Pirelli & C. - Milan

Quarterly Report
1st Quarter 2003

PIRELLI & C. Accomandita per Azioni

Registered office in Milan, Via G. Negri 10

Share capital - Euros 339,422,773.56 fully paid-in

Milan Companies Registry No. 00860340157

REA No. 1055

PIRELLI & C. Accomandita per Azioni

Leopoldo Pirelli	Honorary Chairman

BOARD OF MANAGING PARTNERS

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Alberto Pirelli	Deputy Chairman
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Luigi Orlando	
Carlo Alessandro Puri Negri	
Sergio Lamacchia	Secretary to the Board

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Salvatore Spiniello	Standing member
Paolo Colombo	Alternate
Marco Reboa	Alternate

GENERAL MANAGER

Carlo Alessandro Puri Negri

INDEPENDENT AUDITORS

PricewaterhouseCoopers S.p.A.

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MANAGEMENT'S REPORT

Performance of the Group

Economic activity in the first quarter was affected once again by the difficulties and the climate of uncertainty which continued to dominate the world scenario. More specifically, in the Telecommunications Cables and Systems sector, volumes remained very low, putting further pressure on manufacturers to reduce prices; in the Energy Cables and Systems sector the weakness in demand from Utilities persisted, especially in Europe in the Low and Medium Voltage segments; furthermore, the strong pressure on distribution prices in the General Market continued. In the Tyres sector, the market of the Replacements channel reported an increase in Europe and a contraction in North America, whereas the Original Equipment market remained steady in the passenger car segment and reported an increase in the truck segment.

In this context, the Pirelli S.p.A. group reported an increase in the operating profit compared to the same period of the prior year and the last quarter of 2002; there was an increase both in absolute value and as a percentage of net sales.

The improvement reflects the continued growth of profitability in the Tyres sector and the benefits realized as a result of timely reorganization measures implemented especially in the Energy and Telecommunications Cables and Systems sectors, which more than offset the difficulties being encountered on the main reference markets, and the increase in per unit costs.

Net income, before the consolidation of Olimpia is again positive.

The net debt position rose due to seasonal factors affecting working capital, especially in the Tyres sector; the increase, however, is lower than that of the first quarter of 2002 and was affected by the impact of restructuring expenses on cash for about Euros 52 million.

As for the real estate sector (Pirelli & C. Real Estate group), the first quarter ending March 31, 2003 shows a consolidated net income from real estate operations attributable to the

parent company of Euros 20.0 million compared to Euros 15.9 million in the corresponding period of 2002, with a growth of 26 percent. In the corresponding period of 2002, the consolidated net income including other components, largely connected with the sale of the last portion of securities from the ex-Unim portfolio, was equal to Euros 56.0 million.

The parent company, Pirelli & C.

The net result of the parent company, Pirelli & C., for the first quarter ending March 31, 2003 is a net income of Euros 0.9 million, in line with Euros 0.6 million reported in the first quarter of 2002.

Major events in the first quarter

On March 10, 2003, in accordance with the agreements reached by the two groups in March 1998, BZ Group exercised the second sales option relating to 2.5 percent of Pirelli S.p.A. ordinary shares with voting rights, at a price calculated - in compliance with the agreements - at the average price listed for the shares in the 90 trading sessions prior to the date the option is exercised, for a total amount of some Euros 43 million (equal to a price per share of Euros 0.90).

Following the above, Pirelli & C. A.p.A. holds, directly and indirectly, a total of 800,191,375 Pirelli S.p.A. ordinary shares, equal to 41.7 percent of share capital with voting rights, at an average carrying value of Euros 2.03.

On March 11, 2003, the Board of Managing Partners of Pirelli & C. and the Board of Directors of Pirelli S.p.A. voted on a project aimed at the simplification and strengthening of the corporate structure through a series of transactions of an extraordinary nature.
In particular:

The Board of Managing Partners of Pirelli & C. voted: to transform the legal entity from a limited partnership (Società in Accomandita per Azioni) to a corporation (Società per Azioni) and consequently adopt new by-laws; to change the name from Pirelli & C. A.p.A. to Pirelli & C. S.p.A.; to immediately increase share capital by a maximum amount of Euros 1,014 million through the issue of ordinary shares cum warrants for a future increase of share capital for a further Euros 254 million; to merge Pirelli & C. Luxembourg and Pirelli S.p.A. by incorporation in Pirelli & C. A.p.A..
The Board of Directors of Pirelli S.p.A. voted the merger by incorporation of Pirelli S.p.A. in Pirelli & C. A.p.A..
After the transformation of Pirelli & C. A.p.A. to Pirelli & C. S.p.A., the Pirelli & C. A.p.A. ordinary and savings shareholders will have the right to withdraw within the terms and according to the conditions established by law. The shareholders who withdraw may not receive dividends nor are they entitled to the option rights granted with the capital increase.

