



Pirelli & C. - Accomandita per Azioni  
Head office in Milan - Via G. Negri 10  
Share capital Euros 326,177,710.04 fully paid-in  
Milan Companies Registry  
and Tax Code No. 00860340157

Annual Report 2001 - 130th year



## **PIRELLI & C. Accomandita per Azioni**

Leopoldo Pirelli

*Honorary Chairman*

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### **BOARD OF MANAGING PARTNERS**

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Marco Tronchetti Provera

*Chairman*

Alberto Pirelli

*Deputy Chairman*

Carlo Buora

Luigi Orlando

Carlo Alessandro Puri Negri

Sergio Lamacchia

*Secretary to the Board*

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### **BOARD OF STATUTORY AUDITORS**

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Roberto Bracchetti

*Chairman*

Paolo Lazzati

*Standing Auditor*

Salvatore Spiniello

*Standing Auditor*

Paolo Colombo

*Alternate*

Marco Reboa

*Alternate*

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### **GENERAL MANAGER**

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Carlo Alessandro Puri Negri

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### **INDEPENDENT AUDITORS**

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PricewaterhouseCoopers S.p.A.

Note: The nature of the powers delegated to the Chairman and Deputy Chairman is described on page 40 under Corporate Governance.

# **NOTICE OF ANNUAL GENERAL SHAREHOLDERS' MEETING**

Notice is hereby given that the Annual General Meeting of the shareholders of Pirelli & C. - Accomandita per Azioni, in ordinary session, will be held in Milan, at the Associazione Industriale Lombarda in Via Pantano 9 at 10:30 A.M.

- Friday, May 10, 2002 in first call
  - Monday, May 13, 2002 in second call
- to discuss the following

## **AGENDA**

- 1) Report of the Managing Partners; Report of the Board of Statutory Auditors; financial statements for the year ended December 31, 2001; appropriation of net income.
- 2) Appointment of the Board of Statutory Auditors and its Chairman; determination of the remuneration to the standing members of the Board.
- 3) Appointment of the audit firm, in accordance with Legislative Decree No. 58 dated February 24, 1998, article 159, and Consob recommendation in Communication No. 97001574 dated February 20, 1997, for the audit of the statutory financial statements, the consolidated financial statements and the six-month reports for the years ending December 31, 2002, 2003 and 2004.
- 4) Proposal for the purchase and disposition of treasury shares, after canceling the resolution voted by the shareholders' meeting of May 11, 2001, as it was not used.

Pertinent and related resolutions.

Conferring of powers.

# TABLE OF CONTENTS

Notice of Annual General Shareholders' Meeting	Page	4
Agenda	»	4
Summary of selected consolidated financial data	»	6
<b>Report of the Managing Partners</b>	»	<b>7</b>
– The Group	»	9
– Significant subsequent events	»	20
– Outlook for the current year	»	21
– Related party disclosures	»	21
– Performance of the major group companies	»	22
– Equity investments held by the Managing Partners	»	34
– Proforma data	»	35
– Stock option plans	»	38
– Corporate Governance	»	40
– The parent company - Pirelli & C.	»	48
Shareholders' resolutions	»	52
<b>Consolidated financial statements at December 31, 2001</b>		
– Consolidated balance sheets	»	58
– Consolidated statements of income	»	62
– Notes to consolidated financial statements	»	64
– Supplementary information	»	93
– Independent Auditors' Report	»	115

# FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

(in millions of euros)

	2001	2000	1999	1998	1997
Net sales	7,762	7,697	6,654	5,655	6,095
Gross operating profit	704	850	699	733	700
Operating profit	297	432	322	397	403
Net income	194	3,759	293	282	314
Net income attributable to Pirelli & C.	125	1,405	86	74	77
Earnings per share (in euros)	0.20	2.28	0.14	0,12	0,17
Fixed assets	7,092	3,728	3,312	2,916	2,439
Net working capital	1,314	667	1,401	1,256	1,182
Net invested capital	8,406	4,395	4,713	4,172	3,621
Shareholders' equity	5,407	5,844	2,313	2,245	2,469
Provisions	970	1,186	803	731	686
Net financial (liquidity)/debt position	2,029	(2,635)	1,597	1,196	466
Net equity attributable to Pirelli & C.	2,119	2,171	809	748	598
Equity per share (in euros)	3.39	3.52	1.35	1.20	1.33
Free cash flows	26	176	96	122	227
Net cash flows	(4,691)	4,118	(388)	(1,235)	(3)
R&D expenditures	237	213	200	196	183
Capital expenditures	646	570	476	390	334
Gross operating profit/ Net sales	9.07%	11.04%	10.50%	12.96%	11.48%
Operating profit/ Net sales	3.83%	5.61%	4.84%	7.02%	6.61%
Net income/ Net equity	3.59%	64.32%	12.67%	12.56%	12.72%
Net income/ Net invested capital	3.53%	9.83%	6.83%	9.52%	11.13%
Net financial position/ Net equity	0.38	(0.45)	0.69	0.53	0.19
Pirelli & C. ordinary shares (No. in millions)	591.4	582.8	563.6	563.6	414.4
Pirelli & C. saving shares (No. in millions)	34.4	34.4	34,4	34.4	34.4
Total Pirelli & C. shares (No. in millions)	625.8	617.2	598.0	598.0	448.8
Treasury (No. in millions)	2.6	2.6	2.6	2.6	0.8

## REPORT OF THE MANAGING PARTNERS

Dear Shareholders,

The consolidated financial statements of the Pirelli & C. Group for the year ended December 31, 2001 show a net income of Euros 194 million compared to Euros 3,759 million in the prior year.

As you will recall, last year benefited from significant extraordinary income which had regarded both the Pirelli S.p.A. group and the Pirelli & C. Real Estate S.p.A. group. These financial statements are affected by further structure and industrial restructuring costs for Euros 151 million.

The net income, after minority interest, is equal to Euros 125 million compared to Euros 1,405 million in the prior year.

Net sales amount to Euros 7,762 million, with a slight increase (+0.8 percent) compared to 2000.

The change is due mainly to volume increases (+4.6 percent) and positive price effects (+1.3 percent) countered by the negative exchange effect due to the conversion into euros (-2.7 percent) and a deterioration in the mix and other factors (-2.4 percent).

Gross operating profit is Euros 704 million (9.1 percent of net sales) compared to Euros 850 million in 2000 (11 percent of net sales).

Operating profit decreased from Euros 432 million (5.6 percent of net sales) to Euros 297 million (3.8 percent of net sales).



Projects realized by Pirelli & C. Real Estate: the Teatro degli Arcimboldi, inaugurated on January 19, 2002

In the industrial sector, this trend reflected the considerable worsening of the world economic situation and, starting from the second half of the year, the heightened crisis in the reference market of the Cables and Systems Sector – Telecommunications and also the lower contribution from the last part of the supply agreement with Cisco Systems (Euros 59 million compared to Euros 83 million in 2000).

As regards the real estate sector, instead, a positive trend was reported in the market of reference and the operating income of the subsidiary *Pirelli & C. Real Estate S.p.A.*, equal to Euros 44 million, posted an increase of 28 percent over the prior year.

The net financial position went from a liquidity position of Euros 2,635 million to a debt position of Euros 2,029 million.

The change from the prior year is principally due to the investment in *Olimpia S.p.A.* (Euros 3,170 million, including related expenses), the payment of income taxes that had already been accrued in the prior year (Euros 634 million essentially connected to the gains on the *Corning* and *Cisco* deals), the purchase of *Pirelli S.p.A.* shares (Euros 326 million), the payment of dividends to third parties (Euros 329 million) and the payment of Euros 173 million for the production optimization program that was accrued in the 2000 financial statements.

The financial statements at December 31, 2001 of *Pirelli & C.*, the parent company, show a net income of Euros 148 million compared to Euros 260 million in the prior year.

It should be noted that last year, the recognition of dividends on the accrual basis led to the recording of higher dividends totaling Euros 114 million.



The new *Eufori@ Run Flat* tyre, the latest manufactured by the Modular Integrated Robotized System (MIRS).

## THE GROUP

As far as the industrial sector is concerned, 2001 marked a sharp slowdown of the United States economy, the persisting crisis in Japan, the failure of the European economy to take off and, in particular, the intensification of the crisis in the telecommunications market.

Following the decision, first mentioned in last year's report, to separate the Energy operations from the Telecom operations, with the aim of improving the strategic focus and operational effectiveness, during the year action was taken to separate the cables operations in the various countries.

The transaction was concluded at the end of 2001 with the creation of the two holding companies, Energy and Telecom, resulting from the spin-off of Pirelli Cavi e Sistemi S.p.A..

In 2001, the real estate sector completed its corporate and organizational restructuring following the acquisitions made during the course of 1999 and 2000 (Unim, the real estate assets of Compart, Parnasi, RCS and Risanamento Napoli, and Cagisa, Regus Italia and Agied) and gave the go-ahead to a new series of important transactions (Altair, Edilnord and Banca di Roma).

The results reached during the year have been satisfactory.

The main events, in chronological order, that occurred during 2001 are described below:

- in the first half of the year, Pirelli S.p.A. sold No. 32,023,550 treasury shares on the market for net proceeds of Euros 124 million, realizing a pretax gain of Euros 30 million;
- in April 2001, Pirelli Cavi e Sistemi S.p.A. and e.Biscom S.p.A. negotiated a cooperation agreement which also calls for the joint development of new solutions for access to the Internet and Internet Video using fiber optics ("fiber to



The logo of Pirelli Labs, the new research center of the Pirelli Group, a project realized by Pirelli & C. Real Estate in Bicocca.

- the home”). In this context, Pirelli Cavi e Sistemi also purchased No. 484,500 e.Biscom S.p.A. shares (equal to 1 percent of share capital) for Euros 49 million;
- in May 2001, the company Pirelli Labs S.p.A. was set up. This is the new research center for basic and advanced research of the Pirelli group;
  - in June 2001, Pirelli Cavi e Sistemi S.p.A. and Alloptic Inc., the market start-up leader providing IP, Gigabit Ethernet fiber optic solutions for access networks, signed an agreement – in which, among other things, Pirelli Cavi e Sistemi S.p.A. purchased a 15.4 percent stake in the company for US \$12 million in July – for the development of new optical solutions for access networks;
  - on July 30, 2001, Pirelli S.p.A. (hereinafter “Pirelli”) and Edizione Holding S.p.A. (hereinafter “Edizione”) signed an agreement with Bell S.A. (hereinafter “Bell”) for the acquisition, through a company to be named, of the Olivetti S.p.A. (hereinafter “Olivetti”) stock package owned by Bell, representing about 23.3 percent of Olivetti’s share capital.

The agreement called for the acquisition of No. 1,552,662,120 ordinary shares and No. 68,409,125 warrants 2001-2002 on ordinary shares of Olivetti S.p.A. (hereinafter “Olivetti Investment”), at a per unit price, respectively, equal to Euros 4.175 and Euros 1.0875, for a total price of Euros 6,557 million, with a value date at August 31, 2001. The value date was to indicate that the price for the Olivetti Investment would be reduced if the payment was made before August 31, 2001 and increased if made after that date on the basis of the following formula: interest = total price x (1-month Euribor + 0.75 percent) x the number of days of early or delayed payment / 360.

The purchase transaction was subject to receipt of the necessary authorizations, in particular from the EU Commission. This authorization was received on September 20, 2001.

On August 3, 2001, Pirelli S.p.A. (80 percent) and Edizione Finance International S.p.A. (20 percent – a wholly-owned company of Edizione), set up Olimpia S.p.A. (hereinafter “Olimpia”), the company designated for the acquisition of the aforementioned Olivetti Investment.

On August 9, 2001, Kallithea S.p.A. (a subsidiary of Pirelli S.p.A.) sold No. 147,337,880 Olivetti ordinary shares (equal to about 2.02 percent of share capital) to Olimpia for a price per share of Euros 4.193, for a total of approximately Euros 618 million. Pirelli Finance Luxembourg S.A. (a subsidiary of Pirelli S.p.A.) and Edizione sold a total of No. 265,302,250 Olivetti ordinary shares (equal to about 3.64 percent of share capital) to Olimpia at a total price of approximately Euros 576 million.

On September 19, 2001, an agreement was signed among the majority shareholders of Bell, Pirelli, Edizione and Olimpia which called for a commitment by the majority shareholders of Bell to ensure that the latter, at the same time payment was made by Olimpia for the purchase of the Olivetti Investment, subscribed to bonds issued by Olimpia itself, with the following features: 6-year bonds for an amount of approximately Euros 1,033 million, repayable at maturity, unless the bonds are

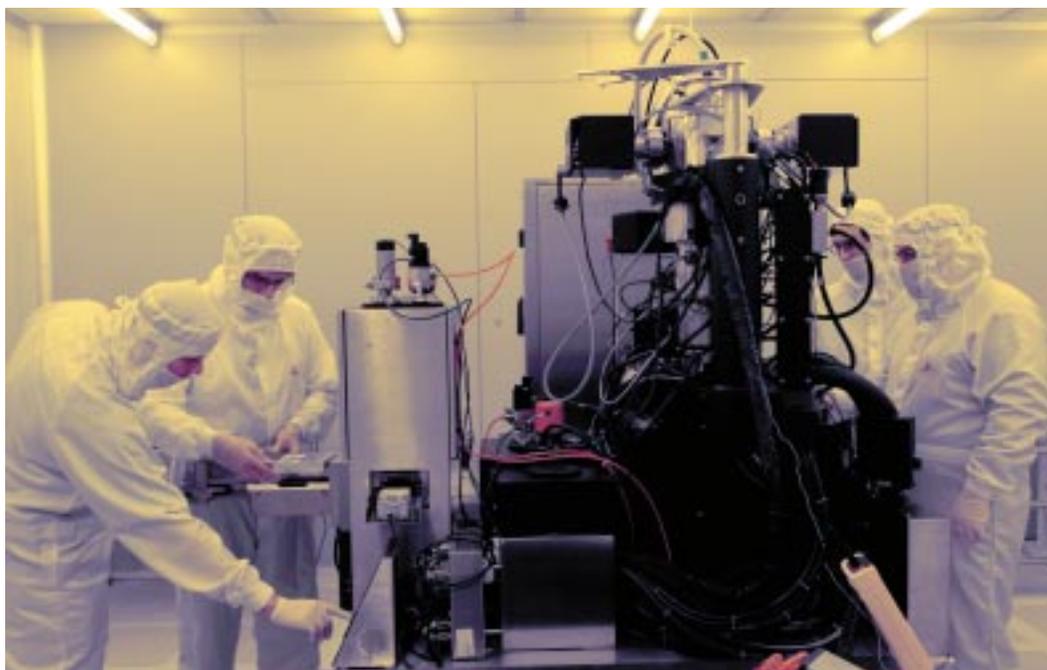
redeemed in advance by the bondholder, convertible in No. 263,500,000 Olivetti shares in a ratio of one share for every bond of face value Euros 3.92, bearing an annual fixed rate of interest of 1.5 percent, payable in cash at maturity or at the date of early redemption.

The agreement also called for the transfer of the Olivetti Investment in two tranches, the first for No. 552,000,000 Olivetti shares to be carried out on September 27, 2001 and the second for the remaining shares and warrants by October 12, 2001.

In execution of the above agreement, on September 27, 2001, No. 552,000,000 Olivetti ordinary shares were transferred from Bell to Olimpia (for an equivalent amount of Euros 2,315 million), while on October 5, 2001, the remaining No. 1,000,662,120 Olivetti ordinary shares and No. 68,409,125 warrants were transferred from Bell to Olimpia (for an equivalent amount of Euros 4,199 million and Euros 74 million, respectively). On the same date, October 5, 2001, Bell subscribed to the "Olimpia S.p.A. 1.5% 2001-2007" bonds with the features described above.

Under the agreements on July 30, 2001, Pirelli and Edizione agreed to purchase a further 54 million Olivetti shares, held originally by Banca di Roma, for a price of some Euros 225 million, corresponding to a price per share of Euros 4.175. Based on these agreements, on October 31, 2001, with the value date and delivery of the stock on November 2, 2001, Olimpia purchased these shares and thus came to hold approximately 27.7 percent of the share capital of Olivetti.

On November 20, 2001, in order to hedge the risk on the value of the Olivetti shares to be delivered to the holders of the Olimpia bonds described above, Olimpia signed a forward purchase agreement with UniCredit Banca Mobiliare S.p.A. and Caboto



Optical technology research in the Pirelli laboratories.

IntesaBci S.p.A. (ex-Caboto Holding Sim S.p.A.), for No. 263,500,000 Olivetti ordinary shares at a price equal to the average purchase price of the transaction at the market price (some Euros 1.37 per share) plus a premium equal to some 32 percent of the average purchase price. Settlement can be made through the physical delivery of the shares against payment of the agreed price or payment of the differentials compared to the market price.

Consequently, the forward price per share would be Euros 1.81, which corresponds to a total of Euros 476 million.

The liability for the bonds was shown by Olimpia at their redemption value, or at the forward purchase price of the aforementioned Olivetti shares.

The difference compared to the face value of the bonds equal to Euros 529 million was recorded as a reduction of the Olivetti Investment held by Olimpia in proportion to the shares and warrants purchased on September 27 and October 5, 2001.

On November 23, 2001, after the capital increase voted by the Board of Directors of Olivetti on October 13, 2001, Olimpia, by exercising its option rights to which it is entitled of 50 percent in shares and 50 percent in bonds, subscribed to No. 504,825,563 shares (for a price of some Euros 505 million) and No. 504,825,562 Olivetti 1.5% 2001-2010 convertible bonds with a premium at redemption (for a price of some Euros 505 million).

As of today, after these transactions, Olimpia holds No. 2,524,127,813 Olivetti shares (equal to some 28.7 percent of the share capital of Olivetti), No. 504,825,562 Olivetti 1.5% 2001-2010 convertible bonds with a premium at redemption and No. 68,409,125 Olivetti 2001-2002 warrants on ordinary shares.

At December 31, 2001, the average carrying value per share of Olivetti stock, recorded in the financial assets by Olimpia, is equal to Euros 3.14 (taking into account the convertible bonds, the carrying value would fall to Euros 2.78 per share).

Such carrying value, based on evaluations made at the time of acquisition, and now re-confirmed, and taking in consideration of Olivetti's future prospects, has been maintained, since no permanent impairment in value has been determined.

The warrants, too, have been kept at cost, adjusted by the amount mentioned above, insofar as it is Olimpia's intention to convert the warrants into shares by the expiry date.

As of today, the share capital of Olimpia is fully paid-in and is equal to Euros 1,562,596,150, consisting of No. 1,562,596,150 shares of par value Euros 1 each. This share capital is held by Pirelli (60 percent), Edizione Finance International S.A. (20 percent), IntesaBci S.p.A. (10 percent - hereinafter "IntesaBci") and UniCredito Italiano S.p.A. (10 percent - hereinafter "UniCredito").

There are shareholders' agreements among Olimpia's shareholders regulating the powers and discipline of their common quality as shareholders.

In particular, shareholders' agreements have been signed between Pirelli and Edizione on August 7, 2001, amended on September 14, 2001 and February 13, 2002 (hereinafter "Agreements") and between Pirelli, IntesaBci and UniCredito on September 14, 2001 – amended on September 26, 2001 and October 24, 2001 - (hereinafter "Agreements with the Banks").

Both agreements cover a three-year period and can be tacitly renewed at each expiration date. The tacit renewal is for three years for the Agreements and for two years for the Agreements with the Banks.

The Agreements and the Agreements with the Banks cover the rules for the nomination of the Board of Directors of Olimpia and that of Olivetti, Telecom Italia S.p.A., Tim-Telecom Italia Mobile S.p.A. and Seat-Pagine Gialle S.p.A.. They indicate the so-called Key Issues, on which the board resolutions of Olimpia, Olivetti, Telecom Italia S.p.A., Tim-Telecom Italia Mobile S.p.A. and Seat-Pagine Gialle S.p.A. must be decided according to such rules. They discuss the rules for the composition and resolution of dissent among the contracting parties on Key Issues (so-called Deadlock). They govern the inter partes consequences of any change in the structure of control of Pirelli (Agreements with the Banks) and of Edizione or of Pirelli (Agreements). They attribute to contracting parties the right to purchase or sell (puts and calls) Olimpia shares in the event of withdrawal from the agreements themselves.

Consob – National Commission for Corporations and the Stock Market – in its resolution dated October 30, 2001, which dealt with the matter of the authorization for the publication of the Olivetti prospectus for the offer of options on Olivetti ordinary shares and Olivetti 2001-2010 bonds, asked that the above prospectus indicate, based on Consob's evaluation, that de facto control of Olivetti is held by Olimpia and Olimpia is subject to the sole control of Pirelli. Consob explained the reasons why this supplementary information was requested in the communication published in the "Consob Informa" Newsletter dated November 5, 2001.

Pirelli did not agree with the reasons expressed by Consob for its decision and on December 6, 2001 filed a request to review the matter so that the questions surrounding the issue could be reexamined and the comments expressed about Olimpia's control over Olivetti could be revised.

On January 8, 2002, under ruling No. RM/2001124, Consob gave its decision not agreeing with the request to review the matter of qualifying the holdings between Pirelli and Olimpia and between Olimpia and Olivetti.

Since the rulings were adverse, Olivetti, Pirelli and Olimpia filed an appeal with the Regional Administrative Court of Lazio to obtain their cancellation. The Regional Administrative Court of Lazio, in the sentence handed down on February 25, 2002, ruled favorably on the appeal, canceling the rulings that were contested.

Also as a result of this decision, in the 2001 financial statements, Olimpia, in accordance with the combined provisions of art. 2426, paragraph 4 of the Italian Civil Code and Legislative Decree No. 127/91, art. 36, paragraph 3 and art. 37, was accounted for by the equity method based on the financial statements of Olimpia at December 31, 2001.

Nonetheless, proforma financial statements are attached wherein the investment in Olimpia is consolidated line-by-line and the investment in Olivetti is valued using the equity method.

It should be highlighted that Pirelli did not issue any form of guarantee on behalf of Olimpia and the Olivetti-Telecom group with respect to the financing which they received.

Within the framework of the strategy for financial investment in the Olivetti group, Pirelli, through its subsidiary Pirelli Finance Luxembourg S.A.:

- purchased, on November 7, 2001, a call option on No. 100,000,000 Olivetti ordinary shares and Olivetti S.p.A. 2001-2010 convertible bonds.

