

Pirelli & C. – Milan

**Quarterly Report
1st Quarter 2002**

PIRELLI & C. Accomandita per Azioni

Registered Office in Milan - Via G. Negri 10

Share capital - Euros 339,399,636.16 fully paid-in

Milan Companies Registry and Tax Code No. 00860340157

PIRELLI & C. Accomandita per Azioni

Leopoldo Pirelli

Honorary Chairman

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Alternate

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INDEPENDENT AUDITORS

PricewaterhouseCoopers S.p.A.

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REPORT OF THE MANAGING PARTNERS

Performance of the Group

The performance of the industrial sector in the first quarter of 2002 was marked by the persistence of unprecedented market difficulties for the Cables and Systems Sector - Telecom. The recessive phase which began in mid-2001 caused a substantial decrease in world demand: the fall in volumes was accompanied by an decisive drop in prices. This market phenomenon is of such proportion as to distort any type of comparison between the performance in the first half of the 2001 and that of the current year, with particular reference to the first quarter of 2001, when the profitability of the Group recorded an all-time high. These phenomena led to a considerable erosion – equal to Euros 92 million, with the Cables and Systems Sector - Telecom accounting for Euros 83 million – of the operating profit in the first quarter of 2002, which nevertheless demonstrates the Group's capacity to react as confirmed by the recovery in profit margins over the last quarter of 2001. Further gains are also expected in the second quarter, thanks to efficiency measures that have been put into place. The Cables and Systems Sector - Energy, in turn, was beset by the effects of the decidedly negative international economic situation, whereas the business of the Tyres Sector held its ground, with further growth in the “high performance” segments.

In the last two years, the Group has demonstrated, in its various components, levels of efficiency and profitability consistently higher than those of its main competitors, which lead the Group to look positively on the evolution which awaits it in the near future.

During the first quarter of 2002, the real estate sector continued its upward growth through a series of important transactions aimed at reinforcing its business model of a management company.

Pirelli & C. Real Estate recorded a significant improvement in results during this period compared to the first quarter of 2001.

The operating profit of the Group is equal to Euros 44 million compared to Euros 135 million in the corresponding period of the prior year.

Major events in the 1st quarter 2002

In February, Pirelli Finance (Luxembourg) S.A. signed a derivative equity swap agreement with J.P. Morgan on No. 100,000,000 Olivetti S.p.A. shares, expiring December 2006.

Settlement can either be made through the physical delivery of the shares or through the payment of the differentials compared to the market prices.

The initial price is equal to Euros 1.4213 per share plus quarterly interest at the 3-month Euribor plus a spread of 143 bps.

The Board of Directors of Pirelli & C. Real Estate S.p.A., in its meeting of March 13, 2002, convened the Shareholders' Meeting for April 2, 2002, which, in the ordinary session will be called to vote on the proposal to list the ordinary shares on the Mercato Telematico Azionario, while in the extraordinary session, the shareholders will vote to increase share capital for the stock's listing and introduce a stock option plan for the employees and directors of the Company aimed at promoting corporate allegiance in the three-year period 2002-2004.

In March, the placement was completed for bonds of Euros 500 million issued by Pirelli Finance (Luxembourg) S.A., maturing April 4, 2007, with a fixed interest rate of 6.5 percent.

The bond issue serves to satisfy the objective of refinancing short-term debt by optimizing the financial structure of the Group from the standpoint of both interest rates and maturity dates. The proceeds from the issue were received during the first few days of April.

Again in March, Pirelli & C. Real Estate was awarded, together with the Morgan Stanley funds and other partners, the bid for the purchase of Proprietà Immobiliari S.p.A. which holds the non-essential real estate properties of the RAS Group, consisting of 107 buildings, largely prestigious properties and over 50% of them located in the center of Milan. Pirelli & C. Real Estate also won the bid for the Property and Facility Management Service Division. The entire price of the deal was Euros 1,666 million.

