

# MPS Group: Results for Nine Months Ending 30 September 2003

- **Interest margin advances by 9.2%**
- **Total banking income from core business climbs by 4.1%**
- **Operating profit rises by 8.6%**
- **Further deceleration of general expenses: operating expenses net of fiscal components decrease by 1.6%**
- **New growth in loan and funding volumes: funds under management rise by 13.3%**
- **Net profit of EUR 272 million reflects an increase over 2002 after the exclusion of non-recurring items; ROE, net of goodwill, stands at 9.3%.**

*Siena, 13 November 2003.* In a meeting earlier today, the Board of Directors of Banca Monte dei Paschi di Siena S.p.A., chaired by Pier Luigi Fabrizi, approved the parent-company and consolidated results for the nine months ending 30 September 2003.

## Highlights of consolidated results

**From an operational standpoint**, the MPS Group's results were more than satisfactory. Important growth was achieved in loan and deposit volumes, while the principal earnings aggregates advanced significantly.

A review of **the balance-sheet aggregates** shows 1.6-percent growth in **direct funding**, with **the MPS Group's share of the domestic market holding at 6.5 percent**. The balance of **indirect funding** reflects a significant growth with respect to the balances at 30 September 2002 (+3.9 percent), with part of the expansion due to the benefits of additional product placements (+47 percent year on year). The performance of the indirect-funding aggregate incorporates more than EUR 3 billion of insurance premiums underwritten (**with the MPS Group's share of the bancassurance/postal system estimated to have exceeded 9.5 percent as of mid-year**); EUR 1.8 billion of new investment in mutual funds and SICAVs (**roughly 6.8 percent of total industry flows**); and the placement of innovative financial products with a countervalue of EUR 2.1 billion. Rounding out the picture is another EUR 4.0 billion of risk-hedging products placed with corporate customers.

As of mid-2003, indirect funding included EUR 42 billion of **funds under management** (an increase of +13.3 percent year on year). At the same time, life insurance reserves were 24.8 percent higher year on year.

The **balance of customer loans and advances** reflected a slight decrease with respect to the aggregate at mid-year, though it was 4.4 percent higher than the figure at 30 September 2002. **The MPS Group's share of the domestic loan market stood at 6.3 percent as of 30 September 2003.** The year-on-year growth of loans was mainly driven by longer term maturities, with the **MPS Group's market share thereof remaining around 7 percent;** much of this growth came from **mortgage disbursements of around EUR 4.1 billion (+18 percent with respect to the first nine of 2002),** and from the development of new business volumes in the specialized lending units. By contrast, the balance of short-term loans outstanding decreased year on year. **The slower momentum of lending translated into a lower level of capital absorption that had the effect of boosting the capital-adequacy ratios.** Thus, as of 30 September 2003, the Tier I ratio stood at an estimated 6.2 percent (versus 6.05 percent at the start of the year) and the solvency ratio was 9.3 percent (versus 8.8 percent at the start of the year).

The ratio of non-performing loans and watchlist credits to total loans stood at 3.4 percent at 30 September 2003. **The ratio of net non-performing loans to total customer loans and advances was impacted by the decrease in loan volumes in the third quarter, but continued to remain below the average ratio for the industry (1.7 percent versus 2.0 percent).** As of the end of September, the coverage of non performing loans was more than **55 percent of the net non-performing loans outstanding.**

From a profitability perspective, **the MPS Group's core business generated satisfactory results and performed in line with expectations.**

The **primary component of total banking income (interest margin and banking commissions) advanced by 4.1 percent** year on year, with the growth rate accelerating in respect to that reported for the first half (+3.6 percent).

The **net interest income** came to EUR 1,880 million, with the 9.2 percent growth year on year in line with the increase reported for the previous quarter. **Net commissions** totalled EUR 975 million, thereby confirming the growth realized in the second quarter. The year-on-year decrease of 4.5 percent as of 30 September 2003 is an improvement over the 6.1 percent year-on-year decrease as of 30 June 2003, with the overall performance of the aggregate reflecting the tough market situation (particularly in the first part of the year).

