,037)
	Sales of available-for-sale financial assets	-	3,741
	Change in financial receivables	23,312	-
	Other changes	12,656	(11,370)
	Financial income/Financial expenses	(44,815)	(47,743)
	Dividends received	19,890	15,473
B	**Net cash flows provided by (used for) investing activities**	**(1,575,357)**	**(286,101)**
	Change in share capital and share premium reserve	1,059,600	-
	Other changes in net equity	-	602
	Purchase / sale of treasury shares	-	(9,968)
	Change in financial payables	326,266	274,245
	Exchange differences on translation of financial payables	43,520	(46,258)
	Dividends paid	(149,542)	(132,280)
C	**Net cash flows provided by financing activities**	**1,279,844**	**86,341**
D	**Cash flows from assets held for sale**	**(269,172)**	**(47,952)**
E	**Total cash flows provided by (used) during the period (A+B+C+D)**	**(331,100)**	**(77,906)**
F	**Cash and cash equivalents, at beginning of period**	**509,055**	**263,616**
G	Exchange differences on translation of cash and cash equivalents		
H	**Cash and cash equivalents, at end of period (E+F+G)**	**177,955**	**185,710**

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AT JUNE 30, 2005

1. GENERAL INFORMATION

Pirelli & C. S.p.A. is a corporation organized under the laws of the Republic of Italy. Founded in 1872 and listed on the Milan Stock Exchange, Pirelli & C. is a holding company which manages, coordinates and finances the operations of its subsidiaries.

At the balance sheet date, the Company's businesses are principally represented by investments in the following companies (without considering the Energy and Telecom Cables and Systems sectors which are considered as assets held for sale):

a) Pirelli & C Real Estate S.p.A. – a listed company operating in the real estate sector – 51.5 percent of share capital;
b) Pirelli Tyre Holding N.V. – a company active engaged in the tyre sector – 100 percent of share capital;
c) Pirelli Broadband S.p.A. – a company operating in the field of components, equipment and systems for telecommunications –100 percent of share capital;
d) Olimpia S.p.A. – a company which holds 18 percent of the share capital of Telecom Italia S.p.A. represented by ordinary shares – 57.7 percent of share capital;
e) Pirelli & C. Ambiente Holding S.p.A. – a company engaged in the environmental services sector – 51 percent of share capital.

The registered office of the company is in Milan, Italy.

Evolution of the benchmark regulatory framework

The guidelines and the benchmark regulatory framework applicable to companies listed within the European Union regarding the transition to IAS/IFRS are:

- the adoption of Regulation No. 1,606 issued by the European Parliament and by the Council of the European Union in July 2002 which provides for the mandatory adoption of IAS/IFRS, beginning from 2005, for the consolidated financial statements of companies listed on regulated markets of the European Union; moreover, this Regulation had accorded to the Member States the authority to permit or to require the application of IAS/IFRS also for the preparation of the annual statutory accounts of listed companies and the annual statutory accounts and consolidated financial statements of unlisted companies;

- the European Commission's adoption of Regulation No. 1,725 dated September 29, 2003 which approved the international accounting standards, and related interpretations, existing at September 14, 2002; IAS 32 and IAS 39, relating to the disclosure and measurement of financial instruments, respectively, and the related interpretations (SIC 5, 16 and 17) were excluded from that approval process;

- the issue, by Italian legislators, of Law No. 306 dated October 31, 2003 (2003 EU Law) by which the Italian legislators exercised (art. 25) the option permitted by the above-cited EU Regulation No. 1606/2002, and, accordingly, delegating the Government to adopt one or more legislative decrees implementing the authority provided by the above-mentioned EU Regulation within one year of the law coming into force (i.e. within November 30, 2004);

- the issue of Legislative Decree No. 38 dated February 28, 2005, implementing the EU Law mentioned in the previous point, which provides that listed companies required by EU Regulation No. 1606/2002 to prepare their consolidated financial statements in accordance with IAS/IFRS may, from 2005, also draw up their annual statutory financial statements in accordance with those standards (mandatory from 2006). The possibility to apply IAS/IFRS, in the preparation of both the annual statutory financial statements and the consolidated financial statements, is also conceded to unlisted companies starting from 2005;

- the recommendation of CESR (Committee of European Securities Regulators) published on December 30, 2003 and containing guidelines for companies listed within the EU regarding the transition to IAS/IFRS;

- the European Commission's adoption of Regulations No. 707 dated April 6, 2004, which approved IFRS 1 "First-time adoption of International Financial Reporting Standards", No. 2086 dated November 19, 2004, which approved, with certain limitations, IAS 39, and No. 2236, No. 2237 and No. 2238 dated December 29, 2004 which approved IAS 32 and the other accounting standards reviewed by the IASB in December 2003 and March 2004, the new IFRSs issued in March 2004 (with the exception of IFRS 2, approved by the European Commission with Regulation No. 211 dated February 4, 2005), and the interpretation document IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities", thereby achieving a stable system of accounting standards.

  However, the version of IAS 39 approved by the EU in the above-cited Regulation No. 2086 differs from the text approved by the IASB with regard to certain aspects of the measurement of liabilities at fair value and of the macro-hedging of the interest rate risk associated with portfolios of assets and liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

In accordance with CONSOB resolution No. 14,990 dated April 14, 2005, the Pirelli & C. Group has prepared interim consolidated financial statements for the six months ending June 30, 2005 on the basis of IAS 34, “Interim Financial Reporting”, and IFRS 1 “First-time adoption of International Reporting Standards”, insofar as these six months are part of the fiscal year for which the first annual financial statements will be drawn up in accordance with IAS/IFRS.
The Pirelli & C. Group has chosen to publish condensed information on the financial statements in the interim accounts at June 30, 2005.

The recognition and measurement of accounting amounts for the first six months of 2005 are based upon IAS/IFRS in force today and on their current “interpretation” resulting from the documents issued to date by the “International Financial Reporting Interpretations Committee – IFRIC”; IAS/IFRS in force at December 31, 2005 could be different from those used in the preparation of this document, as a result of the future approval of new standards by the European Commission, new interpretations or guidelines issued by the “International Financial Reporting Interpretations Committee”. The consolidated financial statements at December 31, 2005 could be influenced by these changes.

Consolidation

The scope of consolidation includes subsidiaries, associates and investments in joint ventures.

The financial statements used for purposes of consolidation are those at June 30, 2005, adjusted, where necessary, to conform to the Group Accounting Principles, Compliance with IAS/IFRS standards.

The financial statements of subsidiaries operating in countries with hyperinflationary economies 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 period-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 countries with hyperinflationary economies, whose statements of income have been translated at period-end rates.

The differences arising from the translation of opening shareholders' equity at period-end exchange rates have been recorded in the reserve for translation adjustments, together with the difference between the result in the statement of income and in the balance sheet.

Subsidiaries have been consolidated using the line-by-line consolidation method. Under this method, intragroup transactions and unrealized gains and loss, if any, are eliminated. Acquisitions of subsidiaries have been accounted for using the purchase method of accounting whereby the assets and liabilities acquired are measured at fair value at the date of acquisition, which coincides with the date of the exchange of the consideration paid.

The excess of the cost of acquisition over the fair value of the assets and liabilities acquired is recorded as goodwill. If the cost of acquisition is lower than the fair value, the difference is recognized in the statement of income.

Investments in associates are accounted for by the equity method. The carrying amount of investments in associates includes any goodwill paid on acquisition. The associates' economic results and equity movements are recognized in the consolidated statement of income and in net equity, respectively.

Investments in joint ventures or jointly controlled entities are accounted for by the equity method

The effects of transactions with associates or joint ventures that have not been realized with independent parties are eliminated.

Intangible assets

Intangible assets with a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses.

Amortization starts when the asset is available for use.

Goodwill

Goodwill is subjected to an annual test to identify any impairment loss.

Trademarks and licenses

Trademarks and licenses are stated at cost less accumulated amortization and accumulated impairment losses. Cost is amortized over the contract period or the useful lives of the assets, whichever is sooner.

Software

Software license costs, including direct incidental costs, are capitalized and recorded in the balance sheet less accumulated amortization and accumulated impairment losses.

Research and development

Research and development expenditures for new products and/or processes are expensed when incurred.

Property, plant and equipment

Property, plant and equipment is stated at the cost of acquisition or production and includes directly attributable incidental expenses.

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, except for land, which is not depreciated and is stated at cost less accumulated impairment losses.

Depreciation is accounted for starting from the month in which the asset is available for use, or is potentially able to provide the economic benefits associated with it.

Depreciation is charged monthly using the straight-line method at rates designed to write-off the assets to the end of their residual useful lives or, for disposals, until the last month of use.

Depreciation rates are as follows:

Buildings 3% - 10%

Plant 7% - 10%

Machinery 5% - 10%

Equipment 10% - 33%

Furniture 10% - 33%

Motor vehicles 10% - 25%

Government investment grants relating to property, plant and equipment are recorded as deferred income and credited to the statement of income over the period of depreciation of the relative assets.

Borrowing costs incurred for the purchase of an asset are expensed unless they are directly attributable to the purchase, construction or production of a qualifying asset, in which case they are capitalized.

Leasehold improvements are classified as property, plant and equipment, consistently with the nature of the cost incurred. The depreciation period corresponds to the remaining useful life of the asset or the residual period of the lease contract, whichever is sooner.

Spare parts of a significant amount are capitalized and amortized over the estimated useful life of the assets to which they refer; other spare parts are expensed when the cost is incurred.

Assets acquired under finance lease contracts are accounted for as property, plant and equipment with a contra-entry to the relative financial liability. The lease payment is split between interest expense, recorded in the statement of income, and the repayment of principal, recorded as a reduction of the financial liability.

Impairment of property, plant and equipment and intangible assets

Whenever specific indicators point to an impairment loss, property, plant and equipment and intangible assets are tested for impairment.

The test consists of an estimate of the recoverable amount of the asset and a comparison with its carrying amount.

If the recoverable amount is lower than the asset’s carrying amount, the carrying amount is reduced to the recoverable amount. This reduction constitutes an impairment loss which is recognized in the statement of income.

For assets that are not subject to depreciation and amortization, and for intangible assets that are not yet available for use, the impairment test is performed annually, regardless of the presence of specific indicators.

Available-for-sale financial assets

Investments in other companies and other securities which are not held for trading are classified, for purposes of their valuation, as available-for-sale financial assets and measured at fair value. The gains and losses are recognized in a specific reserve in equity.

In the case of permanent impairment losses or in the event of sale, the gains and losses recognized up to that time in shareholders' equity are recycled in the statement of income.

Any permanent impairment losses recognized on available-for-sale financial assets in the statement of income can not be reversed through the statement of income.

Inventories

Inventories are stated at the lower of cost, using the FIFO method, and estimated realizable value.

Construction contracts

Construction contracts are stated using the percentage of completion method.

When it is probable that the contract costs will exceed total revenues, the estimated loss is recognized immediately in the statement of income.

Receivables and payables

Receivables are initially recorded at fair value and subsequently measured at amortized cost, less provision for impairment. Payables are stated at amortized cost.

Receivables and payables in currencies other than the functional currency of the individual companies are adjusted to the period-end exchange rates.

Financial assets held for trading

Financial assets held for trading are measured at fair value through profit or loss.

Cash and cash equivalents

Cash and cash equivalents are stated at nominal value.

Provisions for other liabilities and charges

The provisions for other liabilities and charges include the accruals for current obligations (legal or constructive) deriving from a past event, for the fulfillment of which an outflow of resources will probably be necessary, the amount of which can be estimated in a reliable manner.

Employee benefits

Employee benefits paid subsequent to the termination of the employment relationship (post-employment benefits of the type called defined benefits) and other long-term benefits are subject to actuarial calculations. The liability recorded in the financial statements is the present value of the Group’s obligation, net of plan assets, together with adjustments for unrecognized actuarial gains or losses.

The Pirelli & C. Group has adopted the corridor approach for recognition in the statement of income of the part of the actuarial gains and losses exceeding a corridor of 10 percent of the greater of the fair value of the plan assets and the present value of the obligation at the balance sheet date.

Any excess is amortized over the expected average remaining lives of the participating employees.

For other long-term benefits, the actuarial gains and losses are recognized immediately in the statement of income.

The cost for interest is classified in personnel costs.

Stock options

- For equity-settled stock options, the fair value of the option, determined at the grant date, is recognized as an expense over the period of the plan with a contra-entry to increase the reserves in shareholders' equity;
- For cash-settled plans, the fair value of the option, determined at the grant date, is recognized as an expense over the period of the plan, with a contra-entry to a liability. The expense is remeasured from time to time to ensure that the liability accrued is representative of the effective expense at expiration for the Group.

Borrowings (receivable and payable)

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost, calculated using the effective interest rate.

Income taxes

Current income taxes are determined on the basis of a realistic estimate of the tax expense payable under the current tax laws of the country.

Deferred taxes are calculated on temporary differences arising between the asset and liability amounts in the balance sheet and their tax bases (liability method). They are classified in non-current assets and liabilities.

Deferred tax assets are only recognized when there is a high probability of future recovery.

Shareholders’ equity

Treasury shares

Treasury shares are classified as a deduction from shareholders’ equity.

In the event of sale, re-issue or cancellation, the gains and losses as a result thereof are classified in shareholders’ equity.

Costs of equity transactions

Costs directly attributable to equity transactions of the parent company are recognized as a deduction from shareholders’ equity.

Recognition of revenues

Revenues are measured at the fair value of the consideration received for the sale of the products or services.

Sales of products

Revenues from sales of products are recognized when all the following conditions are met:

- the significant risks and the rewards of ownership of the goods are transferred to the buyer;
- the effective control over the goods has ceased;
- the amount of revenues is determined in a reliable manner;
- it is probable that the economic benefits deriving from the sale will be enjoyed by the enterprise;
- the costs incurred or to be incurred are determined in a reliable manner.

Rendering of services

Revenues from rendering of services are recognized by reference to their completion at the balance sheet date.

Dividend income

Dividend income is recognized when the right to receive payment is established, which normally corresponds to the resolution passed by the shareholders’ meeting for the distribution of dividends.

Dividends received from associates are recognized as a deduction from the value of the investment.

Seasonal factors and revenues

Revenues are not significantly affected by seasonal factors.

3. FINANCIAL RISK MANAGEMENT POLICY

Financial risk management is an integral part of the management of the Group's operations. Risk management is carried out centrally under policies defined by the General Finance Department and approved by the Managing Director. Such policies define the categories of risk and specify the procedures and operating limits for each type of transaction and/or instrument. In accordance with these policies, the Group uses derivative contracts in relation to underlying financial assets or liabilities or future transactions. Risk management is carried out by a central department, Group Treasury, the one body which evaluates and hedges risks. Group Treasury operates directly on the market on behalf of the Operating Units and, where it cannot operate directly because of external restrictions, coordinates with the Local Treasury Unit.

Type of risk covered

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk, managed centrally by Group Treasury.

The Operating Units are responsible for gathering all the information inherent to the positions subject to foreign exchange risk which are managed by forward contracts stipulated with Group Treasury.

Group Treasury is responsible for evaluating and managing the net position for every currency, consistent with policies and restrictions, by negotiating derivative contracts on the market, generally forward contracts.

Forward contracts between the Operating Units and Group Treasury as well as those between Group Treasury and the market are not designated as hedging instruments as defined by IAS 39 although they are in place for the purposes of managing risks.

Credit risk

The Group has no significant concentrations of credit risk. The policies in place ensure a proper evaluation of the financial soundness of the customers.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

Interest rate risk

The Group’s interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

Group policy is to maintain approximately 70 percent of its long-term borrowings in fixed rate instruments.

The Group manages its cash flow interest-rate risk by using derivative contracts, generally floating-to-fixed interest-rate swaps.

The designation of such derivatives as hedging instruments under IAS 39 is decided case by case and authorized centrally by the General Finance Department and the General Administration and Control Department.

Accounting for derivative financial instruments

Derivatives are initially recognized at fair value with a contra-entry to the statement of income. They are subsequently remeasured at their fair value; fair value gains or losses are recognized in the statement of income except for interest rate swaps designated as cash flow hedges.

Derivatives that qualify as cash flow hedges

In all cases in which derivatives are designated as hedging instruments for purposes of IAS 39, the Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized directly in equity. The gain or loss relating to the ineffective portion is recognized immediately in the statement of income.

Amounts accumulated directly in equity are recycled in the statement of income in the periods when the hedged item will produce an effect in the statement of income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the hedged item ultimately produces an effect in the statement of income. When the hedged item is no longer expected to produce an effect in the statement of income, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of income.

Derivative that do not qualify for hedge accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the statement of income.

Measurement of derivative financial instruments at fair value

The fair value of financial instruments traded in active markets is based on listed market prices at the balance sheet date. The listed market price used for financial assets is the current bid price; the appropriate listed market price for financial liabilities is the current ask price. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques with a variety of methods and assumptions that are based on market conditions existing at each balance sheet date.

The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

4 ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements requires management to make estimates and assumptions which could affect the carrying amounts of some assets and liabilities, costs and revenues, as well as the disclosure related to contingent assets and liabilities at the balance sheet date.

The estimates and assumptions will generally refer to the measurement of the recoverable amounts of intangible assets, the definition of the useful lives of property, plant and equipment, the recoverability of receivables and the recognition and measurement of provisions. The estimates and assumptions are based upon data which reflects the current state of available knowledge.