At the end of March, Pirelli & C. Real Estate, together with the Morgan Stanley funds, purchased, from Investimenti e Gestioni S.p.A. (Fiat Group), the company Immobiliare San Babila S.p.A., which holds prestigious non-essential property mainly located in Milan and Rome valued at about Euros 240 million.

The Group

Key figures of the consolidated financial statements at March 31, 2002 can be summarized as follows:

(in millions of euros)

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

• Net sales

Net sales for the quarter ending March 31, 2002 total Euros 1,747 million, with a decrease of 11.1% compared to the corresponding period of the prior year. The main changes are in the volumes and mix (-7 percent), in prices (-2.5 percent) and in the currency exchange effect (-1.6 percent).

- **Gross operating profit**

The **gross operating profit for the first three months of 2002** is equal to Euros 149 million (8.5% of net sales), down from Euros 237 million (12.1% of net sales) in the first quarter of 2001 (-37%).

2001 benefited by the contribution of Euros 26 million from the supply contract with Cisco Systems.

This change from the first quarter of 2001 derives from a drastic decline in market demand in the Cables and Systems Sector - Telecommunications, the continuation of sluggish investments by the utilities segment in the Cables and Systems Sector – Energy, profit margins that held their ground in the Tyres Sector and significant gains in results in all business areas in the real estate sector.

Restructuring and reorganization measures undertaken on a timely basis in the industrial sector, especially in the Cables and Systems Sector – Telecom, have made it possible to partly confine the negative impact of the market.

- **Operating profit**

Operating profit for the first quarter of 2002 amounts to Euros 44 million and represent 2.5% of net sales compared to Euros 135 million (6.9% of net sales) in the first quarter of 2001.

- **Financial income (expenses)**

The financial expense balance for the first three months of 2002 is Euros 58 million compared to a financial income balance of Euros 9 million in the

corresponding period of last year. The change can be ascribed to accounting for the investment in Olimpia S.p.A. (Euros 27 million) using the equity method and a higher average debt.

- **Extraordinary items**

Extraordinary items, totaling Euros 48 million, mainly include the gains realized by Pirelli & C. Real Estate (Euros 51 million). In the corresponding period of the prior year, extraordinary items amounted to Euros 69 million and essentially included the pretax gain on the sale of Pirelli S.p.A. treasury shares on the market (Euros 30 million) and Euros 36 million paid by Cisco Systems under the agreement for the sale of the Terrestrial Optical Systems business in 2000.

- **Net income**

The net income in the first quarter of 2002 is Euros 1 million compared to Euros 137 million in the first three months of 2001.

The net income attributable to Pirelli & C. is Euros 21 million (corresponding to earnings per share of Euros 0.03) compared to Euros 41 million in the first quarter of 2001 (corresponding to earnings per share of Euros 0.07).

Contributing to the net income of Euros 1 million are the industrial sector (Pirelli S.p.A. group) with a loss of Euros 39 million (net profit of Euros 148 million in the first quarter of 2001) and the real estate sector (Pirelli & C. Real Estate group) with a net income of Euros 56 million (net income of Euros 2 million in the first quarter of 2001).

Shareholders' equity

Shareholders' equity at March 31, 2002 is equal to Euros 5,407 million, unchanged compared to December 31, 2001.

- **Net financial position**

The **net financial position** at March 31, 2002 shows a debt position of Euros 2,294 million compared to Euros 2,029 million at December 31, 2001. The change of Euros 265 million is chiefly the result of seasonal factors which caused working capital to rise and payments made for the reorganization program accrued in prior years, in the industrial sector, and includes an improvement of Euros 95 million by the real estate sector.

- **Employees**

Employees number 39,058 at March 31, 2002 compared to 39,771 at December 31, 2001.

RELATED PARTY DISCLOSURES

With reference to the disclosure required by Consob Communication No. 97001574 of February 20, 1997 and No. 98015375 of February 27, 1998 regarding transactions by Group companies with related parties, a statement is made to the effect that all the transactions, including those between Pirelli & C. and its subsidiaries, and those among subsidiaries, fall under the ordinary operations of the Group, are governed by market terms, and there are no transactions of an unusual and exceptional nature or in potential conflict of interest.