Other components of the non interest income performed as follows: **profits/losses from financial transactions** rose by EUR 230 million year on year, reflecting the positive contribution of MPS Finance's structuring of innovative financial products; the earnings **from companies valued with the net equity method** advanced by EUR 16.8 million; and **other operating income** decreased year on year given the absence of some EUR 137 million of non-recurring income realized in the first half of 2002. Dividends earned in the first nine months of 2003 came to EUR 117 million.

**Consolidated total banking income** totalled EUR 3,554.5 million, incorporating a 3.0-percent gain year on year, and an improvement over the 4.6-percent year-on-year decline reported in June. Were the non-recurring income accrued in early 2002 to be excluded from the computation, the year-on-year increase in the aggregate as of 30 September 2003 would be 10.7 percent.

**Administrative expenses** totalled EUR 2.167 million for the first nine months of 2003, reflecting a 0.5 percent increase year on year and a deceleration with respect to the 0.9 percent year-on-year increase reported as of June. The figure for the third quarter was 1.0 percent below the comparable amount for the second quarter, and 0.2 percent lower than the total reported for the third quarter of 2002. **Personnel expense** rose by 0.8 percent year on year, remaining in line with the plans for an ongoing deceleration in the growth rate. **Other administrative expenses** also grew by a limited 0.2 percent year on year; the increase incorporates a 1.6 percent year-on-year decline in direct operating expenses (due to the cost-containment efforts), a 4.4-percent increase in indirect taxes, and the growth of production expenses in the tax collection area. **Adjustments to the value of tangible and intangible fixed assets** came to EUR 252 million, rising by 1.5 percent year on year; the growth was thus significantly lower than the 43.8 percent increase for the full year of 2002.

**Given the effect of the income and expense components indicated above, operating earnings amounted to EUR 1,137 million, climbing by 8.6 percent with respect to the first nine months of 2002 and by roughly 41 percent after the elimination of non-recurring items** (securitization transactions and extraordinary dividends). **The cost/income ratio (including depreciation and amortization) amounted to 68 percent, decreasing by roughly two percentage points in comparison with December.**

Adjustments and provisions of EUR 584 million are also incorporated in the net profit for the first half of 2003 (EUR 387 million in the same period of 2002).

a) **Net valuation adjustments to loans amounted to EUR 320 million (EUR 258 million for the first nine months of 2002)** and reflect the MPS Group's prudent approach to loan valuation; the adjustments include a lump sum of EUR 7.3 million for performing loans as well as EUR 25 million on non-performing positions which are part of securitization transactions carried out in prior periods.

b) **Net valuation adjustments to financial fixed assets and other assets amounted to EUR 57 million (EUR 19 million in 2002).**

c) **Provisions for risks and charges totalled EUR 76 million (EUR 27 million in 2002).**

Rounding out the profit and loss account are extraordinary charges of EUR 12 million (versus income EUR 47 million in the first half of 2002) and a provision for income taxes in the amount of EUR 265 million.

In summary, **the consolidated net profit of EUR 272 million reflects 19.3-percent growth over the comparable figure for 2002 when restated to exclude the non-recurring income mentioned above.** Consolidated net profit for the third quarter of 2003 came to EUR 77.4 million versus EUR 8.1 million for the same period of 2002. When computed with respect to the annualized profit for the first nine months of 2003, ROE stood at 7.2 percent (versus 12.1 percent as of 31 December 2002) and 9.3 percent net of goodwill.

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## ■ RECLASSIFIED BALANCE SHEET AND RECLASSIFIED PROFIT AND LOSS STATEMENT

Compared to the profit and loss statement reported in the notes to the financial statements restated with the deconsolidation of the amounts relative to the shareholdings sold (Cassa di Risparmio di Prato and Cassa di Risparmio di San Miniato), the reclassified profit and loss statement includes also pro-forma effect of the consolidation of S.O.R.I.T (tax collection company) whose controlling interest was acquired by the parent company in the final quarter of 2002.

In order to facilitate the analysis of consolidated operations and earnings, certain balance-sheet and profit-and-loss accounts were reclassified as following:

- Earnings relative to equity-swap transactions have been reclassified from "dividends and other income" (Account 30) into the item "profits and losses from financial transactions";
- "Commissions earned"(Account 40) and "commissions expense"(Account 50), have been netted and reported as "net banking fees";
- The "valuation adjustments to loans net of recoveries" (Account 120) related to the writedowns of junior securities coupon have been reclassified in the "writedowns to non-current financial assets" (Account 150).