Estimates and assumptions that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities are discussed below.

a) Olimpia

Olimpia's value has been subjected to verification by taking into account the market prices of Telecom Italia S.p.A. ordinary shares, the target price of financial market analysts, the discounts applied by the same analysts in the estimate of the intrinsic value of Telecom Italia S.p.A. shares and the amount of the premium to be paid to a relative majority shareholder group.

b) goodwill

The Group tests annually as to whether goodwill has suffered any impairment in accordance with the accounting policies.

The recoverable amounts have been determined on the basis of value-in-use calculations. These calculations require the use of estimates.

5. TRANSITION TO IAS/IFRS

5.1. Basis for the preparation of the opening balance sheet

The opening balance sheet at the date of transition to IAS/IFRS (January 1, 2004) has been prepared according to the following criteria:

- all the assets and liabilities which require recognition under IAS/IFRS have been recorded;
- those assets and liabilities which are not allowed to be recognized under IAS/IFRS have not been recorded;
- appropriate reclassifications have been made to ensure proper classification under IAS/IFRS; all assets and liabilities recognized have been measured in accordance with IAS/IFRS;
- all adjustments resulting from the first-time adoption of IAS/IFRS have been recorded with a contra-entry to shareholders' equity.

The recognition and measurement of accounting amounts are based upon IAS/IFRS in force today and on their current "interpretation" resulting from the documents issued to date by the "International Financial Reporting Interpretations Committee – IFRIC"; IAS/IFRS in force at December 31, 2005 could be different from those used in the preparation of this document, as a result of the future approval of new standards by the European Commission, new interpretations or guidelines issued by the "International Financial Reporting Interpretations Committee". The consolidated financial statements at December 31, 2005 could be influenced by these changes.

Attached is the report on the audit verification work conducted by the independent auditors, PricewaterhouseCoopers, on the IAS/IFRS opening balance sheet at January 1, 2004, on the IAS/IFRS net equity at December 31, 2004 and the net income for the year 2004 and on the IAS/IFRS opening net equity at January 1, 2005 as a result of the introduction of IAS 32 and IAS 39.

The Pirelli Group has applied the accounting policies disclosed in the preceding paragraph 2 retrospectively, except in the cases where it has elected to adopt the exemptions allowed by IFRS 1. The optional exemptions elected by the Group are indicated below:

1. business combinations: the Pirelli & C. Group has elected to adopt IFRS 3 prospectively beginning from January 1, 2004;

2. currency translation adjustment reserve: the Pirelli & C. Group has elected to use the exemption allowed by IFRS 1 which provides, at the date of transition, for resetting the currency translation adjustment reserve in the consolidated financial statements at December 31, 2003 to zero with a contra-entry to other reserves in net equity;

3. employee benefits: the Pirelli & C. Group has elected to use the exemption for the prospective adoption, at the date of transition, of the corridor approach for the recognition of the actuarial gains and losses resulting from the measurement of employee benefits under the defined benefit plans;

4. financial instruments: the Pirelli & C. Group has elected to use the exemption for the deferral to January 1, 2005 of the adoption of IAS 32 and IAS 39 for the recognition and measurement of financial instruments. All financial instruments as defined by IAS 32 and IAS 39 have thus been measured consistently with the principles applied in the consolidated financial statements drawn up in accordance with Italian GAAP for purposes of the preparation of the IAS/IFRS opening balance sheet at January 1, 2004, the statement of income for the year 2004 and the balance sheet at December 31, 2004.

The other exemptions provided by IFRS 1 are not applicable to the Pirelli & C. Group.

5.2. Reconciliation of net equity at January 1, 2004, at December 31, 2004, at January 1, 2005 and of the 2004 net income

	(in million of euros)	1/1/2004	Net income 2004	Dividends	Other changes	12/31/2004	Adjustments IAS 32/39	1/1/2005
	Total net equity - Italian GAAP	**3,678**	**274**	**(132)**	**268**	**4,088**	**0**	**4,088**
1	Goodwill		36			**36**		**36**
2	Other intangible assets	(25)	1			**(24)**		**(24)**
3	Impairment	(22)	4			**(18)**		**(18)**
4	Spare parts	(27)	(2)			**(29)**		**(29)**
5	Employee benefits	(157)	9			**(148)**		**(148)**
6	Recognition of revenues on real estate sales	(9)	(2)			**(11)**		**(11)**
7	Stock options		(6)		1	**(5)**		**(5)**
8	Valuation of Olimpia	(21)	1			**(20)**	(31)	**(51)**
9	Other	(10)	(8)		2	**(16)**		**(16)**
10	Treasury shares						(5)	**(5)**
11	Measurement of securities at fair value						242	**242**
12	Financial instruments						(69)	**(69)**
	Deferred taxes	44	(3)			**41**		**41**
	Italian GAAP - IAS/IFRS difference on total net equity	**(227)**	**30**		**3**	**(194)**	**137**	**(57)**
	Total net equity - IAS/IFRS	**3,451**	**304**	**(132)**	**271**	**3,894**	**137**	**4,031**
	Net equity attributable to minority interests - Italian GAAP	**249**	**57**	**(23)**	**69**	**352**		**352**
	Italian GAAP - IAS/IFRS difference on net equity attributable	(6)	(4)		(3)	(13)		(13)
	Net equity attributable to minority interests - IAS/IFRS	**243**	**53**	**(23)**	**66**	**339**		**339**
	Net equity attributable to parent company - Italian GAAP	**3,429**	**217**	**(109)**	**199**	**3,736**		**3,736**
	Italian GAAP - IAS/IFRS difference on net equity attributable	**(221)**	**34**		**6**	**(181)**	**137**	**(44)**
	Net equity attributable to parent company - IAS/IFRS	**3,208**	**251**	**(109)**	**205**	**3,555**	**137**	**3,692**

5.3 Explanatory notes to the reconciliation prepared in accordance with IFRS 1

The principal adjustments, as a result of the adoption of IAS/IFRS, to net equity at January 1, 2004, at December 31, 2004 and at January 1, 2005 due to the introduction of IAS 32 and IAS 39, as well as to 2004 net income, are presented as follows:

Effects on net equity at January 1, 2004, on 2004 net income and on net equity at December 31, 2004

<u>1. Goodwill:</u>

in accordance with IAS/IFRS (IAS 38), goodwill may no longer be amortized systematically in the statement of income but should be subject to a test, carried out at least annually, in order to identify any impairment in value (impairment test). This different accounting policy results in a higher net income for the year 2004 of Euros

36 million, due to the reversal of the amortization charge recorded during the year under Italian GAAP.

<u>2. Other intangible assets:</u>

certain types of costs, that can be capitalized under Italian GAAP, do not meet the requisites for recognition under IAS 38 (for example, formation costs, start-up costs, costs of equity transaction, etc.). The opening balance sheet at January 1, 2004 shows a reduction in shareholders' equity due to the effect of the derecognition of such intangible assets of Euros 25 million. The positive effect on 2004 net income is Euros 1 million, due to lower amortization charges for the year net of uncapitalized expenses of the year.

<u>3. Impairment (property, plant and equipment):</u>

the impairment test models provided by IAS 36 have been adopted through:

- identification of the cash generating unit
- allocation of goodwill, if any, to the cash generating units
- in the presence of impairment indicators, calculation of the value in use of the cash generating unit and comparison with the carrying amount in order to assess any impairment;
- following the above calculations, identification of impairments to be allocated to two units operating in the Energy Cables and Systems Sector (Turkey and Indonesia), which constitute cash generating units;

- allocation of the impairments to goodwill and the assets of the two cash generating units in accordance with the criteria established by IAS 36;
- therefore, the opening balance at January 1, 2004 includes the impairment of certain fixed assets equal to Euros 22 million (of which Euros 15 million is allocated to property, plant and equipment and Euros 7 million to goodwill);
- the 2004 net income benefits from Euros 4 million of lower depreciation and amortization.

4. Spare parts:

in accordance with IAS 16, spare parts of significant amount relating to plant and machinery should be capitalized and depreciated over the useful life of the asset to which they refer. Spare parts of non-significant amount should be expensed in the statement of income when the expense is incurred. The balance sheet at January 1, 2004 shows a reduction in opening shareholders' equity of Euros 27 million due to the combined effect of the derecognition of spare parts of non-significant amount, previously recorded in inventories, and the accumulated depreciation of spare parts of significant amount, from the date of their original purchase. The 2004 net income is Euros 2 million lower owing to the immediate recognition in the statement of income of costs relating to the purchase of spare parts of non-significant amount and the depreciation charge for the year of spare parts of significant amount.

5. Employee benefits:

in accordance with IAS 19, post-employment benefits and other long-term benefits are subject to actuarial calculations to express the present value of the benefit due at the balance sheet date. The opening balance sheet at January 1, 2004 shows a reduction in shareholders' equity of Euros 157 million basically referring to plans existing in the U.K. and the U.S.A. The 2004 net income benefits from Euros 9 million of lower costs for the year due to the full recognition of the actuarial losses at transition, previously allocated over the remaining lives of the participants in the plans.

6. Recognition of revenues on real estate sales:

in accordance with IAS 18, revenues on real estate sales should normally be recognized when ownership is transferred to the buyer. In some cases, the sale may not interrupt a certain involvement of the seller, therefore the risks and rewards of ownership are not, in fact, transferred. The nature and degree of the seller's involvement establishes how the transaction should be recorded. The opening balance sheet at January 1, 2004 under IAS/IFRS shows a reduction in shareholders' equity due to the deferral of part of the result of certain real estate transactions equal to Euros 9 million. The 2004 net income shows a reduction of Euros 2 million.

7. Stock options:

IFRS 2 provides for the recognition of the cost in the statement of income for stock options granted to employees.

The opening balance sheet at January 1, 2004 shows a reduction in shareholders' equity as a result of the recognition of costs connected with the plans for stock options granted by the Pirelli Real Estate Group of Euros 0.2 million. The 2004 net income presents a reduction of Euros 6.4 million due to the recognition of such costs with a contra-entry for an increase in the reserves in shareholders' equity of Euros 0.7 million (relating to equity-settled stock options) and an increase in liabilities of Euros 5.7 million (relating to cash-settled stock options).

8. Valuation of Olimpia:

Olimpia, in accordance with IAS 31, qualifies as a jointly-controlled investment, is accounted for by the equity method; therefore, the attributable net equity of Olimpia must be determined in accordance with IAS/IFRS. As defined by IAS 28, the investment held by Olimpia in Telecom Italia qualifies as an associate and must therefore be accounted for by the equity method.

Under IAS/IFRS, Olimpia's commitment to purchase 124.1 million Telecom Italia shares (shown in memorandum accounts in the Olimpia financial statements in accordance with Italian GAAP) must be accounted for as an investment at the cost of purchase with a contra-entry to liabilities. The liability should then be discounted to present value at the date of the signing of the contract (November 2001).

The financial expenses resulting up to the date of transition to IAS/IFRS (January 1, 2004) must be shown as a direct deduction from the shareholders' equity of Olimpia (Euros 41 million). The reduction in Pirelli's share of net equity is equal to Euros 21 million.

The IAS 2004 net income of Olimpia shows a reduction of Euros 2 million owing to the valuation by the equity method of the associate, Telecom Italia S.p.A., (an increase of Euros 17 million) and the accounting for financial expenses resulting from discounting the liability for the aforementioned forward share purchase to present value (a reduction of Euros 19 million).

The effect on the financial statements of Pirelli & C. is a reduction in the share of Olimpia's result equal to Euros 1 million.

Furthermore, in accordance with IAS/IFRS (IAS 38), goodwill may no longer be amortized systematically in the statement of income but should be subject to a test, carried out at least annually, in order to identify any impairment in value (impairment test). This different accounting policy determines a higher result for the year 2004 of Euros 2 million, due to the reversal of the amortization charge recorded on Olimpia.

The net effect on the 2004 Pirelli & C. financial statements arising from the valuation of Olimpia is thus an increase in the result of Euros 1 million.

Effects on net equity at January 1, 2005 due to the introduction of IAS 32 and IAS 39

8. Valuation of Olimpia:

the opening balance sheet at January 1, 2005 shows a reduction in shareholders' equity of Euros 31 million for the effect of Pirelli's share of the interest rate swap measured at fair value held by Olimpia.

10. Treasury shares:

in accordance with IAS/IFRS, treasury shares may no longer be recorded as an asset but should be recorded as a deduction from shareholders' equity (for the par value) and retained earnings (for the excess amount). The balance sheet at January 1, 2005 shows a reduction in shareholders' equity for the effect of this different presentation in the financial statements under IAS/IFRS of Euros 5 million.

11. Measurement of securities at fair value:

the increase in shareholders' equity at January 1, 2005 of Euros 242 million is due to the following effects:

- investments included in financial assets under Italian GAAP are classified, in accordance with IAS/IFRS, as available-for-sale financial assets and should be measured at fair value with a contra-entry to shareholders' equity (IAS 39). The balance sheet at January 1, 2005 benefits from an increase in shareholders' equity of Euros 226 million;
- in accordance with IAS/IFRS, securities held for trading purposes are classified as financial assets held for trading and should be measured at fair value with a contra-entry to the statement of income. The balance sheet at January 1, 2005 benefits from an increase in shareholders' equity of Euros 16 million.

12. Financial instruments:

the reduction in shareholders' equity at January 1, 2005 of Euros 69 million is mainly due to the deadlock premium granted to Hopa under Olimpia shareholders' agreements. This premium, accounted for on a prorata basis in accordance with Italian GAAP, has the nature of a liability under IAS/IFRS (IAS 32), and must therefore be recognized in the liabilities of the Group, at its present value, with a contra-entry to shareholders' equity.

5.4. Analysis of the effects of the application of IAS/IFRS on the net financial position (a non-IAS/IFRS financial measure)

The main effects on the consolidated net financial debt position at December 31, 2004 due to the introduction of IAS/IFRS and at January 1, 2005 following the adoption of IAS 32 and IAS 39 are as follows:

(in millions of euros)		
Net debt position - Italian GAAP 12/31/2004		***1,469***
1 Effect of Olimpia put options held by banks	130	
2 Effects on Pirelli & C. Real Estate Group	5	
Other	(3)	
		132
Net debt position – IAS/IFRS 12/31/2004		***1,601***
3 Financial assets held for trading		(16)
Net debt position – IAS/IFRS 1/1/2005		***1,585***

<u>1. Effect of Olimpia put options held by the shareholder banks:</u>

in accordance with IAS/IFRS, a part of the put options on Olimpia S.p.A., held by the shareholders banks, implies that the economic benefits connected to the ownership of the investment in Olimpia are, for the major part, transferred immediately to Pirelli. This results in an increase in the investment with a contra-entry to the liability inclusive of the derivative for Euros 130 million.

<u>2. Effects on the Pirelli & C. Real Estate Group:</u>

such effects are mainly due to the recognition of a financial liability equal to the benefit on the net financial position which previously originated on the sale of interests in subsidiaries which, under IAS/IFRS, may not be recognized due to the commitments deriving from the put options granted and the call options obtained, for Euros 5 million.

<u>3. Measurement of financial assets held for trading at fair value:</u>

due to the adoption of IAS 39, the fair value adjustment of securities held for trading results in an improvement in the net financial position at January 1, 2005 of Euros 16 million.

5.5. Reconciliation of net equity at June 30, 2004 and net income for the six months ending June 30, 2004

(in millions of euros)	1/1/2004	Net income 1st Half 2004	Dividends	Other changes	June 30, 2004
Total net equity - Italian GAAP	**3,678**	**131**	**(132)**	**8**	**3,685**
Goodwill	-	18			**18**
Other intangible assets	(25)	1			**(24)**
Impairment	(22)	2			**(20)**
Spare parts	(27)	(1)			**(28)**
Employee benefits	(157)	4			**(153)**
Recognition of revenues on real estate sales	(9)	(2)			**(11)**
Stock options	-	(3)			**(3)**
Valuation of Olimpia	(21)	(44)			**(65)**
Other	(10)	-			**(10)**
Deferred taxes	44	(2)			**42**
Italian GAAP - IAS/IFRS difference on total net equity	**(227)**	**(27)**			**(254)**
Total net equity - IAS/IFRS	**3,451**	**104**	**(132)**	**8**	**3,431**
Net equity attributable to minority interests - Italian GAAP	**249**	**19**	**(23)**	**(3)**	**242**
Italian GAAP - IAS/IFRS difference on net equity attributable	**(6)**				**(6)**
Net equity attributable to minority interests - IAS/IFRS	**243**	**19**	**(23)**	**(3)**	**236**
Net equity attributable to parent company - Italian GAAP	**3,429**	**112**	**(109)**	**11**	**3,443**
Italian GAAP - IAS/IFRS difference on net equity attributable	**(221)**	**(27)**			**(248)**
Net equity attributable to parent company - IAS/IFRS	**3,208**	**85**	**(109)**	**11**	**3,195**

For comments on the nature of the adjustments to net equity at June 30, 2004 and the net income for the six months to June 30, 2004, reference can be made to the reconciliation prepared in accordance with IFRS 1 (see the preceding section 5.3).