The effects deriving from transactions between Pirelli & C. and its subsidiaries and 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 2002 between the Pirelli & C. Group and the Olivetti-Telecom group are disclosed below. Such transactions fall within normal operations, 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 11.4 million);
- costs for goods and services, relating mainly to telephone services received (Euros 2.1 million);
- trade receivables, relating to the supply of the goods and services described above (Euros 18 million);
- trade payables, relating to the telephone services described above (Euros 0.9 million).

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE QUARTER AND THE OUTLOOK FOR THE CURRENT YEAR

On April 22, 2002, an agreement was signed for the sale of 25.3 percent of Epiclink S.p.A., a company specialized in outsourcing in the area of Information and Communication Technology, to Telecom Italia S.p.A..

The sale, which is subject to the approval of the Antitrust Authority, will be completed by July 31, 2002.

Pirelli & C. Real Estate and Msmc – a joint venture between The Morgan Stanley Real Estate Fund (75%) and Pirelli & C. Real Estate (25%), which has the joint venture under its management – approved the start-up of the executive phase of the project for the integration of the assets and service activities with those of Pirelli S.p.A. and the Olivetti-Telecom Italia group, concluding the procedures for the approval which had already been started by the interested parties last December.

On May 9, the Board of Managing Partners of Pirelli & C examined the structure of the Global Offer for Pirelli & C. Real Estate's listing, which is subject to receiving the necessary authorizations. Also in view of the decision taken by the Pirelli & C. Real Estate's Board of Directors to offer a maximum of No. 4,050,000 shares for subscription, Pirelli & C. voted to offer for sale a maximum of No. 10,100,000 shares it holds thus bringing the Global Offer of shares to a maximum number of No. 14,150,000. The Board of Managing Partners has also passed a resolution to grant the Joint Book Runners (Mediobanca and Morgan Stanley) a greenshoe for a maximum of 2,100,000 shares.

Therefore, in the event all the shares in the Global Offer are placed, and the greenshoe is completely exercised, the offer would represent 40% of the share capital of Pirelli & C. Real Estate.

Coordinators of the Global Offer are Mediobanca, Morgan Stanley and UBM.

Furthermore, having noted the decision taken by the Board of Directors of Pirelli & C. Real Estate to adopt a program that constantly involves the employees and management in the creation of economic value, through a stock option plan for the three-years 2002 – 2004, the Board of Managing Partners of Pirelli & C. decided to close and settle the existing stock option plan for directors, executives and employees of Pirelli & C. Real Estate and its subsidiaries and associated companies.

In this manner, Pirelli & C. intends to maintain its majority interest in the share capital of Pirelli & C. Real Estate, also after the Global Offer, as well as, at the same time, establish a significant quantity of shares of Pirelli & C. Real Estate's stock for trading.

The repurchase, which regards a maximum number of No. 3,378,544 shares, will be finalized at a time prior to the perspective listing and will be made at a price equal to that at which the Pirelli & C. Real Estate shares will be offered in the Global Offer.

As for the industrial sector, despite the persisting difficulties in the telecommunications market, where the first signs of a recovery are expected towards the end of the year, the fact that the Tyres Sector managed to maintain a steady level of profitability, together with the effect of the reorganization and restructuring measures covered by the Three-Year Plan and which have begun, principally in the Cables and Systems Sector - Telecommunications and Energy, suggests that the Group will achieve a further improvement in the operating profit in the second quarter. For the current year, the operating profit is likely to be more or less in line with that of the prior year, net of nonrecurring events and provided that there is no further deterioration in the reference markets.

The outlook for the real estate sector for the current year remains positive also in view of the trend in the reference market.