During the first quarter, Pirelli S.p.A. purchased 9,384,518 ordinary shares on the market at an average price per share of Euros 0.73.
After these purchases, Pirelli S.p.A. holds 172,648,217 ordinary shares equal to 9 percent of voting share capital.

The Group

The consolidated figures for the first quarter ending March 31, 2003 are as follows:

(in millions of euros)

	1st Quarter 2003	1st Quarter 2002	2002
Net sales	**1.572**	1.747	6.718
Gross operating profit	**153**	149	523
% of net sales	***9,7%***	*8,5%*	*7,8%*
Operating profit	**61**	44	118
% of net sales	***3,9%***	*2,5%*	*1,8%*
Share of earnings (losses) of equity investments	**(11)**	(19)	(175)
Operating profit (loss) including share of earnings (losses) of equity investments	**50**	25	(57)
Financial income (expenses)	**(36)**	(39)	(178)
Extraordinary items	**(8)**	48	(83)
Income (loss) before income taxes	**6**	34	(318)
Income taxes	**(33)**	(33)	(87)
Net income (loss)	**(27)**	1	(405)
% of net sales			*n.s.*
Net income (loss) attributable to Pirelli & C.	**(15)**	21	(58)
Earnings (loss) per share (in euros)	**(0,02)**	0,03	(0,09)
Shareholders' equity	**4.467**	5.407	4.626
Net equity attributable to Pirelli & C.	**1.922**	2.129	1.933
Equity per share (in euros)	**2,94**	3,39	2,96
Net financial (liquidity)/debt position	**2.302**	2.294	2.050
R&D expenditures	**50**	59	219
Employees (at period-end)	**35.767**	39.058	37.350
Pirelli & C. ordinary shares (No. in millions)	618,3	618,3	618,3
Pirelli & C. savings shares (No. in millions)	34,4	34,4	34,4
Total Pirelli & C. shares (No. in millions)	652,7	652,7	652,7
Treasury shares (No. in millions)	2,6	2,6	2,6

Net sales

Net sales for the first quarter of 2003 amount to Euros 1,572 million, with a decrease of 10 percent compared to the same period of the prior year. Excluding the foreign exchange effect (-8.3 percent), the metals prices in the Energy business (-1.5 percent) and the change in the scope of consolidation due to the sale of the Enameled Wires business (-1.4 percent), net sales show an increase of 1.2 percent.

Contributing to net sales are the industrial sector (Pirelli S.p.A. group) for Euros 1,449 million (Euros 1,688 million in the first three months of 2002), with a decrease of 14.2 percent, and the real estate sector (Pirelli & C. Real Estate group) for Euros 127 million (Euros 63 million in the first three months of 2002), with an increase of 101 percent.

As far as the real estate sector is concerned, it should be borne in mind that net sales are not a significant indicator of the group's operations since its activities are primarily developed through the acquisition of qualified minority stakes in companies which own real estate properties that are managed by the sector.
A better expression of the real estate sector's business volume, therefore, is aggregate production value (the sum of revenues and the change in inventories), which also includes the component generated by the minority-owned investments. Such aggregate production value, net of acquisitions, for the first quarter ending March 31, 2003 is Euros 356 million (compared to Euros 206 million in the first three months of 2002).

Gross operating profit

Gross operating profit amounts to Euros 153 million (9.7 percent of net sales) compared to Euros 149 million for the first three months of 2002 (8.5 percent of net sales).

Operating profit

Operating profit in the first quarter of 2003 is Euros 61 million (representing 3.9 percent of net sales) compared to Euros 44 million for the three months ending March 31, 2002.

Contributing to the operating profit of Euros 61 million are the industrial sector (Pirelli S.p.A. group) with Euros 59 million (Euros 42 million for the first three months of 2002) and the real estate sector (Pirelli & C. Real Estate S.p.A. group) with Euros 11 million (Euros 12 million for the first three months of 2002).

Operating profit in the first quarter of 2003 comprises the impact of the settlement with Ciena relating to the dispute over the use of patents by the latter, for Euros 10 million and, in the first quarter of 2002, included the insurance compensation for the damages to the Battipaglia factory of Fibre Ottiche Sud for Euros 6 million.

Share of earnings (losses) of equity investments

The share of the earnings (losses) of equity investments shows a loss of Euros 11 million, compared to Euros 19 million in the first three months of 2002, and includes the effect of the share of the result of the companies accounted for using the equity method.

In particular, the caption includes the effect of Pirelli S.p.A.'s share of Olimpia S.p.A.'s losses of Euros 25 million, while the share of the earnings of the companies in the real estate sector (Pirelli & C. Real Estate group) totals Euros 14 million, net of income taxes, (compared to Euros 7 million in the first three months of 2002).

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

The operating profit including the share of earnings (losses) of equity investments totals Euros 50 million compared to Euros 25 million in the first three months of 2002.
Contributing to this result are the Pirelli S.p.A. group with an operating profit of Euros 34 million (operating profit of Euros 15 million in the first three months of 2002) and the real estate sector (Pirelli & C. Real Estate group) for Euros 25 million (Euros 20 million for the three months ended March 31, 2002).
Excluding the share of losses of Olimpia, the operating profit would be Euros 75 million.