## MPS GROUP: KEY DATA AND RATIO ANALYSIS

million euro

	30/09/2003	30/09/2002 restated	Chg.%
<b>Profit and loss aggregates</b>			
Total banking income	3,554.8	3,449.7	3.0
Net operating income	1,136.5	1,046.9	8.6
Net income	271.8	320.3	-15.1
Net income adjusted for goodwill	349.1	384.2	-9.1
<b>Balance sheet aggregates</b>			
Direct funding - including subordinated debt	77,958	76,694	1.6
Indirect funding	105,669	101,693	3.9
<i>including: Funds under management</i>	41,945	37,009	13.3
<i>including: Funds under administration</i>	63,724	64,684	-1.5
<b>Customer loans and advances</b>	<b>69,802</b>	<b>66,847</b>	<b>4.4</b>
<b>Consolidated shareholders' equity</b>	<b>6,324</b>	<b>5,403</b>	<b>17.1</b>
<b>Credit quality indicators (%)</b>			
	<b>30/09/2003</b>	<b>31/12/2002</b>	
Net non-performing loans / Customer loans and advances (%)	1.7	1.5	
Watchlist credits / customer loans and advances (%)	1.7	1.7	
<b>Profitability ratios (%)</b>			
	<b>30/09/2003</b>	<b>31/12/2002</b>	
Non interest income/Total banking income	47.1	50.6	
Cost/Income ratio % (excluding depreciations and amortization)	61.0	61.2	
Cost/Income ratio % (including depreciations and amortization)	68.0	69.8	
Cost/Income ratio % (including depreciations and amortization) (°)	65.4	67.6	
Adjusted ROE (%)	9.3	14.3	
R.O.E. (*)	7.2	12.1	
(°) excl. Tax Collection area			
(*) shareholders' equity net of real estate revaluation reserve, otherwise ROE would be respectively 6.8 and 11.5			
<b>Solvency ratios (%)</b>			
	<b>30/09/2003</b>	<b>31/12/2002</b>	
Total capital ratio %(\$)	9.30	8.79	
Tier 1 Ratio %(\$)	6.20	6.05	
(\$) at 30 Sept 2003 data are estimated and include retained earnings			
<b>Share data</b>			
	<b>30/09/2003</b>	<b>30/09/2002</b>	
Number of shares outstanding	2,448,491,901	2,598,722,319	
Number of preferred shares outstanding	565,939,729	0	
Number of savings shares outstanding	9,432,170	9,432,170	
Ordinary share price during the year:			
- average	2.36	3.10	
- low	1.93	2.04	
- high	2.79	3.88	
<b>Operating structure</b>			
	<b>30/09/2003</b>	<b>31/12/2002</b>	<b>Abs. Chg.</b>
Number of banking employees (end of period)	24,496	24,872	-376
Number of total employees (end of period)	27,040	27,517	-477
Number of branches in Italy (*)	1,835	1,827	8
Number of foreign branches and foreign representative offices	38	37	1
Number of customers with online connections to the Group banks	718,602	731,394	-12,792

(\*) data include facilities of specialized units MPS Merchant and MPS Banca Verde