PERFORMANCE OF THE MAJOR SUBSIDIARIES

PIRELLI S.p.A. GROUP

The key consolidated data for the first quarter ending March 31, 2002 are as follows:

- net sales amount to Euros 1,688 million, with a decrease of 12.7 percent compared to the corresponding period of the prior year. The main changes are in the volumes and mix (-8.5 percent), in prices (-2.6 percent) and in the currency exchange effect (-1.6 percent).

The breakdown by sector is 47% for Cables and Systems - Energy, 44% for Tyres and 9% for Cables and Systems – Telecom.

- The gross operating profit is Euros 137 million (8.1 percent of net sales) compared to Euros 228 million (11.8 percent of net sales) in the first quarter of 2001. The year 2001 benefited from the contribution of Euros 26 million made by the supply contract with Cisco Systems.
- The operating profit in the first quarter of 2002 amounts to Euros 42 million and is equal to 2.5 percent of net sales compared to Euros 134 million (6.9 percent of net sales) in the same period of 2001.
- The net result for the first quarter of 2002 shows a net loss of Euros 39 million (after financial expenses of Euros 62 million and income taxes of Euros 19 million) compared to a net income of Euros 148 million in the first three months of 2001 (after financial income of Euros 20 million, extraordinary income of Euros 65 million and income taxes of Euros 71 million).
- The net loss attributable to Pirelli & C. is Euros 37 million.
- The net financial position shows a debt position of Euros 1,406 million compared to Euros 1,089 million at December 31, 2001. The change from December 31, 2001 is chiefly the result of seasonal factors which caused working capital to rise and payments made for the reorganization program accrued in prior years.

Cables and Systems Sector - Energy

Net sales total Euros 796 million, decreasing by 2.3% from Euros 815 million in the first quarter of 2001; the decrease is largely due to a reduction in volumes.

In particular, the negative performance of net sales in the business areas of Power Distribution, Installation, Special Cables and Enameled Cables was partly neutralized by the positive trend of the General Market and Accessories businesses.

Geographically speaking, Europe and South America recorded lower net sales due to the unfavorable economic situation, while net sales in Australia and the Far East showed an improvement.

On a global scale, the trend of the market was below expectations but forecasts are for a recovery to begin in the second quarter of the year.

The operating result was again affected by certain areas of production inefficiency due to non-saturation; a restructuring is currently in progress which will help to improve the profitability of the sector during the current year.

Mention should be made of a new agreement signed between Pirelli Cavi e Sistemi Energia S.p.A. and American Superconductor Corporation giving AMSC the concession for the sale of high-temperature superconductors worldwide.

Operating profit is Euros 1 million (0.1 percent of net sales) compared to Euros 12 million (1.5% of net sales) in the first quarter of 2001.

The net loss is Euros 17 million after financial expenses, net, of Euros 12 million and income taxes of Euros 6 million.

The net financial position shows a debt position of Euros 585 million compared to Euros 526 million at December 31, 2001.

Energy and Cables Sector - Telecommunications

Net sales total Euros 164 million, a decrease of 59% compared to Euros 399 million in the first quarter of 2001.

Lower sales volumes were recorded in all the geographical areas due to a contraction in investments on the part of telephone operating companies.

The market trend does not yet show any significant signs of recovery, although, for the second half of the year (when the inventories of operators will probably run out) there is expected to be an inversion of the trend.

The reduction in volumes, together with a deterioration of the product mix (lower sales of premium fiber optic cables), had repercussions on the levels of profitability.

After the factory closings made in the second half of 2001, it was decided to carry out further industrial rationalization in the United Kingdom, whereas in all the other factories, actions geared to recovering efficiency continued, the effects of which should already become apparent in the results of the second half of the current year. These measures will ensure that the profitability objectives fixed for 2002 will be achieved, even if the current uncertainty of the market should persist.

Work continues to strengthen activities associated with new business areas (Fiber to the Home – Access Networks), which recorded increased net sales compared to the same period in the prior year, although profitability did not reach an entirely satisfactory level.