The main features of the option, carried out with Morgan Guaranty Trust, are as follows:

- strike price: Euros 1 per share or bond;
  - expiry date: October 5, 2007;
  - premium: Euros 28.1 million paid at the beginning of the transaction and an annual amount equal to 2.75 percent of the strike price multiplied by the average number of securities outstanding;
  - exercise date: at any time after 60 days subsequent to November 23, 2001 and 45 days before October 5, 2007;
  - settlement: physical delivery of the securities or settlement of the differential in cash, as elected by Pirelli. In the event of physical delivery, Pirelli can choose whether to receive Olivetti stock or convertible bonds.
- subscribed, with Credit Agricole Lazard FP Bank, on November 14, 2001, to a derivative equity swap on No. 200,000,000 convertible bonds 2001-2010 having the following features:
    - initial purchase price: Euros 1.3368 per bond;
    - initial premium: difference between the initial purchase price and Euros 1 paid at the beginning of the transaction (Euros 67.4 million) and a one-off fee equal to 1.125 percent of the face value (Euros 2.2 million);
    - expiry date: November 23, 2006;
    - annual flows: 12-month Euribor plus a spread of 150 bps payable net of the bond coupon equal to 1.5 percent of the face value receivable;
    - settlement: physical delivery of the securities or settlement of the differentials with the market prices of the securities.

- on July 31, 2001, under the agreements signed on March 24, 1998 between Pirelli & C. and BZ group Holding Limited and renewed on March 23, 2001, BZ exercised the first sales option relating to 2.5 percent of Pirelli S.p.A. ordinary shares.

Pirelli & C., consequently, purchased No. 47,933,279 Pirelli S.p.A. ordinary shares at a price of Euros 3.53218 per share, which is equal to the average market price of the stock in the ninety sessions prior to the exercise date.

During 2001, Pirelli & C. also purchased No. 52,223,000 Pirelli S.p.A. shares on the market at a average price of Euros 2.50 per share and No. 8,500,000 Pirelli S.p.A. savings shares at an average price of Euros 3.05 per share.

At December 31, 2001, Pirelli & C. holds, directly and indirectly, through Pirelli

- & C. Luxembourg S.A., 38.37 percent of the voting capital (37.11 percent of the entire share capital) of Pirelli S.p.A..
- in August 2001, together with Aedes Immobiliare S.p.A., a contract was signed with the Fininvest Group for the purchase of Edilnord 2000. The agreement called for the acquisition, by Pirelli & C. Real Estate, of 100 percent of the share capital of the three Service companies (Edilnord Progetti, Edilnord Gestioni and Servizi Immobiliari Edilnord) and the acquisition of qualified minority holdings, together with their management, in keeping with the usual business model, in vehicle companies owning property zoned for building in the Milan area.
  - in October, together with "The Morgan Stanley Real Estate Fund", a binding commitment was signed with Banca di Roma for the purchase of real estate property valued at some Euros 560 million. The manner 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.
  - in December, a project was begun – the guidelines of which were later approved by the companies involved in the project – to optimize and integrate the assets and the service activities in the respective real estate areas of the Olivetti-Telecom Group and the Pirelli Group.
  - in 2001, Pirelli presented a fashion project which called for the development of articles of leisure wear for men and women using an innovative design created with quality materials and state-of-the-art technology.  
The first results of this projects are the PZero Aria parka and PZero Acqua footwear.  
Each model is produced under license by the most qualified company in terms of know-how in the specific area of expertise.



The PZero Acqua shoe in the new fashion line presented by Pirelli.

Key figures of the consolidated financial statements can be summarized as follows:

	(in millions of euros)	
	<b>12/31/2001</b>	<b>12/31/2000</b>
• Net sales	7,762	7,697
• Gross operating profit	704	850
% of net sales	9.1%	11.0%
• Operating profit	297	432
% of net sales	3.8%	5.6%
• Financial income (expenses)	(70)	(120)
• Income before extraordinary items and income taxes	227	312
% of net sales	2.9%	4.1%
• Extraordinary items	156	4,521
• Income before income taxes	383	4,833
% of net sales	4.9%	n.s.
• Income taxes	(189)	(1,074)
• Net income	194	3,759
% of net sales	2.5%	n.s.
• Net income attributable to Pirelli & C.	125	1,405
• Earning per share (in euros)	0.20	2.28
• Shareholders' equity	5,407	5,844
• Net equity attributable to Pirelli & C.	2,119	2,171
• Equity per share (in euros)	3.39	3.52
• Net financial (liquidity)/debt position	2,029	(2,635)
• Capital expenditures	646	570
• R&D expenditures	237	213
• Employees (at year-end)	39,771	42,509

## SALES

Net sales total Euros 7,762 million compared to Euros 7,697 million in the prior year. The change of 0.8 percent can be ascribed to the following:

• Currency exchange effect	-2.7%
• Prices	1.4%
• Volumes	4.6%
• Mix and other	-2.5%
	<b>0.8%</b>

The distribution of net sales by sector is as follows:

<b>Sector</b>	<b>2001</b>	<b>2000</b>
• Pirelli S.p.A. Group		
– Cables and Systems	60.0%	59.7%
– Tyres	36.7%	37.4%
• Total Pirelli S.p.A. Group	96.7%	97.1%
• Real Estate (Pirelli & C. Real Estate S.p.A. Group)	3.4%	2.8%
• Other and intereliminations	(0.1%)	0.1%
	<b>100.0%</b>	<b>100.0%</b>

## **OPERATING PROFIT**

Operating profit is equal to Euros 297 million compared to Euros 432 million in the prior year, representing 3.8 percent of net sales (5.6 percent in 2000).

Contributing to the operating profit of Euros 297 million are the industrial sector (Pirelli S.p.A. group) for Euros 295 million (Euros 437 million in 2000) and the real estate sector (Pirelli & C. Real Estate group) for Euros 44 million (Euros 35 million in 2000).

## **EXTRAORDINARY ITEMS, NET**

Extraordinary items, net show an income balance of Euros 156 million compared to Euros 4,521 million in 2000.

Last year, as previously mentioned, extraordinary items included the gain, before income taxes, on the sale of the Terrestrial Optical Systems business to Cisco Systems (Euros 1,409 million), the gain, before income taxes, on the sale of the Optical Components business to Corning (Euros 3,351 million) and net extraordinary income, always before income taxes, connected to the transactions following the acquisition of Unim by Pirelli & C. Real Estate S.p.A. (Euros 208 million) which were offset by production restructuring and rationalization expenses of Euros 433 million.

In the current year, extraordinary items principally comprise the gains on the sale of real estate property (Euros 61 million) by the Cables and Systems Sector, an earn-out on the close of the agreements with Cisco Systems (Euros 70 million), gains by Pirelli & C. Real Estate S.p.A. (Euros 164 million) and restructuring expenses of Euros 151 million.

## **NET INCOME**

Net income amounts to Euros 194 million compared to Euros 3,759 million in 2000. The change in net income is due to the reduction in operating profit (Euros 136 million), the decrease in the net balance of extraordinary items (Euros 4,365 million), as well as the improvement in financial expenses (Euros 51 million) and a lower impact of income taxes (Euros 885 million), that, last year, were substantially connected with the Cisco and Corning transactions.

Contributing to the net income of Euros 194 million are the industrial sector (Pirelli S.p.A. group) for Euros 86 million and the real estate sector (Pirelli & C. Real Estate S.p.A. group) for Euros 161 million.

## SHAREHOLDERS' EQUITY

Shareholders' equity went from Euros 5,844 million to Euros 5,407 million, with a decrease of Euros 437 million. Details of the decrease are as follows:

• Translation adjustments		(100)
• Net income		194
• Dividends to third parties paid by		(329)
– Piirelli & C.	(129)	
– Piirelli S.p.A.	(188)	
– Other Group companies	(12)	
• Sale of treasury shares (Piirelli S.p.A.)		94
• Purchase of Piirelli S.p.A. shares (Piirelli & C.)		(326)
• Conversion of Piirelli & C. 1998/2003 bonds		20
• Goodwill paid on the above purchases		36
• Other changes		(26)
		(437)

The attributable shareholders' equity is equal to Euros 2,119 million (Euros 3.39 per share) compared to Euros 2,171 million (Euros 3.52 per share) in the prior year.

## NET FINANCIAL POSITION

The net financial position went from a liquidity position of Euros 2,635 million at December 31, 2000 to a debt position of Euros 2,029 million at December 31, 2001. The change of Euros 4,664 million is mainly due to:

• Exchange differences		<b>(28)</b>
• Operating profit	297	
• Depreciation and amortization	408	
• Net investments:		
– Piirelli S.p.A. group	(719)	
– Other	62	(657)
• Change in working capital		(8)
• Change in provisions and other changes		(14)
• <b>Free cash flow</b>		<b>26</b>
• Effect of acquisitions		(76)
• Olimpia investments		(3,170)
• Purchase of Piirelli S.p.A. shares		(326)
• Financial income (expenses)		(69)
• Extraordinary items		156
• Income taxes		(189)
• Dividends paid		(329)
• Other changes		(714)
<b>Net cash flows</b>		<b>(4,691)</b>
Other changes in shareholders' equity		55
<b>Change in net financial position</b>		<b>(4,664)</b>

“Other changes” mainly include the payment of income taxes that were already anticipated and accrued last year for Euros 634 million and the payment of Euros 173 million for the production optimization program that was already accrued in the 2000 financial statements, as well as the sale of Pirelli S.p.A. treasury shares (Euros 94 million).

### **DEBT TO EQUITY RATIO**

The debt to equity ratio is 0.38. This is not comparable to the ratio in 2000 which included the above-mentioned extraordinary items, but shows an improvement over 1999 (0.53).

### **CAPITAL EXPENDITURES**

Capital expenditures total Euros 646 million compared to Euros 570 million in 2000.

### **R&D EXPENDITURES**

R&D expenditures are entirely charged to the statement of income and amount to Euros 237 million compared to Euros 213 million in 2000. They represent 3.1 percent of net sales (2.8 percent in 2000).

### **EMPLOYEES**

Employees number 39,771 compared to 42,509 at December 31, 2000, with a net reduction in the industrial sector and a significant increase in the real estate sector.

## **SIGNIFICANT SUBSEQUENT EVENTS**

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 Euro 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 called to vote on the proposal to list the ordinary shares on the Mercato Telematico Azionario, while in the extraordinary session, the shareholders voted 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 medium to long term.

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 are expected to be received at the beginning of April.



Pirelli & C. Real Estate properties portfolio: a building in Milan, via San Tomaso.

## **OUTLOOK FOR THE CURRENT YEAR**

As far as the industrial sector is concerned, the economic forecasts for the current year suggest that a recovery may be possible, as already announced, in the second half of the year. The operating profit for the industrial sector is expected to be in line with that of 2001.

As far as the real estate sector is concerned, the outlook for the current year remains positive, partly because of the good performance of the reference sector. The consolidated operating result is thus expected to be at least in line with the prior year.

## **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 the transactions between Pirelli & C. and its subsidiaries are disclosed in the financial statements and in the notes of the parent company and, like the transaction among subsidiaries, are eliminated upon the preparation of the consolidated financial statements.

Furthermore, in order to provide more complete information, the transactions in 2001 between the Pirelli & C. Group and the Olivetti Telecom group are listed below. They fall under 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 21.5 million);

**costs for goods and services**, relating mainly to telephone services received (Euros 6.9 million);

**trade receivables**, relating to the supply of the goods and services described above (Euros 6.4 million);

**trade payables**, relating to the telephone services described above (Euros 0.6 million).

## **PERFORMANCE OF THE MAJOR GROUP COMPANIES**

### **PIRELLI S.p.A. GROUP**

As previously described, in accordance with the decisions handed down by the Regional Administrative Court of Lazio, in the 2001 consolidated financial statements of Pirelli S.p.A., the investment in Olimpia was accounted for using the equity method based on its financial statements at December 31, 2001.

The key consolidated figures for the year ended December 31, 2001 are presented below:

Net sales amount to Euros 7,509 million compared to Euros 7,477 million in the prior year. The increase of 0.4 percent is due to volume increases (+3.6 percent) and positive price effects (+1.3 percent) offset by the negative exchange effect on the conversion in euros (-2.6 percent) and a deterioration in the mix and other factors (-1.9 percent).

The breakdown by sector shows Cables and Systems at 62 percent and Tyres at 38 percent.

Gross operating profit is equal to Euros 666 million, a decrease of 18.8 percent compared to Euros 820 million in 2000.

The decrease is mainly due to the Cables and Systems – Telecom Sector as a result of the crisis in the telecommunications market which intensified in the second half of the year, and the lower contribution from the last phase of the supply agreement with Cisco Systems (Euros 59 million compared to Euros 83 million in 2000).

Operating profit is Euros 295 million, equal to 3.9 percent of net sales compared to Euros 437 million in 2000 (5.9 percent of net sales).

Extraordinary items show an expense balance of Euros 16 million compared to an income balance of Euros 4,277 million in 2000. In 2000, extraordinary items mainly included the pretax gain on the sale of the Terrestrial Optical Systems business to Cisco Systems (Euros 1,409 million), the pretax gain on the sale of the Optical Components business to Corning (Euros 3,351 million) and were offset by production restructuring and rationalization expenses of Euros 433 million.

In the current year, extraordinary items principally comprise the gains on the sale of real estate property (Euros 61 million) by the Cables and Systems Sector, an earn-out on the close of the agreements with Cisco Systems (Euros 70 million) and rationalization expenses of Euros 151 million.

Net income amounts to Euros 86 million compared to Euros 3,626 million in 2000. The reduction in operating profit (Euros 142 million) and the decrease in the net balance of extraordinary items (Euros 4,293 million) were countered by a lower impact of income taxes (Euros 875 million) that, last year, were substantially connected with the Cisco and Corning transactions.

The net income attributable to Pirelli S.p.A. is Euros 82 million (Euros 3,632 million in 2000) which corresponds to Euros 0.04 per share (Euros 1.82 in 2000).

Shareholders' equity is equal to Euros 5,660 million (Euros 5,958 million at December 31, 2000).

The shareholders' equity attributable to Pirelli S.p.A. is equal to Euros 5,462 million (Euros 5,756 million at December 31, 2000) which corresponds to Euros 2.72 per share (Euros 2.89 at December 31, 2000).

The net financial position went from a liquidity position of Euros 3,495 million at December 31, 2000 to a debt position of Euros 1,089 million at December 31, 2001. The change from the prior year is principally due to the investment in Olimpia S.p.A. (Euros 3,170 million, including related expenses), the payment of income taxes that had already been accrued in the prior year (Euros 614 million), the payment of dividends from 2000 profits (Euros 287 million) and the payment of Euros 173 million for the production optimization program that was accrued in the 2000 financial statements.

Capital expenditures amount to Euros 643 million compared to Euros 562 million in 2000.

R&D expenditures are entirely charged to the statement of income and amount to Euros 237 million (3.2 percent of net sales) compared to Euros 213 million in 2000 (2.8 percent of net sales).

At December 31, 2001 the number of employees was 39,127 compared to 41,914 at December 31, 2000.

### **Cables and Systems Sector**

Following the decision, first mentioned in last year's annual report, to separate the Energy from the Telecom operations, with a view to improving the strategic focus and operational effectiveness, the businesses were separated this year in the various countries.



The cable-laying ship Giulio Verne at work.

The operation was concluded at the end of 2001 with the two Holding Companies Energy and Telecom being set up, created by the spin-off of Pirelli Cavi e Sistemi S.p.A. (Pirelli Cavi e Sistemi Energia S.p.A. and Pirelli Cavi e Sistemi Telecom S.p.A.). For purposes of comparison with the prior year and taking into account that the activities to separate the Energy and Telecom entities continued during 2001, the results, unless otherwise indicated, refer to the aggregate total of operations.

Total sales amount to Euros 4,688 million, with an increase of 2.1 percent over the prior year: the increase is attributable to the energy sector mainly as a result of the contribution of the volumes deriving from the acquisitions in 2000 of the former BICC activities that now reflect a full year of operations, while the sales of telecommunications cables were affected by the radical downward trend of the market in the second half of the year.

Gross operating profit went from Euros 466 million in 2000 (10.2 percent of net sales) to Euros 357 million (7.6 percent of net sales) and reflects the lower contribution from the supply agreement with Cisco Systems (Euros 59 million compared to Euros 83 million in 2000) as well as higher accruals made for doubtful accounts connected with the insolvency of some customers (Euros 68 million).

Operating profit amount to Euros 179 million (3.8 percent of net sales) compared to Euros 289 million in the prior year (6.3 percent of net sales).

Extraordinary items show an income balance of Euros 11 million. The balance mainly includes the gains on the sale of real estate properties for Euros 61 million (Euros 22 million at Eastleigh-UK and Euros 39 million at Cavimar-Spain), an earn-out on the closing of the agreements with Cisco Systems (Euros 70 million) and restructuring expenses for Euros 99 million.

Net income is equal to Euros 76 million compared to Euros 1,780 million in the prior year, which mainly included the gain (before income taxes) on the sale of the Terrestrial Optical Systems business (Euros 1,409 million) and on the sale of the Optical Components business (Euros 1,081 million).

The net financial position presents a debt position of Euros 890 million, with a negative change from the prior year of Euros 2,534 million. A large part of the change refers to Euros 1,495 million for dividends paid and Euros 577 million for income taxes largely deriving from the extraordinary transactions in 2000.

The remainder of the change is due to higher investments, the most significant being in the Telecom sector and working capital requirements.

Capital expenditures in 2001 amount to a total of Euros 359 million, (+6.5 percent compared to 2000), and constitute double the amount of depreciation.

R&D is conducted by an integrated structure of research centers and development and engineering units in various countries.

A total of 894 persons were involved in R&D during the year just ended and expenditures totaled Euros 112 million, equal to 2.4 percent of total sales.

In 2001, Pirelli Labs S.p.A., the Pirelli Group's new center for basic and advanced research was established.

Pirelli Labs is the benchmark for all the Pirelli research activities throughout the world and, thanks to a series of agreements and consortiums, is directly linked to important private and university research centers in Italy and worldwide. The laboratories will be completely operational in spring 2002.

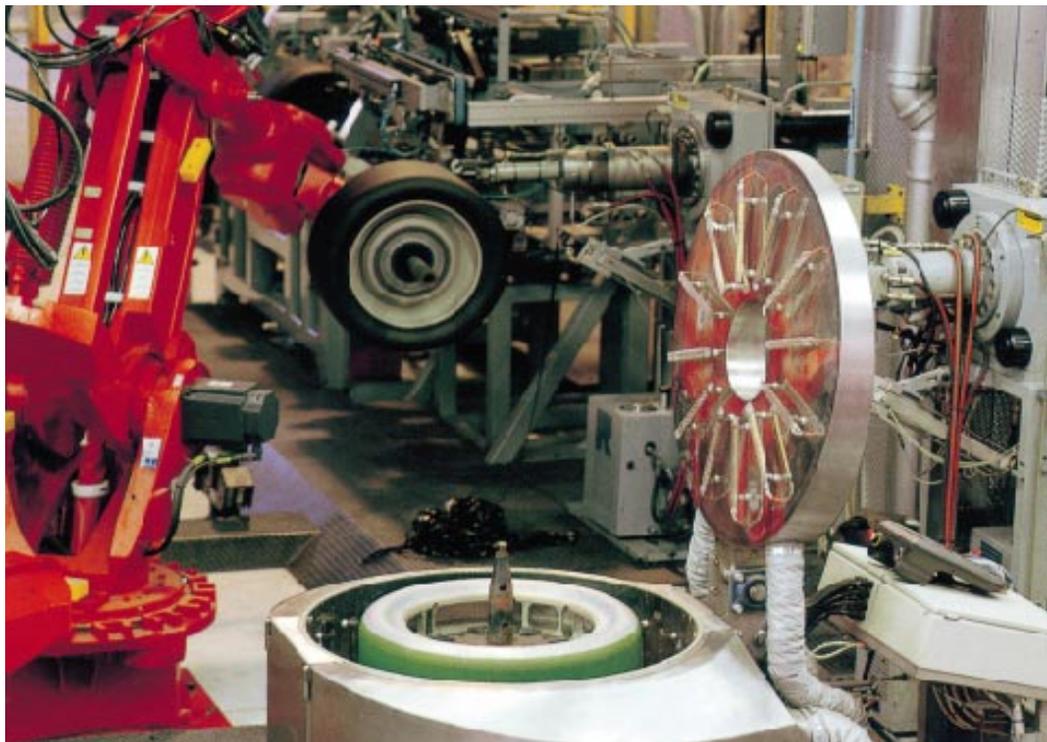
The results of these first few months show an improvement in the Telecom Sector compared to the last quarter of 2001 whereas, as far as the Energy Sector is concerned, there is some delay on the part of leading Utilities companies to invest in the segments of high voltage and submarine links.

Despite the uncertainty deriving from the instability of certain markets, it is thought that the result from ordinary operations of the current year will be in line with that of the year just ended.

### **Tyres Sector**

Net sales, equal to Euros 2,831 million, record a decrease of 1.7 percent compared to 2000. The favorable trend in the volumes (+0.5 percent) and prices/mix (+1.8 percent) was not sufficient to cover the negative currency exchange effect (-4 percent). Operating profit is Euros 172 million, representing 6.1 percent of net sales, compared to Euros 180 million in 2000 or 6.3 percent of net sales. The positive contribution by the volumes and mix, accompanied by steps taken to reduce costs, was not sufficient to compensate for the negative currency exchange effect, the erosion of prices/costs of raw materials and the increase in labor costs.

Net income is Euros 34 million, with a net extraordinary expense balance of Euros 27 million and financial expenses that are in line with the prior year. Extraordinary items include costs for employee lay-offs of Euros 26 million under the staff reorganization plan.



Building a tyre using MIRS technology.

The net financial position shows a debt position of Euros 684 million, with a decrease of Euros 64 million from the end of 2000. The effect on the net financial position of the increase in share capital of Euros 240 million in Pirelli Tyre Holding N.V. during the first half of 2001, was partly offset by the purchase of an additional stake in the Brazilian subsidiary – following its delisting from the San Paolo stock exchange – for Euros 62 million and higher investments and greater working capital requirements.

Capital expenditures total Euros 262 million in 2001, equal to 1.62 times depreciation and representing 9.3 percent of net sales.

With approximately 63 percent of capital expenditures made in European factories and 24 percent in South America, projects were geared towards innovative production processes, the expansion of the productive capacity of high performance tyres and new products.

In 2001, R&D expenditures total Euros 125 million, an increase, compared to the prior year, of approximately 11 percent and equal to 4.4 percent of net sales, justified by the efforts made to revitalize the high performance products and to definitively implement the MIRS process on an industrial scale.

In 2001, collaboration continued with leading Italian and international universities and research institutes to develop know-how, particularly in the area of advanced research into materials and innovative processes. Further experience was gained in the development of the new Pax technology, which promises to offer the market a new solution to the problems of total mobility.

### **PIRELLI S.p.A.**

The financial statements at December 31, 2001 of Pirelli S.p.A. show a net income of Euros 1,489 million compared to Euros 1,733 million in 2000.

The shareholders' equity is equal to Euros 4,985 million and reflects the net income for the year and the payment of dividends relating to the prior year.