**MPS Group**  
**Reclassified Consolidated Balance Sheet (in EUR mn)**

ASSETS	30/09/2003	30/09/2002 restated	Changes		31/12/2002
			Abs	%	
Cash on hand and deposits with central bank and post office	452	520	-68	-13.0	834
Loans:					
a) Customer loans and advances	69,802	66,847	2,955	4.4	68,472
b) Amounts due from banks	9,321	15,618	-6,296	-40.3	16,027
Trading Account Securities	13,749	11,449	2,300	20.1	12,458
Non-current assets					
a) Investment securities	3,978	4,775	-797	-16.7	4,453
b) Equity investments	2,702	2,173	529	24.3	2,189
c) Fixed assets and intangible assets	2,524	2,651	-127	-4.8	2,570
Positive consolidation differences & positive net equity differences	954	852	101	11.9	871
Own shares or quotas	7	62	-56	-89.2	10
Other assets	19,835	17,743	2,092	11.8	21,000
<b>Total Assets</b>	<b>123,323</b>	<b>122,689</b>	<b>634</b>	<b>0.5</b>	<b>128,883</b>
LIABILITIES AND SHAREHOLDERS' EQUITY	30/09/2003	30/09/2002 restated	Changes		31/12/2002
			Abs	%	
Liabilities					
a) Customer deposits and borrowed funds backed by negotiable instruments	74,282	73,626	656	0.9	77,254
b) Due to banks	18,649	20,839	-2,189	-10.5	20,516
Reserves for specific use					
a) Pension funds	463	462	1	0.1	434
b) Staff severance indemnity reserve	402	369	33	8.8	397
c) Other reserves for risks and charges	696	575	122	21.2	617
d) Reserve for taxes	425	549	-124	-22.6	746
Other liabilities	18,012	16,641	1,371	8.2	18,930
Reserve for loan losses	368	311	57	18.3	355
Subordinated debt	3,676	3,068	608	19.8	3,276
Minority interests	25	846	-821	-97.0	808
Shareholder's equity:					
a) Share capital	1,935	1,356	579	42.7	1,675
b) Paid-in capital	523	523	0	0.0	523
c) Reserve for general banking risks	361	446	-85	-19.1	361
d) Negative consolidation and net equity differences	23	22	1	5.2	23
e) Reserves	3,211	2,735	475	17.4	2,387
f) Profit (loss) for the year	272	320	-49	-15.1	582
<b>Total Liabilities and Shareholders' Equity</b>	<b>123,323</b>	<b>122,689</b>	<b>634</b>	<b>0.5</b>	<b>128,883</b>

**MPS Group****Reclassified Consolidated Balance Sheet (in EUR mn)**

<b>ASSETS</b>	<b>30/09/2003</b>	<b>30/06/2003</b>	<b>31/03/2003</b>	<b>31/12/2002</b>	<b>30/09/2002 restated</b>	<b>30/06/2002 restated</b>
Loans:						
a) Customer loans and advances	69,802	70,616	67,606	68,472	66,847	67,068
b) Amounts due from banks	9,321	11,421	12,999	16,027	15,618	14,027
Trading Account Securities	13,749	14,787	15,103	12,458	11,449	14,767
Non-current assets						
a) Investment securities	3,978	4,065	4,259	4,453	4,775	4,488
b) Equity investments	2,702	2,575	2,730	2,189	2,173	2,116
c) Fixed assets and intangible assets	2,524	2,562	2,666	2,570	2,651	2,608
Positive consolidation differences & positive net equity differences	954	972	849	871	852	871
Other assets	20,294	21,246	24,282	21,844	18,325	16,272
<b>Total Assets</b>	<b>123,323</b>	<b>128,245</b>	<b>130,493</b>	<b>128,883</b>	<b>122,689</b>	<b>122,216</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>30/09/2003</b>	<b>30/06/2003</b>	<b>31/03/2003</b>	<b>31/12/2002</b>	<b>30/09/2002 restated</b>	<b>30/06/2002 restated</b>
Liabilities						
a) Customer deposits and borrowed funds						
backed by negotiable instruments	74,282	74,481	73,759	77,254	73,626	73,084
b) Due to banks	18,649	21,302	23,576	20,516	20,839	22,871
Reserves for specific use	1,986	1,962	2,310	2,194	1,955	2,239
Other liabilities	18,012	20,610	20,699	18,930	16,641	14,433
Reserve for loan losses	368	363	361	355	311	307
Subordinated debt	3,676	3,267	3,330	3,276	3,068	3,062
Minority interests	25	23	36	808	846	828
Shareholder's equity:	6,324	6,236	6,422	5,550	5,403	5,392
<b>Total Liabilities and Shareholders' Equity</b>	<b>123,323</b>	<b>128,245</b>	<b>130,493</b>	<b>128,883</b>	<b>122,689</b>	<b>122,216</b>