As far as the submarine business is concerned, the installation of the Palma – Algiers link was completed and a submarine cable is being produced for the island of Sumatra. New contracts are expected to be awarded to the company beginning from the end of the second quarter of 2002.

The operating result is a loss of Euros 2 million compared to Euros 55 million in the first quarter of 2001, mainly due to the trend in the aforementioned market.

The net result is a loss of Euros 3 million.

The net financial position is a debt position amounting to Euros 431 million compared to Euros 367 million at December 31, 2001.

Tyres Sector

Net sales amount to Euros 758 million, with an increase of 4% compared to the first quarter of 2001, due to the favorable trend in both volumes (+2.6%) and the prices/mix (+5%) which is offset by currency exchange effect (-3.6%).

Operating profit is Euros 54 million (7.1% of net sales) compared to Euros 57 million (7.8% of net sales).

The net income is Euros 23 million (after financial expenses of Euros 19 million and income taxes of Euros 12 million) compared to Euros 28 million in the first three months of 2001 (after financial expenses of Euros 17 million and income taxes of Euros 12 million).

The net financial position is a debt position of Euros 806 million compared to Euros 684 million at December 31, 2001.

The change is due to operating requirements during the period.

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

Economic and financial review for the 1st quarter 2002

The group carried out a number of important transactions during the period that are described below. These transactions were entered into to strengthen its role as a “management company”.

As presented in the financial statements for the year ended December 31, 2001, in order to provide a more precise evaluation of the performance of the Company, the consolidated income statement is divided between “ordinary” and recurring activities and “other” activities which include nonrecurring and/or activities not connected with the core business.

The financial statements at March 31, 2002 show a net income attributable to Pirelli & C. Real Estate of Euros 56 million, compared to Euros 2.5 million in the first quarter of 2001. The net income attributable from “ordinary” activities is equal to Euros 15.9 million, compared to Euros 3.1 million in the prior year, with an increase of 412.9%. This net income from “other” activities, mainly referring to gains from the sale of securities in portfolio, is equal to Euros 40.1 million, compared to a net loss of Euros 0.6 million in the first quarter of 2001.

Major events in the 1st quarter 2002

The Pirelli & C. Real Estate group carried out a new series of important transactions during the period which are listed in the following paragraphs.

- In January 2002, the Company purchased, from the parent company Pirelli & C., the entire share capital of Pirelli & C. Credit Servicing, a company that manages non-performing loans, thus completing the range of services it offers.
- Again in January, the agreement signed in November 2001 was finalized for the acquisition, from the Edilnord 2000 group, of the share capital of the three Service companies (Edilnord Progetti, Edilnord Gestioni and Servizi Immobiliari Edilnord) and the acquisition, in keeping with its usual business model, of qualified minority holdings in vehicle companies owning property zoned for building in the Milan area, which have been given in management to Pirelli & C. Real Estate.
- In March, the minority stake in Eurostazioni was sold to the parent company Pirelli & C. in order to focus more completely on the core business.
- Again in March, together with the Morgan Stanley funds, the binding agreement was signed for the purchase of real estate property valued at more than Euros 550 million from Banca di Roma. The process of leveraging the value of this portfolio will be brought about by structuring the operation in a manner consistent with the usual business model of the Company.
- Also in March, Pirelli & C. Real Estate was awarded, together with the Morgan Stanley funds and other partners, the bid for the purchase of Proprietà Immobiliari S.p.A. which holds the non-essential real estate properties of the RAS Group, consisting of 107 mostly prestigious buildings and over 50% of them located in the center of Milan. Pirelli & C. Real Estate was also awarded the Property and Facility Management Service Division. The entire price of the deal was Euros 1,666 million.
- At the end of March, the Group, together with the Morgan Stanley funds, purchased, from Investimenti e Gestioni S.p.A. (Fiat Group), the company Immobiliare San Babila S.p.A., which holds prestigious non-essential property mainly located in Milan and Rome valued at about Euros 240 million.