The Board of Directors of Pirelli S.p.A. will put forth a proposal at the shareholders' meeting, convened for May 8, 2002 in first call and, eventually, for May 9, 2002 in second call, for the payment of dividends of Euros 0.08 for each ordinary share and Euros 0.0904 for each savings share.

Given the solid equity basis of the Company and taking into account the general conditions prevailing on the markets, the planned divestiture program was abandoned.

### **PIRELLI & C. LUXEMBOURG S.A. - LUXEMBOURG**

The company ended the year with a net income of Swiss francs 12.3 million compared to Swiss francs 174.7 million in the prior year.

The net income includes dividends of Swiss francs 62.6 million from Pirelli S.p.A. (Swiss francs 192.3 million last year) and financial expenses of Swiss francs 50.3 million (Swiss francs 43.4 million last year).

Last year, the net income included the gain of Swiss francs 23.3 million realized on the sale of Falck S.p.A. shares.

The company holds No. 527,813,101 Pirelli S.p.A. ordinary shares equal to 27.52 percent of voting capital and 26.31 percent of the entire share capital.

Debt went from Swiss francs 1,425.8 million to Swiss francs 1,517.7 million mainly as a result of the payment of dividends (Swiss francs 150 million).

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

Pirelli & C. Real Estate is the Pirelli & C. Group company which operates in both the sector of Real Estate Asset Management and non-performing loans (ensuring strategic management services and participating in qualified venture capital operations with minority stakes), and in the sector of Specialist Services (Residential Agency, Commercial Agency, Project Management, and Property & Facility Management) for the same projects and directly on behalf of third party clients.

Pirelli & C. Real Estate has developed the “management company” business model which, in its most successful form abroad, has evolved toward the “fund management company”.

### **Major events during the year**

During the year, Pirelli & C. Real Estate group completed its corporate and organizational restructuring following the acquisitions made in 1999 and 2000 (Unim, the real estate assets of Compart, Parnasi, RCS and Risanamento Napoli, the Unim and Risanamento Napoli service businesses, Cagisa, Regus Italia, Agied) and commenced a new series of important transactions, listed below, that are aimed at reinforcing its role as a “management company”.



Pirelli & C. Real Estate properties portfolio: the French Consulate in Rome.

- At the end of June 2001, a strategic accord was reached with the Anglo-Australian group Bovis Lend Lease for the development of Project Management services in the large buildings sector.
- Again in June 2001, Pirelli & C. Real Estate signed an agreement directed to the acquisition of the entire share capital of Altair FM S.p.A., a group operating in the Facility Management services sector, with the aim of strengthening its presence in this service sector. The goal is being pursued during the current year through the acquisition of other companies.
- In August 2001, together with Aedes Immobiliare S.p.A., a contract was signed with the Fininvest group for the acquisition of Edilnord 2000. The agreement calls for Pirelli & C. Real Estate's purchase of 100 percent of the share capital of the three service companies (Edilnord Progetti, Edilnord Gestioni and Servizi Immobiliari Edilnord) and the acquisition of qualified minority holdings, in addition to their management, in keeping with the usual business model, in the vehicle companies owning land parcels zoned for building in the Milan area. The service companies have been entrusted by the companies owing the land to carry out all the specialist services needed to develop the real estate properties.
- In October, together with the "The Morgan Stanley Real Estate Fund", a binding commitment was signed with Banca di Roma for the purchase of real estate property valued at some Euros 560 million. The manner 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.
- In November, through its investment in the Consorzio G6 Advisor, a new contract was signed with Società di Cartolarizzazione Immobili Pubblici S.r.l. through which the government intends to continue and step up the sale of its publicly-owned real estate properties.
- In December, a project was begun – the guidelines of which were later approved by the companies involved in the project – to optimize and integrate the assets and the service activities in the respective real estate areas of the Olivetti-Telecom group and the Pirelli Group.



The San Siro stadium managed by Pirelli & C. Real Estate Facility Management.

## Summary data

The following is a comparative summary of the key figures of the consolidated financial statements for the years ended December 31, 2001 and 2000.

In order to provide a more precise evaluation of the performance of the Company, the income statements for the years 2000 and 2001 are divided between “core” and recurring activities and “non-core” activities which include nonrecurring and/or activities not connected with the core business.

## Income statement data

	(in millions of euros)					
	2001			2000		
	Total	Core activities	Non-core activities (*)	Total	Core activities	Non-core activities (*)
• Production value (1)	326.2	311.6	14.6	244.4	186.4	58.0
• Operating profit (loss)	44.3	49.8	(5.5)	34.5	34.5	0.0
Share of earnings (losses) of holdings	2.9	8.5	(5.6)	(0.2)	5.6	(5.8)
• Income (loss) from ordinary operations (2)	47.2	58.3	(11.1)	34.3	40.1	(5.8)
Financial income (expenses)	(3.3)	(4.4)	1.1	(42.2)	(7.0)	(35.2)
• Income before extraordinary items	43.9	53.9	(10.0)	(7.9)	33.1	(41.0)
Extraordinary items	163.8	(3.0)	166.8	206.2	(1.7)	207.9
• Income before taxes and minority interest	207.7	50.9	156.8	198.3	31.4	166.9
Income taxes	(46.3)	(17.4)	(28.9)	(46.3)	(11.2)	(35.1)
• Net income before minority interest	161.4	33.5	127.9	152.0	20.2	131.8
Minority interest	0.0	0.0	0.0	0.4	0.4	0.0
• Net income – attributable	161.4	33.5	127.9	152.4	20.6	131.8

(\*) The figures in the column “non-core activities” includes a series of non-typical 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 currently in the process of being sold to the parent company Pirelli & C.; the effects of the securities portfolio, that have now been almost completely sold, taken over from Unim and the impact of the same Unim deal during the period in which the company was undergoing a restructuring and reorganization of its corporate operations; the construction of the Arcimboldi Theater.

(1) Production by value means the sum of net sales and the change in inventories.

(2) Result from ordinary operations means the sum of the operating profit (loss) and the share of the earnings (losses) of the companies accounted for using the equity method.

## Balance sheet data

	(in millions of euros)	
	12/31/2001	12/31/2000
• Fixed assets	74.2	168.0
• Net working capital	249.4	324.3
– of which inventories	346.0	308.3
% to be sold	36%	49%
• Net invested capital	323.6	492.3
• Net financial position	141.6	364.5
• Net cash flows (compared to prior year)	222.9	(286.5)
• Shareholders' equity – attributable	131.0	74.0

Note: the net financial position does not include 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.

## **Economic review**

The consolidated production value in 2001 is Euros 326 million, compared to Euros 244 million in 2000, with an increase of 34 percent. Net sales from the core activities of the company total Euros 312 million, with an increase of 67 percent compared to Euros 186 million recorded in the prior year. Such increase is due to the expansion of the Group's operations in the sectors of both asset management and services.

It should also be pointed out that Pirelli & C. Real Estate group's operations, in keeping with its business model, encompass the entire range of activities including the complete management of the investment and a qualified minority stake in the same investment. The production value that refers to the revenues from management activities is defined as the result obtained from the consolidation of the value of production also for the projects in which the Group holds minority interests.

The operating profit is Euros 44 million against Euros 34 million in 2000, with an increase of 28 percent over the prior year. The operating income from core activities is Euros 50 million, compared to Euros 34 million in the prior year, with an increase of 44 percent.

The income (loss) from ordinary operations (that is, the sum of the operating profit (loss) and the share of the earnings (losses) of the companies accounted for using the equity method) is equal to Euros 47 million, compared to Euros 34 million in 2000 (+38 percent). In terms of core activities, the income from ordinary operations is Euros 58 million in 2001 against Euros 40 million in the prior year (+45 percent).

Net income attributable to the parent company is Euros 161 million, compared to Euros 152 million in 2000 (+6 percent). The net income from core activities is Euros 34 million, compared to Euros 21 million in the prior year, with an increase of 63 percent.

## **Balance sheet review**

Fixed assets, mainly consisting of securities and equity investments, total Euros 74 million, compared to Euros 168 million in 2000. This decrease can be ascribed to



Web page from Pirelli & C. Real Estate's new website.

the partial sale of the securities portfolio and the reclassification of the remaining balance to working capital in view of its future sale.

Net working capital is Euros 249 million, compared to Euros 324 million at December 31, 2000.

Net financial position totals Euros 142 million, Euros 76 million of which refer to the debt secured by the remaining securities portfolio, compared to Euros 364 million at December 31, 2000.

Shareholders' equity attributable to the parent company is Euros 131 million, compared to Euros 74 million at December 31, 2000.

### **Subsequent events and future outlook for 2002**

- 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.
- During the first few days of this month, the portfolio of remaining securities was sold for a net gain of over Euros 40 million, improving the net financial position by Euros 76 million.
- With the aim of developing the Facility Management area subsequent to the purchase of Altair in 2001, the plan was approved for the acquisition of Cam Energia e Servizi S.p.A. (subsidiary of Cam Finanziaria S.p.A.).
- Pirelli & C. Real Estate, together with other partners, is currently taking part in the bid for the purchase of the non-essential real estate property of the RAS group and a part of the property of the Toro group.

Lastly, as far as the outlook for the current year is concerned, it remains positive, partly as a result of the good trend in the real estate segment.

The Board of Directors, in its meeting of March 13, 2002, convened the Shareholders' Meeting for April 2, 2002. In the ordinary session, the shareholders' will be called to vote on the proposal to list the ordinary shares on the Mercato Telematico Azionario.

In the extraordinary session of the shareholders' meeting, also convened for April 2, 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 medium to long term.

### **PIRELLI & C. AMBIENTE S.p.A.**

The company has continued to operate in the sectors of ecology and the recovery of energy from waste and the plan to abandon the co-generation sector has been completed through the sale of the investment in the subsidiary Pirelli Energie Deutschland GmbH; the total sales price was Euros 1.7 million, with a gain of Euros 0.5 million.

The purpose of the work being carried out in the sector for the recovery of energy from waste is that of designing innovative projects which produce income while at the same solving the problem of the disposal of waste in an economical and environmentally more suitable manner.

The consolidated result of the company for the year ended December 31, 2001, which is still in the start-up stage, shows a loss of Euros 0.1 million compared to a profit of Euros 2.5 million in the prior year.





Projects realized by  
Pirelli & C. Real Estate:  
the optical fiber drawing  
tower of the Pirelli Labs  
building in Milan.

## EQUITY INVESTMENTS HELD BY THE MANAGING PARTNERS

Pursuant to article 79 of Consob Regulation approved by resolution No. 11971 of May 14, 2000, the following information is provided as regards the investments held in the company Pirelli & C. and its subsidiaries by the Managing Partners, as well as spouses, not legally separated, and minor children, either directly or through subsidiaries, trustee companies or individual persons, resulting from the shareholders' register at December 31, 2001, from notices received or other information acquired from the same Managing Partners.

Name	Investment held in	No. of shares held at prior year-end	No. of shares purchased	No. of shares sold	No. of shares held at current year-end
Marco Tronchetti Provera	Pirelli & C.	1,870			1,870
	Pirelli & C. (indirectly)	173,033,278	4,281,500	398,000	176,916,778
	Pirelli S.p.A. (indirectly)	27,513,000	3,000,000		30,513,000
Alberto Pirelli	Pirelli & C.	4,000			4,000
Carlo Buora	Pirelli & C.	3,000			3,000
	Pirelli S.p.A.	42,517			42,517
Carlo Alessandro Puri Negri	Pirelli & C.	10,000			10,000
	Pirelli & C.				
	Real Estate S.p.A.	1,350	21,922	1,350	21,922
Luigi Orlando	Pirelli & C.	3,933			3,933
Luciano Gobbi	Pirelli S.p.A.		80,000	80,000	

(1) No statutory auditor holds investments in Pirelli & C. and its subsidiaries

No stock options have been assigned (as regards the stock option plans of the subsidiary Pirelli & C. Real Estate S.p.A. reference should be made to subsequent comments in this report, whereas for the stock option plans of the subsidiary Pirelli S.p.A., reference should be made to its annual report)

**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 December 31, 2001 of Pirelli & C. A.p.A. is presented below, assuming the line-by-line consolidation of Olimpia S.p.A. and the use of the equity method to value Olimpia's investment in Olivetti S.p.A.

Proforma data of Pirelli & C. A.p.A. - December 2001

(in millions of euros)

	Proforma adjustments					
	Consolidated financial statements 2001 Pirelli & C. A.p.A. (1)	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 2001 Pirelli & C. A.p.A. (2)
<b>Condensed statement of income</b>						
Net sales	7,762					7,762
Operating profit	297		(1)		(1)	296
Financial income/(expenses)/Valuation adjustments to financial assets	(70)	19	(31)	(61)	(73)	(143)
Income (loss) before extraordinary items and income taxes	227	19	(32)	(61)	(74)	153
Extraordinary items	156					156
Income before income taxes	383	19	(32)	(61)	(74)	309
Income taxes	(189)					(189)
Net income	194	19	(32)	(61)	(74)	120
Net income - Pirelli & C. A.p.A.	125	8	(8)	(15)	(15)	110
<b>Reclassified balance sheet</b>						
Fixed assets	7,092	19	8,609	(3,109)	5,519	12,611
Net working capital	1,314		69		69	1,383
Total net invested capital	8,406	19	8,678	(3,109)	5,588	13,994
Financed by:						
Shareholders' equity	5,407	19	5,169	(3,109)	2,079	7,486
- of which shareholders' equity - Pirelli & C. A.p.A.	2,119	8	1,245	(1,249)	4	2,123
Provisions	970					970
Net financial (liquidity)/debt position	2,029		3,509		3,509	5,538

(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 December 31, 2001 and the consolidated financial statements of the Olivetti S.p.A. group at December 31, 2001, prepared by the Boards of Directors.

The principal proforma adjustments 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. by the equity method in the consolidated financial statements of Pirelli & C. A.p.A. at December 31, 2001;
- 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 December 31, 2001 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 61 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 6 million to Olimpia S.p.A.’s share of the last quarter 2001 earnings of the Olivetti group, net of the effects that can be reasonably attributed to the pre-acquisition period;
  - elimination of the carrying value of the investment in Olimpia S.p.A. against the underlying share of net equity, recognizing a difference on consolidation of Euros 50 million.

A comparison of shareholders’ equity and net debt between the consolidated financial statements at December 31, 2001 of Pirelli & C. A.p.A. and the proforma consolidated financial data at December 31, 2001 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.

Proforma Pirelli & C. A.p.A. equity and financial summary data - December 2001

(in millions of euros)

	Shareholders' equity	Net debt	Net debt/ Shareholders' equity	Shareholders' equity- Pirelli & C. A.p.A.
Pirelli & C.A.p.A. Group: consolidated financial statements at 12/31/2001	5,407	2,029	0.38	2,119
Pirelli & C.A.p.A. 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	5,538	0.74	2,123
Pirelli & C.A.p.A. Group: proforma consolidated data with Olimpia S.p.A. and the Olivetti group consolidated line-by-line	30,182	43,900	1.45	2.123

## STOCK OPTIONS PLANS

There are two stock options plans, both introduced by the subsidiary Pirelli & C. Real Estate S.p.A.; the first in 2000 (hereinafter the “Plan 2000”) and the second in 2001 (hereinafter the “Plan 2001”).

### PLAN 2000

**Features of the plan:** assignment of option rights, by Pirelli & C. A.p.A., for the purchase of No. 25,713 Pirelli & C. Real Estate shares, already issued, and the simultaneous commitment by Pirelli & C. to repurchase the shares between January 1, 2004 and December 31, 2005, at a price determined on the basis of the “fair value” of the shares, according to the provisions of the Tax Code, resulting from a specific appraisal. Pirelli & C., however, will have the right to repurchase the above shares from January 1, 2004 to December 31, 2004 or, as early as January 1, 2002, whenever – in light of a re-examination of the current incentive and loyalty systems - Pirelli & C. Real Estate decides to institute a program that constantly involves the employees and management in the creation of economic value, in the medium term, of Pirelli & C. Real Estate itself.

Lastly, the right of the beneficiaries to sell the shares derived from exercising the options to Pirelli & C. A.p.A. and the right of Pirelli & C. to repurchase the same shares from the latter, will be null and void if Pirelli & C. Real Estate is listed on the stock market.

**Assignees:** 20 employees of Pirelli & C. Real Estate or its subsidiaries in view of their contribution to the positive outcome of the UNIM deal.

**Purchase price per share:** Lire 2,279,000.

**Period for exercising options:** from February 16, 2001 to June 30, 2001.

**Number of shares purchased between February 16, 2001 and June 30, 2001:** all the No. 25,713 shares offered for sale.

**Payment of the price of the shares purchased:** payment will take place by compensation with the amount that will be paid to the assignee at the time the shares sold are repurchased by Pirelli & C. A.p.A., and will be equal to Lire 2,279,000 per share (now Euros 1,177.01) plus annual interest calculated at the official rate in force at the end of each year. This form of financing was not used by Mr Carlo Alessandro Puri Negri who purchased No. 21,922 shares, also in view of his position as a managing partner of Pirelli & C. A.p.A..

### PLAN 2001

**Features of the plan:** assignment of option rights, by Pirelli & C. A.p.A., for the purchase of No. 6,925 Pirelli & C. Real Estate shares, already issued, and the simultaneous commitment by Pirelli & C. to repurchase the shares between January 1, 2004 and December 31, 2004, at a price determined on the basis of the “fair value” of the shares, according to the provisions of the Tax Code, resulting from a specific appraisal. Pirelli & C., however, will have the right to repurchase the above

shares from January 1, 2004 to December 31, 2004 or, as early as June 1, 2002, whenever – in light of a re-examination of the current incentive and loyalty systems – Pirelli & C. Real Estate decides to institute a program that constantly involves the employees and management in the creation of economic value, in the medium term, of Pirelli & C. Real Estate itself.

Lastly, the right of the beneficiaries to sell the shares derived from exercising the options to Pirelli & C. A.p.A. and the right of Pirelli & C. to repurchase the same shares from the latter, will be null and void if Pirelli & C. Real Estate is listed on the stock market.

**Assignees:** 22 employees of Pirelli & C. Real Estate or its subsidiaries, in view of the benefit of involving all those who became part of the Group in 2000 and were not able to take advantage of the previous plans and the need to equalize the salaries of some managers as well as for the purpose of aiming to achieve a greater success in the Edilnord deal and a more profitable integration of the relative assets in the organizational structure of the Group.

**Purchase price per share:** Euros 1,862.07.

**Period for exercising options:** from June 1, 2002 to December 31, 2002.

Payment of the price of the shares purchased: payment will take place by compensation with the amount that will be paid to the assignee at the time the shares sold are repurchased by Pirelli & C. A.p.A., and will be equal to Euros 1,862.07 per share plus annual interest calculated at the official discount rate in force at the end of each year.

In total, the Pirelli & C. Real Estate shares sold to employees of the Group amount to 7.5 percent of share capital while the optioned shares equal 2.02 percent of the same.

The stock option plan begun in 1999 was completed in 2001. The plan consisted of the bonus assignment of 7,115 shares of Milano Centrale S.p.A. (now Pirelli & C. Real Estate S.p.A.) to 34 employees.

In fact, on November 27, 2001, all the above shares were sold by the beneficiaries to Pirelli & C. A.p.A. (as envisaged by the originally agreed plan) for a total amount of some Lire 20,159 million (unit price of Lire 2,833,295).

Lastly, Pirelli & C. assigned the Managing Director-General Manager of the subsidiary Pirelli & C. Ambiente S.p.A., Dott. Nicolò Dubini, an option for the purchase of 183,600 shares of this company (equal to 6 percent of share capital) at a price of Euros 1.15 per share, based on an appraisal carried out for this purpose.

The option can be exercised beginning from the time the financial statements at December 31, 2003 of Pirelli & C. Ambiente S.p.A. are approved and the shares from the option can be sold by the beneficiary to Pirelli & C. within two years from the date the option was exercised at a price that will take into account the revaluation of the net assets of the company during the period.

# CORPORATE GOVERNANCE

## INTRODUCTION

On November 16, 1999, the Company informed the market that it had adopted the “Code of Self-discipline of listed companies” (hereinafter “Code”), recommended by Borsa Italiana S.p.A..

In conformity with the Instructions for the Regulations of the markets organized and managed by Borsa Italiana, here below, the Company wishes to represent its corporate governance system which has gradually come to be formed over time.

This year, too, an exact application of all the recommendations contained in the Code is difficult because of the particular type of Company (which has always been a limited partnership with share capital) and the salient feature which distinguishes the figure of the managing partner.

### 1. Board of Managing Partners

#### 1.1 The role of the Board of Managing Partners

Pursuant to the by-laws (art. 10), the Board is empowered with the management of the Company and, for this purpose, is invested with the fullest powers for finance and administration, except those, which according to the by-laws or by law, are reserved for the shareholders’ meetings.

The Board, in fact, exercises its powers in conformity with point 1.2 of the Code, that is:

- examines the corporate, industrial and financial plans of the company and the corporate structure of the Group which the Company heads;
- assigns and revokes the delegation of powers to the managing partners, establishing the limits and manner of exercising such powers;
- establishes, after examining the proposals of the specific remuneration committee and after having consulted the Board of Statutory Auditors, the fee to be paid to the managing partners and those who hold specific posts;
- monitors the general performance of operations, with special attention being paid to the conflicts of interest, taking into account, in particular, the information received from the executive managing partners and the audit committee, as well as periodically comparing the results with the budgets;
- examines and approves transactions that have a significant economic, financial or equity impact, with particular reference to related party transactions;
- generally, at the board meetings, held at least quarterly, the Board of Statutory Auditors is kept informed of the activities conducted and the most important transactions entered into, also by the subsidiaries;
- verifies the adequacy of the general organizational and administrative structure of the company and group as organized by the managing directors;
- keeps the shareholders informed at the shareholders’ meetings.

#### 1.2 The appointment of managing partners

In conformity with point 7 of the Code, and although not included in the by-laws, from now on, as a normal rule, the proposals for the post of managing partner will be accompanied by exhaustive disclosure concerning the personnel and professional characteristics of the candidates and will be deposited at the

corporate offices, if possible, at least ten days prior to the expected date of the shareholders' meeting.

The Board of Managing Partners did not deem it necessary to form an internal committee to propose candidates for the post of managing partner, since, at present, the assumptions for doing so as contemplated by the Code do not apply to the company and, particularly because no special difficulties are envisaged in proposing candidates, in view of the actual shareholder base.

Lastly, the by-laws do not contemplate the system of voting by lists for the nomination of the managing partners.