Financial income (expenses)

Financial income (expenses) shows an expense balance of Euros 36 million compared to Euros 39 million in the same period of 2002.

Extraordinary items

Extraordinary items show an expense balance of Euros 8 million in the first quarter of 2003, compared to an income balance of Euros 48 million in the same period of the prior year.

Net income (loss)

The net result for the first quarter ending March 31, 2003 is a net loss of Euros 27 million compared to a net income of Euros 1 million in the corresponding period of the prior year.

Excluding the impact of Olimpia's result for the first quarter of 2003, the result would be a net income of Euros 6 million.

The net loss attributable to Pirelli & C. for the three months ended March 31, 2003 is Euros 15 million (corresponding to Euros 0.02 per share) compared to a net income of Euros 21 million in the first three months of 2002 (Euros 0.03 per share).

Shareholders' equity

Shareholders' equity went from Euros 4,626 million at December 31, 2002 to Euros 4,467 million at March 31, 2003, with a decrease of Euros 159 million.

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

	(in millions of euros)
. Translation adjustments	(21)
. Net loss for the period	(27)
. Purchase of Pirelli S.p.A. shares (Pirelli & C.)	(43)
. Purchase of Pirelli & C. Real Estate S.p.A. treasury shares	(5)
. Purchase of Pirelli S.p.A. treasury shares	(7)
. Goodwill on above purchases	(66)
. Other changes	10
	(159)

The shareholders' equity attributable to the parent company went from Euros 1,933 million at December 31, 2002 to Euros 1,922 million at March 31, 2003, with a decrease of Euros 11 million.

The related equity per share went from Euros 2.96 at December 31, 2002 to Euros 2.94.

Net financial position

The net debt position at March 31, 2003 of Euros 2,302 million is basically in line with that at March 31, 2002 (Euros 2,294 million) and compares to Euros 2,050 million at December 31, 2002.

The change, compared to December 31, 2002, can be ascribed to seasonal factors which caused an increase in working capital and disbursements relating to accruals made in 2002 for reorganization programs, as well as the purchase of Pirelli S.p.A. shares from the BZ Group for Euros 43 million.

R&D expenditures

The Group's priority commitment to research and technological innovation is again reconfirmed in the first quarter of 2003 with expenditures sustained of Euros 50 million, and representing 3.2 percent of net sales.

Employees

Employees number 35,767 at March 31, 2003 compared to 37,050 at December 31, 2002, with a reduction of 1,283.

Related party disclosure

According to Consob Communications No. 97001574 of February 20, 1997 and No. 98015375 of February 27, 1998 which deal with related party transactions among Group companies, the effects of such transactions on the balance sheet and statement of income of the consolidated financial statements at March 31, 2003 are presented in the following table. All the transactions, including those between the parent company and its subsidiaries and among the subsidiaries, fall within the ordinary operations of the Group, are governed by market terms, and there are no transactions of an unusual and exceptional nature, or constituting a potential conflict of interest.

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

Furthermore, in order to provide more complete information, the transactions in the first quarter of 2003 between the Pirelli & C. and the Olivetti Telecom group are described below. These transactions fall within the ordinary operations of the Group, are carried out at arm's length and there are no transactions of an unusual and exceptional nature, or constituting a potential conflict of interests:

- **revenues for goods and services**, relating mainly to the supply of telecommunications cables (Euros 18.4 million);
- **costs for goods and services,** relating mainly to telephone and computer services and the supply of electricity (Euros 8.5 million);
- **trade receivables,** relating to the supply of the goods and services described above (Euros 22.6 million);
- **trade payables,** relating to telephone and computer services and the supply of electricity described above (Euros 7.5 million);

Outlook for the current year

In a market scenario that continues to be dogged by factors of uncertainty, the results achieved in the first quarter allow us to confirm, to date, our objective for the current year of achieving an increase in the operating profit of the Energy Cables and Systems and Tyres sectors and reaching a breakeven in the last quarter in the Telecom Cables and Systems sector.

The real estate sector, based on available information, can reasonably expect to achieve a higher operating profit in 2003, including the share of the results of its holdings, compared to the prior year.