Economic and financial analysis

(in millions of euros)	1 st Quarter 2002			1 st Quarter 2001		
	Total	Ordinary activities	Other activities (*)	Total	Ordinary activities	Other activities (*)
Value of production	100.6	100.0	0.6	74.0	70.6	3.4
Costs of production	(88.4)	(85.9)	(2.5)	(63.3)	(59.1)	(4.2)
Operating income (loss)	12.2	14.1	(1.9)	10.7	11.5	(0.8)
Share of earnings (losses) of holdings	7.3	7.3	0.0	(7.7)	(6.0)	(1.7)
Income (loss) before financial income (expenses), extraordinary items and income taxes	19.5	21.4	(1.9)	3.0	5.5	(2.5)
Financial income (expenses)	(0.6)	(0.2)	(0.4)	(1.7)	(1.3)	(0.4)
Income before extraordinary items	18.9	21.2	(2.3)	1.3	4.2	(2.9)
Extraordinary items	51.3	0.1	51.2	2.9	0.0	2.9
Income before taxes	70.2	21.3	48.9	4.2	4.2	0.0
Income taxes	(14.2)	(5.4)	(8.8)	(1.8)	(1.2)	(0.6)
Net income before minority interest	56.0	15.9	40.1	2.4	3.0	(0.6)
Minority interest	0.0	0.0	0.0	0.1	0.1	0.0
Net income – attributable	56.0	15.9	40.1	2.5	3.1	(0.6)

(*) The figures in the column “other activities” include a series of non-core and/or nonrecurring activities. They refer, in particular, to: internet activities which are almost entirely geared to the development of an open portal; Eurostazioni, which is a financial investment sold to the parent company Pirelli & C. in the first quarter of 2002; the effects of the securities portfolio, taken over from Unim and the construction of the Arcimboldi Theater.

NB: By value of production is meant the sum of net sales and the change in inventories; by result before financial income (expenses), extraordinary items and income taxes is meant the operating result and the share of the earnings (losses) of the investments accounted for using the equity method.

The value of production for the quarter ending March 31, 2002 is equal to Euros 100.6 million, compared to Euros 74 million in March 2001 (+35.9%). The value of production for the “ordinary” activities alone total Euros 100 million, with an increase of 41.6% compared to Euros 70.6 million in the same period of the prior year. This increase is due to the expansion of all of the activities of the Group.

The result before financial income (expenses), extraordinary items and income taxes (that is, the operating result and share of the earnings (losses) of the investments accounted for using the equity method) is Euros 19.5 million, compared to Euros 3 million in the first quarter of 2001. In terms of ordinary activities, the result for the first quarter of 2002, equal to Euros 21.4 million, can be compared to Euros 5.5 million in corresponding period of the prior year (289.1%).

The net financial position, net of a loan for the development project of a building that has already been sold, for which a contract similar to project financing has been made, is a debt position of Euros 46.5 million, compared to Euros 141.6 million at December 31, 2001. The improvement of Euros 95.1 million is due to both the impact of the sale of the securities in portfolio (for Euros 75.9 million) and the good performance of operations.

Subsequent events

- In April, Pirelli & C. Real Estate S.p.A. finalized two acquisitions in the sector of Facility Management services: the first, for the company Cam Energia e Servizi S.r.l. (a subsidiary of Cam Finanziaria S.p.A.) and the second, for the entire share capital of Altair Facilities Management S.p.A., with the aim of strengthening the Group's presence in this sector of services;
- Pirelli & C. Real Estate and Msmc – a joint venture between The Morgan Stanley Real Estate Fund (75%) and Pirelli & C. Real Estate (25%), which has the joint venture under its management – approved the start-up of the executive phase of the project for the integration of the assets and service activities with those of Pirelli S.p.A. and the Olivetti-Telecom Italia group, concluding the procedures for the approval which had already been started by the interested parties last December.
- In April, the Group purchased a qualified minority stake in a vehicle company owning a portfolio of non-performing mortgage loans worth about Euros 150 million. After this transaction, the gross book value of the non-performing loans in portfolio currently managed by the Pirelli & C. Real Estate S.p.A. group amounts to roughly Euros 900 million. Negotiations are now underway to further increase the total amount managed, with the aim of originating a securitization transaction by the end of the year.