### 1.3 The composition of the Board of Managing Partners

The Board of Managing Partners is composed of the following:

Dott. Marco Tronchetti Provera

Dott. Alberto Pirelli

Dott. Carlo Buora

Dott. Luigi Orlando

Carlo Alessandro Puri Negri

Therefore, the Board is composed of five managing partners, of whom four are executive managing directors. Executive managing partners is defined, as according to point 2.1 of the Code, – as the Chairman Dott. Marco Tronchetti Provera, entrusted with delegated powers, the Deputy Chairman Dott. Alberto Pirelli (who carries out management functions in the subsidiary Pirelli Cavi e Sistemi –Energy), Dott. Carlo Buora, the Managing Director and General Manager of Finance and Administration in the subsidiary Pirelli S.p.A., and Carlo Alessandro Puri Negri, the General Manager of the Company and Deputy Chairman-Managing Director of the subsidiary Pirelli & C. Real Estate S.p.A. and Deputy Chairman, entrusted with delegated powers, in Pirelli & C. Ambiente S.p.A..

The Code, at point 3, provides a definition of “independent directors”, which, in view of, but especially on account of the particular features which distinguish the managing partners, none of them can be qualified as such.

Given the type of company, an expiration date for term of office for the managing partners has not been established.

### 1.4 Meeting of the Board

A Chairman, and if necessary, one or more Deputy Chairmen shall be appointed from amongst the members of the Board.

In the event of the Chairman being absent, the chair shall be taken by the senior in age of the Deputy Chairmen present.

The Board shall appoint a Secretary who need not necessarily be a member of the Board.

The Board shall meet at the invitation of the Chairman or, if appointed, by a Deputy Chairman or a Managing Director, at the registered office of the Company or in any other place just so long as it is in Italy, or whenever a meeting has been requested by two managing partners or by at least two standing statutory auditors.

To this end, the by-laws do not establish a minimum number of meetings; it is nevertheless the practice to hold at least five meetings a year (to examine the

preliminary data at December 31, the draft financial statements and the quarterly and semiannual reports).

Meetings of the Board may be held through an audiovisual connection.

In this case the following must be guaranteed:

- a) identification of all the participants at each point in the connection;
- b) the possibility for each participant to intervene, to orally put forward same's own opinion, to view, receive and transmit all documentation, as well as the contextuality of considerations and resolutions;
- c) meetings of the Board of Managing Partners are considered to be held in the place in which the Chairman and the Secretary must be simultaneously.

Board meetings shall be convened by means of a letter, telegram, telex or fax sent to the address of each managing partner and each statutory auditor, at least five days before (or in urgent cases at least six hours before) the day set for the meeting.

The presence of at least half the members plus one is necessary for the resolutions of the Board to be deemed valid, and the favorable vote of the majority of those present is required. Nevertheless, for the appointment of the Chairman and one or more Deputy Chairman, in addition to the appointment of the Managing Director and the granting of powers by the Board of Managing Partners to one or more of its members, a favorable vote cast by all the members is required.

The resolutions of the Board, even when passed by meetings held through videoconference, are recorded in a special book signed by the Chairman and the Secretary.

In 2001, six Board meetings were held; total attendance by the managing partners was close to 100 percent (a director was absent at two meetings).

#### 1.5 The emoluments of the managing partners

The emoluments of the Board of Managing Partners, besides the reimbursement for expenses in connection with their duties, consist of an annual fee established by the shareholders' meeting.

The emoluments of the managing partners invested with specific responsibilities are established by the provisions of art. 2389, paragraph 2 of the Italian Civil Code.

The Board has internally set up the "Remuneration Committee", establishing that:

- a) as regards its functions:
  - proposals are presented to the Board for the remuneration of the managing partners having specific responsibilities and the remuneration of the top management of the company;
  - preliminary examinations are made of the proposals for stock option plans;
- b) as regards its composition:
  - in general, it is composed of at least three managing partners who shall appoint the Chairman and a Secretary, who need not necessarily be a member of the Board;
  - the Board of Statutory Auditors and the Chairman of the Board of Managing Partners shall also attend the Board meetings;

- the managing partners invested with specific responsibilities shall absent themselves from the meeting when their remuneration is being discussed and also in the event of discussions which interest them personally;
- c) as to its working format:
- meetings are held at any time the Chairman deems it necessary or a request has been made by another member;
  - for convening meetings and for the validity of its constitution and the resolutions, the same rules apply as those stated in the by-laws for the meetings of the Board of Managing Partners.

The “Remuneration Committee” is currently composed of the managing partners Dott. Luigi Orlando, who is Chairman, Dott. Alberto Pirelli and Dott. Carlo Buora; three meetings were held in 2001.

## **2. Granting of power. Information provided to the Board of Managing Partners**

The Board of Managing Partners conferred powers, to the Chairman Dott. Marco Tronchetti Provera and the Deputy Chairman Dott. Alberto Pirelli, necessary to carry out all the acts pertaining to corporate activity, to be exercised with single signature powers, with the exception of the power to issue guarantees for obligations of the Company and the subsidiaries in excess of single amounts of Euros 25 million or guarantees in the interest of third parties for obligations in excess of single amounts of Euros 10 million.

Specific and more limited powers were conferred to the General Manager and the executives to be used to carry out their specific responsibilities.

Also during 2001, as in the past, the above managing partners (as well as those to whom specific powers were granted) only used the powers conferred to them to carry out the normal operations of the company – of which the other managing partners of the company were periodically informed –, waiving such powers in the case of significant transactions in terms of quality or value from an economic and financial standpoint, and submitting them to the same Board of Managing Partners. In accordance with art. 10 of the by-laws, the Board of Managing Partners and the Board of Statutory Auditors – on a quarterly basis – have been kept informed about the activities and any important economic, financial or equity transactions carried out by the company or the subsidiaries as well as transactions involving any potential conflicts of interest, providing the necessary elements to comprehend the transactions themselves.

Finally, the Chairman of the Board, also using information provided by the responsible internal functions, informs the managing partners and, if necessary, discusses any major new legislation and regulations that regard the company and the corporate boards.

## **3. Internal control**

Reporting directly to the Chairman of Pirelli & C.A.p.A., also with regard to the activities carried out in the subsidiaries, is the Auditing Function (not involved in financial operating activities and in the preparation of the financial statements and period statements) which has the main responsibility for verifying that the system of internal control of both the Pirelli & C. Group and

the Group headed by the subsidiary Pirelli S.p.A. is functioning and is adequate in terms of effectiveness and efficiency. To this end, it should be pointed out that in 2001, activities continued to spread and develop the methodology for managing operating risk within all the major units of the Group.

The relative procedures for application have been issued and included in the administrative procedures manual; this has made it possible to further improve the internal control system in general.

As regards Legislative Decree No. 231/2001, and while awaiting publication of the guidelines by Confindustria for the development of the Organization Models for management and control, approved on February 6, 2001, Management has taken steps to improve the existing internal regulations and extend the spread of the same, also through meetings with management.

The Board of Managing Partners has internally set up an "Audit Committee", establishing that:

a) as regards its functions:

- advisory and proposal functions shall be provided to the Board of Managing Partners and, in particular:
  - evaluate the adequacy of the internal control system;
  - evaluate the work plan prepared by those in charge of internal control and receive their reports periodically;
  - evaluate the proposals formulated by the independent audit firms in order to be appointed as auditors as well as the audit work plan and the results expressed in the report and letter of recommendations;
  - at least every six months, at the time of the approval of the annual financial statements and six-month financial statements, the Board shall be informed about the work carried out and the adequacy of the system of internal control;
  - perform the additional tasks assigned by the Board of Managing Partners, particularly with regard to relations with the independent audit firm;

b) as regards its composition:

- it is composed of at least three managing partners who shall appoint the Chairman and a Secretary, who need not necessarily be a member of the Board;
- the Board of Statutory Auditors and the Chairman of the Board of Managing Partners shall also attend the Board meetings, as well as, by invitation, the person in charge of the Internal Audit function;

c) as regards its working format:

- meetings are held at least twice a year, before the Board meetings for the approval of the annual financial statements and the six-month financial statements, or at any time the Chairman deems it necessary or a request has been made by another member or a managing director;
- for convening meetings and for the validity of its constitution and the resolutions, the same rules apply as those stated in the by-laws for the meetings of the Board of Managing Partners.

The "Audit Committee" is currently composed of the managing partners Dott.

Luigi Orlando, who is Chairman, Dott. Carlo Buora and Mr. Carlo Alessandro Puri Negri.

One meeting was held in 2001 (another was held together with a Board meeting).

Again in 2001, the Internal Audit function reported on its work to the Chairman at least monthly, once to the Audit Committee, once directly to the Board of Managing Partners and once to the Board of Statutory Auditors.

The Audit Committee and the Board of Directors, also on the basis of indications received from the Board of Statutory Auditors, have maintained that the system of internal control is adequate.

#### **4. The Board of Statutory Auditors**

It is felt that the entire article 15 of the by-laws should be reported herein, as follows:

“The Board of Statutory Auditors is composed of three standing statutory auditors and two alternate statutory auditors who must hold the requisites required by the existing laws and also by regulations; to this end, account will be taken that the matters and sectors of business strictly inherent to those of the Company are those indicated in the corporate business purpose with particular reference to companies or entities operating in the financial, industrial, banking, insurance, real estate and services sectors in general.

The ordinary General Meeting shall appoint the Board of Statutory Auditors and determine the fees thereof. The minority shareholders shall appoint one standing statutory auditor and one alternate statutory auditor.

With the exception of the provisions of the second last paragraph of the present article, the appointment of the Board of Statutory Auditors is made on the grounds of lists put forward by the shareholders in which candidates are listed under progressive numbers.

Each list contains a number of candidates which does not exceed the number of members to be appointed, All shareholders who, alone or together with other shareholders, represent at least 2 percent of the shares with voting rights in the ordinary general meeting, have the right to put forward a list.

The lists of candidates, undersigned by the parties presenting them, must be filed at the Company’s registered office at least ten days before the day fixed for the meeting in first call. A description of the professional résumé of the individuals standing for election must be enclosed with the lists together with statements whereby the single candidates accept the nomination and attest, under their own personal responsibility, to the non-existence of any reasons for ineligibility or incompatibility as well as to the existence of the requisites prescribed by law or by the articles for the position.

Any lists put forward which do not comply with the aforesaid provisions shall be considered not to have been put forward.

Each candidate may be included on only one list, under penalty of ineligibility.

Likewise, any individuals who are not in possession of the requisites established by the applicable rules and regulations or who already hold the position of statutory auditor in more than five companies with stocks listed on official Italian markets, with the exception of the subsidiaries of Pirelli e C..

Each individual with voting rights may vote for only one list.

The election of the members of the Board of Statutory Auditors is performed as follows: two standing statutory members and one alternate member are taken from the list which has obtained the highest number of votes, in the progressive order in which same are listed thereon; the remaining statutory member and the other alternate member are taken from the list which has obtained the highest number of votes from the meeting after the first list, again in the progressive order in which same are listed thereon; in the event of several lists obtaining the same number of votes, a new run-off vote between the said lists will be cast by all the shareholders present at the meeting, and the candidates on the list which obtains the simple majority of the votes will be appointed.

The Chairman of the Board of Statutory Auditors shall be the statutory member indicated as the first candidate on the list which obtained the highest number of votes.

In case of death, waiver or resignation of a Statutory Auditor, the deputy belonging to the same list as the resigned statutory auditor all take the place of same. In the event of substitution of the Chairman of the Board of Statutory Auditors, the chair shall be taken by the other statutory member on the list to which the resigning chairman belonged; if it is not possible to perform substitutions and replacements as set out hereinabove, then a meeting shall be convened to integrate and complete the Board of Statutory Auditors and which shall pass resolutions with a relative majority.

When the meeting has to make provisions, pursuant to the terms of the foregoing paragraph or to the terms of law, for the appointment of statutory auditors and/or alternates needed to complete the Board of Statutory Auditors, it shall proceed as follows: if statutory auditors appointed from the majority list have to be replaced, then the appointment is made with a relative majority vote without being tied to any list; if on the other hand statutory auditors appointed by the minority shareholders have to be replaced, the meeting shall replace same with a relative majority vote choosing names where possible from amongst the candidates indicated on the list on which the statutory auditor to be substituted appeared.

If only one single list has been put forward, then the meeting shall cast its vote regards same; if the list obtains a relative majority, then the first three candidates on the list in progressive order shall be appointed as the standing statutory auditors, and the fourth and fifth candidate shall be appointed as alternate statutory auditors; Chairman of the Board of Statutory Auditors shall be the person indicated at the top of the list put forward; in case of death, waiver or resignation of a statutory auditor, and in the event of substitution of the Chairman of the Board of Statutory Auditors, same shall be replaced respectively by an alternate statutory auditor and a standing statutory auditor in the order arising from the progressive numbering of the said list.

Failing any lists, the Board of Statutory Auditors and its Chairman shall be appointed by the general meeting with the majorities prescribed by law.

Resigning statutory auditors may be re-appointed”.

##### **5. The shareholders' meetings**

It is the Company's consistent policy to use the shareholders' meetings to provide the shareholders with information about the company and its prospects;

this obviously is complied with, in accordance with the rules governing price sensitive issues and, therefore, where necessary, by informing the market of such information.

It is also the Company's policy to call attention to the location, date and time of the meeting in order to facilitate the participation of the shareholders at the meetings; furthermore, where possible, all the managing partners and statutory auditors try to attend the shareholders' meetings, in particular the directors who, because of the posts they hold, can make a useful contribution to the discussion.

Lastly, the Board of Managing Partners makes known that it does not feel – at the present time – that the Company has a need to establish rules for conducting shareholders' meetings, deeming that what is envisaged in the by-laws on this matter is sufficient for the orderly and proper functioning of the shareholders' meetings.

**6. Relations with investors and the other shareholders**

The Company has always actively tried to establish a dialogue with its shareholders and institutional investors based on an understanding of the reciprocal roles, and also by planning periodical meetings with members of the Italian and international financial community.

Moreover, as early as March 1999, an Investor Relations office has been set up in the Group, entrusted to Dott.ssa Silvia Barettoni.

**7. Treatment of confidential information**

The management of confidential information, with special reference to price sensitive information, is under the direct responsibility of the Chairman of the Board of Managing Partners.

Outside communications regarding documents and information about the Company and its subsidiaries are conducted – always in agreement with the Chairman – by the Secretary to the Board and the Corporate Secretary for communications to the authorities and the shareholders, by the External Relations function for communications to the press and the Investor Relations function for communications directed to institutional investors.

The Chairman and those in charge of the aforementioned functions are invariably able to join together to issue any urgent external communications.

## THE PARENT COMPANY: PIRELLI & C.

The financial statements at December 31, 2001 of Pirelli & C. show a net income of Euros 148.4 million compared to a net income of Euros 259.7 million in the prior year. The condensed statement of income is as follows:

(in thousands of euros)			
<b>STATEMENT OF INCOME</b>	<b>2001</b>	<b>2000</b>	<b>Change</b>
Financial income and expenses	11,427	23,575	(12,148)
Dividends and tax credits	228,389	284,802	(56,413)
Gains on sales of securities	163	54	109
Value adjustments to financial assets	(998)	(4,656)	3,658
Depreciation and amortization	(1,711)	(1,701)	(10)
Other operating income and expenses	(7,319)	(5,979)	(1,340)
<b>Income from ordinary operations</b>			
<b>before income taxes</b>	<b>229,951</b>	<b>296,095</b>	<b>(66,144)</b>
Extraordinary items	(3,455)	56,784	(60,239)
Income taxes	(78,110)	(93,204)	15,094
<b>Net income</b>	<b>148,386</b>	<b>259,675</b>	<b>(111,289)</b>

An analysis of the main components of the statement of income shows that financial income, net decreased on account of average interest rates, that were lower than those of the prior year, and a lower average net liquidity position.

Dividends, including tax credits of Euros 79.7 million, are equal to Euros 228.4 million compared to Euros 284.8 million in the prior year. The amounts mainly includes dividends (including tax credits) from the subsidiaries Pirelli & C. Real Estate S.p.A. (Euros 190.5 million), Pirelli & C. Luxembourg S.A. (Euros 7 million) and Pirelli S.p.A. (Euros 27.2 million).

Gains on sales of securities refer to the gains realized on the sale of “Assicurazioni Generali S.p.A. shares reserved for holders of warrants”.

Other operating expenses, net of income from the recovery of expenses for services rendered to Group companies and other income, went from Euros 5.9 million to Euros 7.3 million.

Extraordinary items, net mainly include expenses connected with the extraordinary renovation of the buildings used and not owned and fees connected with extraordinary transactions.

The condensed balance sheet is as follows:

(in thousands of euros)			
<b>BALANCE SHEET</b>	<b>12/31/2001</b>	<b>12/31/2000</b>	<b>Change</b>
Property, plant and equipment and intangible assets	2,095	3,506	(1,411)
Financial assets			
Investments	859,263	482,571	376,692
Other securities	2,582	19,109	(16,527)
Treasury shares	4,678	4,678	-
Financial receivables	988,025	777,318	210,707
Current financial assets	8,335	8,396	(61)
Other assets	62,611	176,224	(113,613)
	<b>1,927,589</b>	<b>1,471,802</b>	<b>455,787</b>
Shareholders' equity	1,194,513	1,155,147	39,366
Provisions	13,334	7,372	5,962
Financial payables	696,248	265,334	430,914
Other liabilities	23,494	43,949	(20,455)
	<b>1,927,589</b>	<b>1,471,802</b>	<b>455,787</b>

Investments increased by Euros 376.7 million due mainly to the purchase of No. 100,156,279 Pirelli S.p.A. ordinary shares (Euros 300.4 million), No. 8,500,000 Pirelli S.p.A. savings shares (Euros 26 million), in addition to the purchase of Consortium S.r.l. shares (Euros 19.5 million) and the capital increase by Tredicimarzo S.r.l. (Euros 14 million).

After the purchases of Pirelli S.p.A. shares, the average carrying value per ordinary share is equal to Euros 2.45.

A complete analysis is provided in the notes.

Shareholders' equity at December 31, 2001 is equal to Euros 1,194.5 million compared to Euros 1,155.1 million at December 31, 2000.

The increase is the result of the net income for the year (Euros 148.4 million), net of dividends paid (Euros 128.9 million) and the partial conversion of 2.5% 1998-2003 bonds (Euros 19.9 million).

The net financial position shows a liquidity balance of Euros 300.1 million at December 31, 2001 compared to Euros 520.4 million at the end of the prior year.

(in thousands of euros)			
	<b>12/31/2001</b>	<b>12/31/2000</b>	<b>Change</b>
Financial receivables	988,025	777,318	210,707
Current financial assets	8,335	8,396	(61)
Financial payables	(696,248)	(265,334)	(430,914)
	<b>300,112</b>	<b>520,380</b>	<b>(220,268)</b>

The change in the net financial position derives from the following movements:

	(in thousands of euros)
	<b>12/31/2001</b>
Share capital increases and reserves	19,886
Cash flows generated by operating activities	266,745
Financial investments, net	(377,992)
Dividends paid to shareholders	(128,907)
	<b>(220,268)</b>

Other assets mainly consist of receivables from the tax authorities (Euros 32.7 million) and dividends receivable (Euros 24.4 million).

Other liabilities mainly comprise of payables for the payment of the unified VAT return filed for the entire Group, with a contra-entry to other assets (Euros 16.6 million), taxes payable, social security agencies payable and withholding taxes payable (Euros 1 million).

# APPOINTMENT OF THE BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors was appointed by the shareholders' meeting of May 25, 1999 and its term of office is thus about to end.

The shareholders' meeting is thus called to appoint three standing auditors and two alternate auditors, as well as the Chairman of the Board of Statutory Auditors, and establish the remuneration for the standing auditors.

The Board of Statutory Auditors is appointed in accordance with article 15 of the by-laws which is reported below.

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## Article 15 of the by-laws – Board of Statutory Auditors

The Board of Statutory Auditors is composed of three standing statutory auditors and two alternate statutory auditors who must hold the requisites required by the existing laws and also by regulations; to this end, account will be taken that the matters and sectors of business strictly inherent to those of the Company are those indicated in the corporate business purpose\* with particular reference to companies or entities operating in the financial, industrial, banking, insurance, real estate and services sectors in general.

The ordinary General Meeting shall appoint the Board of Statutory Auditors and determine the fees thereof. The minority shareholders shall appoint one standing statutory auditor and one alternate statutory auditor.

With the exception of the provisions of the second last paragraph of the present article, the appointment of the Board of Statutory Auditors is made on the grounds of lists put forward by the shareholders in which candidates are listed under progressive numbers.

Each list contains a number of candidates which does not exceed the number of members to be appointed. All shareholders who, alone or together with other shareholders, represent at least 2 percent of the shares with voting rights in the ordinary general meeting, have the right to put forward a list.

The lists of candidates, undersigned by the parties presenting them, must be filed at the Company's registered office at least ten days before the day fixed for the meeting in first call. A description of the professional résumé of the individuals standing for election must be enclosed with the lists together with statements whereby the single candidates accept the nomination and attest, under their own personal responsibility, to the non-existence of any reasons for ineligibility or incompatibility as well as to the existence of the requisites prescribed by law or by the articles for the position.

Any lists put forward which do not comply with the aforesaid provisions shall be considered not to have been put forward.

Each candidate may be included on only one list, under penalty of ineligibility.

Likewise, any individuals who are not in possession of the requisites established by the applicable rules and regulations or who already hold the position of statutory auditor in more than five companies with stocks listed on official Italian markets, with the exception of the subsidiaries of Pirelli & C..

Each individual with voting rights may vote for only one.

The election of the members of the Board of Statutory Auditors is performed as follows: two standing statutory members and one alternate member are taken from the list which has obtained the highest number of votes, in the progressive order in which same are listed thereon; the remaining statutory member and the other alternate member are taken from the list which has obtained the highest number of votes from the meeting after the first list, again in the progressive order in which same are listed thereon; in the event of several lists obtaining the same number of votes, a new run-off vote between the said lists will be cast by all the shareholders present at the meeting, and the candidates on the list which obtains the simple majority of the votes will be appointed.

The Chairman of the Board of Statutory Auditors shall be the statutory member indicated as the first candidate on the list which obtained the highest number of votes.

In case of death, waiver or resignation of a Statutory Auditor, the deputy belonging to the same list as the resigned statutory auditor all take the place of same. In the event of substitution of the Chairman of the Board of Statutory Auditors, the chair shall be taken by the other statutory member on the list to which the resigning chairman belonged; if it is not possible to perform substitutions and replacements as set out hereinabove, then a meeting shall be convened to integrate and complete the Board of Statutory Auditors and which shall pass resolutions with a relative majority.

When the meeting has to make provisions, pursuant to the terms of the foregoing paragraph or to the terms of law, for the appointment of statutory auditors and/or alternates needed to complete the Board of Statutory Auditors, it shall proceed as follows: if statutory auditors appointed from the majority list have to be replaced, then the appointment is made with a relative majority vote without being tied to any list; if on the other hand statutory auditors appointed by the minority shareholders have to be replaced, the meeting shall replace same with a relative majority vote choosing names where possible from amongst the candidates indicated on the list on which the statutory auditor to be substituted appeared.

