PIRELLI & C. PRESS RELEASE

Board of Managing Partners meets

QUARTERLY REPORT APPROVED:

CONSOLIDATED RESULTS AT 31ST MARCH:

- **SALES REVENUES: 1,572 MILLION EUROS: UP 1.2% NET OF EXCHANGE RATE, METAL PRICES AND CONSOLIDATION AREA EFFECTS; DOWN 10% OVERALL**

- **EBIT: 61 MILLION EUROS (3.9% OF SALES) AGAINST 44 MILLION (2.5% OF SALES) IN 2002**

- **EBIT INCLUDING INCOME FROM EQUITY INVESTMENTS: STRONLGY INCREASES (FROM 25 MILLION EUROS IN 2002 TO 50 MILLION EUROS)**

- **NET RESULT: 6 MILLION EUROS GAIN PRE-OLIMPIA AND EXTRAORDINARY CHARGES; 27 MILLION EUROS LOSS POST-OLIMPIA AND EXTRAORDIANRY CHARGES (1 MILLION IN FIRST QUARTER 2002)**

- **NET FINANCIAL POSITION: NEGATIVE BY**
- **2,302 MILLION EUROS IN LINE WITH 31ST MARCH 2002 (2,294 MILLION EUROS), COMPARED WITH 2,050 MILLION EUROS AT 31ST DECEMBER 2002**

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- **TYRES: EBIT UP 20.4%, NET RESULT UP 39%**

- **ENERGY CABLES AND SYSTEMS: EBIT TOTALS 8 MILLION EUROS (1 MILLION IN FIRST QUARTER 2002), NET RESULT 2 MILLION EUROS (17 MILLION LOSS IN 2002)**

- **TELECOM CABLES AND SYSTEMS: NEGATIVE TREND CONTINUES IN TLC COMPONENTS SECTOR**

- **REAL ESTATE SECTOR: EBIT INCLUDING INCOME FROM EQUITY INVESTMENTS SHOWS STRONG GROWTH (UP 27%), AS DOES NET RESULT (UP 26%)**

Milan, 7th May 2003 - Pirelli & C. Apa's Board of Managing Partners met today and approved the Group's quarterly report at 31st March 2003.

The Group's Results

Sales revenues amounted to **1,572 million** euros at 31st March 2003, showing a fall of **10 %** in comparison with the same period for 2002.
Keeping into account the variation in exchange rates (- 8.3%), in metal prices for the Energy Sector (-1.5%) and in variation of consolidation area due to the sale of Enamelled Wires Business (-1.4%), sales grew 1.2%. The Pirelli SpA Group has contributed 1,449 million Euros to this figure (against 1,688 million during the first three months of 2002) and the Pirelli & C. Real Estate Group has contributed 127 million Euros, showing a 101% increase on sales revenues for the first three months of 2002 (63 million Euros).

It should be remembered, however, that in the **real estate** sector, sales are not representative of the volume of business since the activity has grown primarily through the acquisition of qualified minority shareholdings in companies owning real estate assets the management of which has been entrusted to Pirelli & C Real Estate. The volume of business managed by the real estate sector therefore is more significantly expressed by the aggregated production value (sum of sales revenues and inventory variations), which also includes the part attributable to the minority participations managed. The **aggregated production value** amounted to **355.7 million** Euros, net of acquisitions, **up by 73%** in comparison with the 205.9 million Euros during the first three months of 2002. Such value, including acquisitions, amounts to **504.6 million** Euros.

EBITDA equals **153 million** Euros (9.7 per cent of sales), in comparison with 149 million Euros (8.5 per cent of sales) in the first three months of 2002.

Operating income amounts to **61 million** euros (equal to **3.9 per cent** of sales) against 44 million euros (2.5 per cent of sales) during the first quarter of 2002.

The results from investment holdings, negative to the tune of 11 million euros against 19 million for the 2002 quarter, include the Olimpia SpA effect on Pirelli SpA which was negative to the tune of 25 million euros. The results for the companies in the real estate sector, on the other hand, were positive to the tune of 14 million euros net of tax (against 7 million in 2002).

EBIT including income from equity interests has doubled to **50 million** euros, in comparison with the figure of 25 million euros for the first three months of 2002. The Pirelli S.p.A. Group has contributed to such a result with a profit of 34 million euros (15 million in 2002) and the Pirelli & . Real Estate Group with one of 25 million euros (20 million at 31st March 2002). Excluding the Olimpia effect, the result equals 75 million euros (52 million in 2002).

The **financial charges and income** amounted to **36 million euros** against one of 39 million euros at 31st March 2002.

The **extraordinary charges and income** figure showed a **deficit of 8 million** euros at the quarter's end, against a credit of 48 million for the corresponding period last year.