PERFORMANCE OF THE MAJOR SUBSIDIARIES

PIRELLI S.p.A. GROUP

The key consolidated figures for the first quarter ending March 31, 2003 are presented as follows:

- net sales for the first quarter of 2003 amount to Euros 1,449 million, with a decrease of 14.2 percent compared to the prior year. Excluding the foreign exchange effect (-8.6 percent), the equalization of metals in the Energy business (-1.6 percent) and the change in the scope of consolidation due to the sale of the Enameled Wires business (-1.5 percent), the effective change is equal to -2.5 percent and this was essentially caused by lower volumes in the Energy and Telecom Cables and Systems Sectors, while net sales increased in the Tyres Sector.
- gross operating profit is equal to Euros 141 million (9.7 percent of net sales) compared to Euros 137 million in the first quarter of 2002 (8.1 percent of net sales).
- operating profit in the first quarter of 2003 is Euros 59 million, representing 4.1 percent of net sales compared to Euros 42 million in the corresponding period of 2002 (2.5 percent of net sales). The negative impact due to the market trend and exchange rates are more than compensated by the results of the restructuring measures taken by the Group, which brought gross efficiencies totaling Euros 57 million in the first quarter, Euros 33 million of which are for the gross reduction in labor costs.
- Financial income (expenses) shows an expense balance of Euros 37 million compared to Euros 35 million in the corresponding period of the prior year.
- the share of the earnings (losses) of equity investments is a loss of Euros 25 million due to the share of the result of Olimpia S.p.A., accounted for using the equity method.

- extraordinary items show an income balance of Euros 8 million and principally comprise the gain on the sale of properties by the Energy Cables and Systems Sector to companies in the Pirelli & C. group.
- the net result for the first quarter ending March 31, 2003 is a net loss of Euros 22 million (after income tax expenses of Euros 27 million) compared to a net loss of Euros 39 million in the first three months of 2002 (after income tax expenses of Euros 19 million). Excluding the impact of Olimpia's result for the first quarter of 2003, the result would be a net income of Euros 3 million.
- shareholders' equity went from Euros 4,576 million at December 31, 2002 to Euros 4,526 million at March 31, 2003 due mainly to the loss for the first quarter (Euros 22 million) and the negative exchange effect (Euros 38 million).
- the net debt position at March 31, 2003 is Euros 1,646 million compared to Euros 1,469 million at December 31, 2002.
- employees number 34,608 at March 31, 2003, with a reduction of 1,471 compared to December 31, 2002.

Energy Cables and Systems Sector

Net sales for the first quarter of 2003 are Euros 623 million, with a decrease of 21.7 percent compared to the corresponding period of the prior year. This decrease is reduced to 6.9 percent if sales are considered net of the effects of foreign exchange, metals prices and the change in the scope of consolidation as a result of the sale of the Enameled Wires business.

Operating profit is Euros 8 million (1.3 percent of net sales) compared to Euros 1 million in the first three months of 2002 (0.1 percent of net sales).

The net result for the first three months of 2003 is a net income of Euros 2 million, after financial expenses of Euros 9 million, net extraordinary income of Euros 8 million and income tax expenses of Euros 5 million.

The net debt position is Euros 418 million compared to Euros 373 million at December 31, 2002.

Employees number 11,282, with a reduction of 1,197 compared to December 31, 2002.

Telecommunications Cables and Systems Sector

Net sales for the first quarter of 2003 are Euros 89 million, posting a sharp reduction from the same period of the prior year (-46 percent) due to the foreign exchange effect (-4.6 percent), volumes (-22.2 percent) and prices (-26.2 percent).

Sales volumes declined sharply in Europe and North America due to the persistent contraction of investments by telephone operating companies.

The operating result for the first quarter of 2003 is a loss of Euros 17 million, compared to a loss of Euros 2 million in the first quarter of the prior year.

The net result for the first three months of 2003 is a net loss of Euros 21 million (after financial expenses of Euros 5 million and extraordinary income of Euros 1 million).

The net financial position is a debt position of Euros 465 million compared to Euros 431 million at December 31, 2002. The change is mainly due to operating requirements during the period.

Employees number 2,348 at March 31, 2003, with a further reduction of 198 compared to December 31, 2002.

Tyres Sector

Net sales for the first quarter of 2003 are Euros 741 million, with a decrease of 2.2 percent compared to the same period of the prior year. Excluding the foreign exchange effect, there was an increase in sales of 10.8 percent. The negative foreign exchange effect due both to the weakness of the U.S. dollar against the euro and the loss of value of the main currencies of South America and Egypt is particularly high compared to the first quarter of 2002.

Operating profit for the first quarter of 2003 is Euros 65 million compared to Euros 54 million for the corresponding period of the prior year. The percentage of operating profit to net sales is 8.8 percent, compared to 7.1 percent in the first quarter of 2002.

Net income is Euros 32 million in the first quarter of 2003 (after financial expenses of Euros 14 million and income tax expenses of Euros 19 million) compared to Euros 23 million in the first three months of 2002 (after financial expenses of Euros 19 million and income tax expenses of Euros 12 million).

The net financial position is a debt position of Euros 595 million compared to Euros 492 million at December 31, 2002. The increase from December 31, 2002 is principally due to the operating requirements of the period.

Employees number 20,144 at March 31, 2003, including 1,532 employees with temporary contracts. Compared to December 31, 2002, the number of permanent senior executives and staff as well as the number of permanent blue-collars are lower as a result of the rationalization of the workforce.