**MPS Group**  
**Reclassified profit and loss statement - (in EUR mn)**

	30/09/2003	30/09/2002 restated (*)	Changes		31/12/2002
			Abs	%	
<b>Net Interest Income</b>	<b>1,879.8</b>	<b>1,721.9</b>	<b>157.9</b>	<b>9.2</b>	<b>2,346.6</b>
Net commissions	975.1	1,021.6	-46.4	-4.5	1,419.5
<b>Basic Income</b>	<b>2,855.0</b>	<b>2,743.5</b>	<b>111.5</b>	<b>4.1</b>	<b>3,766.1</b>
Dividends and tax credit	116.8	258.4	-141.7	-54.8	272.2
Earnings of companies valued with net equity method	37.2	20.4	16.8	82.0	36.3
Profit (loss) from financial transactions	233.2	3.4	229.9	n.s.	140.1
Other operating income	312.7	423.9	-111.3	-26.3	536.6
<b>Non Interest Income</b>	<b>1,675.0</b>	<b>1,727.7</b>	<b>-52.7</b>	<b>-3.1</b>	<b>2,404.6</b>
<b>Total Banking Income</b>	<b>3,554.8</b>	<b>3,449.7</b>	<b>105.2</b>	<b>3.0</b>	<b>4,751.2</b>
Administrative expenses					
- personnel expenses	-1,333.9	-1,323.4	-10.5	0.8	-1,781.0
- other administrative expenses	-832.8	-831.6	-1.3	0.2	-1,127.5
<i>o/w indirect taxes</i>	115.0	110.2	4.8	4.4	153.1
<b>Total administrative expenses</b>	<b>-2,166.7</b>	<b>-2,154.9</b>	<b>-11.8</b>	<b>0.5</b>	<b>-2,908.5</b>
<b>Gross Operating Profit</b>	<b>1,388.1</b>	<b>1,294.7</b>	<b>93.4</b>	<b>7.2</b>	<b>1,842.8</b>
Valuation adjustments to fixed and intangible assets	-251.6	-247.8	-3.8	1.5	-406.2
<b>Net Operating Profit</b>	<b>1,136.5</b>	<b>1,046.9</b>	<b>89.6</b>	<b>8.6</b>	<b>1,436.6</b>
Goodwill admortization	-77.3	-63.9	-13.4	21.0	-88.5
Provisions for risks and charges	-76.4	-26.9	-49.5	ns.	-42.4
Valuation adjustments to loans net of recoveries	-351.9	-257.6	-94.3	36.6	-438.0
Provision to loan loss reserve	-21.2	-19.3	-1.9	10.1	-90.0
Writedowns to non-current financial assets	-56.8	-19.0	-37.8	ns.	-27.6
<b>Profit (losses) from ordinary operations</b>	<b>552.9</b>	<b>660.3</b>	<b>-107.4</b>	<b>-16.3</b>	<b>750.1</b>
Extraordinary income (charges)	-12.4	46.7	-59.1	ns.	53.3
Change in reserve for general banking risks	0.0	0.0	0.0	ns.	85.0
Income taxes	-265.4	-322.6	57.2	-17.7	-216.6
<b>Profit for the period before minority interests</b>	<b>275.1</b>	<b>384.4</b>	<b>-109.3</b>	<b>-28.4</b>	<b>671.9</b>
Minority interests	-3.3	-64.1	60.8	-94.9	-90.0
<b>Net profit for the period</b>	<b>271.8</b>	<b>320.3</b>	<b>-48.5</b>	<b>-15.1</b>	<b>581.8</b>

(\*) The data for the quarters of 2002 exclude the figures for such period for the subsidiary banks, Cassa di Risparmio di Prato and Cassa di Risparmio di San Miniato, both of which were sold in the fourth quarter.

Besides the first quarter 2002 includes the values of "Sorit", society earlier valued with net equity metod, the contoll of which has been required in the fourth quarter 2002.



