

Financial statements at 31 March 2002

INDUSTRIAL SECTOR IMPACTED BY 50% DECLINE IN DEMAND FOR TELECOMMUNICATION CABLE AND SYSTEMS, PROFITABILITY OF TIRE SECTOR STABLE REAL ESTATE SECTOR PROFITS UP SHARPLY

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CONSOLIDATED RESULTS:

- SALES: 1,747 MILLION EUROS, -11.1%
- GROSS OPERATING INCOME: 149 MILLION EUROS, -37%
- OPERATING INCOME: 44 MILLION EUROS -67.4%
- NET INCOME ATTRIBUTABLE TO THE GROUP:
21 MILLION EUROS
- SLIGHT INCREASE IN NET FINANCIAL POSITION TO
2,294 MILLION EUROS

Milan, May 13, 2002 - The Board of General Partners of Pirelli & C. met today and approved the Quarterly Report at March 31, 2002.

Group Performance

Industrial Sector

The performance of the Pirelli SpA Group in the first quarter of 2002 was strongly affected by the unprecedented downturn in its key markets in the Telecommunication Cable and Systems Sector. Worldwide demand has shrunk by half since the recession started in mid-2001; moreover, the collapse in volumes has been accompanied by a steep decline in prices.

This market situation is of such proportions as to distort comparisons of the first half of fiscal 2001 with the first half of 2002, particularly in regard to the first three months of 2001, when the Group reported record profits.

These conditions provoked a significant decrease in operating income - by 92 million euros, of which 83 are attributable to the Telecommunication Cable and Systems Sector - in the first quarter of 2002. However, this result reflects the **Group's capacity to react**, with a **recovery of profitability** since the last quarter of 2001.

Further improvement is also expected in the second quarter, thanks to gains in efficiency. The Energy Cable and Systems Sector is suffering the effects of a highly negative international situation, while the Tire Sector is holding up well, with further increases in the "high end" segments.

During the last two years, the Group has achieved standards of efficiency and profitability in its various Sectors that are regularly higher than those of its principal competitors. This leads us **to be optimistic about the business outlook** for the near future.

Real Estate Sector

During the first quarter of 2002, the Pirelli & C. Real Estate Group continued to grow. It organized a new series of major deals in keeping with its business model as a management company.

In particular, the Group:

- signed a binding agreement with the Morgan Stanley funds for the **purchase** from **Banca di**

Roma of property worth over **550 million** euros

- together with the Morgan Stanley funds and other partners, it won the tender for the **purchase** of Proprietà Immobiliari Spa, which owns the non-business related real estate assets of the **RAS Group**; this purchase was closed for a total value of **1,666 million** euros
- it **acquired** Immobiliare San Babila S.p.A. from Investimenti e Gestioni S.p.A. (Fiat Group); this company owns prestigious non-business related property, mainly located in Milan and Rome, with a value of approximately **240 million** euros

After March 31, Pirelli & C. Real Estate and Msmc - a joint venture between The Morgan Stanley Real Estate Fund (75%) and Pirelli & C. Real Estate (25%), which operates it - gave final approval to the project for integration of its assets and service activities with those of the Pirelli SpA Group and the Olivetti-Telecom Italia Group.

Finally, the Group acquired a qualified minority investment in a proprietary vehicle for a portfolio of non-performing loans worth approximately **150 million euros**. As a result of this transaction, the gross book value of the non-performing loans portfolio currently managed by the Pirelli & C. Real Estate S.p.A Group totals approximately **900 million euros**.

During the first quarter, Pirelli & C. Real Estate posted a significant improvement in results with respect to the first quarter of 2001.

Consolidated Financial Statements at March 31, 2002

Sales at March 31, 2002 totaled **1,747 million** euros, reflecting a decrease of 11.1% with respect to the same period in the previous year. This result was mainly due to the change in volumes/mix (-7%), lower prices (-2.5%), and exchange rate variations (-1.6%) in the industrial sector.

The **gross operating income** was **149 million euros** (8.5% of sales), down from the 237 million euros (12.1% of sales) reported in the corresponding period of 2001. It must be noted that the fiscal 2001 results benefited from the 26 million euro supply agreement made with Cisco Systems.