The **net income** at 31st March 2003 shows a **deficit of 27 million** euros against a positive income of 1 million euros during the corresponding period last year. Excluding the Olimpia effect (25 million euros) and extraordinary charges (8 million euros), the result is **positive to the tune of 6 million euros.**

The Pirelli & C. **Net Income after Minorities** shows a **deficit of 15 million** euros (corresponding to 0.02 euros per share), against a positive income of 21 million in the first quarter of 2002 (0.03 euros per share).

Shareholders' equity goes from 4,626 million euros at 31st December 2002 to **4,467 million** euros at 31st March 2003.

The **net financial position** at 31st March 2003 shows a deficit of **2,302 million** euros, essentially in line with the figure for 31st March 2002 (2,294 million) and compares with one of 2,050 million euros at 31st December 2002. The variation on the figure at 31/12/2002 is to be attributed mainly to seasonal factors (that have caused an increase in working capital) and outlays relating to re-organization programmes as well as the purchase of Pirelli S.p.A. shares from the BZ Group for the sum of 43 million euros.

The industrial sectors have confirmed their priority commitment to **research and technological innovation** despite the unfavourable conditions, sustaining Group costs of **50 million** euros (**3.2 per cent** of turnover) during the first quarter of 2003.

The Group's **personnel** numbered **35,767 employees** at 31st March 2003, against 37,050 individuals at 31st December last year.

Important events occurring during the quarter

In accordance with agreements reached in March 1998, BZ Group exercised its second option to sell a number of ordinary Pirelli S.p.A. shares equal to 2.5% of the capital stock with voting rights to Pirelli & C. at a price calculated (according to the agreements) on the average of the stock-market share quotation over the 90 sessions preceding the exercise date, for an amount totalling approximately 43 million euros (equal to a price of 0.90 euros per share).

Following the transaction referred to above, Pirelli & C. Apa holds (directly and indirectly) 800,191,375 ordinary Pirelli S.p.A. shares, equal to **41.7%** of the capital stock with voting rights.

Activity evolution for the year under way

In a market scenario still characterised by uncertainty, the results achieved during the first quarter can today confirm the objective of **increasing operating income** for the Tyre as well as the Energy Cables and Systems Sector during the current year and of seeing the Telecom Cables and Systems Sector break even in the final quarter. As regards the **real estate** sector, on the basis of available information, it is considered reasonable to expect **EBIT including income from pro-quota equity interests** to show further growth against the previous accounting year.

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The **net result** for the **Holding Company Pirelli & C.** is positive to the tune of **0.9 million** euros at 31st March 2003, against 0.6 million for the first quarter of 2002.

For a more complete account of the trends for the main subsidiary companies, Pirelli S.p.A. and Pirelli & C. Real Estate, please refer to the related press releases issued on 5th and 6th May respectively.

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Appendix 1

The Group's consolidated financial statement at 31st March 2003 may be summarized as follows:

(million Euros)

	First Quarter 2003	**First Quarter2002**	**Year 2002**
. Sales	**1.572**	**1.747**	6.718
. EBITDA	**153**	**149**	523
% of sales	***9.7%***	***8.5%***	*7.8%*
. Operating Income	**61**	**44**	118
% of sales	***3.9%***	***2.5%***	*1.8%*
. Result from Equity Interests	**(11)**	**(19)**	(175)
. EBIT including income from equity investments	**50**	**25**	(57)
. Financial Charges / Income	**(36)**	**(39)**	(178)
. Extraordinary Charges / Income	**(8)**	**48**	(83)
. Pre-tax result	**6**	**34**	(318)
. Fiscal Charges	**(33)**	**(33)**	(87)
. Net Income	**3**	**(22)**	(39)
% of sales		***n.s.***	*n.s.*
. Pirelli & C. Net Income after Minorities	**(15)**	**21**	(58)
. Net Income after Minorities per share (euros)	**(0.02)**	**0.03**	(0.09)
. Shareholders Equity	**4,467**	**5,407**	4,626
. Pirelli & C. Shareholders Equity after Minorities	**1,922**	**2,129**	1,933
. Shareholders Equity after Minorities per share (euros)	**2.94**	**3.39**	2.96
. Net financial position	**2,302**	**2,294**	2,050
. Research and Development expenses	**50**	**59**	219
. Employees (at the end of period)	**35,767**	**39,058**	37,350
. Pirelli & C. ordinary shares (million)	**618.3**	**618.3**	618.3
. Pirelli & C. savings shares (million)	**34.4**	**34.4**	34.4
. Total no. of shares in circulation (million)	**652.7**	**652.7**	652.7
. Own Shares (million)	**2.6**	**2.6**	2.6

PRO-FORMA DATA

Pro-forma consolidated representation of Pirelli & C. Apa's balance sheet and income statement at 31st March 2003 on the basis hypothesizing full consolidation of Olimpia S.p.A. and the shareholders' equity method valuation of the Olivetti stake.