6. SEGMENT INFORMATION

a) primary reporting format – business segments

At June 30, 2005, continuing operations of the Group are dividend into four main business segments;

- Tyres
- Broadband
- Real Estate (Pirelli & C. Real Estate)
- Olimpia Investment

Other group operations comprise the environment group, financial companies and other service companies. None of these constitutes a reportable segment.

The Energy and Telecom Cables and Systems Sectors have been considered as assets held for sale.

The segment results for the six months ending June 30, 2005 are as follows:

in millions of euro	Tyres	Broadband	Real Estate	Olimpia	Other	TOTAL
Net sales	1,796	64	363		58	2,281
Operating profit (loss)	187	(3)	36		(18)	202
Share of earnings of companies valued by the equity method			43	86		129
Investment writedowns						(17)
Financial income (expenses)						(66)
Income before income taxes						248
Income taxes						(71)
Net income from continuing operations						177

The segment results for the six months ending June 30, 2004 are as follows:

in millions of euro	Tyres	Broadband	Real Estate	Olimpia	Other	TOTAL
Net sales	**1,659**	**28**	**297**		**32**	**2,016**
Operating profit (loss)	**154**	**(4)**	**18**		**(16)**	**152**
Share of earnings of companies valued by the equity method			**40**	**8**		**48**
Investment writedowns						**(15)**
Financial income (expenses)						**(35)**
Income before income taxes						**150**
Income taxes						**(59)**
Net income from continuing operations						**91**

b) secondary reporting format – geographical segments

NET SALES	**1st Half 2005**		**1st Half 2004**	
	€ in millions	**%**	**€ in millions**	**%**
Europe				
- Italy	**736**	**32%**	**675**	**32%**
- Other European countries	**772**	**34%**	**697**	**35%**
North America	**126**	**6%**	**132**	**7%**
Central and South America	**413**	**18%**	**353**	**18%**
Oceania, Africa and Asia	**234**	**10%**	**159**	**8%**
	2.281	**100%**	**2.016**	**100%**

7. PROPERTY, PLANT AND EQUIPMENT

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

(in thousands of euros)

	30/06/2005			12/31/2004		
	Gross book amount	Accumulated Depreciation	Net book amount	Gross book amount	Accumulated Depreciation	Net book amount
Land and improvements	66,679	-	66,679	127,834	-	127,834
Buildings	583,906	(265,023)	318,883	983,891	(452,466)	531,425
Plant and machinery	2,272,748	(1,385,431)	887,317	3,550,203	(2,441,975)	1,108,228
Industrial and commercial equipment	476,785	(365,155)	111,630	524,285	(404,222)	120,063
Other property, plant and equipment	260,786	(179,149)	81,637	490,477	(297,180)	193,297
	3,660,904	**(2,194,758)**	**1,466,146**	**5,676,690**	**(3,595,843)**	**2,080,847**

Movements in gross book amount *(in thousands of euros)*

	12/31/2004	12/31/2004 Assets held for sale	Exchange differences	Increase	Decrease	Reclassific.	Other	6/30/2005
Land and improvements	127,834	(64,014)	2,062	507	(2,349)	806	1,833	66,679
Buildings	983,891	(445,107)	27,091	14,552	(7,909)	(1,711)	13,099	583,906
Plant and machinery	3,550,203	(1,538,035)	144,837	58,095	(19,136)	18,981	57,803	2,272,748
Industrial and commercial equipment	524,285	(96,449)	24,825	10,663	(4,161)	5,268	12,354	476,785
Other property, plant and equipment	490,477	(221,919)	13,017	22,647	(4,572)	(23,344)	(15,520)	260,786
Total	**5,676,690**	**(2,365,524)**	**211,832**	**106,464**	**(38,127)**	**-**	**69,569**	**3,660,904**

Movements in accumulated depreciation/impairments *(in thousands of euros)*

	12/31/2004	12/31/2004 Assets held for sale	Exchange difference	Reclassific.	Decrease	Depreciation	Other	6/30/2005
Buildings	(452,466)	214,915	(13,594)	140	2,371	(11,021)	(5,367)	(265,023)
Plant and machinery	(2,441,975)	1,202,630	(67,347)	(98)	11,410	(56,343)	(33,708)	(1,385,431)
Industrial and commercial equipment	(404,222)	83,559	(17,979)	(1)	2,526	(19,727)	(9,311)	(365,155)
Other property, plant and equipment	(297,180)	129,342	(6,166)	(41)	3,652	(8,974)	217	(179,149)
	(3,595,843)	**1,630,446**	**(105,086)**	**(0)**	**19,959**	**(96,065)**	**(48,169)**	**(2,194,758)**

Movements in net book amount *(in thousands of euros)*

	12/31/2004	12/31/2004 Assets held for sale	Exchange difference	Increase	Decrease	Reclassific.	Depreciation	Other	30/06/2005
Land and improvements	127,834	(64,014)	2,062	507	(2,349)	806	-	1,833	66,679
Buildings	531,425	(230,192)	13,497	14,552	(5,538)	(1,571)	(11,021)	7,732	318,883
Plant and machinery	1,108,228	(335,405)	77,490	58,095	(7,726)	18,883	(56,343)	24,095	887,317
Industrial and commercial equipment	120,063	(12,890)	6,846	10,663	(1,635)	5,267	(19,727)	3,043	111,630
Other property, plant and equipment	193,297	(92,577)	6,851	22,647	(920)	(23,385)	(8,974)	(15,303)	81,637
	2,080,847	**(735,078)**	**106,746**	**106,464**	**(18,168)**	**-**	**(96,065)**	**21,400**	**1,466,146**

The ratio of additions during the period to depreciation is 1.33.

Buildings, plant and machinery and other property, plant and equipment include the following assets where the Group is a lessee under a finance lease:

(in thousands of euros)

	6/30/2005			12/31/2004		
	Capitalized cost	**Accumulated depreciation**	**Net book amount**	**Capitalized cost**	**Accumulated depreciation**	**Net book amount**
Buildings	74,889	(17,590)	57,299	74,666	(16,260)	58,406
Other property, plant and equipment	10,798	(313)	10,485	10,775	(271)	10,504
Plant and machinery	148	(148)	-	142	(142)	-
	85,835	**(18,051)**	**67,784**	**85,583**	**(16,673)**	**68,910**

8. INTANGIBLE ASSETS

The composition and changes in intangible assets are presented below:

(in thousands of euros)

	12/31/2004	**12/31/2004 Assets held for sale**	**Exchange differences**	**Increase**	**Decrease**	**Amortization**	**Other**	**6/30/2005**
Patents and design patent rights	2,294	(42)	-	20	-	(621)	-	1,651
Concessions, licenses, trademarks and similar rights	21,819	(104)	-	117	-	(990)	(0)	20,842
Goodwill	460,028	(15,262)	89	-	-	-	149	445,004
Software	24,742	(5,526)	138	895	-	(5,669)	(315)	14,265
Other intangible assets	3,994	(3,137)	39	1,343	(67)	(371)	197	1,998
	512,877	**(24,071)**	**266**	**2,375**	**(67)**	**(7,651)**	**31**	**483,760**

9. INVESTMENTS IN ASSOCIATES

Investments in associates are equal to Euros 273,288 thousand compared to Euros 279,981 thousand at December 31, 2004.

(in thousands of euros)

	6/30/2005
Beginning amount	279.981
Assets held for sale	(18.492)
Acquisition/change in share capital and reserves	13.783
Distribution of dividends	(45.757)
Share of income	43.464
Other	309
	273.288

(in thousands of euros)	
	6/30/2005
real estate group	
Bernini Immobiliare S.r.l.	1,685
Spazio Industriale B.V.	1,695
Continuum S.r.l.	5,284
Delta S.p.a	419
Domogest S.r.l.	1,355
Solaris Srl	5,650
Geolidro S.r.l.	7,075
Mistral S.r.l.	1,920
MP Facility S.r.l.	1,195
M.S.M.C. Holding B.V.	21,678
M.S.M.C. Solferino S.a.r.l.	2,050
Esedra S.r.l.	6,324
Trixia S.r.l.	4,094
Dixia S.r.l.	5,978
Massetto 1 B.V.	7,550
Mirandia Trading e Consultoria Lda	41,127
Tronador - Consultoria Economica Lda	3,478
Tamerice S.r.l.	5,111
Immobiliare Prizia S.r.l.	4,284
Iniziative Immobiliari S.r.l.	29,587
Popoy B.V.	21,311
Sci Roev Partners L.P.	2,125
IN Holding Italy S.a.r.l.	5,076
Induxia S.r.l.	2,360
Ininm Due S.a.r.l.	2,468
Aree Urbane S.r.l. (ex-Ortensia S.r.l.)	8,530
Servizi Immobiliari Banche SIB Spa	4,158
Orione Immobiliare Prima S.p.A.	8,396
Other minor companies	2,375
	214,338
industrial group	
STIP Tunisi (Tunisia)	2,410
SMP Melfi S.r.l. (Italy)	1,807
	4,217
other	
Eurostazioni S.p.A.	53,861
I.D.E.A. Granda Società consortile	633
Corimav	104
Aree Urbane S.r.l.	83
Other	52
	54,733
TOTAL	**273,288**

10. INVESTMENTS IN JOINT VENTURES

Investments in joint ventures total Euros 4,103,185 thousand compared to Euros 2,704,406 at December 31, 2004. The amount refers to the investment in Olimpia S.p.A., which has been accounted for using the equity method. Olimpia, under IAS, holds 2,531,475,296 Telecom Italia S.p.A. ordinary shares equal to an interest of 13.05 percent (18.93 percent of voting rights).

The following figures are taken from Olimpia's IAS financial statements.

(in millions of euro)

	6/30/2005	12/31/2004
Assets		
Non-current	10,177	8,479
Current	64	31
	10,241	**8,510**
Liabilities		
Non-current	3,403	3,223
Current	45	397
	3,448	**3,620**

(in millions of euro)

	1st Half 2005	1st Half 2004
Statement of income		
Revenues	249	114
Costs	(107)	(98)
Net income	142	16

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets amount to Euros 1,020,644 thousand compared to Euros 600,732 thousand at December 31, 2004.

Movements during the period are as follows:

(in thousands of euros)

	6/30/2005
Beginning balance	600,732
Assets held for sale	(10,786)
Exchange differences	4,610
Adoption of IAS 32/39	219,172
Increase	136,342
Decrease	(62,960)
Gains/losses for fair value adjustments recognized in equity	142,760
Other	(9,226)
	1,020,644

12. DEFERRED TAX ASSETS

Deferred tax assets amount to Euros 89,140 thousand compared to Euros 97,110 thousand at December 31, 2004 (inclusive of assets held for sale equal to Euros 3,334 thousand).

13. TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade receivables are detailed as follows:

(in thousands of euros)

	6/30/2005 Total	Non-current	Current	12/31/2004 Total (*)	Non-current	Current
Subsidiaries (**)	41,068	-	41,068	3,693	-	3,693
Associates	45,689	-	45,689	41,296	-	41,296
Other	1,016,644	-	1,016,644	1,558,757	-	1,558,757
Receivables on construction contracts	7,103	-	7,103	8,862	-	8,862
Allowance for doubtful accounts	(61,122)	-	(61,122)	(108,873)	-	(108,873)
	1,049,382	**-**	**1,049,382**	**1,503,735**	**-**	**1,503,735**

(*) inclusive of assets held for sale of Euros 672,689 thousand

(**) in reference to transactions with companies in the Energy and Telecom Cables and Systems Sectors held for sale

Other receivables can be analyzed as follows:

(in thousands of euros)

	6/30/2005 Total	Non-current	Current	12/31/2004 Total (*)	Non-current	Current
Subsidiaries (**)						
- financial receivables	803,650	-	803,650	920	920	-
- other receivables	18,074	-	18,074	-	-	-
Associates						
- financial receivables	214,095	213,799	296	189,514	189,514	-
- other receivables	1,423	-	1,423	3,875	213	3,662
Financial receivables from others	104,365	77,178	27,187	129,939	75,837	54,102
Trade and other accrued income and prepaid expenses	22,276	231	22,045	43,542	435	43,107
Financial accrued income and prepaid expenses	8,925	-	8,925	16,560	508	16,052
Receivables for capital subscription rights not called up	-	-	-	458	458	-
Receivables from the tax authorities	109,794	17,028	92,766	7,910	79	7,831
Receivables from employees	6,794	2,232	4,562	322	-	322
receivables from social security agencies	5,942	-	5,942	592	-	592
Receivable for the measurement of derivatives at fair value	52,367	-	52,367	-	-	-
Other receivables	101,852	40,039	61,813	292,755	54,922	237,833
	1,449,557	**350,507**	**1,099,050**	**686,387**	**322,886**	**363,501**

(*) inclusive of assets held for sale of Euros 131,007 thousand

(**) in reference to transactions with companies in the Energy and Telecom Cables and Systems Sectors held for sale

Receivables for the measurement of derivatives at fair value mainly include the measurement of outstanding forward foreign exchange purchases and sales at June 30, 2005 at fair value.

14. INVENTORIES

Inventories may be analyzed as follows:

(in thousands of euros)

	6/30/2005	12/31/2004
Energy Cables and Systems Sector	-	390,967
Telecom Cables and Systems Sector	-	39,841
Tyres Sector	487,964	436,900
Real Estate	133,352	192,088
Other	8,513	(1,831)
	629,829	**1,057,965**

(in thousands of euros)

	6/30/2005	12/31/2004
Raw materials, auxiliaries and consumables	159,783	291,124
Sundry materials	5,601	25,390
Work in process and semifinished products	93,301	217,809
Finished products	140,188	320,844
Merchandise purchased for resale	184,743	157,998
Land to be developed	36,528	34,687
Advances	9,685	10,113
	629,829	**1,057,965**

15. FINANCIAL ASSETS HELD FOR TRADING

These refer to securities, mainly bonds, issued and guaranteed by governments and bank institutions, classified as held for trading. The positions are held at leading banks.

16. CASH AND CASH EQUIVALENTS

(in thousands of euros)

	6/30/2005	12/31/2004 (*)
Bank and postal deposits	176,015	506,780
Cash on hand	1,941	2,275
	177,956	**509,055**

(*) inclusive of assets held for sale of Euros 115,858 thousand

17. EQUITY

17.1 Attributable to parent company shareholders

Share capital amounts to Euros 2,762,625 thousand at June 30, 2005 and consists of 5,177,976,485 ordinary shares and 134,764,429 savings shares, all with a par value of Euros 0.52 per share and normal dividend rights.

The changes in share capital are detailed below:

	Number of ordinary shares (in thousands)	Number of savings shares (in thousands)	Number of treasury shares (in thousands)	Ordinary shares (€ thousand)	Savings shares (€ thousand)	Treasury shares (€ thousand)	Total (€ thousand)
Balance at December 31, 2004	**3,324,893**	**134,764**	**2,618**	**1,728,945**	**70,077**	**1,361**	**1,800,383**
Adoption of IAS 32 and 39			(2,618)			(1,361)	(1,361)
Balance at January 1, 2005	**3,324,893**	**134,764**	**-**	**1,728,945**	**70,077**	**-**	**1,799,022**
Share capital increase	1,517,672			789,189			789,189
Exercise of warrants 2003-2006	335,411			174,414			174,414
Balance at June 30, 2005	**5,177,976**	**134,764**	**-**	**2,692,548**	**70,077**	**-**	**2,762,625**

The increase of Euros 963,603 thousand compared to the beginning of the period is due to:

- the issue of 1,517,672,178 ordinary shares for a total amount of Euros 789,189 thousand for the capital increase voted by the extraordinary shareholders' meeting held on January 21, 2005;
- the issue of 334,522,336 ordinary shares for Euros 173,952 thousand (1,338,089,344 warrants exercised in 2004 with the relative issue of the shares in January 2005);
- the issue of 888,288 ordinary shares for Euros 462 thousand against 3,553,152 warrants exercised.

17.2 Attributable to minority interest

The minority interest in shareholders' equity went from Euros 338,960 thousand at December 31, 2004 to Euros 360,502 thousand at June 30, 2005; the change is mainly due to the balance of the net income for the first six months of 2005, the payment of last year's dividends and the effect of the translation of foreign currency financial statements to Euros.

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

	6/30/2005	12/31/2004
Shared Service Center s.c.a r.l. (Italy)	50.00%	50.00%
Auto Cables Tunisie S.A. (Tunisia)	49.00%	49.00%
Celikord A.S. (Turkey)	49.00%	49.00%
Sicable S.A. (Ivory Coast)	49.00%	49.00%
Pirelli & C Ambiente Holding S.p.A. (Italy)	49.00%	49.00%
Turk Pirelli Lastikleri A.S. (Turkey)	36.94%	36.94%
Pirelli & C. Real Estate S.p.A. (Italy)	46.63%	46.06%
Pirelli Baosheng Cable Co. Ltd (China)	33.00%	33.00%
Tianjin Pirelli Power Cables Co. Ltd (China)	33.00%	33.00%
Turk Pirelli Kablo ve Sistemleri A.S. (Turkey)	16.25%	16.25%
Pirelli Telecom Cables Co. Ltd Wuxi (China)	13.29%	13.29%
Alexandria Tire Co. S.A.E. (Egypt)	13.19%	13.21%
Pirelli de Venezuela C.A. (Venezuela)	3.78%	3.78%

18. STOCK OPTION PLANS

No new stock option plans were introduced during the period.