The changes from the first quarter of 2001 were characterized by a drastic market contraction in the Telecommunication Cable and Systems Sector, persistent stagnation of investments by utilities in the Energy Cable and Systems Sector, stable profitability in the Tire Sector, and a significant increase in all business activities in the Real Estate Sector.

The prompt measures taken for restructuring and reorganization, especially in the Telecommunication Cable and Systems Sector, partially contained the negative impact of market trends.

Operating income totaled **44 million euros** (2.5% of sales), compared with 135 million euros (6.9% of sales) in the first quarter of 2001.

The item **financial expenses and income** showed a negative balance of **58 million euros** against a positive balance of 9 million euros in the corresponding period of 2001. This change must be attributed to valuation of the investment in Olimpia by the equity method (27 million euros) and higher average indebtedness.

Extraordinary expenses and income, which totaled **48 million euros**, consist principally of gains realized by Pirelli & C. Real Estate (51 million euros). During the corresponding period of the previous year, this component mainly reflected the pre-tax gain from disposal on the market of Pirelli SpA treasury stock (30 million euros) and 36 million euros paid by Cisco Systems for purchase of the Land Optical Systems in 2000.

Net income at March 31, 2002 was **1 million euros**, against 137 million euros in the first quarter of 2001.

Net income attributable to the Group was **21 million euros** (or 0.03 euro per share), against 41 million euros in the same period of 2001 (0.07 euro per share).

The net income of 1 million euros reflected the contribution of the industrial sector, with the Pirelli SpA Group posting a loss of 39 million euros (income of 148 million euros in the first quarter of 2001) and the real estate sector, represented by the Pirelli & C. Real Estate Group, with 56 million euros (income of 3 million euros in the first quarter of 2001).

Shareholders' equity at March 31, 2002 was **5,407 million euros**, unchanged from December 31, 2001.

Net debt at March 31, 2002 totaled **2,294 million euros**, compared with 2,029 million euros at the end of 2001. The 265 million euro increase is mainly attributable to seasonal factors in the industrial sector that generated an increase in current assets and disbursements for reorganization programs, utilizing provisions set aside in previous fiscal years. This activity was offset by a 95 million euro improvement in the real estate sector.

The Group had **39,058 employees** at March 31, 2002, compared with 39,771 employees at December 31, 2001.

Business Outlook

Notwithstanding the enduring telecommunications market crisis, which should show initial signs of improvement towards the end of the year, sustained profitability in the Tire Sector and the effects of reorganization and restructuring envisaged by the Three-year Plan and largely implemented in the Telecommunications and Energy Cables and Systems Sectors point to **further improvement in operating income during the second quarter** for industrial operations. **Operating income for at least the same amount as in 2001** is forecast for all of 2002, net of non-recurring items and barring further deterioration in the reference markets. The prospects for **real estate** activities this year remain **positive**, partly in light of property market trends.

For a more complete description of the performance of the principal subsidiaries of Pirelli SpA and Pirelli & C. Real Estate, please see the relevant press releases published on May 9 and May 3, 2002, respectively.

[Allegato 1 English Version \(PDF file, 9Kb\)](#)

[Allegato 2 English Version \(PDF file, 12Kb\)](#)

Schedule 1

The Group's consolidated results at March 31, 2002 can be summarized as follows:

	(in millions of euros)		
	1st Quarter 2002	1st Quarter 2001	Fiscal 2001
Sales	1,747	1,966	7,762
Gross operating income	149	237	704
<i>% of sales</i>	<i>8.5%</i>	<i>12.1%</i>	<i>9.1%</i>
Operating income	44	135	297
<i>% of sales</i>	<i>2.5%</i>	<i>6.9%</i>	<i>3.8%</i>
Financial income / expenses	(58)	9	(70)
Extraordinary income and expenses	48	69	156
Taxes	(33)	(76)	(189)
Net income	1	137	194
<i>% of sales</i>	<i>0.1%</i>	<i>7.0%</i>	<i>n.s.</i>
Net income attributable to Pirelli & C.	21	41	125
Net income attributable to Pirelli & C. per share (euros)	0.03	0.07	0.20
Shareholders' equity	5,407	6,047	5,407
Shareholders' equity attributable to Pirelli & C.	2,129	2,201	2,119
Attributable net equity per share (euros)	3.39	3.52	3.39
Net financial position (liquidity)/debt	2,294	(2,425)	2,029
Employees (year-end)	39,058	41,918	39,771

PRO-FORMA FIGURES

Pro-forma consolidated operating and financial results based on full consolidation of Olimpia S.p.A. and valuation of the investment in Olivetti S.p.A. according to the equity method

The following table illustrates the pro-forma consolidated operating and financial results of Pirelli & C. A.p.A. at March 31, 2002 based on full consolidation of Olimpia S.p.A. and valuation of the investment in Olivetti S.p.A. according to the equity method.