(million Euros)	**Pirelli & C. A.p.A. consolidated financial statements at 31/03/2003 (1)**	***Pro-forma adjustments*** **Reversal of Olimpia S.p.A. result owing to Pirelli & C. A.p.A.**	**Olimpia S.p.A. full**	**Consolidation adjustments and valuation of the Olivetti S.p.A. equity stake using the shareholders' equity method**	**Total pro-forma adjustments**	**Pirelli & C. A.p.A. consolidated financial statements pro-forma at 31/03/2003(2)**
Statement of Income summary						
Sales	1,572	-	-	-	-	1,572
Operating Income	61	-	-	-	-	61
Charges/Income Investments / Adj. value of long-term investments	(47)	24	(37)	(164)	(177)	(224)
Extraordinary (Charges)/Income	(8)	-	(3)	-	(3)	(11)
Taxes	(33)	-	-	-	-	(33)
Net income	(27)	24	(40)	(164)	(180)	(207)
Net income after minorities	(15)	11	(11)	(43)	(43)	(58)
Effect of write-downs for goodwill	1			145	145	146
Net income excluding write-downs for goodwill	(26)	24	(40)	(19)	(35)	(61)
Net income after minorities excluding write-downs for goodwill	(14)	11	(11)	(5)	(5)	(19)
Reclassified balance sheet						
Fixed assets	6,459	191	8,231	(3,581)	4,841	11,300
Working capital	1,137	-	51	-	51	1,188
Total net invested capital	7,596	191	8,282	(3,581)	4,892	12,488
Funded by:						
Shareholders' equity	4,467	191	4,883	(3,581)	1,493	5,960
- of which shareholders' equity after minorities	1,922	84	1,282	(1,486)	(120)	1,802
Reserves	827	-	-	-	-	827

Net financial position (assets)/liabilities	2,302	-	3,399	-	3,399	5,701

(1) Pirelli & C. A.p.A. consolidated accounts (equity investment in Olimpia S.p.A. valued using shareholders' equity method)
(2) Pro-forma data (full consolidation of Olimpia S.p.A. and shareholders' equity method valuation of Olivetti equity stake)

N.B. The pro-forma consolidated balance-sheet/income statement situation has been drawn up using Olimpia S.p.A.'s financial statements at 31/03/2002 and the consolidated financial statement of the Olivetti S.p.A. group at the same date.

The main pro-forma adjustments included in the table set out above are described as follows:

* in the column entitled "Reversal of Olimpia S.p.A. result owing to Pirelli & C. A.p.A.", the financial and balance sheet effects deriving from the shareholders' equity method valuation of the Olimpia equity stake have been reversed in the consolidated financial statement for Pirelli & C. A.p.A. at 31/03/2003;

* in the column entitled "Olimpia S.p.A. full", the assets, liabilities, costs and revenues resulting from Olimpia S.p.A.'s financial statement to 31/03/2003 have been included, attributing to minority shareholders their quota of shareholders' equity and the share income/dividends owing to them.

* in the column entitled "Consolidation adjustments and valuation of the Olivetti S.p.A. equity stake using the shareholders' equity method", the effect of the shareholders' equity method valuation of the Olivetti equity stake has been added. This translates into a negative value adjustment equal to 164 million euros, of which 55 million euros relate to the write-down for the implied three-month start-up on a total period of twenty years and 109 million euros relate to Olivetti group income to 31st March 2003 owing to Olimpia S.p.A.

Furthermore, attention is drawn to the “Effect of write-downs for goodwill” on net income, detailed as follows:

- In the column entitled “ Pirelli & C. A.p.A. consolidated financial statements at 31/03/2003" the sum of 1 million Euros refers to the quota for the three months relating to the start-up recorded by Pirelli S.p.A. on Olimpia S.p.A.;

- In the column entitled “Consolidation adjustments and valuation of the Olivetti S.p.A. equity stake using the shareholders' equity method” the sum of 145 million Euros refers to 1) the sum of 55 million Euros for Olimpia S.p.A.'s start-up on Olivetti S.p.A. and 2) the sum of 90 million Euros for Olivetti S.p.A. 's start-up on Telecom Italia S.p.A..

PRO-FORMA PIRELLI & C. BALANCE SHEET/FINANCIAL DATA HIGHLIGHTS

(million Euros)	Shareholders' equity		Net debt		Net debt/shareholders' equity		Company shareholders' equity	
	31/03/2003	**31/12/2002**	**31/03/2003**	**31/12/2002**	**31/03/2003**	**31/12/2002**	**31/03/2003**	**31/12/2002**
Pirelli & C. ApA Group: consolidated data	4,467	4,626	2,320	2,050	0.52	0.44	1,922	1,933
Pirelli & C. ApA Group: pro-forma consolidated data incl. Olimpia S.p.A. wholly consolidated and valued using the shareholders' equity method for the equity investment in Olivetti S.p.A.	5,960	6,121	5,701	5,726	0.96	0.94	1,802	1,817
Pirelli & C. ApA Group: pro-forma consolidated data incl. Olimpia S.p.A. and the Olivetti group wholly consolidated	23,541	23,428	37,592	39,125	1.60	1.67	1,802	1,817