Pirelli & C. S.p.A. has two existing stock option plans destined for the senior executives and staff of the company and other companies in the Group which were granted option rights, not transferable to third parties, for the subscription/purchase of Pirelli & C. S.p.A. ordinary shares.

The following disclosure is provided on the above plans called *Pirelli to People* and *Group Senior Executives*.

	Pirelli to People	*Group Senior Executives*
Features of the plan	Option rights granted, non-transferable to third parties, for the subscription of future new issues of Pirelli & C. ordinary shares or, as decided by the latter, for the purchase of treasury shares of Pirelli & C.	Option rights granted, non-transferable to third parties, for the subscription of future new issues of Pirelli & C. ordinary shares or, as decided by the latter, for the purchase of treasury shares of Pirelli & C.
Beneficiaries at June 30, 2005	504 employees (senior executives, cadres, employees with high potential) of the companies of the Group. Originally 725 persons at the date of approval of the plan.	39 senior executives of the companies of the Group. Originally 51 persons at the date of approval of the plan.
Conditions for exercising options	Continuance of employment.	(a) continuance of employment, and (b) the reaching, in the two-year period 2001-2002, of specific targets, assigned to each beneficiary.
Subscription/purchase price per share	Each option right granted gives the right to subscribe/purchase one Pirelli & C. ordinary share at the price of Euros 1.150	Each option right granted gives the right to subscribe/purchase one Pirelli & C. ordinary share at the price of Euros 1.150
Vesting period of options	Up to nine years from the date the options are granted (which took place on November 5, 2001), but not before one year has passed from that date for 50 percent of the options granted, two years for another 25 percent and three years for the remaining 25 percent.	As regards the options granted on November 5, 2001, up to nine years from the date the options are granted, but not before one year has passed from that date for 50 percent of the options, two years for another 25 percent and three years for the remaining 25 percent. For the options granted definitively on May 10, 2002, up to May 31, 2009 but not before June 1, 2002 for 50 percent of the options and not before January 1, 2003 for the remaining 50 percent.
Maximum number of options for which the offer was open at December 31, 2004	36,826,541 options equal to about 1.11 percent of outstanding ordinary shares destined for 530 beneficiaries.	17,399,309 options equal to about 0.52 percent of outstanding ordinary shares destined for 40 beneficiaries.

Maximum number of options for which the offer was open at June 30, 2005	35,101,475 options equal to about 0.68 percent of outstanding ordinary shares destined for 504 beneficiaries.	17,237,687 options equal to about 0.33 percent of outstanding ordinary shares destined for 39 beneficiaries
Options forfeit during the first half of 2005 as a result of persons leaving the Group	1,725,066	161,622
Shares issued during the period	None	None

As regards the separate stock option plans put into place by Pirelli & C. Real Estate S.p.A., a listed subsidiary of Pirelli & C. S.p.A., and companies which it controls, please refer to the information made available by that company.

19. DEFERRED TAX LIABILITIES

Deferred tax liabilities amount to Euros 61,087 thousand compared to Euros 80,367 thousand at December 31, 2004 (inclusive of the liabilities relating to assets held for sale of Euros 21,429 thousand).

20. CURRENT TAX PAYABLES

Current tax payables amount to Euros 116,551 thousand compared to Euros 79,074 thousand at December 31, 2004.

21. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

The movements during the period in provisions for other liabilities and charges is presented in the following table:

(in thousands of euros)

Provisions for other liabilities and charges - non-current	Other provisions	Provision for restructuring costs	Total
Beginning balance at December 31, 2004	389,811	-	389,811
Exchange differences	15,325	-	15,325
Adoption of IAS 32/39	69,000	-	69,000
Increase	3,017	-	3,017
Utilization	-	-	-
Other	716	-	716
Ending balance at June 30, 2005	**477,869**	**-**	**477,869**

(in thousands of euros)

Provisions for other liabilities and charges - current	Other provisions	Provision for restructuring costs	Total
Beginning balance at December 31, 2004	149,919	18,008	167,927
Liabilities relating to assets held for sale	(56,075)	(18,008)	(74,083)
Exchange differences	1,348	-	1,348
Increase	20,886	-	20,886
Utilization	(25,055)	-	(25,055)
Other	6,413	-	6,413
Ending balance at June 30, 2005	**97,436**	**-**	**97,436**

These provisions mainly consist of accruals for the risks associated with the rights granted to the shareholder banks of Olimpia S.p.A. and Hopa, under shareholders' agreements (Euros 392,925 thousand at June 30,2005 and Euros 320,925 thousand at December 31,2004), and other accruals for litigation, industrial risks and claims, product warranties and other contingencies.

22. EMPLOYEE BENEFIT OBLIGATIONS

These include:

(in millions of euros)

	6/30/2005	12/31/2004	*of which relating to assets held for sale*
Pension funds:			
- funded	146.7	153.5	6.2
- unfunded	98.0	139.7	41.1
Employees' leaving indemnity	106.0	136.0	32.1
Medical assistance plans	37.6	56.8	17.0
Other benefits	28.3	42.8	21.9
	416.6	**528.8**	**118.3**

The composition of pension funds, at December 31, 2004, is as follows:

(in millions of euros)

	12/31/2004					
	Germany	**Total unfunded pension funds**	Canada	USA	UK	**Total funded pension funds**
Present value of funded obligations			14.7	172.5	745.5	932.7
Fair value of plan assets			(14.2)	(112.9)	(608.5)	(735.6)
Gross deficit			0.5	59.6	137.0	197.1
Present value of unfunded obligations	147.0	147.0				
Unrecognized actuarial gains/losses	(7.3)	(7.3)	(0.9)	(11.3)	(31.4)	(43.6)
Net liability in the balance sheet	**139.7**	**139.7**	**(0.4)**	**48.3**	**105.6**	**153.5**
of which liabilities relating to assets held for sale	41.1	**41.1**	(0.4)	6.6	-	**6.2**

The composition of medical assistance plans is as follows:

(in millions of euros)

	12/31/2004		
	USA	Canada	**TOTAL**
Present value of obligations	57.4	1.6	**59.0**
Unrecognized actuarial gains/losses	(2.2)		**(2.2)**
Net liability in the balance sheet	55.2	1.6	**56.8**
of which liabilities relating to assets held for sale	15.4	1.6	**17.0**

The amounts recognized in the statement of income for pension funds are as follows:

(in millions of euros)

	1st Half 2005	**1st Half 2004**
Current service costs	5,6	5,9
Interest cost	27,6	27,4
Expected return on plan assets	(27,4)	(28,3)
	5,8	**5,0**

The actuarial assumptions used at December 31, 2004 for the determination of the estimated cost for the year 2005 are as follows:

				12/31/2004
	Germany	**UK**	**USA**	**Canada**
Discount rate	4.75%	5.50%	5.75%	5% - 6%
Inflation rate	2.50%	2.50%	4% - 4.50%	4% - 4.50%
Expected return on plan assets		7.45%	7.00%	6.25%

23. BORROWINGS FROM BANKS AND OTHER FINANCIAL COMPANIES

The analysis of borrowings from banks and other financial companies is as follows:

(in thousands of euros)

	6/30/2005			12/31/2004		
	Total	**Non-current**	**Current**	**Total (*)**	**Non-current**	**Current**
Associates	615	-	615	18,152	-	18,152
Others	157,103	135,779	21,324	162,327	136,523	25,804
Bonds	1,150,000	1,150,000	-	1,150,000	1,150,000	-
Borrowings from banks	1,826,353	563,626	1,262,727	1,274,378	573,763	700,615
Borrowings from other financial companies	25,764	24,068	1,696	37,639	31,439	6,200
Finance lease payables	43,096	39,571	3,525	44,751	40,974	3,777
Financial accrued liabilities and deferred incom	38,126	-	38,126	49,330	-	49,330
	3,241,057	**1,913,044**	**1,328,013**	**2,736,577**	**1,932,699**	**803,878**

(*) inclusive of assets held for sale of Euros 677,640 thousand

These liabilities are secured by real guarantees (liens and mortgages) for Euros 104,372 thousand.

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

24. TRADE PAYABLES

The analysis of trade payables is as follows:

(in thousands of euros)

	6/30/2005 Total	6/30/2005 Non-current	6/30/2005 Current	12/31/2004 Total (*)	12/31/2004 Non-current	12/31/2004 Current
Subsidiaries (**)	20,751	-	20,751	5,805	-	5,805
Associates	5,741	-	5,741	6,284	-	6,284
Others	907,959	-	907,959	1,521,583	-	1,521,583
Notes payable	79,608	-	79,608	74,854	-	74,854
	1,014,059	**-**	**1,014,059**	**1,608,526**	**-**	**1,608,526**

(*) inclusive of assets held for sale of Euros 766,900 thousand

(**) in reference to transactions with companies in the Energy and Telecom Cables and Systems Sectors held for sale

25. OTHER PAYABLES

The analysis of other payables is as follows:

(in thousands of euros)

	6/30/2005 Total	6/30/2005 Non-current	6/30/2005 Current	12/31/2004 Total (*)	12/31/2004 Non-current	12/31/2004 Current
Subsidiaries (**)	14,906	-	14,906	-	-	-
Associates	24	-	24	553	-	553
Trade and other accrued liabilities and deferred income	136,771	1,078	135,693	259,573	851	258,722
Payables to employees	88,155	21	88,134	23,734	-	23,734
Payables to social security agencies	34,082	1,134	32,948	4,608	-	4,608
Payables for stock options	5,499	-	5,499	-	-	-
Payables for the measurement of derivatives at fair value	52,791	-	52,791	-	-	-
Dividends payable	1,446	-	1,446	862	-	862
Advances from customers	53,616	22,897	30,719	86,119	35,528	50,591
Advances on construction contracts from customers	(44,242)	(22,873)	(21,369)	(51,848)	(35,447)	(16,401)
Other payables	171,586	42,791	128,795	508,832	61,299	447,533
	514,634	**45,048**	**469,586**	**832,433**	**62,231**	**770,202**

(*) inclusive of assets held for sale of Euros 303,820 thousand

(**) in reference to transactions with companies in the Energy and Telecom Cables and Systems Sectors held for sale

Payables for the measurement of derivatives at fair value mainly include the measurement of outstanding forward foreign exchange purchases and sales at June 30, 2005 at fair value.

26. COMMITMENTS AND CONTINGENCIES

Commitments for purchases of fixed assets

These commitments refer to the risk that buildings remain unsold and are composed as follows:

- commitment to purchase a part of the buildings owned by Imser 60 S.r.l. for a total amount of Euros 320,000 thousand. The purchase price of these buildings is established by contract at about 20 percent of their market value. This option may be exercised by the counterpart up to May 31, 2022;
- commitment undertaken by Pirelli & C. Real Estate S.p.A. to purchase the buildings that remain unsold by Iniziative Immobiliari S.r.l. as of the date of December 22, 2005 for a maximum amount of Euros 30,000 thousand.

The commitment to purchase the buildings that remain unsold by the associate Bernini Immobiliare S.r.l., equal to Euros 48,010 thousand at December 31, 2004, no longer applies since the contract terms expired.

Commitments for purchases of investments

Purchase options

These commitments principally refer to:

- Euros 5,693 thousand for the prorata purchase commitment undertaken by Pirelli & C. Real Estate S.p.A. in favor of Cordusio Immobiliare S.r.l. in respect of the option to sell the shares held by the latter in Modus S.r.l. to the indirect associates Aida S.r.l. and M.S.M.C. Immobiliare 4 S.r.l.;

- Euros 4,556 thousand for the commitment undertaken by Pirelli & C. Real Estate S.p.A. to purchase from Roev Italia S.p.A. a 15.8 percent interest in the capital of the associate Mistral S.r.l. and the proportional share of the shareholder loans. This acquisition took place on August 3, 2005;

- Euros 8,659 thousand for the purchase commitment undertaken by Pirelli & C. Real Estate S.p.A. in relation to the options to sell the shares of the associates Iniziative Immobiliari S.r.l. by Banca Nazionale del Lavoro S.p.A. and Banca Intesa S.p.A. This option will expire on December 31, 2005;

- Euros 22,500 thousand for the purchase commitment undertaken by Pirelli & C. Real Estate S.p.A. in respect of the option to sell, exercisable starting from January 1, 2008, in favor of Morgan Stanley Real Estate Funds, with reference to the purchase of 52.63 percent of the investment in Servizi Immobiliari Banche SIB. S.p.A.

Put options given to third parties

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

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

  In December 2003, the Banks executed the capital increase voted by Olimpia on November 13, 2003 and – in accordance with what was agreed in the third amendment to the Banks' Agreement (signed on December 16, 2003) – the exercise price of the put option on the shares that came to the Banks from the aforementioned capital increase, was determined in an amount equal to the higher of Euros 3.53 and the weighted average price of reference recorded by the Telecom Italia shares in the 30 days of trading prior to the request of sale, multiplied by 18,322,946 shares.

The put option, relating to the shares coming from the above capital increase, was accounted for in the financial statements as an investment with a contra-entry to liabilities, in accordance with IAS/IFRS, since the economic benefits relating to ownership of the investment in Olimpia were for the major part transferred immediately to Pirelli. As a result, Pirelli's investment in Olimpia is indicated at 60.4 percent (effective investment is equal to 57.7 percent).

Provisions are shown in the balance sheet for Euros 233 million in respect of the two options granted to the banks, considered together.

After the exercise, if any, of the two puts, the carrying amount of the Telecom Italia shares, in transparency, for Pirelli, will be equal to about Euros 4.1 per share.

- the put option granted to Edizione Finance International S.A./Edizione Holding S.p.A. ("Edizione"), under the shareholders' agreement signed on August 7, 2001, and subsequently amended.

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

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

Forward securities purchases

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

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Furthermore, - on the basis of the shareholders' agreement between Hopa S.p.A. (Hopa), Pirelli & C. S.p.A., Edizione Finance S.A., Olimpia S.p.A. and the Banks (in February 2003) ("Hopa Agreement") - in the event of dissent over certain matters, such as investments, buying/selling, loans of a specific amount or resolutions amending the bylaws), Hopa shall have the right to obtain the spin-off of Olimpia and Olimpia shall have the consequent right to obtain the spin-off of Holinvest S.p.A. In accordance with the conditions and terms of the Hopa Agreement and subsequent amendments, Hopa shall receive a proportional share of Olimpia's instruments and Olimpia shall receive the proportional share of instruments owned by Holinvest S.p.A.

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

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

Hopa would obtain payment of an amount corresponding to Euros 0.74 per Telecom Italia share or instrument for its prorata share. In the event in which an arbitration board rules that the reasons for dissent manifested by Hopa are justified, the premium would be equal to Euros 1.27 per Telecom Italia share or instrument.

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

Liabilities at June 30, 2005 include Euros 393 million to meet the risks associated with the rights granted to the shareholder banks of Olimpia S.p.A. and to Hopa S.p.A. under the shareholders’ agreements.

27. REVENUES FROM SALES AND SERVICES

Revenues from sales and services for the first half of 2005 can be analyzed as follows:

(in thousands of euros)

	1st Half 2005	1st Half 2004
Revenues from sales of products	1,992,457	1,710,402
Revenues from services	280,600	296,233
Revenues from construction contracts	8,362	9,712
	2,281,419	**2,016,347**

28. OTHER INCOME

Other income amounts to Euros 137,876 thousand compared to Euros 125,878 thousand in the first half of 2004; it includes rent income, commissions, insurance indemnities and refunds and other minor items.

29. PERSONNEL COSTS

Personnel costs consist of the following:

(in thousands of euros)

	1st Half 2005	**1st Half 2004**
Salaries and wages	374,561	349,740
Stock option costs	2,979	2,692
Social security costs	95,046	84,231
Leaving indemnity	17,702	14,014
Pension and similar	7,408	13,428
Other costs	9,266	9,081
	506,962	**473,186**

For the amounts relating to pension funds recognized in the statement of income, please refer to the note on pension funds in the balance sheet.

30. AMORTIZATION AND DEPRECIATION

Amortization and depreciation charges are as follows:

(in thousands of euros)

	1st Half 2005	**1st Half 2004**
Amortization of intangible assets	7,651	12,215
Depreciation of property, plant and equipment	96,065	86,641
	103,716	**98,856**

31. OTHER EXPENSES

Other expenses amount to Euros 744,283 thousand (Euros 692,474 thousand in the first half of 2004). Details are as follows:

(in thousands of euros)

	1st Half 2005	1st Half 2004
Receivables impairment	6.466	6.230
Impairment loss of property, plant and equipment	2.332	-
Other accruals	12.925	11.020
Operating lease payments	5.767	5.251
Rent and hires	24.149	21.930
EDP expenses	20.247	25.396
Consulting fees	60.841	68.407
Insurance	14.292	14.647
Maintenance	39.693	17.531
Selling expenses	115.098	101.634
Cleaning expenses	13.531	14.929
Contractual work expenses	19.258	14.890
Traveling expenses	19.381	18.690
Advertising expenses	73.716	62.354
Fluids and power	62.055	51.395
Other	254.532	258.170
	744.283	**692.474**

R&D expenses, excluding those relating to the Cables and Systems Sector, went from Euros 73 million in the first six months of 2004 (3.6 percent of sales) to Euros 82 million in the first half of 2005 (3.6 percent of sales). They are entirely expensed to income.