If only one single list has been put forward, then the meeting shall cast its vote regards same; if the list obtains a relative majority, then the first three candidates on the list in progressive order shall be appointed as the standing statutory auditors, and the fourth and fifth candidate shall be appointed as alternate statutory auditors; Chairman of the Board of Statutory Auditors shall be the person indicated at the top of the list put forward; in case of death, waiver or resignation of a statutory auditor, and in the event of substitution of the Chairman of the Board of Statutory Auditors, same shall be replaced respectively by an alternate statutory auditor and a standing statutory auditor in the order arising from the progressive numbering of the said list.

Failing any lists, the Board of Statutory Auditors and its Chairman shall be appointed by the general meeting with the majorities prescribed by law.

Resigning statutory auditors may be re-appointed.

### \* Article 2 of the by-laws states the corporate business purpose as follows:

- a) investments made in other companies or entities in Italy and abroad;
- b) the financing, technical and financial coordination of the companies or entities in which it has holdings;
- c) the buying or selling, possession, management or placement of public or private securities.
- d) property and non-property leasing, the granting of loans to third parties and the trading and lease of properties as well as the management of those owned and the consequent construction works.

# SHAREHOLDERS' RESOLUTIONS

## APPROPRIATION OF NET INCOME

The year ended December 31, 2001 shows a net income of Euros 148,386,648.

The Board proposes the distribution of dividends, gross of any withholding taxes, of:

- Euros 0.08 for each ordinary share
- and
- Euros 0.0904 for each savings share.

A tax credit equal to 56.25 percent is due on the dividends proposed for distribution. In relation to the estimated availability of the taxes pursuant to art. 105, paragraph 1, letter a) (ordinary tax credit) and letter b) (limited tax credit), a proposal is put forward to assign the ordinary and limited tax credit to the dividends as follows:

- ordinary shares
  - tax credit of Euros 0.04500, of which Euros 0.03150 with refund rights and Euros 0.01350 without refund rights;
- savings shares
  - tax credit of Euros 0.05085, of which Euros 0.03559 with refund rights and Euros 0.01526 without refund rights.

If in agreement with our proposal, we ask you to pass the following

### Resolution

The shareholders' meeting:

- having examined the Report of the Managing Partners;
- having examined the Report of the Board of Statutory Auditors;
- having examined the financial statements at December 31, 2001, which show a net income of 148,386,648

### Votes

a) to approve:

- the Report of the Managing Partners;
- the balance sheet, statement of income, the notes to financial statements for the year ended December 31, 2001 as presented by the Board of Managing Partners in their entirety, in their individual items, with the accruals proposed;

b) to appropriate the net income of Euros 148,386,648 as follows:

- to the legal reserve (until it reaches one-fifth of share capital) Euros 2,866,197
- to the shareholders:
  - Euros 0.08 to No. 615,655,851 (\*) ordinary shares, for a total of Euros 49,252,468
  - Euros 0.0904 to No. 34,418,257 savings shares, for a total of Euros 3,111,410
  - with the assignment of the tax credit as proposed by the Board of Managing Partners
- to retained earnings Euro 93,156,573

(\*) net of No. 2,617,500 treasury shares currently held by the Company.

- c) to authorize the managing partners, in the event treasury shares are purchased before the dividend coupon is presented in the preceding point b), to appropriate the dividends to which such shares are entitled to retained earnings, as well as appropriate the balance of the amounts rounded off which could arise at the time of payment of the dividends to retained earnings.

## **APPOINTMENT OF THE INDEPENDENT AUDIT FIRM**

With the audit of the financial statements for the year ended December 31, 2001, the appointment of Price Waterhouse S.p.A. (now PricewaterhouseCoopers S.p.A.) by the shareholders' meeting of May 25, 1999 will expire.

Therefore, in accordance with Legislative Decree No. 58 of February 24, 1998, art. 159 (the so-called "Draghi Law"), it becomes necessary to appoint independent auditors for the audit of the statutory financial statements and the consolidated financial statements, and, in compliance with the Consob recommendation No. 97001574 of February 20, 1997, for the interim six-month reports, for the years ending December 31, 2002, 2003 and 2004.

To this end, the proposal made by PricewaterhouseCoopers S.p.A. relating to this same service was obtained. This proposal is prepared in accordance with the criteria established by Consob in its communication No. 96003556 of April 18, 1996.

Since it would be opportune and also for reasons of an organizational nature, including the fact that the Group would incur higher internal costs should another audit firm be chosen, we propose that PricewaterhouseCoopers S.p.A. be confirmed as auditors for the three years 2002, 2003 and 2004.

The annual fee requested amounts to a total of Euros 48,000, of which Euros 15,000 is for the statutory financial statements, Euros 12,000 for the consolidated financial statements of the Group, Euros 13,000 for the limited review of the interim six-month financial statements and Euros 8,000 for the controls required by Legislative Decree No. 58 dated February 24, 1998 art. 155, 1st paragraph, letter a).

The above fees have been calculated on the basis of the hourly rate which is valid until June 30, 2003. On July 1, 2003, and every year thereafter on July 1, the fees will be adjusted on the basis of the total change in the ISTAT cost-of-living index.

These fees do not include out-of-pocket expenses, which will be invoiced on the basis of the actual costs incurred, or the supervisory fee on behalf of Consob.

We would also like to inform you that the major subsidiaries will confirm the same audit firm of PricewaterhouseCoopers S.p.A. for the audit of their financial statements and will directly bear the costs of the audits which will amount to about Euros 900,000 for the Italian subsidiaries and about Euros 2,440,000 for the foreign subsidiaries.

If in agreement with our proposals, we ask you to pass the following

### **Resolution**

"The shareholders' meeting:

- having taken note of the proposal by the Board of Managing Partners
- having taken note of the favorable opinion of the Board of Statutory Auditors to the proposal of PricewaterhouseCoopers S.p.A.

### **votes**

- to appoint PricewaterhouseCoopers S.p.A., in accordance with Legislative Decree

No. 58 of February 24, 1998, article, 159, and taking into account Consob recommendation No. 97001574 of February 20, 1997, as the auditors of the statutory financial statements and the consolidated financial statements and the six-months reports for the years ending December 31, 2002, 2003 and 2004;

- to establish, on the basis of the fee proposal prepared in accordance with the criteria of Consob resolution No. 96003556 of April 18, 1996, the annual fee in Euros 48,000 payable to the above audit firm, of which Euros 15,000 is for the statutory financial statements, Euros 12,000 for the consolidated financial statements of the Group, Euros 13,000 for the limited review of the interim six-month financial statements and Euros 8,000 for the controls required by Legislative Decree No. 58 dated February 24, 1998, art. 155, 1st paragraph, letter a).

The above fees have been calculated on the basis of the hourly rate which is valid until June 30, 2003. On July 1, 2003, and every year thereafter on July 1, the fees will be adjusted on the basis of the total change in the ISTAT cost-of-living index.

These fees do not include out-of-pocket expenses, which will be invoiced on the basis of the actual costs incurred, or the supervisory fee on behalf of Consob.

Furthermore, the fees will be adjusted when exceptional or unforeseen circumstances arise, including significant changes in the structure and business of the company which could require additional time to carry out the audit work.”

## **PROPOSAL FOR THE PURCHASE AND DISPOSITION OF TREASURY SHARES**

Dear Shareholders,

In the resolution passed on May 10, 2001, you authorized the purchase of treasury shares (ordinary and savings shares) up to maximum amount of Euros 100 million and for a period of 18 months from the date of the resolution.

The above authorization will expire on November 9, 2002.

With regard to the purchase of treasury shares, the same opportunities now exist which persuaded the managing partners to propose to you the May 2001 resolution, that being the convenience of taking action (in accordance with the law and ensuring equal treatment to the shareholders), in relation to contingent market situations, to act as a stabilizing force in improving the liquidity of the market, favor normal trading and facilitate the maximum consistency between the market price and the intrinsic value of the stock.

We therefore believe it useful to propose, with today's shareholders' meeting and to avoid convening a specific meeting close to the above expiration date, to proceed to issue a new authorization, canceling the existing authorization not used; the related procedures for the purchase and sale, as well as the procedures for the sale of the treasury shares already held in portfolio are contained in the following proposed resolution.

If in agreement with our proposal, we ask you to pass the following

### **Resolution**

“The shareholders’ meeting

- having taken note of the proposal of the managing partners;

- having taken note of the provisions of art. 2357 and 2357-ter of the Italian Civil Code;
- having taken note that, as of today, the company holds No. 2,617,500 ordinary shares, equal to 0.42 percent of share capital, amounting to Euros 326,177,710.04

### **Votes**

- a) to cancel the resolution passed by the shareholders on May 10, 2001 authorizing the purchase of treasury shares and the disposition of the same, as not used;
- b) to authorize the purchase of treasury shares (ordinary and savings shares) of par value Euro 0.52 each for a maximum amount of Euros 100 million, establishing that:
  - the purchase can be made in one or more instances within 18 months of the date of this resolution;
  - the purchase shall be carried out according to the manner agreed with the company managing the market so that equal treatment among shareholders can be ensured, in accordance with Legislative Decree No. 58 of February 24, 1998, art. 132;
  - the purchase price of each share shall not be either lower or higher, in both cases, than a maximum of 15 percent of the average reference price recorded by the Italian stock exchange in the three trading sessions prior to each single transaction;
  - the maximum number of shares purchased shall not be higher than that representing 5 percent of the shares constituting the entire share capital each time, also in observance of the total limit of ownership of 10 percent of share capital established by law;
  - the purchase shall be made by using “retained earnings” and/or the “share premium reserve” as shown in the latest approved financial statements, setting up a reserve for treasury shares in the manner and limits established by law;
  - the Board of Managing Partners can dispose, without any time limit, of the treasury shares already held or thus purchased even before having completed all the purchases; the sale can occur in one or more instances; the shares shall be sold through a sale or exchange (also through a public offer, to the shareholders, to employees and/or directors and/or associates - also as part of any stock option plans); in the event of sale, the price shall not be lower than the purchase prices; such price limit shall not be applied whenever the sale of the shares is made to the employees and/or directors and/or associates of the company, as part of any stock option plans; the shares can also be sold by being attached to bonds or warrants for their exercise.
  - to confer to the Board of Managing Partners and on its behalf the Chairman and Deputy Chairman, separately, any and all powers necessary to make purchases and sales and in any case to carry out the preceding resolutions, also through those holding power of attorney, fulfilling that eventually required by the appropriate authorities”.

Milan, March 28, 2002

The Board of Managing Partners



**CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2001**

# CONSOLIDATED BALANCE SHEETS

## ASSETS

(in thousands of euros)

	12/31/2001	12/31/2000
<b>A) CAPITAL SUBSCRIPTION RIGHTS</b>		
Portion uncalled	-	-
<b>B) FIXED ASSETS</b>		
<b>I) Intangible assets</b>		
Formation costs	6,042	8,302
Patents and design patent rights	4,101	5,365
Concessions, licenses, trademarks and similar rights	8,076	6,469
Goodwill	15,416	8,066
Difference on consolidation	544,938	558,865
Intangible assets in progress and payments on account	12,781	5,327
Other intangible assets	83,393	78,563
<b>TOTAL INTANGIBLE ASSETS</b>	<b>674,747</b>	<b>670,957</b>
<b>II) Property, plant and equipment</b>		
Land and buildings	721,589	729,737
Plant and machinery	1,329,564	1,363,544
Industrial and commercial equipment	147,790	130,240
Other property, plant and equipment	192,035	161,402
Assets under construction and advances to suppliers	434,922	233,077
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>2,825,900</b>	<b>2,618,000</b>
<b>III) Financial assets</b>		
Investments in:		
a) Subsidiaries	1,136	5,895
b) Jointly controlled subsidiaries	3,150,840	-
c) Associated companies	115,559	86,491
d) Other companies	315,570	321,274
Financial receivables:		
a.1) Subsidiaries due within 1 year	-	4,093
a.2) Subsidiaries due beyond 1 year	14,662	14,662
b.1) Associated companies due within 1 year	215,858	203,251
b.2) Associated companies due beyond 1 year	22	-
c.1) Other companies due within 1 year	21,280	21,477
c.2) Other companies due beyond 1 year	74,893	83,340
Other securities	14,247	27,681
Treasury shares	4,678	4,678
<b>TOTAL FINANCIAL ASSETS</b>	<b>3,928,745</b>	<b>772,842</b>
<b>TOTAL FIXED ASSETS</b>	<b>7,429,392</b>	<b>4,061,799</b>

## ASSETS (continued)

(in thousands of euros)

	12/31/2001	12/31/2000
<b>C) CURRENT ASSETS</b>		
I) Inventories		
Raw materials and supplies	295,545	355,940
Work in process and semifinished products	325,373	307,523
Contract work in progress against orders	153,482	210,865
Finished products and goods for resale	580,295	633,252
Advances	8,758	15,105
<b>TOTAL INVENTORIES</b>	<b>1,363,453</b>	<b>1,522,685</b>
II) Receivables		
Trade	1,784,613	1,868,776
Subsidiaries	292	5,819
Associated companies	23,889	28,358
Other receivables	920,769	1,154,621
<b>TOTAL RECEIVABLES</b>	<b>2,729,563</b>	<b>3,057,574</b>
III) Current financial assets		
Other investments	20,700	250
Other securities	562,110	1,246,487
<b>TOTAL CURRENT FINANCIAL ASSETS</b>	<b>582,810</b>	<b>1,246,737</b>
IV) Cash and banks		
Bank and postal deposits	454,784	3,713,089
Checks	8,751	10,188
Cash on hand	7,851	8,873
<b>TOTAL CASH AND BANKS</b>	<b>471,386</b>	<b>3,732,150</b>
<b>TOTAL CURRENT ASSETS</b>	<b>5,147,212</b>	<b>9,559,146</b>
<b>D) ACCRUED INCOME AND PREPAID EXPENSES</b>		
Accrued income	37,652	121,878
Prepaid expenses	37,790	32,810
<b>TOTAL ACCRUED INCOME AND PREPAID EXPENSES</b>	<b>75,442</b>	<b>154,688</b>
<b>TOTAL ASSETS</b>	<b>12,652,046</b>	<b>13,775,633</b>

# CONSOLIDATED BALANCE SHEETS

## LIABILITIES AND SHAREHOLDERS' EQUITY

(in thousands of euros)

	12/31/2001	12/31/2000
<b>A) SHAREHOLDERS' EQUITY</b>		
- Of Pirelli & C.	2,118,705	2,171,261
I) Share capital	325,408	320,959
II) Share premium reserve	501,054	485,617
III) Revaluation reserve	707	707
IV) Legal reserve	65,014	62,212
V) Reserve for treasury shares in portfolio	4,678	4,678
VII) Other reserves	947,624	(128,870)
VIII) Retained earnings	149,265	21,298
IX) Net income	124,955	1,404,660
- Minority interest	3,288,687	3,672,662
a) Capital and reserves	3,219,430	1,318,038
b) Net income	69,257	2,354,624
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>5,407,392</b>	<b>5,843,923</b>
<b>B) PROVISIONS FOR LIABILITIES</b>		
Pensions and similar obligations	237,806	215,686
Income taxes	225,560	201,919
Other provisions	401,264	582,185
<b>TOTAL PROVISIONS FOR LIABILITIES AND EXPENSES</b>	<b>864,630</b>	<b>999,790</b>
<b>C) PROVISION FOR EMPLOYEES' LEAVING INDEMNITY</b>	<b>105,271</b>	<b>178,309</b>
<b>D) PAYABLES</b>		
Bonds	661,407	655,027
Convertible bonds	86,177	106,561
Bank borrowings	2,513,307	1,473,710
Other financial companies	155,308	450,773
Advances from customers	188,249	291,907
Trade	1,328,243	1,448,664
Subsidiaries	-	232
Associated companies	4,529	13,814
Taxes	531,591	1,242,716
Social security agencies	49,817	56,662
Other payables	473,856	633,208
<b>TOTAL PAYABLES</b>	<b>5,992,484</b>	<b>6,373,274</b>
<b>E) ACCRUED LIABILITIES AND DEFERRED INCOME</b>		
Accrued liabilities	238,314	343,580
Deferred income	43,955	36,757
<b>TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME</b>	<b>282,269</b>	<b>380,337</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>12,652,046</b>	<b>13,775,633</b>

**MEMORANDUM ACCOUNTS**

(in thousands of euros)

	<b>12/31/2001</b>	<b>12/31/2000</b>
<b>PERSONAL GUARANTEES</b>		
- Sureties on behalf of other companies	159,722	152,176
- Endorsements on behalf of other companies	34,969	25,279
	<b>194,691</b>	<b>177,455</b>
<b>THIRD PARTY ASSETS HELD IN DEPOSIT</b>		
- Securities held in deposit	167,072	142,175
- Goods in process	2,799	1,997
	<b>169,871</b>	<b>144,172</b>
<b>ASSETS HELD BY THIRD PARTIES</b>		
- Securities held as guarantees and sureties	68,081	114,542
- Shares held in deposit	245,150	310,948
- Goods in process	10,757	7,752
	<b>323,988</b>	<b>433,242</b>
<b>COMMITMENTS</b>		
- Capital expenditures	57,635	124,701
- Nominal value of put options given to third parties	2,165,102	-
- Purchase of equity investments	38,786	-
- Securities to be delivered	75,946	335,237
	<b>2,337,469</b>	<b>459,938</b>
<b>OTHER MEMORANDUM ACCOUNTS</b>		
- Potential losses for risk of default on discounted bills	67,188	241
- Forward securities purchase	200,000	-
	<b>267,188</b>	<b>241</b>
<b>TOTAL MEMORANDUM ACCOUNTS</b>	<b>3,293,207</b>	<b>1,215,048</b>

# CONSOLIDATED STATEMENTS OF INCOME

(in thousands of euros)

	2001	2000
<b>A) PRODUCTION VALUE</b>		
Revenues from sales and services	7,761,985	7,696,567
Changes in inventories of work in process, semifinished and finished products	(93,782)	66,279
Changes in contract work in progress against orders	(4,876)	(40,278)
Increase in property, plant and equipment	16,512	13,501
Other revenues and income:		
a) Miscellaneous	210,815	214,105
b) Government grants	7,516	11,525
<b>TOTAL PRODUCTION VALUE</b>	<b>7,898,170</b>	<b>7,961,699</b>
<b>B) PRODUCTION COSTS</b>		
Raw materials, supplies and goods for resale	(3,888,402)	(3,982,920)
Service expenses	(1,314,288)	(1,229,467)
Lease and rent expenses	(85,581)	(96,347)
Personnel costs	(1,549,744)	(1,623,539)
Amortization, depreciation and writedowns:		
a) amortization of intangible assets	(82,098)	(76,268)
b) Depreciation of property, plant and equipment	(325,566)	(341,825)
c) Writedowns of receivables included in current assets and cash and banks	(79,945)	(19,675)
Changes in inventories of raw materials, supplies and goods for resale	(6,511)	88,932
Accruals for liabilities	(3,765)	(155)
Other accruals	(30,521)	(17,234)
Other operating expenses	(235,224)	(231,680)
<b>TOTAL PRODUCTION COSTS</b>	<b>(7,601,645)</b>	<b>(7,530,178)</b>
<b>DIFFERENCE BETWEEN VALUE AND PRODUCTION COSTS</b>	<b>296,525</b>	<b>431,521</b>
<b>C) FINANCIAL INCOME AND EXPENSES</b>		
Investment income	12,176	14,348
Other financial income:		
a) from receivables included in fixed assets		
- associated companies	-	37
- other companies	319	556
b) from securities included in fixed assets	518	2,048
c) from securities included in current assets	3,550	13,989
d) income other than the above	461,018	306,265
Interest and other financial expenses	(515,383)	(450,998)
<b>TOTAL FINANCIAL INCOME AND EXPENSES</b>	<b>(37,802)</b>	<b>(113,755)</b>

## CONSOLIDATED STATEMENTS OF INCOME

(continued)

(in thousands of euros)

	<b>2001</b>	<b>2000</b>
<b>D) VALUATION ADJUSTMENTS TO FINANCIAL ASSETS</b>		
Revaluations	9.951	17.342
Writedowns	(41.517)	(23.027)
<b>TOTAL ADJUSTMENTS</b>	<b>(31.566)</b>	<b>(5.685)</b>
<b>E) EXTRAORDINARY ITEMS</b>		
Extraordinary income	425.670	5.633.530
Extraordinary expenses	(270.075)	(1.112.168)
<b>TOTAL EXTRAORDINARY ITEMS</b>	<b>155.595</b>	<b>4.521.362</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>382.752</b>	<b>4.833.443</b>
Income taxes	(188.540)	(1.074.159)
<b>NET INCOME</b>	<b>194.212</b>	<b>3.759.284</b>
<b>PIRELLI &amp; C.</b>	<b>124.955</b>	<b>1.404.660</b>
<b>MINORITY INTEREST</b>	<b>69.257</b>	<b>2.354.624</b>

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## **FORM AND CONTENT**

The consolidated financial statements for the year ended December 31, 2001 have been drawn up in accordance with the provisions introduced by Legislative Decree No. 127 of April 9, 1991 which incorporate those of the VII directive of the EC.

The consolidated financial statements include the financial statements of Pirelli & C., the parent company, and the companies in which Pirelli & C. holds, directly or indirectly, control as defined by Legislative Decree 127/91, art. 26.

Also included in the consolidation are some companies in which Pirelli & C. owns less than 50 percent of the share capital in joint venture with other operators to carry out specific real estate projects.

These companies, in which no one shareholder has direct control, are consolidated proportionally.

The subsidiaries which fall under the cases indicated in Legislative Decree 127/91, art. 28 are excluded from the scope of consolidation.

The list of companies in consolidation, the statement of cash flows and the statement of changes in shareholders' equity are presented in the supplementary information.

All amounts are expressed in thousands of euros, unless otherwise indicated.

PricewaterhouseCoopers S.p.A. has been appointed as the auditors for the consolidated financial statements pursuant to art. 159 of Legislative Decree No. 58 of February 24, 1998 and taking into account CONSOB recommendation of February 20, 1997, as voted by the shareholders' meeting of May 25, 1999 which appointed the audit firm for the three-year period 1999-2001. The agreed fee is equal to Euros 12 thousand per year.

The fees for the audit of the individual Group companies have been borne directly by the companies concerned; the fees for the year 2001 have amounted to approximately Euros 3,059 thousand, including the fees for the limited review of the six-month financial statements.

## **PRINCIPLES OF CONSOLIDATION**

The financial statements used in consolidation are those at December 31, 2001 prepared for approval by the shareholders of the individual companies adjusted, where necessary, to agree with the "Common Accounting Principles" of the Group which conform to those established by Legislative Decree 127/91 and the principles set forth by the National Boards of Dottori Commercialisti and Ragionieri.