PROFORMA DATA

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

Proforma consolidated financial statements at March 31, 2002 of Pirelli & C. A.p.A. are presented below, showing Olimpia S.p.A. consolidated line-by-line and Olivetti S.p.A. valued using the equity method.

	Consolidated financial statements at March 31, 2002 Pirelli & C. A.p.A. (1)	Proforma adjustments				Proforma consolidated financial statements at March 31, 2002 Pirelli & C. A.p.A. (2)
		Elimination of share of earnings in Olimpia S.p.A. of 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	
<i>(in millions of euros)</i>						
Net sales	1,747				0	1,747
Operating income	44				0	44
Financial income/(expenses) / Valuation adjustments to financial assets	(58)	26	(43)	(109)	(126)	(184)
Extraordinary items	48				0	48
Income taxes	(33)				0	(33)
Net income	1	26	(43)	(109)	(126)	(125)
Net income – Pirelli & C. A.p.A.	21	10	(10)	(26)	(26)	(5)
Shareholders' equity	5,407	45	5,125	(3,185)	1,985	7,392
- of which shareholders' equity – Pirelli & C.A.p.A.	2,129	19	1,233	(1,267)	(15)	2,114
Net financial (liquidity)/debt position	2,294		3,549		3,549	5,843

(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 statements have been prepared using the statutory 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 proforma adjustments above are described in the following paragraphs:

- in the column “Elimination of share of earnings in Olimpia S.p.A. of Pirelli & C. A.p.A.”: elimination of the statement of income and balance sheet effects of

valuing Olimpia S.p.A. by the equity method in the consolidated Pirelli & C. A.p.A. financial statements at March 31, 2002;

- in the column “Olimpia S.p.A. line-by-line consolidation”: inclusion of the assets, liabilities, revenues and costs resulting from the financial statements at March 31, 2002 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 valuation adjustment of Euros 109 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 54 million to Olimpia S.p.A.’s share of the first quarter 2002 earnings of the Olivetti Group.

A comparison of shareholders’ equity and net debt between the consolidated financial statements at March 31, 2002 of Pirelli & C. A.p.A., and the proforma consolidated financial statements at March 31, 2002 of Pirelli & C. A.p.A. 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.

<i>(in millions of euros)</i>	Shareholders’ equity		Net debt		Net debt / Shareholders’ equity		Shareholders’ equity – Pirelli & C. A.p.A.	
	12/31/2001	3/31/2002	12/31/2001	3/31/2002	12/31/2001	3/31/2002	12/31/2001	3/31/2002
Pirelli & C Group: consolidated financial statements	5,407	5,407	2,029	2,294	0.38	0.42	2,119	2,129
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	7,486	7,392	5,538	5,843	0.74	0.79	2,123	2,114
Pirelli & C. Group: proforma consolidated data with Olimpia S.p.A. and the Olivetti group consolidated line-by-line	30,182	31,273	43,900	43,003	1.45	1.38	2,123	2,114

The Board of Managing Partners

Milan, May 13, 2002

**QUARTERLY DATA
AND
COMMENTS**

QUARTERLY DATA

(in millions of euros)

	1 st Quarter 2002	1 st Quarter 2001	Year 2001
Sales revenues	1,747	1,966	7,762
Other revenues	55	132	136
Value of production	1,802	2,098	7,898
Cost of sales	(1,270)	(1,457)	(5,643)
Labor cost	(383)	(404)	(1,550)
Amortization and depreciation	(105)	(102)	(408)
Costs of production	(1,758)	(1,963)	(7,601)
Operating profit	44	135	297
Financial income (expenses)	(58)	9	(70)
Extraordinary items	48	69	156
Income taxes	(33)	(76)	(189)
Net income	1	137	194
Net income attributable to Pirelli & C.	21	41	125