32. FINANCIAL INCOME

Financial income is composed as follows:

(in thousands of euros)

	1st Half 2005	1st Half 2004
Interest	37,655	36,909
Other financial income	9,375	18,567
Gains on exchange	72,444	190,154
	119,474	**245,630**

33. FINANCIAL EXPENSES

Financial expenses are composed as follows:

(in thousands of euros)

	1st Half 2005	1st Half 2004
Bank interest	69,534	77,219
Other financial expenses	18,633	24,704
Losses on exchange	76,122	191,450
	164,289	**293,373**

34. DIVIDENDS

Dividends primarily refer to those received from Telecom Italia S.p.A. (Euros 10,050 thousand), from Capitalia S.p.A. (Euros 3,355 thousand) and from RCS MediaGroup S.p.A. (Euros 853 thousand).

35. VALUATION OF FINANCIAL ASSETS

The valuation of financial assets includes:

(in thousands of euros)

	1st Half 2005	1st Half 2004
Impairment loss of available-for-sale financial assets	(17,613)	(15,093)
Measurement of financial assets at fair value through profit and loss at fair value	11,536	-
Measurement of foreign exchange derivatives at fair value	(6,983)	-
Measurement of other derivatives at fair value	(44,813)	-
	(57,873)	**(15,093)**

36. SHARE OF INCOME (LOSS) OF ASSOCIATES AND JOINT VENTURES

The share of income (loss) of associates and joint ventures valued by the equity method is income of Euros 129,243 thousand (Euros 48,561 thousand for the six months ended June 30, 2004). In particular, this caption includes the share of income from Olimpia of Euros 85,779 thousand (Euros 8,069 thousand in the first six months of 2004) and the income of investments in the real estate sector valued by the equity method of Euros 43,464 thousand (Euros 40,492 thousand in the first half of 2004).

37. INCOME TAXES

Income taxes for the period are composed as follows:

(in thousands of euros)

	1st Half 2005	1st Half 2004
Current income taxes	67,481	56,498
Deferred income taxes	3,648	3,201
	71,129	**59,699**

The current income tax charge has been calculated on the basis of the taxable amount deriving from the results for the first six months of the year, taking into account the utilization of any tax loss carryforwards and applying the tax rates in force in each country.

38. ASSETS HELD FOR SALE AND INCOME FROM DISCONTINUED OPERATIONS

Assets held for sale and the liabilities relating to assets held for sale are composed as follows:

(in thousands of euros)

ASSETS HELD FOR SALE	06/30/2005
Property, plant and equipment	**740,611**
Intangible assets	**22,840**
Available-for-sale financial assets	**28,898**
Deferred tax assets	**2,292**
Other receivables	**19,470**
Non-current assets	**814,111**
Inventories	**495,146**
Trade receivables	**846,557**
Other receivables	**127,133**
Financial assets held for trading	**57,870**
Cash and cash equivalents	**133,760**
Current assets	**1,660,466**
TOTAL ASSETS	**2,474,577**

(in thousands of euros)

LIABILITIES RELATING TO ASSETS HELD FOR SALE	06/30/2005
Borrowings from banks and other financial companies	**25,109**
Other payables	**37,877**
Provisions for other liabilities and charges	**9,177**
Deferred tax liabilities	**19,788**
Employee benefit obligations	**125,175**
Non-current liabilities	**217,126**
Borrowings from banks and other financial companies	**888,629**
Trade payables	**684,969**
Other payables	**280,590**
Provisions for other liabilities and charges	**53,866**
Current liabilities	**1,908,054**
TOTAL LIABILITIES	**2,125,180**

The analysis of income from discontinued operations (assets held for sale) is as follows:

(in thousands of euros)

Income from discontinued operations	**1st Half 2005**	**1st Half 2004**
Revenues from sales and services	1,791,298	1,651,646
Changes in inventories of work in process, semifinished and finished products	21,700	44,795
Increase in property, plant and equipment from internal work	139	101
Other income	20,089	22,446
Total production value	**1,833,226**	1,718,988
Raw materials and consumables used	(1,070,772)	(1,081,599)
Personnel costs	(263,045)	(258,897)
Amortization and depreciation	(45,254)	(51,765)
Other expenses	(381,617)	(278,893)
Total production costs	**(1,760,688)**	(1,671,154)
Operating profit	**72,538**	47,834
Income before income taxes	**49,006**	28,332
Income taxes	(16,233)	(15,804)
Income from discontinued operations	**32,773**	12,528

39. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the income attributable to the parent company (adjusted for the minimum dividends due to savings shareholders) by the weighted average number of outstanding ordinary shares during the year, excluding ordinary treasury shares.

	June 30, 2005	**June 30, 2004**
Income from **continuing operations** for the period attributable to the parent company	147	73
Income attributable to savings shareholders considering the extra 2%	(4)	(3)
Adjusted income from continuing operations for the period attributable to the parent company	143	70
Weighted average number of outstanding ordinary shares (in thousands)	4,540,499	3,323,724
Basic earnings per ordinary share from **continuing operations** (in euros per thousand of shares)	31.49	21.06

	June 30, 2005	**June 30, 2004**
Income from **discontinued operations** for the period attributable to the parent company	32	12
Income attributable to savings shareholders considering the extra 2%	(1)	-
Adjusted income from discontinued operations for the period attributable to the parent company	31	12
Weighted average number of outstanding ordinary shares (in thousands)	4,540,499	3,323,927
Basic earnings per ordinary share from **discontinued operations** (in euros per thousand of shares)	7.05	3.61

Diluted earnings per share is calculated by adjusting the weighted average number of outstanding ordinary shares to assume conversion of all dilutive potential ordinary shares. The company has two classes of dilutive potential ordinary shares: warrants and stock options. The warrants are assumed to have been exercised. Since the price to exercise the stock options is higher than market value, the stock options are assumed not to have been exercised.

	June 30, 2005	**June 30, 2004**
Income from **continuing operations** for the period attributable to the parent company	147	73
Income attributable to savings shareholders considering the extra 2%	(4)	(3)
Adjusted income from continuing operations for the period attributable to the parent company	143	70
Weighted average number of outstanding ordinary shares (in thousands)	4,540,499	3,323,724
Adjustment for the issue of warrants	23,363	171,268
Adjusted weighted average number of outstanding ordinary shares (in thousands)	4,563,862	3,494,992
Diluted earnings per ordinary share from **continuing operations** (in euros per thousand of shares)	31.33	20.03

	June 30, 2005	**June 30, 2004**
Income from **discontinued operations** for the period attributable to the parent company	32	12
Weighted average number of outstanding ordinary shares (in thousands)	4,540,499	3,323,724
Adjustment for the issue of warrants	23,363	171,268
Adjusted weighted average number of outstanding ordinary shares (in thousands)	4,563,862	3,494,992
Diluted earnings per ordinary share from **discontinued operations** (in euros per thousand of shares)	7.01	3.43

40. DIVIDENDS PER SHARE

The company paid dividends of Euros 108,737 thousand on the ordinary shares (Euros 0.0210 per share) and Euros 4,905 thousand on the savings shares (Euros 0.0364 per share).

41. RELATED PARTY TRANSACTIONS

Related party transactions, including intragroup transactions, are neither unusual nor exceptional but fall under the normal business operations of the Group companies. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm’s length.

The statement of income and balance sheet effects of transactions with related parties on the interim consolidated financial statements at June 30, 2005 of the Pirelli Group are presented in the following tables.

The main economic and balance sheet transactions among companies consolidated line-by-line and included in continuing operations and the subsidiaries considered discontinued operations under assets held for sale are presented in the following table.

As mentioned earlier, as a result of the application of IAS/IFRS, the Energy and Telecom Cables and Systems operations of the Pirelli Group have been accounted for in these financial statements as discontinued operations (assets held for sale).

In particular, such operations are presented in the statement of income on a separate line “Income (loss) from discontinued operations” after “Income (loss) from continuing operations” and before “Net income (loss)”, whereas in the balance sheet, they are presented on two separate lines only “Total assets held for sale” and “Total liabilities related to assets held for sale”.

Revenues for goods and services	35	These mainly include revenues for technical assistance/managerial commissions and commissions for user license rights on trademarks, know-how and patents.
Costs for goods and services	4	They refer to the supply of research and development activities.
Financial income	7	
Trade and other receivables	60	They mainly refer to receivables from the supply of the above services.
Financial receivables	804	
Trade payables and other payables	36	They refer to payables in connection with the group consolidated tax return, VAT settlement and the supply of research and development services.

The main economic and balance sheet transactions among companies consolidated line-by-line and included in continuing operations and associates are presented in the following table:

Revenues for goods and services	46	These mainly refer to the supply of services to the associates of Pirelli & C. Real Estate
Costs for goods and services	2	
Financial income	6	
Financial expenses	2	
Trade receivables and other receivables	46	These mainly refer to receivables from the associates of Pirelli & C. Real Estate
Financial receivables	213	These refer to receivables from the associates of Pirelli & C. Real Estate
Trade payables and other payables	6	These mainly refer to payables to the associates of Pirelli & C. Real Estate

The main economic and balance sheet transactions among companies consolidated line-by-line and included in continuing operations and related parties of Pirelli as a result of their association with directors (Telecom Italia, Camfin and FC Internazionale) are presented in the following table:

Revenues for goods and services	145	These refer to the supply of telecom cables and services rendered by Pirelli Cavi e Sistemi Telecom Italia S.p.A., Pirelli & C. S.p.A., Shared Service Center s.c.r.l. and Pirelli & C. Real Estate S.p.A. to the Telecom Italia group (Euros 144 million) and services rendered by Polo Viaggi S.p.A. to F.C. Internazionale S.p.A. (Euros 1 million)
Costs for goods and services	42	These refer to telephone, computer and power services by the Telecom Italia group (Euros 15 million), the supply of natural gas by the Camfin Group (Euros 24 million) and costs for the sponsorship of FC Internazionale S.p.A. (Euros 3 million)
Trade receivables and other receivables	75	These refer to receivables for the supply of the above services (to the Telecom Italia group for Euros 74 million and FC Internazionale S.p.A. for Euros 1 million)
Trade payables and other payables	13	These refer to payables for the supply of the above services (to the Telecom Italia group for Euros 8 million, the Camfin group for Euros 3 million and FC Internazionale S.p.A. for Euros 2 million)

42. OTHER INFORMATION

Exchange rates

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

	(local currency against euros)					
	Period-end		Change in	Average		Change in
	30/06/2005	12/31/2004	%	2005	2004	%
Europe						
British pound	0.6742	0.7051	(4.38%)	0.6859	0.6735	1.84%
Swiss franc	1.5499	1.5429	0.45%	1.5462	1.5531	(0.45%)
Hungarian forint	247.2400	245.9700	0.52%	247.4463	256.1126	(3.38%)
Slovakian koruna	38.4140	38.7450	(0.85%)	30.0731	40.3176	(25.41%)
North America						
American dollar	1.2092	1.3621	(11.23%)	1.2848	1.2273	4.69%
Canadian dollar	1.4900	1.6416	(9.23%)	1.5875	1.6428	(3.36%)
South America						
Brazilian real	2.8421	3.6156	(21.39%)	3.3053	3.6464	(9.35%)
Venezuela bolivar	2,599.7800	2,615.2320	(0.59%)	2,662.9921	2,271.4013	17.24%
Argentinean peso	3.4910	4.0577	(13.97%)	3.7398	3.5677	4.82%
Oceania						
Australian dollar	1.5885	1.7459	(9.02%)	1.6627	1.6620	0.04%
Asia						
Chinese renminbi	10.0079	11.2734	(11.23%)	10.6337	10.1587	4.68%
Singapore dollar	2.0377	2.2262	(8.47%)	2.1163	2.0851	1.50%
Indonesian rupiah	11,789.7000	12,626.6670	(6.63%)	12,093.4886	10,723.2329	12.78%
Africa						
Egyptian pound	6.9892	8.2543	(15.33%)	7.4522	7.5755	(1.63%)
Ivory Coast franc	655.9570	655.9570	0.00%	655.9570	655.9570	0.00%

Net financial position

Although it is a non-IAS/IFRS financial measure, the composition of the net financial position is provided below for purposes of continuity of information with previous periods.

(in millions of euros)

Net financial position	**6/30/2005**	**12/31/2004(*)**
. Borrowings from banks and other financial companies - current	1,290	755
. Financial accrued liabilities and deferred income - current	38	49
. Cash and cash equivalents	(178)	(509)
. Financial assets held for trading	(305)	(284)
. Financial receivables - current	(831)	(54)
. Financial accrued income and prepaid expenses - current	(9)	(16)
Net short-term (liquidity)/debt	**5**	**(60)**
. Borrowings from banks and other financial companies - non-current	1,913	1,933
. Financial receivables - non-current	(291)	(267)
. Financial accrued income and prepaid expenses - non-current	0	(1)
. Other securities	(3)	(4)
Net medium/long-term (liquidity)/debt	**1,619**	**1,661**
Net financial (liquidity)/debt position - continuing operations	**1,623**	**1,601**
Net financial (liquidity)/debt position - discontinued operations	**715**	
Total net financial (liquidity)/debt position	**2,338**	**1,601**

(*) inclusive of assets held for sale of Euros 456 million

Companies consolidated line-by-line

Company	Business	Headquarters	Share Capital		Percentage ownership	Percentage of vote	Held by
Europe							
Austria							
Pirelli Gesellschaft mbH	Tyre	Vienna	Euro	726.728	100,00%		Pirelli Tyre (Europe) S.A.
Pirelli-Oekw GmbH	Energy Cables and Systems	Vienna	Euro	2.071.176	100,00%		Pirelli Cable Holding N.V.
Belgium							
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700.000	100,00%		Pirelli Tyre (Europe) S.A.
Finland							
Pirelli Cables and Systems OY	Energy Cables and Systems	Helsinki	Euro	10.000.000	100,00%		Pirelli Cable Holding N.V.
France							
Eurelectric S.A.	Energy Cables and Systems	La Bresse	Euro	4.036.500	100,00%		Pirelli Energie Câbles et Systèmes France S.A.
Gecam France S.a.S	Environment	Paris	Euro	450.000	83,34%		Pirelli & C. Ambiente Tecnologie S.p.A.
Pirelli Energie Câbles et Systèmes France S.A.	Energy Cables and Systems	Paron de Sens	Euro	136.800.000	100,00%		Pirelli Cable Holding N.V.
Pirelli Telecom Câbles et Systèmes France S.A.	Telecom Cables and Systems	Chavanoz Pont de Cheruy Cedex	Euro	7.455.000	100,00%		Pirelli Cavi e Sistemi Telecom S.p.A.
Pneus Pirelli S.A.S	Tyre	Roissy en France	Euro	1.515.858	100,00%		Pirelli Tyre (Europe) S.A.
Project Saint Maurice S.A.	Real Estate	Paris	Euro	38.200	100,00%		Pirelli & C. Real Estate S.p.A.
Germany							
Bergmann Kabel und Leitungen GmbH	Energy Cables and Systems	Schwerin	Euro	1.022.600	100,00%		Pirelli Kabel und Systeme Holding GmbH
Deutsche Pirelli Reifen Holding GmbH	Financial	Breuberg/Odenwald	Euro	7.694.943	100,00%		Pirelli Tyre Holding N.V.
Drahtcord Saar Geschaeftsfuehrungs GmbH	Tyre	Merzig	Deut. Mark	60.000	50,00%		Pirelli Deutschland GmbH
Drahtcord Saar GmbH & Co. K.G.	Tyre	Merzig	Deut. Mark	30.000.000	50,00%		Pirelli Deutschland Gmbh
Driver Fleet Solution Gmbh	Tyre	Breuberg/Odenwald	Euro	26.000	100,00%		Deutsche Pirelli Reifen Holding GmbH
Pirelli Deutschland GmbH	Tyre	Breuberg/Odenwald	Euro	26.334.100	100,00%		Deutsche Pirelli Reifen Holding GmbH
Pirelli Kabel Grundstueckverwaltung Gmbh	Energy Cables and Systems	Hoechst/Odenwald	Euro	25.600	100,00%		Pirelli Kabel und Systeme Holding GmbH
Pirelli Kabel und Systeme GmbH	Energy Cables and Systems	Berlin	Euro	15.050.000	100,00%		Pirelli Kabel und Systeme Holding GmbH
Pirelli Kabel und Systeme Holding GmbH	Energy Cables and Systems	Berlin	Euro	20.026.000	99,00%		Pirelli Cable Holding N.V.
					1,00%		Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Personal Service Gmbh	Tyre	Breuberg/Odenwald	Euro	25.000	100,00%		Deutsche Pirelli Reifen Holding GmbH
Pirelli Telekom Kabel und Systeme Deutschland GmbH	Telecom Cables and Systems	Berlin	Euro	25.000	100,00%		Pirelli Cavi e Sistemi Telecom S.p.A.
PK Grundstueckverwaltung Gmbh	Tyre	Hoechst/Odenwald	Euro	26.000	100,00%		Deutsche Pirelli Reifen Holding GmbH
P&K Real Estate Gmbh	Real Estate	Berlin	Euro	35.000	60,00%		Pirelli & C. Real Estate S.p.A.
Pneumobil GmbH	Tyre	Breuberg/Odenwald	Euro	259.225	100,00%		Deutsche Pirelli Reifen Holding GmbH
Resident Berlin 1 P&K Gmbh	Real Estate	Berlin	Euro	25.000	100,00%		P&K Real Estate Gmbh
Greece							
Elastika Pirelli S.A.	Tyre	Athens	Euro	785.370	99,90%		Pirelli Tyre (Europe) S.A.
					0,10%		Pirelli Pneumatici S.p.A.
Pirelli Hellas S.A. (in liquidation)	Tyre	Athens	US $	22.050.000	79,86%		Pirelli Tyre Holding N.V.
Hungary							
Kabel Keszletertekesito BT.	Energy Cables and Systems	Budapest	Hun. Forint/000	1.239.841	100,00%		MKM Magyar Kabel Muvek Rt.
MKM Magyar Kabel Muvek RT.	Energy Cables and Systems	Budapest	Hun. Forint/000	6.981.070	100,00%		Pirelli Cable Holding N.V.
Pirelli Construction Hungary Ltd (in liquidation)	Energy Cables and Systems	Budapest	Hun. Forint/000	3.000	100,00%		Pirelli Cable Holding N.V.
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint/000	3.000	100,00%		Pirelli Tyre (Europe) S.A.
Ireland							
Pirelli Reinsurance Company Ltd	Reinsurance	Dublin	US $	7.150.000	100,00%		Pirelli Finance (Luxembourg) S.A.