The financial statements of subsidiaries operating in high-inflation countries have

been adjusted to take into account the changed purchasing power of the local currency, in accordance with the principles for inflation accounting.

The financial statements expressed in foreign currency have been translated into euros at rates prevailing at year-end for the balance sheet and at average exchange rates for the statement of income, with the exception of the financial statements of companies operating in high-inflation countries, whose statements of income have been translated at rates ruling at year-end.

The differences arising from the translation of beginning shareholders' equity at year-end exchange rates have been recorded in translation adjustments in shareholders' equity.

The exchange rates which have been applied are presented under "Other information" in the notes.

The principles of consolidation are as follows:

– For companies consolidated using the full and proportional consolidation methods, the accounting value of each investment is eliminated against the underlying net equity. For companies accounted for using the equity method, the cost of acquisition is adjusted to the underlying share of net equity at December 31, 2001, as shown by the related financial statements.

For investments in consolidated companies and for those valued using the equity method, the differences, at acquisition, between the carrying value of the investments and the corresponding share of net equity have been accounted for as follows:

- negative differences are shown as a deduction from fixed assets, except those of definite amount; any additional negative difference is recorded in the consolidation reserve;
  - positive differences, where not attributable to the assets or liabilities of the investee companies, have been recorded as a reduction of the consolidation reserve up to the amount of same and the remaining amount has been recorded as an asset in "difference on consolidation".
- The assets, liabilities, revenues and costs related to transactions among consolidated companies, including dividends paid within the Group, have been eliminated.
- The gains and losses arising from transactions among consolidated companies, if not yet realized through transactions with third parties, have been eliminated.
- The minority interest in the share of the net equity and the results of operations are shown separately, respectively, under shareholders' equity in the balance sheet and in the statement of income.

The reconciliation between the net results and shareholders' equity of Pirelli & C. at December 31, 2001 and the corresponding consolidated figures is presented in the supplementary information.

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted are those set forth by the provisions of art. 2426 of the Italian Civil Code, referred to and supplemented by the provisions of Consob and by the accounting principles issued by the National Boards of Dottori Commercialisti and Ragionieri.

The accounting principles have been applied on a basis consistent with the prior year. Unless otherwise indicated, the accounting principles applied in the valuation of the components of the consolidated financial statements are in conformity with those adopted in the financial statements of the parent company.

### **INTANGIBLE ASSETS**

“Formation costs” relate to the capital increase costs of consolidated companies and are amortized over a period of five years.

“Patents and design patent rights”, “concessions, licenses, trademarks and similar rights” are amortized over their expected economic lives, estimated in a period of five years.

“Goodwill” includes the amount paid for this purpose by the Group companies for the acquisition of companies or other corporate transactions. Goodwill is amortized over a period of ten years, which identifies the possible period of utilization.

“Difference on consolidation”, relative to the acquisition of investments, is amortized over a period of between ten and 20 years; this period identifies the possible period of utilization.

The caption “other intangible assets” includes sundry costs benefiting future periods, and in particular refers to:

- applied software acquisition costs, amortized over a period of five years;
- leasehold improvements, amortized over the duration of the lease and, in any case, not more than five years;
- loan acquisition costs, amortized over a period not exceeding the duration of the loan and, in any case, not more than five years;
- image awareness costs benefiting future periods, amortized over the duration of the contract and, in any case, not more than five years.

### **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are stated at purchase or production cost including directly attributable incidental expenses and increased by revaluations effected in accordance with specific laws.

Depreciation is calculated starting from the month in which the asset is available and ready for use or potentially able to provide economic benefits.

Depreciation is calculated on the straight-line method on a monthly basis at rates

designed to completely write-off the assets over their estimated useful lives or, for disposals, up to the last month of utilization, as follows:

Buildings	3%	–	10%
Plant	7%	–	10%
Machinery	5%	–	10%
Tools and equipment	10%	–	33%
Furniture	10%	–	33%
Vehicles	10%	–	25%

In addition, property, plant and equipment are written down when there is a permanent impairment to below their net book value, in accordance with article 2426, point 3 of the Italian Civil Code.

Ordinary maintenance and repair costs are expensed in the year incurred.

Government investment grants relating to property, plant and equipment are recorded in a special provision under liabilities and are released to income in proportion to the future depreciation of the assets to which they refer.

Assets acquired under financial leasing contracts are accounted for as property, plant and equipment with a contra-entry to financial payables and are therefore capitalized and depreciated over their estimated useful lives. The lease installment is divided between interest expense, recorded in the statement of income, and the repayment of principal, recorded as a deduction of the financial liability.

## **FINANCIAL ASSETS**

### **- Investments**

Equity investments in associated companies are valued using the equity method, in accordance with article 2359 of the Italian Civil Code.

Equity investments in jointly controlled subsidiaries are accounted for using the equity method.

Equity investments in unconsolidated subsidiaries and other companies are valued at cost and reduced, if necessary, to account for any permanent impairment in value. The original amount is reinstated whenever the reasons for the adjustment no longer apply.

### **- Other securities**

Other securities are stated at cost, reduced for any permanent impairment in value.

### **- Treasury shares**

Treasury shares are valued at purchase cost using the LIFO method and adjusted for any permanent impairment in value.

In accordance with article 2357-ter of the Italian Civil Code, an undistributable reserve has been recorded in shareholders' equity for an amount corresponding to the carrying value.

## **RECEIVABLES AND PAYABLES**

Receivables (under both fixed assets and current assets) are stated at estimated realizable value. Payables are stated at nominal value.

Receivables and payables in foreign currencies other than the functional currency of the individual companies are adjusted to the year-end exchange rates or the agreed exchange rates under hedging contracts; the effects of the hedging contracts are recorded in accrued income and accrued liabilities; related exchange gains or losses are recorded in the statement of income in accordance with the accrual concept.

## **INVENTORIES**

Inventories are stated at the lower of cost, determined on the FIFO basis, and estimated realizable value.

Work in process on long-term contracts is stated in proportion to the stage of completion of the work on the basis of agreed prices and taking into account estimated losses.

The cost of strategic inventories of metals (copper, aluminum, etc.) is determined using the LIFO method.

Inventories of real estate property consist of areas for building, property under renovation, property under construction, property completed and intended for sale, real estate trading property for sale and construction in progress against orders.

Areas for building are stated at the lower of purchase cost, plus incremental expense and interest expense capitalized in the pre-construction phase, and the corresponding realizable value.

Property under construction and/or in the process of renovation also take into account the income earned on the construction order. This income is calculated on the basis of the total agreed sales price in proportion to the stage of completion of the work determined as a percentage of total cumulative costs incurred up to the balance sheet date in relation to estimated costs to completion.

Property under construction and/or in the process of renovation, for which a preliminary lease agreement has been signed, is valued at the lower of cost plus incremental expenses and interest expense, and the corresponding realizable value.

Real estate trading property for sale is valued at the lower of cost and market value. Incremental expenses incurred up to the time of sale are added to the purchase cost.

Construction in progress is valued according to the agreed sales price in relation to the stage of completion of the project.

Any losses to complete the project are charged entirely in the year in which they become known.

Inventories also include requests for additional expenditures incurred in constructing university buildings, according to a conservative estimate of their recognition.

Requests for additional sales consideration over the contract price are recorded in the financial statements if the amounts are reasonably certain of collection.

Penalties for late delivery of the property are accrued whenever such delays are chargeable to the contractor and not the principal.

## **OTHER INVESTMENTS AND OTHER SECURITIES**

Investments and other securities recorded in current assets designated for trading purposes and/or to meet treasury requirements, are stated at the lower of cost and fair value.

## **CASH AND BANKS**

Cash and banks are stated at nominal value.

## **PROVISIONS FOR LIABILITIES AND EXPENSES**

### **- Provisions for pensions and similar obligations**

These provisions refer to pensions, health care and other benefits in favor of employees, not included in specific laws but covered by local labor agreements, and benefit plans operating at some Group companies.

The principle applied is that of allocating the entire cost at maturity over the service lives of the employees based on entitlement earned, using actuarial methods.

### **- Provision for income taxes**

The provision for income taxes includes deferred tax liabilities and tax liabilities likely to be incurred but uncertain as to the amount or as to the date on which they will arise; definite and certain income taxes payable are recorded in a specific account in the balance sheet.

### **- Other provisions**

Other provisions include liabilities that are certain or likely to be incurred but uncertain as to amount or as to the date on which they will arise.

## **PROVISION FOR EMPLOYEES' LEAVING INDEMNITY**

The provision for employees' leaving indemnity includes amounts payable to employees accrued on their behalf in accordance with specific laws or national labor contracts.

## **ACCRUALS AND DEFERRALS**

Accruals and deferrals are accounted for on the accrual basis.

## **GUARANTEES AND COMMITMENTS**

Guarantees given to third parties are recorded at the contract value of the commitment assumed on behalf of the beneficiary.

Third party securities held in deposit are recorded at nominal value.

## **FINANCIAL INSTRUMENTS**

Forward contracts and derivatives used for hedging purposes are recorded under commitments at the time the contract is stipulated, for the notional amount.

Income and expenses, as well as any effects, corresponding to the difference between the original contract amount and the fair value at the end of the year, are accounted for on the accrual basis.

## **RECOGNITION OF REVENUES**

Revenues from the sale of products are recognized at the time of transfer of title of ownership which generally coincides with the delivery or shipment of the goods.

Revenues from sales are shown net of discounts and allowances.

## **RESEARCH, DEVELOPMENT AND ADVERTISING COSTS**

“Research & development and advertising costs” are charged to the statement of income when incurred.

## **DIVIDENDS**

Dividends are recorded on the cash basis, gross of tax credits.

## **INCOME TAXES**

Current income tax liabilities are determined on the basis of a realistic estimate of the tax expenses payable under current tax laws; the related liability is shown net of advance payments, withholdings and tax credits in Taxes payable.

Deferred taxes are calculated on the timing difference existing between the value of assets and liabilities in the balance sheet and their tax basis (liability method). Any deferred tax liabilities are recorded in the provision for income taxes. Deferred tax assets are recorded only where there is a reasonable certainty of recovery and these are recorded in “Other receivables”.

## CONSOLIDATED BALANCE SHEETS

### ASSETS

#### B) Fixed assets

##### *1) Intangible assets*

Intangible assets can be analyzed as follows:

(in thousands of euros)

	12/31/2000	Translation adjustment	Increase	Decrease	Amortization	12/31/2001
• Formation costs	8,302	14	2,089	(6)	(4,357)	6,042
• Patents and design patent rights	5,365		1,021		(2,285)	4,101
• Concessions, licenses, trademarks and similar rights	6,469	(2)	4,562		(2,953)	8,076
• Goodwill	8,066	159	12,006	(146)	(4,669)	15,416
• Difference on consolidation	558,865		37,156	(17,652)	(33,431)	544,938
• Other	83,890	(1,355)	50,964	(2,922)	(34,403)	96,174
	<b>670,957</b>	<b>(1,184)</b>	<b>107,798</b>	<b>(20,726)</b>	<b>(82,098)</b>	<b>674,747</b>

The increase in “formation costs” refers to the registration tax capitalized by the Pirelli Tyre Holding N.V. – Amsterdam – relative to the increase in share capital subscribed to by Pirelli S.p.A..

The increase in “patents and design patent rights” refers mainly to costs incurred by the subsidiary Pirelli Cavi e Sistemi S.p.A. to file industrial patents.

“Concessions, licenses, trademarks and similar rights” principally include the costs incurred to extend the number of software user rights for Pirelli S.p.A.’s new integrated information system (SAP/ORACLE).

The increase in “goodwill” refers to the acquisition of the former BICC business by Pirelli General Plc and the acquisition of the entire share capital of Progetti Creativi S.r.l. by Pirelli & C. Agency S.p.A..

“Difference on consolidation” at December 31, 2001 includes Euros 480,712 thousand representing the difference between the price paid and the underlying net equity of the consolidated company Pirelli S.p.A. which arose following the purchases of shares by Pirelli & C. and by Pirelli & C. Luxembourg S.A. net of amortization (calculated over a period of 20 years).

The increase refers to Euros 36,568 thousand for the purchase of Pirelli S.p.A. shares during the year.

The major items included in “other” refer to software applications costs, expenses for the development of a new commercial and reporting system, corporate reorganization expenses, expenses for the implementation of e-business solutions, loan acquisition costs and leasehold improvements.

## ***II) PROPERTY, PLANT AND EQUIPMENT***

The movements in property, plant and equipment during the year are as follows:

	(in thousands of euros)	
	<b>12/31/2001</b>	<b>12/31/2000</b>
<b>Gross value</b>		
Opening balances	6,263,534	5,876,459
Translation adjustment	(269,905)	79,183
Change in scope of consolidation	(14,405)	(14,628)
Additions	646,218	569,566
Disposals	(219,743)	(247,046)
	<b>6,405,699</b>	<b>6,263,534</b>
<b>Accumulated depreciation</b>		
Opening balances	3,645,534	3,408,171
Translation adjustment	(224,702)	63,233
Change in scope of consolidation	(4,244)	(12,782)
Depreciation charge for the year	325,566	341,825
Disposals	(162,355)	(154,913)
	<b>3,579,799</b>	<b>3,645,534</b>
<b>Net values</b>	<b>2,825,900</b>	<b>2,618,000</b>

The net increase from the prior year is due to the combination of the following:

- translation adjustments, in reference to property, plant and equipment included in the financial statements of foreign companies, and due to the weakness of the euro against the currencies in the countries in which the Group companies operate;
- additions, Euros 76,652 thousand higher than those in the prior year, equal to 1.98 times depreciation;
- disposals, mainly in reference to plants as a consequence of production rationalization.

Gross values include about Euros 7,871 thousand of assets which are no longer in use and are being held for transfer to other Group companies or disposal to outside parties.

## ***III) Financial assets***

“Investments in subsidiaries” amount to Euros 1,136 thousand and consist of companies recently formed and/or insignificant to the consolidated financial statements in terms of net equity or results of operations.

Details are as follows:

(in thousands of euros)			
Description	Country	%	Amount holding
AFCAB Holding (Proprietary) Ltd.	South Africa	50.00%	197
Delta S.p.A.	Italy	100.00%	136
Progetto Moncalieri S.r.l.	Italy	100.00%	90
Progetto Bicocca Le Torri S.r.l.	Italy	100.00%	64
Parcheggi Bicocca S.r.l.	Italy	75.00%	64
Other minor companies	Italy		585
			<b>1,136</b>

“Investments in jointly controlled subsidiaries” total Euros 3,150,840 thousand and refer to the investment in Olimpia S.p.A. (60 percent) which, as described in the report on operations, has been accounted for using the equity method. This amount includes goodwill that will be amortized over 20 years (Euros 49,538 thousand).

“Investments in associated companies” amount to Euros 115,559 thousand compared to Euros 86,491 thousand at December 31, 2000.

The increase is mainly due to the investment (21.8 percent) in the Belgian company Euroqube S.A. (Euros 18,530 thousand) and the acquisition of 30.3 percent of EpicLink S.p.A. (Euros 13,046 thousand).

The most important investments are as follows:

(in thousands of euros)	
Euroqube S.A.	18,530
Eurostazioni (ex-Schema Ventiquattro S.r.l.)	18,126
M.S.M.C. Holding B.V. (The Netherlands)	15,017
EpicLink S.p.A. (Italy)	13,046
Auriga S.p.A. (Italy)	10,684
Power Cables Malaysia Sdn Bhd (Malaysia)	10,339
Drathcord Saar & Co. K.G. (Germany)	5,736
Rodco Ltd. (United Kingdom)	4,284
Iniziative Immobiliari S.r.l. (Italy)	3,138
Kabeltrommel Gmbh & Co. K.G. (Germany)	2,810
SMP Melfi S.r.l. (Italy)	2,760
K.M.P. Cabos Especiais e Sistemas Ltda (Brazil)	2,251
I.N. Holding Italy S.a.r.l.	1,970
Auto Cable Tunisie	1,756
Inim Due S.a.r.l.	1,419
Regus Business Centre Italy S.p.A.	665
Progetto Bicocca La Piazza S.r.l. (Italy)	650
Other minor companies	2,378
<b>115,559</b>	

“Investments in other companies” can be summarized as follows

(in thousands of euros)

	<b>12/31/2001</b>	<b>12/31/2000</b>
Investments in Italian listed companies	204,238	250,372
Investments in Italian unlisted companies	78,981	32,727
Investments in foreign unlisted companies	32,351	38,175
	<b>315,570</b>	<b>321,274</b>

The decrease in “Investments in Italian listed companies” is mainly due to the disposal of the securities received in the acquisition of Unim (Euros 96,383 thousand), countered by the acquisition of the 1 percent stake in e.Biscom S.p.A. (Euros 48,819 thousand).

“Investments in Italian unlisted companies” include the purchase of a 2.3 percent stake in Consortium S.r.l. (Euros 19,517 thousand) and capital contributions to Tredicimarzo S.r.l. (Euros 14,000 thousand) and F.C. Internazionale Milano S.p.A. (Euros 12,395 thousand).

“Financial receivables from other companies due beyond one year” amount to Euros 74,893 thousand and include:

- Euros 5,591 thousand of fixed rate loans; the carrying value approximates fair value at the end of the year;
- Euros 44,760 thousand of interest-bearing fixed rate obligatory deposits;
- Euros 10,504 thousand of floating rate loans;
- Euros 4,999 thousand of non-interest bearing security deposits;
- Euros 9,039 thousand of non-interest bearing loans.

Receivables due beyond five years total Euros 44,975 thousand.

“Other securities” total Euros 14,247 thousand and decreased from 2000 (Euros 27,681 thousand). They include Fenera Holding S.p.A. bonds and investment securities of Pirelli Financial N.V. (Pirelli S.p.A. group).

“Treasury shares” consist of No. 2,617,500 ordinary shares, equal to 0.42 percent of share capital (0.44 percent of ordinary share capital).

As provided by art. 2357-ter of the Italian Civil Code, a “Reserve for treasury shares in portfolio” has been established for the same amount.

## C) Current assets

### I) Inventories

Inventories total Euros 1,363,453 thousand compared to Euros 1,522,685 thousand in the prior year, and can be analyzed as follows:

	(in thousands of euros)	
	12/31/2001	12/31/2000
Pirelli S.p.A. group		
• Cables and Systems Sector	569,769	778,346
• Tyres Sector	455,756	453,620
• Other	1	2
Total Pirelli S.p.A. group	1,025,526	1,231,968
Pirelli & C. Real Estate S.p.A. group	346,029	308,261
• Other	(8.102)	(17.544)
	<b>1.363.453</b>	<b>1.522.685</b>

### II) Receivables

Receivables total Euros 2,729,563 thousand compared to Euros 3,057,574 thousand in the prior year, and can be analyzed as follows:

	(in thousands of euros)			
	12/31/2001		12/31/2000	
	Financial	Trade and other	Financial	Trade and other
• Trade	-	1,784,613	-	1,868,776
• Subsidiaries	-	292	82	5,737
• Associated companies	1,336	22,553	2,205	26,153
• Other receivables	21,284	899,485	19,737	1,134,884
	<b>22,620</b>	<b>2,706,943</b>	<b>22,024</b>	<b>3,035,550</b>

– **trade receivables** from customers may be analyzed by due date as follows:

	(in migliaia di euro)	
	12/31/2001	12/31/2000
due within 1 year	1,925,196	1,957,970
due beyond 1 year	19,382	3,971
allowance for doubtful receivables	(159,965)	(93,165)
	<b>1,784,613</b>	<b>1,868,776</b>

No receivables are due beyond five years.

The carrying value of receivables, adjusted for probable future losses, approximates estimated fair value at the end of the year.

- **receivables from associated companies** include financial receivables referring almost entirely to Drahtcord Saar & Co. of Euros 1,298 thousand (compared to Euros 2,081 thousand at December 31, 2000) consequent to transactions with Pirelli Deutschland A.G..

The most significant trade and other receivables refer to the associated companies of Pirelli & C. Real Estate S.p.A. of Euros 22,158 thousand (Euros 22,872 thousand at December 31, 2000) and BICCGeneral Baosheng Cables Co. Ltd. - Euros 1,433 thousand.

All amounts are receivable within one year.

- **other receivables** include financial receivables of Euros 21,284 thousand primarily consisting of receivables from banks on forward exchange and currency swap operations.

Trade and other receivables of Euros 899,485 thousand include the balance of deferred tax assets (Euros 155,672 thousand) and also amounts due from the tax authorities of Euros 438,634 thousand; receivables from the sale of fixed assets of Euros 17,492 thousand; advances to suppliers of Euros 41,302 thousand; receivables from employees of Euros 8,379 thousand and receivables from social security agencies, export refunds and other minor amounts of Euros 238,006 thousand.

The amount due beyond one year and within five years is Euros 199,810 thousand, while the amount due beyond five years is Euros 42,050 thousand.

### ***III) Current financial assets***

- **other investments** amount to Euros 20,700 thousand and consist of equity shares owned by Partecipazioni Real Estate S.p.A..
- **other securities** amount to Euros 562,110 thousand and consist of:
  - Euros 78,846 thousand of fixed rate securities issued and guaranteed by banking institutions;
  - Euros 113,973 thousand of floating rate securities issued and guaranteed by banking institutions;
  - Euros 182,075 thousand of bonds issued and guaranteed by primary issuers;
  - Euros 25,845 thousand of floating rate securities issued and guaranteed by governments of various nations;
  - Euros 59,101 thousand of equity securities intended for sale;
  - Euros 70,299 thousand of advance payments on the forward purchase of Olivetti 2001-2010 convertible bonds;
  - Euros 31,148 thousand for premiums paid on call options for the purchase of Olivetti S.p.A. ordinary shares or Olivetti S.p.A. 2001-2010 convertible bonds;
  - Euros 823 thousand of investments in mutual funds convertible into cash on demand.

The securities are held in safe-keeping at leading banking institutions.

#### ***IV) Cash and banks***

- **bank and postal deposits** are concentrated in the financial companies, holding companies and subholding companies of the Group. Available liquidity is mainly invested in the short-term deposit market at leading banking counterparts primarily at interest rates in line with market rates. The reduction in the balance from 2000 is principally due to the investments made in Olimpia S.p.A..

#### **D) Accrued income and prepaid expenses**

- **accrued income** decreased from Euros 121,878 thousand to Euros 37,652 thousand. The amount is determined on the accrual basis and mainly relates to hedging revenues, interest income, insurance, and other minor items.
- **prepaid expenses** increased from Euros 32,810 thousand to Euros 37,790 thousand and mainly refer to prepaid insurance, property rent and other minor items.

## **LIABILITIES AND SHAREHOLDERS' EQUITY**

### **A) Shareholders' equity**

#### *Of Pirelli & C.*

At December 31, 2001, share capital amounts to Euros 325,408,696.60 and consists of No. 591,367,698 ordinary shares and No. 34,418,257 savings shares, all with a par value of Euros 0.52 per share and normal dividend rights.