PIRELLI & C. REAL ESTATE S.P.A.

Pirelli & C. Real Estate is a management company which invests in real estate primarily by participating with minority stakes in qualified initiatives and taking over their management (Asset Management activities) and also providing them and third-party clients with a wide range of property services (Service Provider activities).

Major events in the first quarter

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

- The group continued to purchase mainly residential property portfolios, finalizing deeds of purchase for nine buildings located in Milan and Naples for a total of Euros 77.0 million, in addition to the Euros 41.7 million of properties located in Naples and purchased through the company Geolidro. Preliminary purchase contracts were signed during the period for Euros 33.9 million; the final deeds of purchase are expected to be finalized shortly.

- In February, the group filed an application, with other partners, in order to be admitted to the bidding arranged by the state properties agency for taking an administrative and technical consensus of state property.

- Again in February, Pirelli & C. Real Estate won, with other partners, the bid for the management and revision of computer services for Public Education. The contract will

be valid for five years and renewable for another two and is worth about Euros 200 million. Facility management will be provided by Pirelli & C. Real Estate.

- On March 3, the group, jointly with the Goldman Sachs and Morgan Stanley Funds, presented a non-binding offer in the ENEL group's bid to sell Enel Real Estate S.p.A., which comprises a portfolio of over 1,300 buildings mainly for office and industrial use located throughout the national territory and the dedicated staff for the management of the same buildings. The group passed the first selection stage and has been admitted to the next stage which required the formulation of a second non-binding offer that was presented on April 14.

- In March, Pirelli & C. Real Estate sold the Deka real estate fund group four prestigious buildings located in the center of Milan, mainly destined for office use, with an overall space of more than 30,000 m^2. The properties were part of the portfolio purchased from RAS in 2002. The deal is worth some Euros 130 million, with a gross capital gain of about Euros 20 million, of which Euros 6.6 million are attributable to Pirelli & C. Real Estate.

- At the end of March, MSMC Immobiliare Due, a company in which Pirelli & C. Real Estate indirectly has a 25 percent stake (the remaining 75 percent interest is owned by companies in the Morgan Stanley Real Estate Fund group), sold the 50% investment in the share capital of Prime Properties S.r.l. to Aedes S.p.A., which already owned the other 50 percent interest. Prime Properties is a company which owns a portfolio of properties worth about Euros 150 million located in Milan and Rome. The sale was for an amount of Euros 25 million. This generated a gross statutory gain of some Euros 7.7 million, of which Euros 2 million are attributable to Pirelli & C. Real Estate.

- Also at the end of March, AIDA and MSMC Immobiliare 4, companies in which Pirelli & C. Real Estate indirectly has, respectively, a 33 percent stake and a 25 percent stake

(the remaining 67 percent and 75 percent stakes, respectively, are owned by companies in the Morgan Stanley Real Estate Fund group) sold two buildings used for offices to private investors. The one located in the center of Naples was part of the portfolio purchased from RAS and the other was from the ex-Toro Assicurazioni portfolio and is located in Turin. The total amount of the sale was approx. Euros 25 million, with a gain of Euros 7 million, of which Euros 2 million are attributable to Pirelli & C. Real Estate.

- On March 31, Pirelli & C. Real Estate and The Peabody Fund (joint venture between O'Connor Capital Partners and JP Morgan-Chase) reached an agreement for the development of two new initiatives in the retail & entertainment segment. In keeping with the group's customary business model, Pirelli & C. Real Estate, which will hold a qualified minority stake in the investment (equal to 25 percent), will act as the manager through asset management activities and provide specialist services. The understanding between Pirelli & C. Real Estate and the Peabody fund refer to initiatives for entertainment centers, on which Pirelli & C. Real Estate has already started construction, in Milan (Bicocca Area) and Turin (Moncalieri), for a total investment of approx. Euros 200 million.

Economic review

(in millions of euros)	1st Quarter 2003	1st Quarter 2002
Aggregate production value, net of acquisitions	**355,7**	**205,9**
Production value	**131,9**	**100,6**
Operating profit including share of earnings (losses) of equity investments	**24,7**	**19,5**
Income before extraordinary items	**25,0**	**18,9**
Net income from real estate operations – attributable	**20,0**	**15,9**
Other components (*)	0,0	40,1
Net income - attributable	20,0	56,0

(*) Mainly arising from the sale of securities from the ex-Unim portfolio.

In the description of the economic and financial highlights that follows, it is important to remember that Pirelli & C. Real Estate is a management company which invests in real estate primarily by participating with minority stakes in qualified initiatives and completely taking over their management. Therefore, Aggregate production value net of acquisitions and the Operating profit (loss) including the share of earnings (losses) of equity investments are the most significant indicators to give a better expression of the business volumes managed and the trend in results at the operating level.