Company	Business	Headquarters	Share Capital		Percentage ownership	Percentage of vote	Held by
Italy							
Acquario S.r.l. (in liquidation)	Real Estate	Genoa	Euro	255.000	100,00%		Pirelli & C. Real Estate S.p.A.
Alfa S.r.l.	Real Estate	Milan	Euro	2.600.000	100,00%		Pirelli & C. Real Estate S.p.A.
Alfa Due S.r.l. (in liquidation)	Real Estate	Milan	Euro	1.300.000	100,00%		Pirelli & C. Real Estate S.p.A.
Altofim S.r.l.	Real Estate	Milan	Euro	78.000	100,00%		Pirelli & C. S.p.A.
Asset Management NPL S.r.l.	Real Estate	Milan	Euro	10.000	75,00%		Pirelli & C. Real Estate S.p.A.
Athena (US) Energia Italia S.r.l.	Energy Cables and Systems	Milan	Euro	10.000	100,00%		Pirelli Cavi e Sistemi Energia S.p.A.
Athena (US) Telecom Italia S.r.l.	Telecom Cables and Systems	Milan	Euro	10.000	100,00%		Pirelli Cavi e Sistemi Telecom S.p.A.
Beta S.r.l.	Real Estate	Milan	Euro	26.000	100,00%		Partecipazioni Real Estate S.p.A.
Bicocca Center S.r.l.	Real Estate	Milan	Euro	51.000	100,00%		Pirelli & C. Real Estate S.p.A.
Casaclick S.p.A.	Real Estate	Milan	Euro	299.000	100,00%		Pirelli & C. Real Estate Agency S.p.A.
Centrale Immobiliare S.p.A.	Real Estate	Milan	Euro	5.200.000	100,00%		Pirelli & C. Real Estate S.p.A.
Centro Servizi Amministrativi Pirelli S.r.l.	Services	Milan	Euro	51.000	100,00%		Pirelli & C. S.p.A.
CFT Finanziaria S.p.A.	Real Estate	Florence	Euro	10.010.000	100,00%		Partecipazioni Real Estate S.p.A.
Consorzio Stabile Pirelli RE Servizi	Real Estate	Milan	Euro	200.000	50,00%		Pirelli & C. Real Estate Project Management S.p.A.
					40,00%		Pirelli & C. Real Estate Facility Management S.p.A.
					10,00%		Somogi S.r.l.
Driver Italia S.p.A.	Commercial	Milan	Euro	200.000	62,49%		Pirelli Pneumatici S.p.A.
Edilnord Gestioni S.p.A.	Real Estate	Milan	Euro	517.000	100,00%		Pirelli & C. Real Estate S.p.A.
Edilnord Progetti S.p.A.	Real Estate	Milan	Euro	250.000	100,00%		Pirelli & C. Real Estate S.p.A.
Elle Uno Società Consortile a.r.l.	Real Estate	Milan	Euro	100.000	60,00%		Edilnord Gestioni S.p.A.
Erato Finance S.r.l.	Real Estate	Milan	Euro	600.000	53,85%		Pirelli & C. Real Estate S.p.A.
Fibre Ottiche Sud - F.O.S. S.p.A.	Optical Fibers	Battipaglia (SA)	Euro	47.700.000	100,00%		Pirelli Cavi e Sistemi Telecom S.p.A.
FIM - Fabbrica Italiana di Mediazione S.r.l.	Real Estate	Milan	Euro	100.000	100,00%		Pirelli & C. Real Estate Agency S.p.A.
Iniziative Immobiliari 3 S.r.l. (ex-Pirelli Submarine Telecom Systems Italia S.p.A.)	Real Estate	Milan	Euro	50.000.000	100,00%		Pirelli Submarine Telecom Systems Holding B.V.
Iota S.r.l.	Real Estate	Milan	Euro	93.600	100,00%		Pirelli & C. Real Estate S.p.A.
Lambda S.r.l.	Real Estate	Milan	Euro	578.760	100,00%		Pirelli & C. Real Estate S.p.A.
Maristel S.p.A.	Telecom Cables and Systems	Milan	Euro	1.020.000	100,00%		Pirelli Broadband Solutions S.p.A.
Moncalieri Center S.r.l.	Real Estate	Milan	Euro	22.000	100,00%		Pirelli & C. Real Estate S.p.A.
NewCo RE 1 S.r.l.	Real Estate	Milan	Euro	30.000	100,00%		Pirelli & C. Real Estate S.p.A.
NewCo RE 2 S.r.l.	Real Estate	Milan	Euro	10.000	100,00%		Pirelli & C. Real Estate S.p.A.
NewCo RE 4 S.r.l.	Real Estate	Milan	Euro	10.000	100,00%		Pirelli & C. Real Estate S.p.A.
Parcheggi Bicocca S.r.l.	Real Estate	Milan	Euro	1.500.000	75,00%		Pirelli & C. Real Estate S.p.A.
Partecipazioni Real Estate S.p.A.	Real Estate	Milan	Euro	1.360.280	100,00%		Pirelli & C. Real Estate S.p.A.
PBS S.c.a.r.l.	Real Estate	Milan	Euro	100.000	60,00%		Edilnord Gestioni S.p.A.
Pirelli Broadband Solutions S.p.A.	Telecom Cables and Systems	Milan	Euro	10.120.000	98,75%		Pirelli & C. S.p.A.
					1,25%		Pirelli Finance (Luxembourg) S.A.
Pirelli & C. Ambiente S.p.A.	Environment	Milan	Euro	3.060.000	100,00%		Pirelli & C. Ambiente Holding S.p.A.
Pirelli & C. Ambiente Bonifiche S.r.l. (ex-Progetto Ambiente Gamma S.r.l.)	Environment	Milan	Euro	155.700	100,00%		Pirelli & C. Ambiente S.p.A.
Pirelli & C. Ambiente Holding S.p.A.	Environment	Milan	Euro	23.120.000	51,00%		Pirelli & C.S.p.A.
Pirelli & C. Ambiente Tecnologie S.p.A.	Environment	Milan	Euro	2.080.000	100,00%		Pirelli & C. Ambiente Holding S.p.A.
Pirelli & C. Opere Generali S.p.A.	Real Estate	Milan	Euro	104.000	100,00%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate S.p.A.	Real Estate	Milan	Euro	20.806.741	51,49%		Pirelli & C. S.p.A.
					3,43%	0,00%	Pirelli & C. Real Estate S.p.A.
					0,88%	0,00%	Partecipazioni Real Estate S.p.A.
Pirelli & C. Real Estate Agency S.p.A.	Real Estate	Milan	Euro	832.000	100,00%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Energy S.p.A.	Real Estate	Milan	Euro	120.000	100,00%		Pirelli & C. Real Estate Facility Management S.p.A.
Pirelli & C. Real Estate Facility Management S.p.A.	Real Estate	Milan	Euro	5.561.000	100,00%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Franchising S.p.A	Real Estate	Milan	Euro	500.000	100,00%		Pirelli & C. Real Estate Franchising Holding S.r.l.
Pirelli & C. Real Estate Franchising Agenzia Assicurativa S.r.l.	Real Estate	Milan	Euro	10.000	100,00%		Pirelli & C. Real Estate Franchising Holding S.r.l.
Pirelli & C. Real Estate Franchising Holding S.r.l.	Real Estate	Milan	Euro	120.000	70,00%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Opportunities Società di Gestione del Risparmio S.p.A. (ex-Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. Private)	Real Estate	Milan	Euro	1.000.000	100,00%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Project Management S.p.A.	Real Estate	Milan	Euro	520.000	100,00%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Property Management S.p.A.	Real Estate	Milan	Euro	114.400	100,00%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A.	Real Estate	Milan	Euro	23.725.000	90,00%		Pirelli & C. Real Estate S.p.A.

Company	Business	Headquarters	Share Capital		Percentage ownership	Percentage of vote	Held by
Pirelli Cavi e Sistemi Energia S.p.A.	Energy Cables and Systems holding company	Milan	Euro	100.000.000	98,75%		Pirelli & C. S.p.A.
					1,25%		Pirelli Finance (Luxembourg) S.A.
Pirelli Cavi e Sistemi Energia Italia S.p.A.	Energy Cables and Systems	Milan	Euro	59.749.052	100,00%		Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Cavi e Sistemi Telecom S.p.A.	Telecom Cables and Systems holding company	Milan	Euro	31.930.000	98,75%		Pirelli & C. S.p.A.
					1,25%		Pirelli Finance (Luxembourg) S.A.
Pirelli Cavi e Sistemi Telecom Italia S.p.A.	Telecom Cables and Systems	Milan	Euro	20.000.000	100,00%		Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli Cultura S.p.A.	Sundry	Milan	Euro	1.000.000	100,00%		Pirelli & C. S.p.A.
Pirelli Labs S.p.A.	Research and Development	Milan	Euro	10.000.000	100,00%		Pirelli & C. S.p.A.
Pirelli Nastri Tecnici S.p.A. (in liquidation)	Sundry	Milan	Euro	384.642	100,00%		Pirelli & C. S.p.A.
Pirelli Pneumatici S.p.A.	Tyre	Milan	Euro	256.820.000	100,00%		Pirelli Tyre Holding N.V.
Pirelli Servizi Finanziari S.p.A.	Financial	Milan	Euro	1.976.000	100,00%		Pirelli & C. S.p.A.
PIT - Promozione Imprese e Territorio S.c.r.l.	Real Estate	Pozzuoli	Euro	25.823	100,00%		Pirelli & C. Real Estate Facility Management S.p.A.
Polo Viaggi S.r.l.	Travel Agency	Milan	Euro	46.800	100,00%		Pirelli & C. S.p.A.
Progetto Bicocca Esplanade S.p.A.	Real Estate	Milan	Euro	2.500.000	100,00%		Pirelli & C. Real Estate S.p.A.
Progetto Bicocca Università S.r.l.	Real Estate	Milan	Euro	115.742	50,50%		Pirelli & C. Real Estate S.p.A.
Progetto Grande Bicocca S.r.l.	Real Estate	Milan	Euro	93.600	100,00%		Pirelli & C. Real Estate S.p.A.
Progetto Grande Bicocca Multisala S.r.l. (in liquidation)	Real Estate	Milan	Euro	1.530.000	100,00%		Pirelli & C. Real Estate S.p.A.
Progetto Moncalieri S.r.l.	Real Estate	Milan	Euro	90.000	100,00%		Pirelli & C. Real Estate S.p.A.
Progetto Salute Bollate S.r.l.	Real Estate	Milan	Euro	100.000	100,00%		Pirelli & C. Real Estate S.p.A.
Repeg Italian Finance S.r.l.	Real Estate	Milan	Euro	500.000	100,00%		Partecipazioni Real Estate S.p.A.
Rofau S.r.l.	Real Estate	Milan	Euro	10.000	100,00%		Altofim S.r.l.
Servizi Amministrativi Real Estate S.p.A.	Real Estate	Milan	Euro	520.000	100,00%		Pirelli & C. Real Estate S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104.000	95,00%		Pirelli & C. S.p.A.
					2,00%		Pirelli Pneumatici S.p.A.
					1,00%		Polo Viaggi S.r.l.
					2,00%		Pirelli & C. Real Estate S.p.A.
Shared Service Center s.c.r.l.	Information Systems	Milan	Euro	1.756.612	50,00%		Pirelli & C. S.p.A.
Somogi S.r.l.	Real Estate	Milan	Euro	90.000	100,00%		Pirelli & C. Real Estate Facility Management S.p.A.
Stella Polare S.r.l. (in liquidation)	Real Estate	Milan	Euro	289.215	100,00%		Pirelli & C. Real Estate S.p.A.
Tintoretto S.r.l.	Real Estate	Milan	Euro	10.000	100,00%		Partecipazioni Real Estate S.p.A.
Trefin S.p.A.	Financial	Milan	Euro	4.242.476	100,00%		Pirelli Cavi e Sistemi Energia S.p.A.
T.R.E.-Total Renewable Energy S.r.l.	Environment	Pero	Euro	10.000	100,00%		Pirelli & C. Ambiente Tecnologie S.p.A.
Vindex S.r.l.	Real Estate	Brescia	Euro	12.000	32,00%		Partecipazioni Real Estate S.p.A.
					37,00%		CFT Finanziaria S.p.A.
Luxembourg							
Pirelli Finance (Luxembourg) S.A.	Financial	Luxembourg	Euro	270.228.168	100,00%		Pirelli & C. S.p.A.
Pirelli International Finance S.A.	Insurance	Luxembourg	Euro	35.000	100,00%		Pirelli Finance (Luxembourg) S.A.
Norway							
Pirelli Kabler og Systemer AS	Energy Cables and Systems	Ski	Nor. Krone	100.000	100,00%		Pirelli Cables and Systems OY
Poland							
Driver Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty/mil.	100.000	79,00%		Pirelli Polska Sp.ZO.O.
Pirelli Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty/mil.	625.771	100,00%		Pirelli Tyre (Europe) S.A.
Romania							
S.C. Cord Romania SRL	Tyre	Slatina	Rom. Leu/000	167.791.000	80,00%		Pirelli Tyre Holding N.V.
S.C. Pirelli Romania Cabluri si Sisteme S.A.	Energy Cables and Systems	Slatina	Rom. Leu/000	208.927.700	100,00%		Pirelli Cable Holding N.V.
S.C. Pirelli Tyres Romania S.R.L.	Tyre	Slatina	Rom. Leu/000	271.870.000	95,00%		Pirelli Tyre Holding N.V.
					5,00%		Pirelli Pneumatici S.p.A.
Russia							
OOO Pirelli Tyre Russia	Commercial	Moscow	Russian Rouble	950.000	95,00%		Pirelli Tyre (Europe) S.A.
					5,00%		Pirelli Tyre Holding N.V.
Slovakia							
Kablo Bratislava Spol. S.R.O.	Energy Cables and Systems	Bratislava	Slov. Koruna	523.334.000	100,00%		Pirelli Cable Holding N.V.
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Slov. Koruna	200.000	100,00%		Pirelli Tyre (Europe) S.A.