During 2001, No. 8,556,705 ordinary shares were issued against the conversion of the same number of 2.5% 1998-2003 bonds.

During the first months of the current year, another No. 1,478,872 ordinary shares were issued against the conversion of the same number of 2.5% 1998-2003 bonds.

The share premium reserve went from Euros 485,617 thousand to Euros 501,054 thousand following the aforementioned conversion of 2.5% 1998-2003 bonds.

The revaluation reserve ex Law No. 413/1991 and the reserve for treasury shares in portfolio have remained unchanged compared to December 31, 2000.

The legal reserve went from Euros 62,212 thousand to Euros 65,014 thousand subsequent to resolutions passed by the shareholders' meeting of May 10, 2001.

The changes in shareholders' equity are presented in the supplementary information.

#### *Minority interest*

The minority interest in shareholders' equity is Euros 3,288,687 thousand compared to Euros 3,672,662 thousand at December 31, 2000.

The change is primarily due to a larger stake held in Pirelli S.p.A. by Pirelli & C..

The main percentage investment held by the minority interest is as follows:

	<b>12/31/2001</b>	<b>12/31/2000</b>
Pirelli S.p.A.	59.87%	64.94%

### **B) Provisions for liabilities and expenses**

#### *Provisions for pensions and similar obligations*

These provisions include accruals for pensions, health care and other benefits in favor of employees, not governed by specific laws but covered by local labor agreements and benefit plans operating at some Group companies.

### ***Provisions for income taxes***

The provisions for income taxes include accruals relating to income taxes likely to be incurred but uncertain as to the amount or as to the date on which they will arise, as well as deferred taxation, as follows:

	(in thousands of euros)	
	<b>12/31/2001</b>	<b>12/31/2000</b>
Provision for current taxes	41,731	30,033
Provision for deferred taxes	183,829	171,886
	<b>225,560</b>	<b>201,919</b>

The tax charge for the year is composed of the following:

	(in thousands of euros)	
	<b>31/12/2001</b>	<b>31/12/2000</b>
Current taxes	184,383	1,083,220
Deferred taxes	4,157	(9,061)
	<b>188,540</b>	<b>1,074,159</b>

The lower current income tax charge is substantially connected to the Cisco and Corning deals in the previous year.

The tax rates in the principal countries in which the Group operates are as follows:

Italy	40.25%	United States	40%
France	35.33%	Canada	43%-45%
Spain	35%	Australia	36%
Germany	38%	Argentina	35%
United Kingdom	30%	Brazil	34%
Turkey	33%	Venezuela	34%

### ***Other provisions***

The movements during the year in other provisions are as follows:

	(in thousands of euros)		
	<b>Restructuring</b>	<b>Other</b>	<b>Total</b>
<b>Balance at December 31, 2000</b>	<b>285,446</b>	<b>296,739</b>	<b>582,185</b>
Translation adjustment	2,085	(688)	1,397
Utilization	(241,787)	(145,483)	(387,270)
Increase	152,617	52,335	204,952
<b>Balance at December 31, 2001</b>	<b>198,361</b>	<b>202,903</b>	<b>401,264</b>

Utilizations of the provision for restructuring costs were in respect of the Cables and Systems Sector for Euros 175,452 thousand and the Tyres Sector for Euros 58,225 thousand of the Pirelli S.p.A. Group and the Real Estate Sector for Euros 8,110 thousand

The balance of the provision relates to the Cables and Systems Sector for Euros 145,328 thousand, the Tyres Sector for Euros 30,397 thousand and the Real Estate Sector for Euros 22,189 thousand.

The increase in the provision for restructuring costs is mainly in reference to the reorganization plan for the industrial structures and the recent acquisitions.

The total of other provisions of Euros 202,903 thousand consists of accruals for litigation, industrial risks and claims, product warranties and other risks.

## D) Payables

Payables decreased from Euros 6,373,274 thousand to Euros 5,992,484 thousand and may be analyzed as follows:

(in thousands of euros)				
	<b>12/31/2001</b>		<b>12/31/2000</b>	
	<b>Financial</b>	<b>Trade and other</b>	<b>Financial</b>	<b>Trade and other</b>
Bonds	661,407	-	655,027	-
Convertible bonds	86,177	-	106,561	-
Bank borrowings	2,513,307	-	1,473,710	-
Other financial companies	155,308	-	450,773	-
Advances from customers	-	188,249	-	291,907
Trade	-	1,328,243	-	1,448,664
Associated companies	79	4,450	1,072	12,742
Subsidiaries	-	-	-	232
Taxes	-	531,591	-	1,242,716
Social security agencies	-	49,817	-	56,662
Other payables	3,369	470,487	3,828	629,380
	<b>3,419,647</b>	<b>2,572,837</b>	<b>2,690,971</b>	<b>3,682,303</b>

An analysis of payables by due date is as follows:

## Financial payables

(in thousands of euros)				
	<b>12/31/2001</b>		<b>12/31/2000</b>	
	<b>within 1 year</b>	<b>beyond 1 year</b>	<b>within 1 year</b>	<b>beyond 1 year</b>
Bonds	4	661,403	4	655,023
Convertible bonds	2,102	84,075	2,600	103,961
Bank borrowings	1,456,202	1,057,105	435,670	1,038,040
Other financial companies	96,200	59,108	395,441	55,332
Associated companies	79	-	1,072	-
Other payables	3,369	-	3,828	-
	<b>1,557,956</b>	<b>1,861,691</b>	<b>838,615</b>	<b>1,852,356</b>

Financial payables are secured by liens and mortgages for Euros 63,725 thousand.  
Financial payables due beyond five years total Euros 593,946 thousand.

Additional disclosure is provided as follows:

**Bonds**

(in thousands of euros)					
	Non-convertible		Convertible		Pirelli S.p.A. shares to be issued in the event of early redemption Number
	within 1 year	beyond 1 year	within 1 year	beyond 1 year	
Pirelli & C. (Italy)					
Lire 287.9 billion					
1998-2003					
2.5% convertible					
Pirelli & C. shares	-	-	2,102	84,075	36,175,719
Pirelli S.p.A. (Italy)					
Euro 500 million					
1998-2008 4.875%		500,000			
Unredeemed bonds	4	-	-	-	-
Pirelli & C. Luxembourg S.A.					
Euros 150 million					
1999-2009 5.125%		161,403			
<b>Total</b>	<b>4</b>	<b>661,403</b>	<b>2,102</b>	<b>84,075</b>	<b>36,175,719</b>

Convertible bonds total Euros 84.1 million and refer to the residual amount of the 2.5% 1998-2003 bonds originally issued for Lire 287.9 billion (Euros 148.7 million), authorized by a resolution passed at the extraordinary shareholders' meeting of Pirelli & C. on May 22, 1998.

**Bank borrowings**

Bank borrowings due within one year amount to Euros 1,456,202 thousand and include the current portion of long-term debt for Euros 39,961 thousand.

Bank borrowings due beyond one year amount to Euros 1,057,105 thousand and consist of floating rate loans for Euros 780,089 thousand and fixed rate loans for Euros 277,016 thousand.

**Payables to other financial companies**

The amount due beyond one year includes Euros 36,933 thousand payable beyond five years.

## Trade and other payables

(in thousands of euros)

	12/31/2001		12/31/2000	
	within 1 year	beyond 1 year	within 1 year	beyond 1 year
Advances from customers	188,249	-	291,907	-
Trade	1,310,725	17,518	1,417,909	30,755
Subsidiaries	-	-	232	-
Associated companies	4,450	-	12,375	367
Taxes	451,452	80,139	1,159,307	83,409
Social security agencies	49,817	-	56,662	-
Other payables	436,485	34,002	556,597	72,783
	<b>2,441,178</b>	<b>131,659</b>	<b>3,494,989</b>	<b>187,314</b>

### *Payables to associated companies*

As regards trade payables, the most significant amounts refer to Drahtcord Saar GmbH & Co. KG (Euros 2,244 thousand) and Corecom (Euros 700 thousand).

### *Taxes payable*

The decrease in taxes payable is principally due to the payment of taxes on the extraordinary sales transactions regarding the Terrestrial Optical Systems and the Optical Components businesses.

### *Other payables*

These amount to Euros 470,487 thousand and include payables to employees for Euros 88,180 thousand, security deposits from customers for packaging for Euros 24,514 thousand, legal and consulting fees for Euros 9,368 thousand, purchases of fixed assets and urbanization fees for Euros 99,528 thousand, notes payable for Euros 42,767 thousand and other minor items for the difference.

## **E) Accrued liabilities and deferred income**

### *– Accrued liabilities*

Accrued liabilities went from Euros 343,580 thousand to Euros 238,314 thousand and include the portion of exchange differences on hedging transactions, interest expense, property leases payable, hedging costs and other minor items.

### *– Deferred income*

Deferred income went from Euros 36,757 thousand to Euros 43,955 thousand and refers to rent income paid in advance and insurance premiums.

## **MEMORANDUM ACCOUNTS**

Memorandum accounts total Euros 3,293,207 thousand compared to Euros 1,215,048 thousand in the prior year.

### ***Personal guarantees***

“Sureties on behalf of other companies” are mainly to guarantee loans received and guarantees against job orders in the process of being delivered or tested.

The amount also includes Euros 50,015 thousand of bank guarantees of the subsidiary *Pirelli & C. Opere Generali S.p.A.* given to the City of Milan to guarantee performance of works to be realized and to be deducted from the urbanization fees.

### ***Third party assets held in deposit***

“Securities held in deposit” include securities stated at par value, owned by third parties and held in deposit by *Pirelli S.p.A.*, in addition to securities entrusted for administration.

### ***Assets held by third parties***

“Securities held as guarantees and sureties” include Euros 27,214 thousand for the equivalent amount of the equity swap operation by *Pirelli & C. Real Estate S.p.A.* on the securities portfolio, the possession of which has been temporary transferred to the related counterparts, and the *Auriga Immobiliare S.r.l.* quotas held by *Pirelli & C. Real Estate S.p.A.* and pledged in favor of the banks for the loan granted to the associated company.

“Shares owned by the company held in deposit” are in safekeeping.

### ***Commitments***

The “nominal value of the put options given to third parties” refer to the nominal value of options given by *Pirelli S.p.A.* to *IntesaBci S.p.A.* (Euros 520,000 thousand), *Unicredito Italiano S.p.A.* (Euros 520,000 thousand) and *Edizione Holding S.p.A.* (Euros 1,040,000 thousand) relating to the investment which they hold in *Olimpia S.p.A.*, as described in the report on operations.

This item also includes the nominal value of the option given to *Cisco Systems* on the *Pirelli Submarine Telecom Systems Holding B.V.* shares which it holds.

This amount is already shown in the financial statements under the minority interest in shareholders' equity.

“Commitments for the purchase of equity investments” include the amount (valued at the issue price) to be paid to the employees and associates of the *Pirelli & C. Real Estate Group* for the repurchase of No. 25,713 *Pirelli & C. Real Estate* shares covered by the stock option plans described in the 2000 financial statements.

“Securities to be delivered” relate to the amount fixed by contract with the counterparts *Morgan Stanley* and *Merrill Lynch* for the equity swap operation described above.

### ***Other memorandum accounts***

This refers to the forward securities purchase (expiration date of November 23, 2006) of No. 200,000,000 Olivetti 2001-2010 convertible bonds effected with Credit Agricole Lazard Financial Products Bank as described in the report on operations.

### **Financial instruments**

It is the Group's policy to reduce financial risks deriving from international activities conducted in research, manufacturing and distribution through operating and financial management decisions.

To this end, the Group uses forward exchange contracts and derivatives to protect its operating results from unfavorable fluctuations in exchange and interest rates and the prices of raw materials. With an overall view towards reducing exposure to risk the Group deals exclusively with leading bank counterparts and in highly liquid instruments.

The following table gives a description of the financial derivative contracts in the major currencies:

(in thousands of euros)

	<b>Gross notional amounts (at year-end exchange rates)</b>	<b>Fair value</b>	<b>Maturing within one year</b>	<b>Maturing beyond one year</b>
<b>Exchange rate risk</b>				
- Forward contracts	4,168	3,580	3,543	38
- Swap contracts	98	2	2	-
- Futures contracts	5	15	15	-
<b>Interest rate risk</b>				
- Forward rate agreement	-	1	1	-
- Interest rate swaps	36	41	41	-
<b>Raw materials price risk</b>				
- Futures contracts	22	2	2	-

The fair value of the financial instruments used to hedge exchange, interest rate and materials price risks approximates the fair value of the positions being hedged.

## CONSOLIDATED STATEMENTS OF INCOME

### A) Production value

#### *Revenues from sales and services*

The distribution of sales by geographical area of destination and industry sector are reported in the following table.

	(in thousands of euros)			
	2001		2000	
<b>Geographical area</b>				
Italy	1,422,719	18.33%	1,003,848	13.04%
Other European countries	3,377,174	43.51%	3,279,349	42.61%
North America	1,017,876	13.11%	1,209,675	15.72%
Central and South America	904,938	11.66%	1,230,545	15.99%
Oceania, Africa and Asia	1,039,278	13.39%	973,150	12.64%
<b>Total</b>	<b>7,761,985</b>	<b>100.00%</b>	<b>7,696,567</b>	<b>100.00%</b>
<b>Sector</b>				
Pirelli S.p.A. group				
- Cables and Systems	4,687,938	60.40%	4,591,108	59.65%
- Tyres	2,831,171	36.47%	2,880,380	37.42%
- Other and interelimination	(9,889)	(0.13%)	5,183	0.07%
Total Pirelli S.p.A. Group	7,509,220	96.74%	7,476,671	97.14%
Pirelli & C Real Estate S.p.A. group	267,156	3.44%	213,032	2.77%
Other and interelimination	(14,391)	(0.18%)	6,864	0.09%
<b>Total</b>	<b>7,761,985</b>	<b>100.00%</b>	<b>7,696,567</b>	<b>100.00%</b>

#### *Other revenues and income*

The caption “miscellaneous” includes the supply agreement with Cisco Systems, rent income, commissions, insurance indemnities and refunds, gains from the ordinary disposal of property, plant and equipment and other minor items.

### B) Production costs

#### *Service expenses*

Service expenses total Euros 1,314,288 thousand and include selling expenses (Euros 385,578 thousand), electrical power (Euros 162,620 thousand), advertising (Euros 129,938 thousand), ordinary maintenance (Euros 81,628 thousand), costs relating to construction of buildings (Euros 77,454 thousand), consulting fees (Euros 64,995 thousand), EDP expenses (Euros 46,633 thousand), insurance (Euros 41,826 thousand), outside processing costs (Euros 35,678 thousand), building management expenses (Euros 17,123 thousand) and other minor expenses.

#### *Lease and rent expenses*

Lease and rent expenses mainly consist of rent expenses of Euros 56,527 thousand, operating lease installments of Euros 16,128 thousand and patent utilization rights of Euros 12,926 thousand.

### ***Personnel costs***

Personnel costs consist of the following:

	(in thousands of euros)	
	<b>2001</b>	<b>2000</b>
Salaries and wages	1,203,565	1,266,507
Social security costs	259,197	267,822
Leaving indemnity	41,464	35,739
Pension and similar costs	21,898	22,481
Other costs	23,620	30,990
	<b>1,549,744</b>	<b>1,623,539</b>

### ***Amortization, depreciation and writedowns***

The depreciation charge for property, plant and equipment may be analyzed as follows:

	(in thousands of euros)	
	<b>2001</b>	<b>2000</b>
Buildings	32,668	33,073
Plant and machinery	212,439	225,203
Commercial and industrial equipment	41,482	44,764
Other assets	38,977	38,785
	<b>325,566</b>	<b>341,825</b>

The writedown of receivables, of Euros 79,945 thousand, includes Euros 68 million of accruals for doubtful receivables in respect of specific insolvent positions in the Cables and Systems Sector.

### ***Other operating expenses***

Other operating expenses went from Euros 231,680 thousand to Euros 235,224 thousand and include administrative expenses (Euros 21,992 thousand), travel expenses (Euros 68,777 thousand), revenue stamps and local taxes (Euros 33,379 thousand), losses on the disposal of property, plant and equipment (Euros 8,360 thousand), legal fees (Euros 11,140 thousand), association dues (Euros 8,278 thousand), entertainment, audit and other minor items.

## **C) Financial income and expenses**

### ***Investment income***

Investments income includes:

	(in thousands of euros)	
	<b>2001</b>	<b>2000</b>
Dividends from subsidiaries	1,117	1,421
Dividends from associated companies	-	394
Dividends from other companies	10,315	12,479
Other income	744	54
	<b>12,176</b>	<b>14,348</b>

Other income refers to gains on the sale of securities.

### ***Other financial income***

“**Income other than the above**” consists of the following:

	(in thousands of euros)	
	<b>2001</b>	<b>2000</b>
Interest from subsidiaries	2	545
Interest from jointly controlled subsidiaries	75	-
Interest from associated companies	13,623	9,904
Bank interest	190,339	119,998
Other interest	3,154	4,386
Miscellaneous financial income	36,174	53,809
Gains on exchange	217,651	117,623
	<b>461,018</b>	<b>306,265</b>

**Miscellaneous** financial income includes revenues on forward exchange contracts, gains on the sale of fixed rate securities, interest on receivables to be collected from the tax authorities and other minor items.

### ***Interest and other financial expenses***

These expenses include:

	(in thousands of euros)	
	<b>2001</b>	<b>2000</b>
Interest to associated companies	102	2,316
Bond interest	34,262	35,683
Bank interest	152,560	153,927
Miscellaneous financial expenses	101,717	130,100
Losses on exchange	226,742	128,972
	<b>515,383</b>	<b>450,998</b>

**Miscellaneous financial expenses** include costs on forward exchange contracts, losses on the sale of fixed rate securities, bank commissions, etc..

Financial expenses, net, excluding amounts not directly associated with receivables and payables, amount to Euros 45,274 thousand.

### **D) Valuation adjustments to financial assets**

Revaluations (Euros 9,951 thousand) mainly comprise the share of the results of the associated companies of Pirelli & C. Real Estate S.p.A. accounted for using the equity method (Euros 9,908 thousand).

Writedowns (Euros 41,517 thousand) include Euros 7,057 thousand for the share of the losses of the associated companies of Pirelli & C. Real Estate S.p.A. accounted for using the equity method, Euros 19,312 thousand for the share of the loss of the

company Olimpia S.p.A. accounted for using the equity method and Euros 15,148 thousand for the writedowns of investments in other companies (of which F.C. Internazionale Milano S.p.A. is for Euros 12,583 thousand and Superga S.p.A. for Euros 998 thousand).

## **E) Extraordinary items**

### ***Extraordinary income***

Extraordinary income totals Euros 425,670 thousand compared to Euros 5,633,530 thousand in the prior year, and can be analyzed as follows:

	(in thousands of euros)	
	<b>2001</b>	<b>2000</b>
Gains on disposals	294,596	121,212
Miscellaneous	131,074	5,512,318
	<b>425,670</b>	<b>5,633,530</b>

“Gains on disposal” mainly include the gain on the securities relating to the partial disposal of the securities hedged in the equity swap in the portfolio of Pirelli & C. Real Estate S.p.A. (Euros 178,589 thousand), the gain on the sale of Pirelli S.p.A. treasury shares on the market (Euros 30,285 thousand) and the gains on the sales of real estate property by the Cables and Systems Sector (Euros 72,102 thousand).

“Miscellaneous” principally includes an earn-out of Euros 70,497 thousand on the closing of last year agreements with Cisco Systems for the sale of the Terrestrial Optical Systems business last year, the price adjustment with BICC of Euros 16,626 thousand for the activities purchased, the gain of Euros 5,927 thousand from the reimbursement of part of the share capital of Pirelli Società Generale S.A. – Basel, income of Euros 11,000 thousand for higher tax credits on dividends received in 2001 and, the remaining amount refers to insurance indemnities, sundry refunds and other items.

Last year, “miscellaneous” mainly included the pretax gains on the sales of the Terrestrial Optical Systems business to Cisco and the Optical Components business to Corning.

### ***Extraordinary expenses***

Extraordinary expenses amount to 270,075 thousand compared to Euros 1,112,168 thousand in the prior year, and may be analyzed as follows:

	(in thousands of euros)	
	<b>2001</b>	<b>2000</b>
Losses on disposals	1,127	47,582
Miscellaneous	268,948	1,064,586
	<b>270,075</b>	<b>1,112,168</b>

“Miscellaneous” mainly includes restructuring costs relating to the industrial structure (Euros 151 million) and Euros 11 million for costs relating to the sale of real estate properties by the Cables and Systems Sector.

## **OTHER INFORMATION**

### **Directors' and statutory auditors' fees**

Fees to the directors and statutory auditors of Pirelli & C., who also carry out these functions in other companies included in consolidation, are as follows:

	(in thousands of euros)
Directors	20,208
Statutory auditors	230
	<hr/>
	20,438

### ***Employees***

At December 31, 2001, the average number of employees, by category, in companies included in consolidation is as follows:

- senior executives	726
- staff	11,092
- blue collar	26,430
- temporary employment	2,879
	<hr/>
	41,127

## Exchange rates

The main exchange rates used in the consolidated financial statements are as follows:

	(local currency against euros)					
	Year-end		Change	Average		Change
	2001	2000	in %	2001	2000	in %
<b>Europa</b>						
Italian lira	1,936.27	1,936.27	0.00%	1,936.27	1,936.27	0.00%
German mark	1.95583	1.95583	0.00%	1.95583	1.95583	0.00%
Dutch guilder	2.20371	2.20371	0.00%	2.20371	2.20371	0.00%
French franc	6.55957	6.55957	0.00%	6.55957	6.55957	0.00%
Spanish peseta	166.386	166.386	0.00%	166.386	166.386	0.00%
Belgian franc	40.3399	40.3399	0.00%	40.3399	40.3399	0.00%
British pound	0.6085	0.6241	(2.50%)	0.62172	0.60946	2.01%
Swiss franc	1.4829	1.5232	(2.65%)	1.5102	1.5577	(3.05%)
Hungarian forint	245.1800	263.8400	(7.07%)	256.5446	260.0502	(1.35%)
Slovakian koruna	42.2610	43.4897	(2.83%)	43.2811	42.7079	1.34%
Greek drachma	340.750	340.750	0.00%	340.7500	336.6520	1.22%
<b>North America</b>						
American dollar	0.8813	0.9305	(5.29%)	0.8954	0.9237	(3.06%)
Canadian dollar	1.4077	1.3965	0.80%	1.3865	1.3709	1.14%
<b>South America</b>						
Brazilian real	2.0450	1.8195	12.39%	2.1062	1.6899	24.63%
Argentine peso	0.8813	0.9305	(5.29%)	0.8954	0.9237	(3.06%)
<b>Oceania</b>						
Australian dollar	1.7280	1.6770	3.04%	1.7320	1.5894	8.97%
<b>Asia</b>						
Chinese RMB	7.2942	7.7021	(5.30%)	7.3827	7.6454	(3.44%)
Singapore dollar	1.6269	1.6130	0.86%	1.6048	1.5913	0.85%
Indian rupiah	9,121.0000	8,956.0000	1.84%	9,165.0000	7,746.0000	18.32%
<b>Africa</b>						
Egyptian pound	4.019	3.610	11.31%	3.6236	3.2637	11.03%
Ivory Coast franc	655.957	655.957	0.00%	655.9570	655.9570	0.00%

### ***Net financial position***

The composition of the net financial position presented below, and the change compared to December 31, 2000, are commented in the introduction to the report:

	(in thousands of euros)	
	<b>12/31/2001</b>	<b>12/31/2000</b>
Short-term financial payables	1,557,956	838,615
Accrued interest expenses	12,549	25,333
Cash and banks	(471,386)	(3,732,150)
Other securities and investments held in current financial assets	(562,110)	(1,246,737)
Short-term financial receivables	(258,333)	(42,248)
Accrued interest income	(9,577)	(16,373)
<b>Net short-term (liquidity) debt</b>	<b>269,099</b>	<b>(4,173,560)</b>
Medium/long-term financial payables	1,861,691	1,852,356
Medium/long-term financial receivables	(89,564)	(305,156)
Other securities	(11,665)	(8,572)
<b>Net medium/long-term debt</b>	<b>1,760,462</b>	<b>1,538,628</b>
<b>Net financial (liquidity) debt position</b>	<b>2,029,561</b>	<b>(2,634,932)</b>

### ***R & D expenditures***

In 2001, the Group, through the subsidiary Pirelli S.p.A., incurred research and development expenditures and technical management costs for a total of Euros 237 million, entirely charged to operating expenses, compared to Euros 313 million in the prior year. Expenditures represented 3.2 percent of consolidated sales revenues compared to 2.8 percent in the prior year.