Aggregate production value, net of acquisitions, amounts to Euros 355.7 million, with a growth of 73 percent compared to Euros 205.9 million in the first quarter of 2002. Such amount, including acquisitions, is equal to Euros 504.6 million compared to Euros 677.1 million in the first quarter of 2002. Consolidated production value alone for the first quarter ending March 31, 2003 is Euros 131.9 million, compared to Euros 100.6 million in the first quarter of 2002.

The operating profit (loss) including share of earnings (losses) of equity investments is a profit of Euros 24.7 million, compared to Euros 19.5 million in the first quarter of 2002 (+27 percent). This amount includes the share of the earnings, net of income taxes, of companies accounted for using the equity method, for Euros 13.9 million.

The attributable consolidated net income from real estate operations is Euros 20.0 million, compared to Euros 15.9 million in the first quarter of 2002, with a growth of 26 percent. In the corresponding period of 2002, the consolidated net income including other components, largely connected with the sale of the last portion of securities from the ex-Unim portfolio, was equal to Euros 56.0 million.

Balance sheet review

(in millions of euros)	March 31, 2003	December 31, 2002
Fixed assets	**254,1**	**218,8**
including investments accounted for using the equity method	*128,2*	*109,1*
Net working capital	**205,4**	**190,5**
including inventories	*369,2*	*383,7*
Net invested capital	**459,5**	**409,3**
Shareholders' equity	**388,9**	**368,8**
including minority interest	0,7	0,9
Provisions and contributions	**50,6**	**52,8**
Net financial position	**20,0**	**(12,3)**
including cash/short-term financial assets	(78,5)	(74,2)
including financing from shareholders	(180,0)	(179,0)
including other medium/long-term assets	(0,2)	(0,2)
including short-term financial payables	33,7	31,2
including medium/long-term financial payables	245,0	209,9
Total net invested capital financed	**459,5**	**409,3**

Shareholders' equity attributable to the parent company at March 31, 2003 is Euros 388.2 million compared to Euros 367.9 million at the end of 2002.

The net financial position shows a debt position of Euros 20.0 million, compared to Euros 12.3 million at the end of 2002. The change from December 31, 2002 is primarily due to investing activities.

The net financial position expressed before financing made to minority-owned companies is also a debt position of Euros 200.0 million compared to Euros 166.7 million at the end of 2002. The gearing ratio is about 0.5, the same as at the end of December 2002.

Fixed assets total Euros 254.1 million, compared to Euros 218.8 million recorded at the end of 2002, with an increase of Euros 35.3 million.
The increase is due to investments in qualified minority-owned companies, (mainly due to their result for the period), investments in treasury shares and higher intangible assets due to the purchase of activities in the Service Provider area.

Net working capital is Euros 205.4 million, compared to Euros 190.5 million at the end of 2002. The increase in working capital reflects the reduction in trade payables which more than compensated the reduction in inventories.

Subsequent events

- At the beginning of April, Pirelli & C. Real Estate and Olivetti defined – according to agreements regarding Progetto Tiglio – the terms for the integration of the facility management businesses owned by Olivetti Multiservices and Pirelli & C. RE Facility Management. The deal calls for Pirelli & C. Real Estate to assign treasury shares to Olivetti, which will contribute its facility business, valued at a total of Euros 22.5 million and concentrated in a specific company known as OMS Facility. As a result of this transaction, in addition to other transactions for purchases in 2002 of Altair Facilities Management, Cam Energia e Servizi and the RAS Service Division, Pirelli & C. Real Estate created a new entity that will be positioned among the leading facility management companies in Italy, thanks to sales volumes which, when fully functioning, will be approx. Euros 150 million.

- On April 28, upon the issue of securities for a total of Euros 79.4 million, which have already been fully placed, the securitization was concluded for a portfolio of non-performing mortgage loans with a book value of Euros 200 million, held by CFT Finanziaria, a company owned by the Pirelli & C. Real Estate group and the Cassa di Risparmio di Firenze (with mutual 47 percent stakes) and by the Cassa di Risparmio di San Miniato (with a 6 percent stake). The Pirelli & C. Real Estate group acted as the portfolio servicer in the transaction through the subsidiary Pirelli RE Credit Servicing.

Outlook for the current year

On the basis of available information, the operating profit including the share of earnings (losses) of equity investments accounted for using the equity method for the year 2003 is expected to show a further growth over the prior year. Such growth, as occurred in 2002, will predictably be higher in the second half of the year when the leveraging of the real estate assets recently acquired will show its full effects.

PROFORMA DATA

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

Proforma consolidated financial data at March 31, 2003 of Pirelli & C. A.p.A. is presented below, assuming the consolidation line-by-line of Olimpia S.p.A. and the use of the equity method to value Olimpia S.p.A.'s investment in Olivetti S.p.A..