**MPS Group**  
**Quarterly profit and loss statement**  
(in EUR mn)

	Year 2003			Year 2002 restated value as of (*)				Quarterly Avg 2002
	3Q03	2Q03	1Q03	4Q02 Restated	3Q02 Restated	2Q02 Restated	1Q02 Restated	
<b>Net Interest Income</b>	<b>626.0</b>	<b>625.1</b>	<b>628.7</b>	<b>624.7</b>	<b>576.5</b>	<b>564.4</b>	<b>581.0</b>	<b>586.7</b>
Net commissions	321.0	368.4	285.8	397.9	324.5	346.5	350.5	354.9
<b>Basic Income</b>	<b>947.0</b>	<b>993.5</b>	<b>914.4</b>	<b>1,022.7</b>	<b>901.1</b>	<b>910.9</b>	<b>931.5</b>	<b>941.5</b>
Dividends and tax credit	6.6	109.7	0.5	13.7	-1.7	247.0	13.1	68.0
Earnings of companies valued with net equity method	18.4	6.3	12.6	15.8	8.6	2.2	9.7	9.1
Profit (loss) from financial transactions	93.6	34.0	105.6	136.7	-34.4	-61.5	99.2	35.0
Other operating income	104.1	101.7	106.8	112.7	75.4	178.3	170.2	134.2
<b>Non Interest Income</b>	<b>543.7</b>	<b>620.1</b>	<b>511.2</b>	<b>676.9</b>	<b>372.5</b>	<b>712.6</b>	<b>642.7</b>	<b>601.2</b>
<b>Total Banking Income</b>	<b>1,169.7</b>	<b>1,245.2</b>	<b>1,139.9</b>	<b>1,301.6</b>	<b>949.0</b>	<b>1,277.0</b>	<b>1,223.6</b>	<b>1,187.8</b>
Administrative expenses								
- personnel expenses	-437.3	-447.2	-449.3	-457.6	-434.7	-453.9	-434.8	-445.2
- other administrative expenses	-279.4	-276.7	-276.8	-295.9	-283.1	-279.4	-269.1	-281.9
<b>Total administrative expenses</b>	<b>-716.7</b>	<b>-723.9</b>	<b>-726.1</b>	<b>-753.6</b>	<b>-717.8</b>	<b>-733.2</b>	<b>-703.8</b>	<b>-727.1</b>
<b>Gross Operating Profit</b>	<b>453.0</b>	<b>521.3</b>	<b>413.8</b>	<b>548.0</b>	<b>231.2</b>	<b>543.7</b>	<b>519.8</b>	<b>460.7</b>
Valuation adjustments to fixed and intangible assets	-83.3	-91.6	-76.8	-158.3	-88.7	-85.7	-73.4	-101.5
<b>Net Operating Profit</b>	<b>369.8</b>	<b>429.7</b>	<b>337.0</b>	<b>389.7</b>	<b>142.5</b>	<b>458.0</b>	<b>446.4</b>	<b>359.1</b>
Goodwill admortization	-25.8	-29.3	-22.2	-24.6	-21.3	-22.0	-20.6	-22.1
Provisions for risks and charges	-20.9	-38.9	-16.6	-15.5	-9.1	-16.4	-1.4	-10.6
Valuation adjustments to loans net of recoveries	-107.2	-146.4	-98.3	-180.4	-92.7	-104.5	-60.4	-109.5
Provision to loan loss reserve	-10.1	-2.8	-8.3	-70.8	-5.6	-3.4	-10.2	-22.5
Writedowns to non-current financial assets	-3.4	-52.5	-1.0	-8.6	-2.7	-7.6	-8.7	-6.9
<b>Profit (losses) from ordinary operations</b>	<b>202.4</b>	<b>159.8</b>	<b>190.6</b>	<b>89.8</b>	<b>11.0</b>	<b>304.1</b>	<b>345.2</b>	<b>187.5</b>
Extraordinary income (charges)	-14.1	-23.9	25.6	6.6	18.0	16.5	12.2	13.3
Change in reserve for general banking risks	0.0	0.0	0.0	85.0	0.0	0.0	0.0	21.2
Income taxes	-110.1	-71.8	-83.4	106.0	-8.1	-147.7	-166.8	-54.1
<b>Profit for the period before minority interests</b>	<b>78.2</b>	<b>64.0</b>	<b>132.8</b>	<b>287.4</b>	<b>21.0</b>	<b>172.9</b>	<b>190.5</b>	<b>168.0</b>
Minority interests	-0.8	-1.2	-1.3	-25.9	-12.9	-19.6	-31.6	-22.5
<b>Net profit for the period</b>	<b>77.4</b>	<b>62.9</b>	<b>131.6</b>	<b>261.5</b>	<b>8.1</b>	<b>153.3</b>	<b>158.9</b>	<b>145.5</b>

(\*) The data for the first three quarters of 2002 exclude the figures for such period for the subsidiary banks, Cassa di Risparmio di Prato and Cassa di Risparmio di San Miniato, both of which were sold in the fourth quarter. Besides the first three quarter 2002 includes the values of "Sorit", society earlier valued with net equity method, the contoll of which has been required in the fourth quarter 2002.