Company	Business	Headquarters	Share Capital		Percentage ownership	Percentage of vote	Held by
Spain							
Euro Driver Car S.L.	Tyre	Barcelona	Euro	600.000	25,00%		Pirelli Neumaticos S.A.
					26,00%		Proneus S.L.
Fercable S.A.	Energy Cables and Systems	Barcelona	Euro	3.606.073	100,00%		Pirelli Cables y Sistemas S.A.
Omnia Motor S.A.	Tyre	Barcelona	Euro	1.502.530	100,00%		Pirelli Neumaticos S.A.
Pirelli Cables y Sistemas S.A.	Energy Cables and Systems	Barcelona	Euro	12.000.000	100,00%		Pirelli Cable Holding N.V.
Pirelli Neumaticos S.A.	Tyre	Barcelona	Euro	45.075.908	100,00%		Pirelli Tyre Holding N.V.
Pirelli Telecom Cables y Sistemas Espana S.L.	Telecom Cables and Systems	Barcelona	Euro	12.000.000	100,00%		Pirelli Cavi e Sistemi Telecom S.p.A.
Proneus S.L.	Tyre	Barcelona	Euro	3.005	51,00%		Pirelli Neumaticos S.A.
Sweden							
Pirelli Kablar och System AB	Energy Cables and Systems	Hoganas	Swed. Krona	100.000	100,00%		Pirelli Cables and Systems OY
Pirelli Tyre Nordic AB	Tyre	Bromma	Swed. Krona	950.000	100,00%		Pirelli Tyre (Europe) S.A.
Switzerland							
Agom S.A.	Tyre	Conthey	Swiss Franc	50.000	80,00%		Pirelli Tyre (Europe) S.A.
Agom S.A. Bioggio	Tyre	Bioggio	Swiss Franc	590.000	100,00%		Pirelli Tyre (Europe) S.A.
Pirelli Cables and Systems S.A.	Energy Cables and Systems	Basel	Swiss Franc	500.000	100,00%		Pirelli Cable Holding N.V.
Pirelli Société de Services S.a.r.l.	Financial	Basel	Swiss Franc	50.000	100,00%		Pirelli Société Générale S.A.
Pirelli Société Générale S.A.	Financial	Basel	Swiss Franc	28.000.000	100,00%		Pirelli & C. S.p.A.
Pirelli Tyre (Europe) S.A.	Tyre	Basel	Swiss Franc	1.000.000	100,00%		Pirelli Tyre Holding N.V.
The Netherlands							
Pirelli Cables and Systems N.V.	Energy Cables and Systems	Delft	Euro	5.000.000	100,00%		Pirelli Cable Holding N.V.
Pirelli Cable Holding N.V.	Energy Cables and Systems holding company	Delft	Euro	272.515.065	100,00%		Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Cable Overseas N.V.	Telecom Cables and Systems	Delft	Euro	10.000.000	100,00%		Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli China Tyre N.V.	Tyre	Heinenoord	Euro	45.000	100,00%		Pirelli Tyre Holding N.V.
Pirelli Submarine Telecom Systems Holding B.V.	Real Estate	Delft	Euro	4.500.000	100,00%		Pirelli & C. Real Estate S.p.A.
Pirelli Tyre Holding N.V.	Tyre Holding Company	Heinenoord	Euro	250.000.000	100,00%		Pirelli & C. S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Heinenoord	Euro	18.152	100,00%		Pirelli Tyre (Europe) S.A.
Sipir Finance N.V.	Financial	Heinenoord	Euro	13.021.222	100,00%		Pirelli & C. S.p.A.
Turkey							
Celikord A.S.	Tyre	Istanbul	Turk. Lira/mil.	29.000.000	50,733%		Pirelli Tyre Holding N.V.
					0,27%		Pirelli Pneumatici S.p.A.
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	Turk. Lira/mil.	140.000.000	62,90%		Pirelli Tyre Holding N.V.
					0,15%		Pirelli Pneumatici S.p.A.
Türk Pirelli Kablo ve Sistemleri A.S.	Energy Cables and Systems	Mudania / Bursa	Turk. Lira/mil.	39.312.000	83,75%		Pirelli Cable Holding N.V.
Zalsan Zirai Arac Lastikleri A.S.	Tyre	Istanbul	Turk. Lira/mil.	3.283.000	70,00%		Turk-Pirelli Lastikleri A.S.
United Kingdom							
Aberdare Cables Ltd	Energy Cables and Systems	London	British Pound	609.654	100,00%		Pirelli General plc
Cable Makers Properties and Services Ltd	Energy Cables and Systems	East Molesey	British Pound	33	63,53%		Pirelli General plc
Central Tyre Ltd	Tyre	London	British Pound	100.000	100,00%		Pirelli UK Tyres Ltd
Comergy Ltd	Energy Cables and Systems	London	British Pound	1.000.000	100,00%		Pirelli Cable Holding N.V.
Courier Tyre Company Ltd	Tyre	London	British Pound	10.000	100,00%		Pirelli UK Tyres Ltd
CPK Auto Products Ltd	Tyre	London	British Pound	10.000	100,00%		Pirelli UK Tyres Ltd
CTC 1994 Ltd	Tyre	London	British Pound	984	100,00%		Central Tyre Ltd
Pirelli & C. Real Estate Ltd	Real Estate	London	Euro	100.000	100,00%		Pirelli & C. Real Estate S.p.A.
Pirelli Cables (2000) Ltd	Energy Cables and Systems	London	British Pound	118.653.473	100,00%		Pirelli General plc
Pirelli Cables (Industrial) Ltd	Energy Cables and Systems	London	British Pound	9.010.935	100,00%		Pirelli General plc
Pirelli Cables (Supertention) Ltd	Energy Cables and Systems	London	British Pound	5.000.000	100,00%		Pirelli General plc
Pirelli Cables and Systems International Ltd	Energy Cables and Systems	London	Euro	100.000	100,00%		Pirelli Cable Holding N.V.
Pirelli Cables Ltd	Energy Cables and Systems	London	British Pound	100.000	100,00%		Pirelli General plc
Pirelli Construction Company Ltd	Energy Cables and Systems	London	British Pound	8.000.000	100,00%		Pirelli General plc
Pirelli Focom Ltd	Energy Cables and Systems	London	British Pound	6.447.000	100,00%		Pirelli General plc
Pirelli General plc	Cables and Systems	London	British Pound	144.139.360	100,00%		Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli International Ltd	Financial	London	Euro	250.000.000	100,00%		Pirelli Finance (Luxembourg) S.A.
Pirelli Metals Ltd	Energy Cables and Systems	London	British Pound	100.000	100,00%		Pirelli General plc
Pirelli Telecom Cables and Systems UK Ltd	Telecom Cables and Systems	London	British Pound	100.000	100,00%		Pirelli General plc
Pirelli Tyres Ltd	Tyre	London	British Pound	16.000.000	100,00%		Pirelli UK Tyres Ltd
Pirelli UK Finance Ltd	Financial	London	British Pound	6.969.280	100,00%		Pirelli UK plc "C"
Pirelli UK Ltd "A"	Tyre Holding Company	London	British Pound	85.535.300	100,00%		Pirelli Tyre Holding N.V.
Pirelli UK Ltd "C"	Finance Holding Company	London	British Pound	11.625.978	100,00%		Pirelli & C. S.p.A.
Pirelli UK Tyres Ltd	Tyre	London	British Pound	85.000.000	100,00%		Pirelli UK plc "A"

Company	Business	Headquarters	Share Capital		Percentage ownership	Percentage of vote	Held by
North America							
Canada							
Pirelli Power Cables and Systems Canada Ltd	Energy Cables and Systems	Saint John (New Brunswich)	Can. $	1.000.000	100,00%		Pirelli Cable Holding N.V.
Pirelli Tire Inc.	Tyre	Frederic Town (New Brunswich)	Can. $	6.000.000	100,00%		Pirelli Tyre (Europe) S.A.
U.S.A.							
Athena Power US Inc.	Energy Cables and Systems	Wilmington (Delaware)	US $	10	100,00%		Athena (US) Energia Italia S.r.l.
Athena Telecom US Inc.	Energy Cables and Systems	Wilmington (Delaware)	US $	10	100,00%		Athena (US) Telecom Italia S.r.l.
Pirelli Communications Cables and Systems USA LLC	Telecom Cables and Systems	Wilmington (Delaware)	US $	10	100,00%		Pirelli North America Inc. "B1"
Pirelli Communications Cables Corporation	Commercial	Wilmington (Delaware)	US $	1	100,00%		Pirelli Communications Cables and Systems USA LLC
Pirelli Construction Services Inc.	Energy Cables and Systems	Dover (Delaware)	US $	1.000	100,00%		Pirelli Power Cables and Systems USA LLC
Pirelli North America Inc. "A"	Tyre	Wilmington (Delaware)	US $	3,15	100,00%		Pirelli Tyre Holding N.V.
Pirelli North America Inc. "B1"	Telecom Cables and Systems	Wilmington (Delaware)	US $	5,75	100,00%		Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli North America Inc. "B2"	Energy Cables and Systems	Wilmington (Delaware)	US $	1,10	100,00%		Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Power Cables and Systems USA LLC	Energy Cables and Systems	Wilmington (Delaware)	US $	10	100,00%		Pirelli North America Inc. "B2"
Pirelli RNC Inc.	Commercial	Wilmington (Delaware)	US $	1	100,00%		Pirelli Tyre Holding N.V.
Pirelli Tire LLC	Tyre	Wilmington (Delaware)	US $	1	100,00%		Pirelli North America Inc. "A"
Central/South America							
Argentina							
Fipla S.A.	Energy Cables and Systems	Buenos Aires	Arg. Peso	1	66,97%		Pirelli Consultora Conductores e Instalaciones S.A.I.C.
Pirelli Argentina de Mandatos S.A.	Services	Buenos Aires	Arg. Peso	500.000	100,00%		Pirelli Société Générale S.A.
Pirelli Consultora Conductores e Instalaciones S.A.I.C.	Energy Cables and Systems	Buenos Aires	Arg. Peso	2.227	99,996%		Pirelli Cable Holding N.V.
Pirelli Energia Cables y Sistemas de Argentina S.A.	Energy Cables and Systems	Buenos Aires	Arg. Peso	44.509.458	74,91%		Pirelli Consultora Conductores e Instalaciones S.A.I.C.
					24,69%		Pirelli Cable Holding N.V.
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	19.016.500	99,02%		Pirelli Tyre Holding N.V.
					0,98%		Pirelli Pneumatici S.p.A.
Pirelli Telecomunicaciones Cables y Sistemas de Argentina S.A.	Telecom Cables and Systems	Buenos Aires	Arg. Peso	12.000	100,00%		Pirelli Telecomunicações Cabos e Sistemas do Brasil S.A.
Tel 3 S.A.	Energy Cables and Systems	Buenos Aires	Arg. Peso	7.822.000	51,00%		Pirelli Energia Cables y Sistemas de Argentina S.A.
Brazil							
Cordas Metalicas do Brasil Ltda	Tyre	Sumarè	Bra. Real	1.000	99,90%		Pirelli Pneus S.A.
					0,10%		Muriaè Ltda
Muriaé Ltda	Financial	Santo Andrè	Bra. Real	80.000.000	100,00%		Pirelli Pneus S.A.
Novacorp Consultora e Serviços Corporativos Ltda	Holding	Santo Andrè	Bra. Real	6.000	99,98%		Pirelli S.A.
Pirelli & C. Real Estate Ltda	Real Estate	Santo Andrè	Bra. Real	2.000.000	100,00%		Pirelli S.A.
Pirelli Energia Cabos e Sistemas do Brasil S.A.	Energy Cables and Systems	Sorocaba	Bra. Real	106.824.993	99,442%	99,153%	Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Pneus Nordeste Ltda	Tyre	Feira de Santana	Bra. Real	29.991.402	100,00%		Pirelli Pneus S.A.
Pirelli Pneus S.A.	Tyre	Feira de Santana	Bra. Real	342.085.095	96,05%	98,77%	Pirelli Pneumatici S.p.A.
					3,68%	0,79%	Pirelli S.A.
Pirelli S.A.	Financial	San Paolo	Bra. Real	46.364.284	100,00%		Pirelli & C. S.p.A.
Pirelli Telecomunicações Cabos e Sistemas do Brasil S.A.	Telecom Cables and Systems	Sorocaba	Bra. Real	81.288.046	99,57%	99,34%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pneuac Comercial e Importadora Ltda	Tyre	San Paolo	Bra. Real	12.913.526	100,00%		Pirelli Pneus S.A.
Sociedade Produtora de Fibras Opticas S.A.	Optical fibers	Sorocaba	Bra. Real	100	51,00%		Pirelli Telecomunicações Cabos e Sistemas do Brasil S.A.
Chile							
Pirelli E y T S.A.	Energy Cables and Systems	Santiago	Chile Peso/000	3.072.471	99,82%		Pirelli Instalaciones Chile S.A.
Pirelli Instalaciones Chile S.A.	Energy Cables and Systems	Santiago	Chile Peso/000	918.707	100,00%		Pirelli Consultora Conductores e Instalaciones S.A.I.C.
Pirelli Neumaticos Chile Limitada	Tyre	Santiago	US $	1.918.451	99,98%		Pirelli Pneus S.A.
					0,02%		Pneuac Comercial e Importadora Ltda
Colombia							
Pirelli de Colombia S.A.	Tyre	Santa Fe De Bogota	Col. Peso/000	3.315.069	92,91%		Pirelli Pneus S.A.
					2,28%		Pirelli de Venezuela C.A.
					1,60%		Muriaè Ltda
					1,60%		Pirelli Pneus Nordeste Ltda
					1,60%		Pneuac Comercial e Importadora Ltda
Mexico							
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	35.098.400	99,98%		Pirelli Pneus S.A.
					0,02%		Pneuac Comercial e Importadora Ltda
Servicios Pirelli Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	50.000	99,00%		Pirelli Pneus S.A.
					1,00%		Pneuac Comercial e Importadora Ltda

Company	Business	Headquarters	Share Capital		Percentage ownership	Percentage of vote	Held by
Uruguay							
Cite S.A.	Energy Cables and Systems	Montevideo	Urug. Peso	24.062.721	100,00%		Pirelli Energia Cabos e Sistemas do Brasil S.A.
Venezuela							
Pirelli de Venezuela C.A.	Tyre	Valencia	Ven. Bolivar/000	10.062.679	96,22%		Pirelli Tyre Holding N.V.
Africa							
Egypt							
Alexandria Tire Company S.A.E.	Tyre	Alexandria	Egy. Pound	393.000.000	86,79%		Pirelli Pneumatici S.p.A.
					0,03%		Pirelli Tyre (Europe) S.A.
International Tire Company Ltd	Tyre	Alexandria	Egy. Pound	50.000	96,00%		Alexandria Tire Company S.A.E.
Ivory Cost							
SICABLE - Société Ivoirienne de Cables S.A.	Energy Cables and Systems	Abidjan	Cfa Franc	740.000.000	51,00%		Pirelli Energie Câbles et Systèmes France S.A.
South Africa							
Pirelli Cables & Systems (Proprietary) Ltd	Commercial	Woodmead, S.A.	S.A. Rand	100	100,00%		Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Tyre (Pty) Ltd	Tyre	Sandton	S.A. Rand	1	100,00%		Pirelli Tyre (Europe) S.A.
Tunisia							
Auto Cables Tunisie S.A.	Energy Cables and Systems	Tunis	Tun. Dinar	4.450.000	51,00%		Pirelli Energie Câbles et Systèmes France S.A.
Oceania							
Australia							
Pirelli Power Cables & Systems Australia Pty Ltd	Energy Cables and Systems	Liverpool - N.S.W.	Aus. $	15.000.000	100,00%		Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Telecom Cables & Systems Australia Pty Ltd	Telecom Cables and Systems	Liverpool - N.S.W.	Aus. $	38.500.000	100,00%		Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli Tyres Australia Pty Ltd	Tyre	Pymble - N.S.W.	Aus. $	150.000	100,00%		Pirelli Tyre (Europe) S.A.
New Zealand							
Pirelli Power Cables & Systems New Zealand Ltd	Energy Cables and Systems	Auckland	N.Z. $	10.000	100,00%		Pirelli Power Cables & Systems Australia Pty Ltd
Pirelli Telecom Cables & Systems New Zealand Ltd	Telecom Cables and Systems	Auckland	N.Z. $	10.000	100,00%		Pirelli Telecom Cables & Systems Australia Pty Ltd
Pirelli Tyres (NZ) Ltd	Tyre	Wellington	N.Z. $	100	100,00%		Pirelli Tyres Australia Pty Ltd
Asia							
China							
Pirelli Baosheng Cable Co. Ltd	Energy Cables and Systems	Jiangsu	US $	19.500.000	67,00%		Pirelli Cables Asia-Pacific Pte Ltd
Pirelli Cables (Shanghai) Trading Co. Ltd	Energy Cables and Systems	Shanghai	US $	500.000	100,00%		Pirelli Cables Asia-Pacific Pte Ltd
Pirelli Telecom Cables Co. Ltd Wuxi	Telecom Cables and Systems	Xuelang Town	US $	29.941.250	86,709%		Pirelli Cable Overseas N.V.
Tianjin Pirelli Power Cables Co. Ltd	Energy Cables and Systems	Tianjin Municipality	US $	13.100.000	67,000%		Pirelli Cable Holding N.V.
India							
Pirelli Cables (India) Private Ltd	Energy Cables and Systems	New Delhi	India Rupee	10.000.000	99,996%		Pirelli Cable Holding N.V.
Indonesia							
P.T. Pirelli Cables Indonesia	Energy Cables and Systems	Jakarta	US $	67.300.000	99,48%		Pirelli Cable Holding N.V.
					0,52%		Pirelli Cavi e Sistemi Energia S.p.A.
Japan							
Pirelli Japan K.K.	Tyre	Tokyo	Jap. Yen	2.700.000.000	100,00%		Pirelli Tyre Holding N.V.
Malaysia							
BICC (Malaysia) Sdn Bhd	Energy Cables and Systems	Kuala Lumpur	Mal. Ringgit	100.000	100,00%		Pirelli Cables Asia-Pacific Pte Ltd
Submarine Cable Installation Sdn Bhd	Energy Cables and Systems	Kuala Lumpur	Mal. Ringgit	10.000	100,00%		Pirelli Cavi e Sistemi Energia S.p.A.
Singapore							
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. $	2	100,00%		Pirelli Tyre (Europe) S.A.
Pirelli Cable Systems Pte Ltd	Energy Cables and Systems	Singapore	Sing. $	25.000	50,00%		Pirelli General plc
					50,00%		Pirelli Cable Holding N.V.
Pirelli Cables Asia-Pacific Pte Ltd	Energy Cables and Systems	Singapore	Sing. $	213.324.290	100,00%		Pirelli Cable Holding N.V.
Trans-Power Cables Pte Ltd	Energy Cables and Systems	Singapore	Sing. $	1.500.000	100,00%		Pirelli Cable Holding N.V.