(in millions of euros)	Consolidated financial statements at 3/31/2003 Pirelli & C. A.p.A. (1)	Proforma adjustments: Elimination of Olimpia S.p.A. net result attributable to Pirelli & C. A.p.A.	Olimpia S.p.A. line-by-line consolidation	Consolidation adjustments and valuation of investment in Olivetti S.p.A. using the equity method	Total proforma adjustments	Proforma consolidated financial data at 3/31/2003 Pirelli & C. A.p.A. (2)
Condensed Statement of Income						
Net sales	1.572	-			-	1.572
Operating profit	61	-			-	61
Financial income (expenses)/Valuation adjustments to financial assets	(47)	24	(37)	(164)	(177)	(224)
Extraordinary items	(8)	-	(3)		(3)	(11)
Income taxes	(33)	-			-	(33)
Net income (loss)	(27)	24	(40)	(164)	(180)	(207)
Net income (loss) - Pirelli & C.	(15)	11	(11)	(43)	(43)	(58)
Goodwill amortization effect	1			145	145	146
Net income (loss) (excluding goodwill amortization)	(26)	24	(40)	(19)	(35)	(61)
Net income (loss) - Pirelli & C. (excluding goodwill amortization)	(14)	11	(11)	(5)	(5)	(19)
Reclassified Balance Sheet						
Fixed assets	6.459	191	8.231	(3.581)	4.841	11.300
Net working capital	1.137	-	51	-	51	1.188
Total net invested capital	7.596	191	8.282	(3.581)	4.892	12.488
Financed by:						
Shareholders' equity	4.467	191	4.883	(3.581)	1.493	5.960
- of which shareholders' equity - Pirelli & C.	1.922	84	1.282	(1.486)	(120)	1.802
Provisions	827	-		-	-	827
Net financial (liquidity)/debt position	2.302	-	3.399	-	3.399	5.701

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

The proforma consolidated financial data has been prepared using the statutory financial statements of Olimpia S.p.A. at March 31, 2003 and the consolidated financial statements of the Olivetti S.p.A. group at the same date.

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

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

- in the column "Olimpia S.p.A. line-by-line consolidation": inclusion of the assets, liabilities, revenues and costs resulting from the financial statements for the year ended March 31, 2003 of Olimpia S.p.A., attributing the share of net equity and results of operations to the minority interest;

- in the column "Consolidation adjustments and valuation of investment in Olivetti S.p.A. using the equity method": inclusion of the effect of accounting for Olivetti S.p.A. using the equity method, giving rise to a negative valuation adjustment of Euros 164 million, of which Euros 55 million relate to the amortization of implicit goodwill for three months out of a total twenty-year period, and Euros 109 million to Olimpia S.p.A.'s share of the first-quarter 2003 results of the Olivetti group.

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

- in the column "Consolidated financial statements at March 31, 2003 Pirelli & C. A.p.A.", the amount of Euros 1 million refers to the amortization charge for three months on the goodwill booked by Pirelli S.p.A. in respect of Olimpia S.p.A.;

- in the column "Consolidation adjustments and valuation of investment in Olivetti S.p.A. using the equity method", the amount of Euros 145 million includes Euros 55 million for the goodwill booked by Olimpia S.p.A. in respect of Olivetti S.p.A. and Euros 90 million for the goodwill booked by Olivetti S.p.A. in respect of Telecom Italia S.p.A..

A comparison of shareholders' equity and net debt between the consolidated financial statements of Pirelli & C. A.p.A. and the proforma consolidated financial data of Pirelli & C. A.p.A. at March 31, 2003 and December 31, 2002 is presented below, assuming:

- the line-by-line consolidation of Olimpia S.p.A. and the valuation of the investment in Olivetti S.p.A. using the equity method;

- the line-by-line consolidation of both Olimpia S.p.A. and the Olivetti S.p.A. group.

(in millions of euros)	**Shareholders' equity**		**Net debt**		**Net debt/Shareholders' equity**		**Shareholders' equity - Pirelli & C.**	
	3/31/2003	**12/31/2002**	**3/31/2003**	**12/31/2002**	**3/31/2003**	**12/31/2002**	**3/31/2003**	**12/31/2002**
Pirelli & C. Group: consolidated financial statements at	4.467	4.626	2.302	2.050	0,52	0,44	1.922	1.933
Pirelli & C. Group: proforma consolidated data with Olimpia S.p.A. consolidated line-by-line and Olivetti S.p.A. valued using the equity method	5.960	6.121	5.701	5.726	0,96	0,94	1.802	1.817
Pirelli & C. Group: proforma consolidated data with Olimpia S.p.A. and Olivetti Group consolidated line-by-line	23.541	23.428	37.592	39.125	1,60	1,67	1.802	1.817

QUARTERLY DATA

AND

COMMENTS

QUARTERLY DATA

(in millions of euros)