	Consolidated Financial Statements at 3/31/2002 of Pirelli & C. A.p.A. (1)	Pro-forma Adjustments Adjustments for consolidation and valuation of the investment in Olivetti SpA with the equity method				Consolidated Financial Statemen at 3/31/2002 of Pirelli S.p.A. pro-forma (2)
		Reclassification of result of Olimpia S.p.A. pertaining to Pirelli & C. A.p.A.	Olimpia S.p.A. full		Total pro-forma adjustments	
<i>(in millions of euros)</i>						
Sales	1,747				0	1,747
Operating income	44				0	44
Financial (income) expenses/Value adjustments of assets	(58)	26	(43)	(109)	(126)	(184)
Extraordinary income (expenses)	48				0	48
Taxes	(33)				0	(33)
Net income	1	26	(43)	(109)	(126)	(125)
Net income attributable to the Group	21	10	(10)	(26)	(26)	(5)
Shareholders' equity	5,407	45	5,125	(3,185)	1,985	7,392
- Shareholders' equity attributable to the Group	2,129	19	1,233	(1,267)	(15)	2,114
Net financial position (liquidity)/debt	2,294		3,549		3,549	5,843

(1) Consolidated Financial Statements of Pirelli & C. A.p.A. (investment in Olimpia S.p.A. valued with the equity method)

(2) Pro-forma figures (full consolidation of Olimpia S.p.A. and valuation of the investment in Olivetti with the equity method)

The pro-forma consolidated balance sheet was prepared using the financial statements of Olimpia S.p.A. at March 31, 2002 and the consolidated financial statements of the Olivetti S.p.A. Group.

The principal pro-forma adjustments included in the preceding table are described as follows:

- In the column "Reclassification of result of Olimpia S.p.A. pertaining to Pirelli & C. A.p.A.," the operating and financial effects of valuation of the investment in Olimpia

S.p.A. with the equity method were reclassified on the consolidated financial statements of Pirelli & C. A.p.A. at March 31, 2002.

- The column “Olimpia S.p.A. full” includes the assets, liabilities, costs, and revenues reported on the financial statements of Olimpia S.p.A. at March 31, 2002, with allocation of the minority interest in shareholders’ equity and net income.
- The column “Adjustments for consolidation and valuation of the investment in Olivetti S.p.A. with the equity method” includes the effect of valuation of the investment in Olivetti S.p.A. with the equity method, which translates into a value adjustment of 109 million euros, including 55 million euros for amortization of the implicit goodwill for three months out of a total of twenty years, and 54 million euros for the interest of Olimpia S.p.A. in the net income of the Olivetti Group for the first quarter of 2002.

The following table compares the shareholders’ equity and net financial position reported on the consolidated financial statements of Pirelli & C. A.p.A. with the pro-forma consolidated figures for Pirelli & C. A.p.A. on the basis of:

- full consolidation of Olimpia S.p.A. and valuation of the investment in Olivetti with the equity method
- full consolidation of Olimpia S.p.A. and the Olivetti S.p.A. Group

<i>(in millions of euros)</i>	Shareholders’ equity		Net financial position		Net financial position/ Shareholders’ equity		Shareholders’ equity attributable to the Group	
	12/31/2001	3/31/2002	12/31/2001	3/31/2002	12/31/2001	3/31/2002	12/31/2001	3/31/2002
Consolidated figures of Pirelli & C. Group	5,407	5,407	2,029	2,294	0.38	0.42	2,119	2,129
Pirelli & C. Group: pro-forma figures consolidated with Olimpia S.p.A. with full consolidation and valuation of investment with equity method	7,486	7,392	5,538	5,843	0.74	0.79	2,123	2,114
Pirelli & C. Group: pro-forma figures consolidated with Olimpia S.p.A. and Olivetti Group consolidated	30,182	31,273	43,900	43,003	1.45	1.38	2,123	2,114