Companies consolidated proportionally

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

Investments accounted for by the equity method

Company	Business	Headquarters	Share Capital		Percentage ownership	Percentage of vote	Held by
Jointly-controlled companies							
Europe							
Italy							
Olimpia S.p.A.	Industrial Holding Company	Milan	Euro	4.630.233.510	57,66%		Pirelli & C. S.p.A.
Associates							
Europe							
Germany							
Kabeltrommel Gesellshaft mbH & Co K.G.	Energy Cables and Systems	Cologne	Deut. Mark	10.225.838	27,48%		Pirelli Kabel und Systeme GmbH
					1,00%		Bergmann Kabel und Leitungen GmbH
Italy							
Agorà S.r.l.	Real Estate	Milan	Euro	10.000	40,00%		Pirelli & C. Real Estate S.p.A.
Altair Zander Italia S.r.l.	Real Estate	Milan	Euro	100.000	50,00%		Pirelli & C. Real Estate Facility Management S.p.A.
Aree Urbane S.r.l.	Real Estate	Milan	Euro	307.717	34,60%		Pirelli & C. Real Estate S.p.A.
					0,28%		Pirelli & C. S.p.A.
Bernini Immobiliare S.r.l.	Real Estate	Milan	Euro	500.000	14,00%		Pirelli & C. Real Estate S.p.A.
Capitol Immobiliare S.r.l. (ex-Realco LSF S.r.l.)	Real Estate	Milan	Euro	10.000	33,00%		Partecipazioni Real Estate S.p.A.
Continuum S.r.l.	Real Estate	Milan	Euro	500.000	40,00%		Pirelli & C. Real Estate S.p.A.
Delta S.p.A.	Real Estate	Milan	Euro	153.000	47,50%		Pirelli & C. Real Estate S.p.A.
Dixia S.r.l.	Real Estate	Milan	Euro	2.500.000	30,00%		Pirelli & C. Real Estate S.p.A.
Domogest S.r.l.	Real Estate	Florence	Euro	1.050.000	50,00%		Centrale Immobiliare S.p.A.
Elle Dieci Società Consortile a.r.l.	Real Estate	Milan	Euro	100.000	40,00%		Pirelli & C. Real Estate Property Management S.p.A.
Elle Nove Società Consortile a.r.l.	Real Estate	Milan	Euro	100.000	34,90%		Edilnord Gestioni S.p.A.
Elle Tre Società Consortile a.r.l.	Real Estate	Milan	Euro	100.000	40,00%		Pirelli & C. Real Estate Property Management S.p.A.
Erice S.r.l.	Real Estate	Milan	Euro	10.000	40,00%		Pirelli & C. Real Estate S.p.A.
Esedra S.r.l.	Real Estate	Milan	Euro	2.376.234	35,00%		Pirelli & C. Real Estate S.p.A.
Eurostazioni S.p.A.	Holding	Rome	Euro	160.000.000	32,71%		Pirelli & C. S.p.A.
Geolidro S.p.A.	Real Estate	Naples	Euro	3.099.096	49,00%		Centrale Immobiliare S.p.A.
Idea Granda S. Consortile r.l.	Environment	Cuneo	Euro	1.292.500	49,00%		Pirelli & C. Ambiente S.p.A.
Immobiliare le Ghirlande S.r.l.	Real Estate	Milan	Euro	10.000	35,00%		Pirelli & C. Real Estate S.p.A.
Immobiliare Prizia S.r.l.	Real Estate	Milan	Euro	469.000	36,00%		Pirelli & C. Real Estate S.p.A.
Induxia S.r.l.	Real Estate	Milan	Euro	836.300	18,00%		Pirelli & C. Real Estate S.p.A.
Iniziative Immobiliari S.r.l.	Real Estate	Gavirate (VA)	Euro	5.000.000	38,68%		Pirelli & C. Real Estate S.p.A.
Le Case di Capalbio S.r.l.	Real Estate	Milan	Euro	10.000	20,00%		Pirelli & C. Real Estate S.p.A.
Localto S.p.A.	Financial	Milan	Euro	5.200.000	35,00%		Partecipazioni Real Estate S.p.A.
LSF Italian Finance Company S.p.A.	Financial	Milan	Euro	10.000	30,00%		Partecipazioni Real Estate S.p.A.
Mistral S.r.l.	Real Estate	Milan	Euro	100.000	33,00%		Pirelli & C. Real Estate S.p.A.
MP Facility S.p.A.	Real Estate	Milan	Euro	1.000.000	50,00%		Pirelli & C. Real Estate Facility Management S.p.A.
Nivola S.r.l.	Real Estate	Milan	Euro	10.000	35,00%		Pirelli & C. Real Estate S.p.A.
Orione Immobiliare Prima S.p.A.	Real Estate	Milan	Euro	104.000	40,10%		Pirelli & C. Real Estate S.p.A.
Perseo S.r.l. (ex-Pegaso S.r.l.)	Services	Milan	Euro	20.000	50,00%		Pirelli & C. S.p.A.
Progetto Bicocca la Piazza S.r.l.	Real Estate	Milan	Euro	3.151.800	26,00%		Pirelli & C. Real Estate S.p.A.
Progetto Corsico S.r.l.	Real Estate	Milan	Euro	100.000	49,00%		Pirelli & C. Real Estate S.p.A.
Progetto Fontana S.r.l.	Real Estate	Milan	Euro	500.000	23,00%		Pirelli & C. Real Estate S.p.A.
Progetto Gioberti S.r.l.	Real Estate	Milan	Euro	100.000	50,00%		Pirelli & C. Real Estate S.p.A.
Progetto Lainate S.r.l.	Real Estate	Milan	Euro	25.500	25,00%		Pirelli & C. Real Estate S.p.A.
Serenergy S.r.l. (ex-Progetto Ambiente Alfa S.r.l.)	Real Estate	Milan	Euro	25.500	50,00%		Pirelli & C. Ambiente S.p.A.
Servizi Immobiliari Banche - S.I.B. S.p.A.	Real Estate	Milan	Euro	1.809.500	47,37%		Pirelli & C. Real Estate S.p.A.
SMP Melfi S.r.l.	Tyre	Melito (NA)	Euro	3.511.906	50,00%		Pirelli Pneumatici S.p.A.
Solaris S.r.l.	Real Estate	Milan	Euro	20.000	40,00%		Pirelli & C. Real Estate S.p.A.
Tamerice S.r.l.	Real Estate	Milan	Euro	10.000	20,00%		Pirelli & C. Real Estate S.p.A.
Telepost S.p.A.	Real Estate	Milan	Euro	120.000	20,00%		Pirelli & C. Real Estate Facility Management S.p.A.
Trixia S.r.l.	Real Estate	Milan	Euro	1.209.700	36,00%		Pirelli & C. Real Estate S.p.A.
Verdi S.r.l.	Real Estate	Milan	Euro	20.000	43,74%		Pirelli & C. Real Estate S.p.A.

Company	Business	Headquarters	Share Capital		Percentage ownership	Percentage of vote	Held by
Luxembourg							
Afrodite S.à r.l.	Real Estate	Luxembourg	Euro	950.000	40,00%		Pirelli & C. Real Estate S.p.A.
Artemide S.à r.l.	Real Estate	Luxembourg	Euro	668.750	49,00%		Pirelli & C. Real Estate S.p.A.
IN Holdings I S.à r.l.	Real Estate	Luxembourg	Euro	4.595.725	20,50%		Pirelli & C. Real Estate S.p.A.
Inimm Due S.à r.l.	Real Estate	Luxembourg	Euro	240.950	25,00%		Pirelli & C. Real Estate S.p.A.
M.S.M.C. Solferino S.a.r.l. (in liquidation)	Real Estate	Luxembourg	Euro	136.700	31,25%		Pirelli & C. Real Estate S.p.A.
MSPRE Luxembourg NPL S.a.r.l.	Real Estate	Luxembourg	Euro	12.500	25,00%		Pirelli & C. Real Estate S.p.A.
Portugal							
Mirandia - Trading e Consultoria Lda	Real Estate	Madeira	Euro	5.000	25,00%		Pirelli & C. Real Estate S.p.A.
Tronador - Consultoria Economica Lda	Real Estate	Madeira	Euro	70.955	25,00%		Pirelli & C. Real Estate S.p.A.
The Netherlands							
M.S.M.C. Italy Holding B.V.	Real Estate	Amsterdam	Euro	20.000	25,00%		Pirelli & C. Real Estate S.p.A.
MSREF V Italy Holding BV	Real Estate	Amsterdam	Euro	18.000	33,00%		Pirelli & C. Real Estate S.p.A.
Masseto 1 B.V.	Real Estate	Amsterdam	Euro	19.000	33,00%		Pirelli & C. Real Estate S.p.A.
Popoy Holding B.V.	Financial	Amsterdam	Euro	26.550	25,05%		Pirelli & C. Real Estate S.p.A.
Spazio Industriale B.V.	Real Estate	Amsterdam	Euro	763.077	25,00%		Pirelli & C. Real Estate S.p.A.
United Kingdom							
Rodco Ltd	Energy Cables and Systems	Gravesend	British Pound	5.000.000	40,00%		Pirelli General plc
North America							
U.S.A.							
Sci Roev Texas Partners L.P.	Real Estate	Dallas	US $	12.000.000	10,00%		Pirelli & C. Real Estate S.p.A.
Central/South America							
Argentina							
Lineas de Transmision de Buenos Aires S.A. (in liquidation)	Energy Cables and Systems	Buenos Aires	Arg. Peso/000	12.000	20,00%		Pirelli Argentina de Mandatos S.A.
Asia							
Saudi Arabia							
Sicew-Saudi Italian Co. for Electrical Works Ltd	Energy Cables and Systems	Jeddah	S. Arab. Riyal	1.000.000	34,00%		Pirelli Cable Holding N.V.

Other investments in subsidiaries and associates

Company	Business	Headquarters	Share Capital		Percentage ownership	Percentage of vote	Held by
Europe							
Austria							
Pirelli Kabelwerke und Systeme GmbH (*)	Energy Cables and Systems	Vienna	Euro	36.336	100,00%		Pirelli Cavi e Sistemi Energia S.p.A.
Germany							
Industriekraftwerk Breuberg GmbH	Cogeneration	Hoechst/Odenwald	Euro	1.533.876	26,00%		Pirelli Deutschland GmbH
Spain							
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200.000	20,00%		Pireli Neumaticos S.A.
Asia							
Malaysia							
Power Cables Malaysia Sdn Bhd	Energy Cables and Systems	Selangor Darul Ehsan	Mal. Ringgit	8.000.000	40,00%		Pirelli Cables Asia - Pacific Pte Ltd

(*) These investments have not been consolidated since they are considered immaterial.

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

Company	Business	Headquarters	Share Capital		Percentage ownership	Percentage of vote	Held by
Belgium							
Euroqube S.A.	Services	Brussels	Euro	84.861.116	17,79%		Pirelli & C. S.p.A.
Brazil							
Estrutura.net Ltda	Services	San Paolo	Braz. Real	10.000.000	7,54%		Pirelli S.A.
					7,54%		Pirelli Energia Cabos e Sistemas do Brasil S.A.
France							
Aliapur S.A.	Tyre	Lion	Euro	262.500	14,29%		Pirelli Pneumatici S.p.A.
Germany							
Kabeltrommel Gesellschaft mbh	Tyre	Koln	Euro	26.076	5,88%		Pirelli Kabel und Systeme GmbH
					5,88%		Bergmann Kabel und Leitungen GmbH
Italy							
F.C. Internazionale Milano S.p.A.	Sport	Milan	Euro	19.340.476	19,49%		Pirelli & C. S.p.A.
Fin. Priv. S.r.l.	Financial	Milan	Euro	20.000	14,29%		Pirelli & C. S.p.A.
Servizio Titoli S.p.A.	Services	Turin	Euro	126.000	12,38%		Pirelli & C. S.p.A.
Tecnocittà S.r.l. (in liquidation)	Real Estate	Milan	Euro	547.612	12,00%		Pirelli & C. Real Estate S.p.A.
Poland							
Centrum Utylizacji Opon Otganizacja Odzyseu S.A.	Tyre	Warsaw	Pol. Zloty	1.008.000	14,28%		Pirelli Polska Sp. ZO.O.
Switzerland							
Voltimum S.A.	Energy Cables and Systems	Meyrin	Swiss Franc	2.968.970	13,71%		Pirelli Cavi e Sistemi Energia S.p.A.
The Netherlands							
MB Venture Capital Fund I Participating Company G N.V	Financial	Amsterdam	Euro	50.000	14,00%		Pirelli Finance (Luxembourg) S.A.
Tunisia							
Société Tunisienne des Industries de Pnéumatiques S.A.	Tyre	Tunis	Tun. Dinar	42.078.240	15,83%		Pirelli Pneumatici S.p.A.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITORS' REPORT ON THE IFRS RECONCILIATION SCHEDULES ILLUSTRATING THE IMPACT OF THE TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

To the Board of Directors of
Pirelli & C. SpA

1. We have audited the accompanying Reconciliation Schedules of the consolidated net equity at 1 January 2004, at 31 December 2004 and at 1 January 2005 and of the consolidated net result for the year ended 31 December 2004 (hereinafter the "IFRS Reconciliation Schedules") of Pirelli & C. SpA and related explanatory notes, as presented in the interim consolidated financial statements for the six-month period ended 30 June 2005. The aforementioned IFRS Reconciliation Schedules derive from the consolidated financial statements of Pirelli & C. SpA as of 31 December 2004 prepared in compliance with the laws governing the criteria for the preparation of financial statements, which we audited and on which we issued our report on 11 April 2005. The IFRS Reconciliation Schedules have been prepared in connection with the process of transition to the International Financial Reporting Standards (IFRS) endorsed by the European Commission. The IFRS Reconciliation Schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the IFRS Reconciliation Schedules based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in Italy. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the IFRS Reconciliation Schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS Reconciliation Schedules. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

3. In our opinion, the IFRS Reconciliation Schedules identified in paragraph 1 of this report, taken as a whole, have been prepared in compliance with the criteria and standards set out in article 81 of Regulation for Issuers

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No. 11971/1999 adopted by Consob with its Resolution No 14990 of 14 April 2005.

4. We wish to emphasise that the IFRS Reconciliation Schedules, having been prepared for sole purpose of the transition project for the preparation of the interim consolidated financial statements at 30 June 2005 and of the consolidated financial statements at 31 December 2005 compliant with the IFRS endorsed by the European Commission, do not include the comparative financial information and explanatory notes that would be required in order to present fairly the consolidated financial position and the consolidated result of operations of Pirelli & C. SpA in compliance with IFRS. Furthermore, we point out that the data reported in the IFRS Reconciliation Schedules could be subject to adjustment should the European Commission alter its stance with respect to approval of IFRS or should the IASB or IFRIC issue new pronouncements.

Milan, 12 September 2005

PricewaterhouseCoopers SpA

Fabio Facchini
(Partner)

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AUDITORS' REPORT ON THE LIMITED REVIEW OF INTERIM FINANCIAL REPORTING FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2005 PREPARED IN ACCORDANCE WITH ARTICLE 81 OF CONSOB REGULATION APPROVED BY RESOLUTION No. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS

To the Shareholders of
Pirelli & C. SpA

1. We have performed a limited review of the interim financial reporting of Pirelli & C. SpA for the six months period ended 30 June 2005, consisting of balance sheet, income statement and related comments and explanatory notes (both for the holding company and consolidated). These interim financial statements are the responsibility of the Company's management. Our responsibility is to prepare this report based on our review. We have also ensured that the management discussion and analysis is consistent with other information in the interim financial reporting.

2. Our work was carried out in accordance with the procedures for a limited review recommended by the National Commission for Companies and the Stock Exchange (Consob) with resolution n° 10867 of 31 July 1997. The limited review mainly consisted of inquiries of company personnel about the information reported in the interim financial reporting and about the consistency of the accounting principles utilised therein with those applied at year end as well as the application of analytical review procedures on the data contained in the interim financial reporting. The limited review excluded certain auditing procedures such as compliance testing and verification or validation tests of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike the audit on the annual statutory and consolidated financial statements, we do not express a professional audit opinion on the interim financial reporting.

3. Regarding the comparative data of the company financial statements and the consolidated financial statements of the prior year, and those presented in the note 5 to the interim consolidated financial statements at 30 June 2005, denominated "Transition to IAS/IFRS", presenting the IFRS reconciliation schedules, reference should be made to our reports dated respectively 11 April 2005 and 12 September 2005.
   The comparative data of the interim financial reporting for the corresponding period of the previous year, restated in accordance with International Financial Reporting Standards (IFRS), and the related IFRS reconciliation schedules derive from the interim financial statements prepared in accordance with the Consob Regulation and the accounting principles previously in force, on which we performed a limited review and issued a report dated 13 September 2004.

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

5. We wish to emphasise the following information accurately disclosed by the Company's management in the notes to the interim financial reporting:

   - As required by article 81 of the aforementioned Consob Regulation, the balance sheet, income statement and related explanatory notes of the holding company included in the interim financial reporting have been prepared using the same accounting principles as were applied in the preparation of the annual financial statements as of 31 December 2004.

   - These interim consolidated financial statements have been prepared using the measurement and recognition criteria required by IFRS standards and IFRIC interpretations in force at the time of preparing these statements. Such criteria may differ from those provided for by IFRS and in force at 31 December 2005 due to further orientations of the European Commission adopting the IFRS or the issue of new standards or interpretations by the relevant bodies.

Milan, 26 September 2005

PricewaterhouseCoopers SpA

Fabio Facchini
(Partner)

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