(in millions of euros)

Net financial position	3/31/2002	12/31/2001	3/31/2001
Short-term financial payables	1,751	1,570	737
Cash and banks	(918)	(1,033)	(4,517)
Short-term financial receivables	(108)	(268)	(120)
Net short-term (liquidity)/ debt position	725	269	(3,900)
Medium/long-term financial payables	1,849	1,862	1,838
Medium/long-term financial receivables	(280)	(102)	(363)
Net medium/long-term debt position	1,569	1,760	1,475
Net financial (liquidity)/debt position	2,294	2,029	(2,425)

COMMENTS ON QUARTERLY DATA

Form and content

The accounting principles, valuation criteria and principles of consolidation used in preparing the quarterly data at March 31, 2002 are the same as those adopted for the financial statements at December 31, 2001 and disclosed in the previous annual report.

Economic review

Net sales

Net sales for the first quarter ending March 31, 2002 amount to Euros 1,747 million compared to Euros 1,966 million for the first three months of 2001.

The reduction of 11.1% compared to the corresponding period of 2001 can be analyzed as follows:

. Currency exchange effect	(1.6%)
. Volumes/mix	(7.0%)
. Prices	(2.5%)
	<hr/>
	(11.1%)
	<hr/> <hr/>

A breakdown of sales revenues by sector and geographical area is as follows:

Geographical area	1st quarter 2002	1st quarter 2001
Europe	62.3%	60.6%
North America	11.6%	15.9%
Central and South America	12.5%	15.5%
Oceania, Africa and Asia	13.6%	8.0%
Total	100.0%	100.0%

Labor costs

Labor costs amount to Euros 383 million and represent 21.9% of net sales compared to Euros 404 million (20.5% of net sales) in the first quarter of 2001.

Amortization and depreciation

Amortization and depreciation for the three months to March 31, 2002 total Euros 105 million, of which Euros 21 million refer to the amortization of intangible assets and Euros 84 million to the depreciation of property, plant and equipment.

In the corresponding quarter of 2001, amortization and depreciation totaled Euros 102 million (Euros 83 million for depreciation and Euros 19 million for amortization).

Operating profit

Operating profit is Euros 44 million (2.5% of sales), with a decrease of Euros 91 million compared to the same period of 2001. Such change is mainly due to:

	(in millions of euros)
. Currency exchange effect	(3)
. Prices (excluding metals)	(12)
. Volumes/mix	(62)
. Materials (excluding metals)	9
. Efficiency	13
. Per unit costs	(7)
. Supply agreement with Cisco Systems	(26)
. Other	(3)
	<u>1</u>
	<u>(91)</u>

Net income

The net income for the first three months of 2002 is Euros 1 million compared to Euros 137 million in the first quarter of 2001.

The net income reflects the result of the subsidiary Pirelli S.p.A. (from a net income of Euros 148 million to a net loss of Euros 39 million) that was only partly

compensated by the improved results of the subsidiary Pirelli & C. Real Estate S.p.A. (an increase in net income from Euros 2 million to Euros 56 million).

The net income attributable to Pirelli & C. is equal to Euros 21 million (equal to earnings per share of Euros 0.03) compared to Euros 41 million (equal to earnings per share of Euros 0.07) in the first quarter of 2001.

Net financial position

The net financial position shows a debt position of Euros 2,294 million compared to Euros 2,029 million at December 31, 2001.

The change of Euros 265 million during the quarter is mainly due, in the industrial sector, to seasonal factors which caused working capital to rise and payments made for the reorganization program accrued in prior years (the net debt position of Pirelli S.p.A. rose by Euros 317 million), whereas, in the real estate sector, the subsidiary Pirelli & C. Real Estate S.p.A. improved its net financial position by Euros 95 million.