Statement of Income	1st Quarter 2003	1st Quarter 2002	Year 2002
Net sales	**1.572**	1.747	6.718
Other revenues	**85**	55	143
Value of production	**1.657**	**1.802**	**6.861**
Cost of sales	**(1.165)**	(1.270)	(4.912)
Labor costs	**(339)**	(383)	(1.426)
Amortization and depreciation	**(92)**	(105)	(405)
Production costs	**(1.596)**	**(1.758)**	**(6.743)**
Operating profit	**61**	**44**	**118**
Share of earnings (losses) of equity investments	**(11)**	(19)	(175)
Operating profit (loss) including share of earnings (losses) of equity investments	**50**	**25**	**(57)**
Financial income (expenses)	**(36)**	(39)	(178)
Extraordinary items	**(8)**	48	(83)
Income (loss) before taxes	**6**	**34**	**(318)**
Income taxes	**(33)**	(33)	(87)
Net income (loss)	**(27)**	**1**	**(405)**
Net income (loss) attributable to Pirelli & C.	**(15)**	**21**	**(58)**

(in millions of euros)

Balance Sheet	**3/31/2003**	**12/31/2002**
Fixed assets	6.459	6.596
Net working capital	1.137	991
Net invested capital	**7.596**	**7.587**
Shareholders' equity	4.467	4.626
Provisions	827	911
Net financial (liquidity)/debt position	2.302	2.050
Financed	**7.596**	**7.587**
Memorandum accounts	**5.009**	**5.051**

(in millions of euros)

Net financial position	**3/31/2003**	**12/31/2002**	**3/31/2002**
. Short-term financial payables	1.449	1.092	1.751
. Cash and banks	(648)	(584)	(918)
. Short-term financial receivables	(290)	(250)	(108)
Net short-term debt	**511**	**258**	**725**
. Medium/long-term financial payables	1.880	1.891	1.849
. Medium/long-term financial receivables	(89)	(99)	(280)
Net medium/long-term debt	**1.791**	**1.792**	**1.569**
Net financial debt position	**2.302**	**2.050**	**2.294**

COMMENTS ON QUARTERLY DATA

Form and content

The accounting policies, valuation criteria and principles of consolidation used in preparing the quarterly data at March 31, 2003 are the same as those adopted for the financial statements at December 31, 2002 and disclosed in the previous annual report.

Economic review

Net sales

Net sales for the first quarter of 2003 amount to Euros 1,572 million compared to Euros 1,747 million for the first quarter of 2002.

The decrease of 10 percent can be analyzed as follows:

. Currency exchange effect	(8,3%)
. Volumes	(0,3%)
. Metal prices	(1,5%)
. Prices/Mix	0,1%
	(10,0%)

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

Sector	**1st Quarter 2003**	**1st Quarter 2002**
Pirelli S.p.A. group		
- Energy Cables and Systems Sector	39,6%	44,5%
- Telecommunications Cables and Systems Sector	5,7%	8,8%
- Tyres Sector	47,1%	43,5%
- Other and intereliminations	(0,2%)	(0,3%)
Total Pirelli S.p.A. group	92,2%	96,5%
Pirelli & C. Real Estate S.p.A. group	8,1%	3,6%
Other and intereliminations	(0,2%)	(0,1%)
Total	**100,0%**	**100,0%**

Geographical area	**1st Quarter 2003**	**1st Quarter 2002**
Italy	26,1%	21,7%
Europe	39,5%	40,6%
North America	9,8%	11,6%
Central and South America	11,8%	12,5%
Oceania, Africa and Asia	12,8%	13,6%
Total	**100,0%**	**100,0%**

Labor costs

Labor costs for the first three months of 2003 amount to Euros 339 million and represent 21.6 percent of net sales (Euros 383 million and 21.9 percent of net sales in the corresponding three months of 2002).

Amortization and depreciation

Amortization and depreciation for the first quarter of 2003 total Euros 92 million (of which Euros 21 million refer to the amortization of intangible assets and Euros 71 million to the depreciation of property, plant and equipment) compared to Euros 105 million in the first quarter of 2002 (of which Euros 21 million refer to the amortization of intangible assets and Euros 84 million to the depreciation of property, plant and equipment).

Operating profit

Operating profit is Euros 61 million (3.9 percent of net sales), an increase compared to Euros 17 million in the same period of 2002.

Such change in operating profit is principally due to:

	in millions of euros
. Currency exchange effect	(12)
. Prices (excluding metals)/mix	13 (*)
. Volumes	(5)
. Per unit production costs	(44) (**)
. Net efficiencies	57
. Depreciation	6
. Other	2
	17

(*) of which South America +30
(**) of which South America -35 for raw materials

Net loss

The net result for the first quarter ending March 31, 2003 is a net loss of Euros 27 million compared to a net income of Euros 1 million for the first quarter of 2002.

Net financial position

The net debt position at March 31, 2003 is Euros 2,302 million compared to Euros 2,050 million at December 31, 2002. The change from December 31, 2002 is mainly due to seasonal factors, which caused an increase in working capital, and disbursements relating to the reorganization programs, as well as the earlier-mentioned purchase of Pirelli S.p.A. shares from the BZ Group for Euros 43 million.

The Board of Managing Partners

Milan, May 7, 2003