The geographical breakdown of these expenditures is as follows:

Europe	91%
North America	4%
South America	5%

A number of research programs are subsidized by the governments of various countries. In particular, in Italy, where the research activities are mainly concentrated, the projects financed under the various laws are numerous and apply, in differing proportions, to all sectors of activity.



**SUPPLEMENTARY INFORMATION**  
**CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2001**



## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of euros)

	2001	2000
<b>Net cash flows</b>		
Operating profit	296,525	431,521
Depreciation and amortization	407,735	418,093
Investment in intangible assets	(97,179)	(93,077)
Investment in property, plant and equipment	(646,218)	(569,566)
Investment in financial assets	(3,648,052)	(683,231)
Disposal of intangible assets	2,786	5,269
Disposal of property, plant and equipment	33,682	27,570
Disposal of financial assets	125,446	132,176
Changes in inventories	159,232	(76,603)
Changes in trade and other accounts receivable/payable	(167,773)	63,060
Changes in provisions	(35,218)	(57,668)
Other changes	21,556	(26,544)
<b>Free cash flows</b>	<b>(3,547,478)</b>	<b>(429,000)</b>
Financial income/expenses, net	(69,368)	(119,440)
Income taxes, net	(188,540)	(1,074,159)
Extraordinary items, net	155,595	4,521,362
Other changes	(712,817)	1,373,558
<b>Cash flows before dividends</b>	<b>(4,362,608)</b>	<b>4,272,321</b>
Dividends paid	(328,906)	(154,650)
<b>Net cash flows</b>	<b>(4,691,514)</b>	<b>4,117,671</b>
Share capital increase Pirelli & C.	19,886	44,559
Share capital increase Pirelli S.p.A.	29,158	5,138
Share capital increase minority interest	6,080	82,543
<b>Changes in share capital</b>	<b>55,124</b>	<b>132,240</b>
Translation adjustments	(28,103)	(17,976)
<b>Net increase (decrease) in cash</b>	<b>(4,664,493)</b>	<b>4,231,935</b>
<b>Net liquidity (debt) at beginning of the year</b>	<b>2,634,932</b>	<b>(1,597,003)</b>
<b>Net liquidity (debt) at end of the year</b>	<b>(2,029,561)</b>	<b>2,634,932</b>

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2000 AND 2001

(in thousands of euros)

	Share capital	Share premium reserve	Legal reserve	Cumulative translation adjustments	Other reserves* Retained earnings Net income	Total
<b>BALANCE AT DECEMBER 31, 1999</b>	<b>310,989</b>	<b>451,028</b>	<b>61,773</b>	<b>28,281</b>	<b>(43,546)</b>	<b>808,525</b>
Appropriation of net income (shareholders' resolution of May 11, 1999)						
- Payment of dividends	-	-	-	-	(37,284)	(37,284)
- Legal reserve	-	-	439	-	(439)	-
Conversion of bonds 1998/2003	9,970	34,589	-	-	-	44,559
Adjustments to net equities of subsidiaries and associated companies	-	-	-	-	(20,278)	(20,278)
Translation adjustment and other changes	-	-	-	(28,921)	-	(28,921)
Net income for the year	-	-	-	-	1,404,660	1,404,660
<b>BALANCE AT DECEMBER 31, 2000</b>	<b>320,959</b>	<b>485,617</b>	<b>62,212</b>	<b>(640)</b>	<b>1,303,113</b>	<b>2,171,261</b>
Appropriation of net income (shareholders' resolution of May 11, 2000)						
- Payment of dividends	-	-	-	-	(128,907)	(128,907)
- Legal reserve	-	-	2,802	-	(2,802)	-
Conversion of bonds 1998/2003	4,449	15,437	-	-	-	19,886
Adjustments to net equities of subsidiaries and associated companies	-	-	-	-	(13,154)	(13,154)
Translation adjustment and other changes	-	-	-	(55,336)	-	(55,336)
Net income for the year	-	-	-	-	124,955	124,955
<b>BALANCE AT DECEMBER 31, 2001</b>	<b>325,408</b>	<b>501,054</b>	<b>65,014</b>	<b>(55,976)</b>	<b>1,283,205</b>	<b>2,118,705</b>

\* Other reserves include the revaluation reserve and the reserve for treasury shares in portfolio.

**RECONCILIATION OF NET RESULTS AND SHAREHOLDERS' EQUITY  
OF PIRELLI & C. A.p.A. AND THE CORRESPONDING CONSOLIDATED FIGURES  
OF THE GROUP AT DECEMBER 31, 2001**

(in thousands of euros)

	Net income	Shareholders' equity
<b>Pirelli &amp; C. A.p.A. financial statements</b>	<b>148,387</b>	<b>1,194,513</b>
Share of earnings of:		
- consolidated subsidiaries	202,239	202,239
- companies valued using the equity method	(10,125)	(10,125)
Elimination of dividends received from subsidiaries	(188,560)	(188,560)
Elimination of gains on the sale of intergroup fixed assets	(370)	(370)
Elimination of gains on intergroup sales	2,380	2,380
Amortization of goodwill	(28,996)	(28,996)
Difference between share of net equity of consolidated companies and their carrying value::		
- consolidated subsidiaries	-	940,828
- associated companies accounted for using the equity method	-	6,796
<b>Group consolidated financial statements</b>	<b>124,955</b>	<b>2,118,705</b>

## COMPANIES CONSOLIDATED USING THE FULL CONSOLIDATION METHOD

Company	Business	Headquarters	Share capital	% ownership	% of vote	Held by
<b>EUROPE</b>						
<b>AUSTRIA</b>						
Pirelli Gesellschaft mbH	Tyres	Vienna	Aust. Sch./000	10,000	100.00%	Lunares S.A.
Pirelli-Oekw GmbH	Cables and Systems	Vienna	Euro	2,071,176	100.00%	Pirelli Cable Holding N.V.
<b>BELGIUM</b>						
Pirelli Tyres Belux S.A.	Tyres	Brussels	Euro	700,000	100.00%	Lunares S.A.
<b>FINLAND</b>						
Pirelli Cables and Systems OY	Cables and Systems	Helsinki	Euro	10,000,000	100.00%	Pirelli Cable Holding N.V.
<b>FRANCE</b>						
Eurelectric S.A.	Cables and Systems	La Bresse	Euro	4,036,500	100.00%	Pirelli Energie Câbles et Systèmes France S.A. (già Pirelli Câbles et Systèmes S.A.)
Pirelli Moto France S.A.S. (formerly SMI S.A.S.)	Tyres	Gonesse	Euro	77,000	100.00%	Metzeler Reifen GMBH
Pirelli Energie Câbles et Systèmes France S.A. (formerly Pirelli Cables et Systèmes S.A.)	Energy Cables and Systems	Paron	Euro	136,800,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Telecom Câbles et Systèmes France S.A. (formerly Superent S.A.)	Telecom Cables and Systems	Bagnolet Cedex	Euro	16,295,000	100.00%	Pirellie Cavi e Sistemi Telecom S.p.A.
Pneus Pirelli S.A.	Tyres	Puteaux	Euro	3,062,400	100.00%	Lunares S.A.
Superent Bis France S.A. (formerly Pirelli Telecom Cables et Systemes France S.A.)	Energy Cables and Systems	Bagnolet Cedex	Euro	40,000	100.00%	Pirelli Energie Câbles et Systèmes France S.A. (già Pirelli Câbles et Systèmes S.A.)
<b>GERMANY</b>						
Bergmann Kabel und Leitungen GmbH	Energy Cables and Systems	Schwerin	Euro	1,022,600	100.00%	Pirelli Kabel und Systeme Holding GmbH
Deutsche Pirelli Reifen Holding GmbH	Financial	Breuberg/Odenwald	Euro	7,694,943	100.00%	Pirelli Tyre Holding N.V.
ISO Industrie Spedition Odenwald GmbH	Tyres	Breuberg/Odenwald	Euro	25,565	100.00%	Pirelli Reifenwerke GmbH & Co. K.G.
Materialverwertungsgesellschaft Breuberg GmbH	Tyres	Breuberg/Odenwald	Euro	25,565	100.00%	Deutsche Pirelli Reifen Holding GmbH
Metzeler Reifen GmbH	Tyres	Breuberg/Odenwald	Euro	16,361,340	100.00%	Pirelli Deutschland A.G.
Pirelli Deutschland A.G.	Tyres	Breuberg/Odenwald	Euro	26,075,886	99.07%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Kabel Grundstücksverwaltungs GmbH	Energy Cables and Systems	Berlin	Euro	25,600	100.00%	Pirelli Kabel und Systeme Holding GmbH
Pirelli Kabel und Systeme Beteiligungs GmbH	Energy Cables and Systems	Berlin	Euro	25,600	100.00%	Pirelli Kabel und Systeme Holding GmbH
Pirelli Kabel und Systeme GmbH & Co. KG	Energy Cables and Systems	Berlin	Euro	5,113,000	100.00%	Pirelli Kabel und Systeme Beteiligungs GmbH
Pirelli Kabel und Systeme Holding GmbH	Energy Cables and Systems	Berlin	Euro	26,000	99.00%	Pirelli Cable Holding NV
					1.00%	Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Kabel und Systeme Verwaltungs GmbH	CEnergy Cables and Systems	Berlin	Euro	25,600	100.00%	Pirelli Kabel und Systeme Beteiligungs GmbH
Pirelli Reifenwerke Geschaeftsfuehrungs GmbH	Service	Breuberg/Odenwald	Euro	25,565	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Reifenwerke GmbH & Co. K.G.	Tyres	Breuberg/Odenwald	Euro	35,790,943	100.00%	Pirelli Deutschland A.G.
Pirelli Telekom Kabel und Systeme Deutschland GmbH	Telecom Cables and Systems	Berlin	Euro	25,000	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pneumobil GmbH	Tyres	Breuberg/Odenwald	Euro	259,225	99.62%	Pirelli Reifenwerke GmbH & Co. K.G.
Veith Wohnungsbau GmbH	Real Estate	Breuberg/Odenwald	Euro	127,823	100.00%	Pirelli Deutschland A.G.

Company	Business	Headquarters	Share capital	% ownership	% of vote	Held by
<b>UNITED KINGDOM</b>						
Aberdare Cables Ltd	Energy Cables and Systems	London	British Pound	609,654	100.00%	Pirelli General plc
Pirelli Telecom Cables and Systems UK Limited (formerly ACAF Ltd)	Telecom Cables and Systems	London	British Pound	100,000	100.00%	Pirelli General plc
Central Tyre Ltd	Tyres	London	British Pound	100,000	100.00%	Pirelli UK Tyres Ltd
Comergy Ltd	Cables and Systems	London	British Pound	1,000,000	100.00%	Pirelli & C Luxembourg S.A.
Courier Tyre Company Ltd	Tyres	London	British Pound	10,000	100.00%	Pirelli UK Tyres Ltd
CPK Auto Products Ltd	Tyres	London	British Pound	10,000	100.00%	Pirelli UK Tyres Ltd
CTC 1994 Limited	Tyres	London	British Pound	984	100.00%	Centrale Tyre Ltd
Pirelli & C. Real Estate Ltd	Real estate	London	Euro	100,000	100.00%	Pirelli & C. A.p.A.
Pirelli Cables (2000) Limited	Energy Cables and Systems	London	British Pound	118,653,473	100.00%	Pirelli General plc
Pirelli Cables (Industrial) Limited	Energy Cables and Systems	London	British Pound	9,010,935	100.00%	Pirelli General plc
Pirelli Cables (Supertention) Ltd.	Energy Cables and Systems	London	British Pound	5,000,000	100.00%	Pirelli General plc
Pirelli Cables and Systems International Ltd	Energy Cables and Systems	London	Euro	100,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Cables Ltd	Energy Cables and Systems	London	British Pound	100,000	100.00%	Pirelli General plc
Pirelli Construction Company Ltd	Energy Cables and Systems	London	British Pound	8,000,000	100.00%	Pirelli General plc
Pirelli Focom Limited	Energy Cables and Systems	London	British Pound	6,447,000	100.00%	Pirelli General plc
Pirelli General plc	Cables and Systems	London	British Pound	102,100,000	100.00%	Pirelli UK plc "B1"/"B2"
Pirelli International Limited	Financial	London	Euro	250,000,000	100.00%	Pirelli Finance (Luxembourg) S.A.
Pirelli Metals Ltd (formerly Pirelli Cables (Rod Rollers) Limited)	Energy Cables and Systems	London	British Pound	100,000	100.00%	Pirelli General plc
Pirelli Tyres Ltd	Tyres	London	British Pound	16,000,000	100.00%	Pirelli UK Tyres Ltd
Pirelli UK Employee Share Trustee Limited	Financial	London	British Pound	2	100.00%	Pirelli UK plc "C"
Pirelli UK Finance Ltd	Financial	London	British Pound	6,969,280	100.00%	Pirelli UK plc "C"
Pirelli UK plc "A"	Tyre Holding Company	London	British Pound	57,354,300	100.00%	Pirelli Tyre Holding N.V.
Pirelli UK plc "B1"	Cable Holding Company	London	British Pound	27,149,529	100.00%	Pirelli Cable Holding N.V.
Pirelli UK plc "B2"	Telecom Cables and System Holding Company	London	British Pound	27,149,529	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli UK plc "C"	Finance Holding Company	London	British Pound	11,625,978	100.00%	Pirelli S.p.A.
Pirelli UK Tyres Ltd	Tyres	London	British Pound	56,819,000	100.00%	Pirelli UK plc "A"
<b>GREECE</b>						
Antem Representations & Trading Co. Ltd. (in liquidation)	Tyres	Athens	Gr. Drachma	1,000,000	100.00%	Pirelli Hellas S.A.
Diafimisis Roda Ltd (in liquidation)	Advertising	Athens	Gr. Drachma	3,000,000	99.33%	Elastika Pirelli S.A.
					0.33%	Antem Repr.& Trading Co. Ltd
Elastika Pirelli S.A.	Tyres	Athens	Euro	1,632,010	99.90%	Lunares S.A.
					0.10%	Pirelli Pneumatici Holding S.p.A.
Pirelli Hellas S.A. (in liquidation)	Tyres	Athens	US \$	22,050,000	79.86%	Pirelli Tyre Holding N.V.

Company	Business	Headquarters	Share capital	% ownership	% of vote	Held by
<b>ITALY</b>						
Acquario S.r.l. (in liquidation)	Real estate	Genoa	Euro	255,000	100.00%	Pirelli & C. Real Estate S.p.A.
Alfa S.r.l.	Real estate	Milan	Euro	2,600,000	100.00%	Pirelli & C. Real Estate S.p.A.
Alfa Due S.p.A.	Real estate	Milan	Euro	1,300,000	100.00%	Pirelli & C. Real Estate S.p.A.
Altofim S.r.l.	Financial	Milan	Euro	78,000	100.00%	Pirelli & C.A.p.A.
Beta S.r.l.	Real estate	Milan	Euro	26,000	100.00%	Pirelli & C. Real Estate S.p.A.
Cagisa S.p.A.	Real estate	Milan	Euro	624,000	100.00%	Pirelli & C. Property Management S.p.A.
Centrale Immobiliare S.p.A.	Real estate	Milan	Euro	5,200,000	100.00%	Pirelli & C. Real Estate S.p.A.
Centro Servizi Amministrativi Pirelli S.r.l.	Service	Milan	Euro	51,000	100.00%	Pirelli S.p.A.
Fibre Ottiche Sud - F.O.S. S.p.A.	Optical	Battipaglia (SA)	Euro	5,200,000	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Fintheta S.p.A.	Real estate	Milan	Euro	255,000	100.00%	Pirelli S.p.A.
Holdim S.r.l.	Real estate	Milan	Euro	14,404	100.00%	Pirelli & C. Real Estate S.p.A.
Istituto Piero Pirelli S.p.A. (in liquidation)	Training	Milan	Euro	135,000	100.00%	Pirelli S.p.A.
Kallithea S.r.l. (formerly Kallithea S.p.A.)	Real estate	Milan	Euro	10,400	100.00%	Pirelli S.p.A.
Kappa S.r.l.	Real estate	Milan	Euro	10,400	100.00%	Pirelli & C. Real Estate S.p.A.
Iota S.r.l.	Real estate	Milan	Euro	93,600	100.00%	Pirelli & C. Real Estate S.p.A.
Lambda S.r.l.	Real estate	Milan	Euro	624,000	100.00%	Pirelli & C. Real Estate S.p.A.
Localto S.p.A.	Financial	Milan	Euro	5,200,000	100.00%	Pirelli & C.A.p.A.
Maristel S.p.A.	Telecom Cables and Systems	Milan	Euro	1,020,000	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Neri Gomme & C. S.r.l. (in liquidation)	Tyres	Milan	Lire	20,000,000	100.00%	Sistema Puntogomme S.p.A.
Partecipazioni Real Estate S.p.A.	Real estate	Milan	Euro	1,360,280	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli Cavi e Sistemi Energia S.p.A.	Energy Cables and Systems Holding Company	Milan	Euro	100,000,000	98.749% 1.251%	Pirelli S.p.A. Pirelli Finance (Luxembourg) S.A.
Pirelli Cavi e Sistemi Energia Italia S.p.A. (formerly CEAT Cavi S.r.l.)	Energy Cables and Systems	Milan	Euro	110,000,000	100.00%	Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Cavi e Sistemi S.p.A.	Cable Holding Company	Milan	Euro	12.694.200	98.749% 1.251%	Pirelli S.p.A. Pirelli Finance (Luxembourg) S.A.
Pirelli Cavi e Sistemi Telecom S.p.A.	Telecom Cables and Systems Holding Company	Milan	Euro	70,000,000	98.749% 1.251%	Pirelli S.p.A. Pirelli Finance (Luxembourg) S.A.
Pirelli Cavi e Sistemi Telecom Italia S.p.A.	Telecom Cable and Systems	Milan	Euro	41,000,000	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli Cultura S.p.A.	Sundry	Milan	Euro	1,000,000	99.00% 1.00%	Pirelli S.p.A. Trefin S.r.l.
Pirelli Informatica S.p.A.	Information Systems	Milan	Euro	520,000	100.00%	Pirelli S.p.A.
Pirelli Labs S.p.A.	Development	Milan	Euro	10,000,000	100.00%	Pirelli Cavi e Sistemi S.p.A.
Pirelli Metzeler Motovelo S.r.l.	Tyres	Milan	Euro	4,590,000	100.00%	Metzeler Reifen GmbH
Pirelli Nastri Tecnici S.p.A. (in liquidation)	Sundry	Milan	Euro	384,642	100.00%	Pirelli S.p.A.
Pirelli Pneumatici Europa S.r.l.	Service	Milan	Euro	20,000,000	100.00%	Pirelli Pneumatici Holding S.p.A.
Pirelli Pneumatici Holding S.p.A.	Financial	Milan	Euro	121,800,000	100.00%	Pirelli Tyre Holding N.V.

Company	Business	Headquarters	Share capital	% ownership	% of vote	Held by
Pirelli Pneumatici S.p.A.	Tyres	Milan	Euro 252,320,000	100.00%		Pirelli Pneumatici Holding S.p.A.
Pirelli Servizi Finanziari S.p.A.	Financial	Milan	Euro 1,976,000	100.00%		Pirelli S.p.A.
Pirelli Submarine Telecom System Italia S.p.A.	Telecom Cables and Systems	Milan	Euro 50,000,000	100.00%		Pirelli Submarine Telecom Systems Holding B.V.
Pirelli & C. Ambiente S.p.A.	Environment	Milan	Euro 3,060,000	100.00%		Pirelli & C. A.p.A.
Pirelli & C. Credit Servicing S.p.A. (formerly Milano Centrale Altofim S.p.A.)	Financial	Milan	Euro 5,200,000	100.00%		Pirelli & C. A.p.A.
Pirelli S.p.A.	Holding	Milan	Euro 1,043,094,358	10.80% 26.31% 8.14%	10.85% 27.52% 0.00%	Pirelli & C. A.p. A. Pirelli & C. Luxembourg S.A. Pirelli S.p.A.
Pirelli & C. Commercial Agency S.p.A. (formerly Pirelli & C. Agency 2 S.p.A.)	Real estate	Milan	Euro 832,000	100.00%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Casa S.p.A. (formerly Milano Centrale Mediacasa S.p.A.)	Real estate	Milan	Euro 520,000	100.00%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Opere Generali S.p.A. (formerly Milano Centrale Opere Generali S.p.A.)	Real estate	Milan	Euro 104,000	100.00%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Project Management S.p.A. (formerly Milano Centrale Servizi di Sviluppo S.p.A.)	Real estate	Milan	Euro 520,000	100.00%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Property Management S.p.A. (formerly Milano Centrale Cagisa S.p.A.)	Real estate	Milan	Euro 114,400	92.00%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate S.p.A. (formerly Milano Centrale S.p.A.)	Real estate	Milan	Euro 17,307,056	92.27%		Pirelli & C. A.p. A.
Polo Viaggi S.r.l.	Travel Agency	Milan	Euro 46,800	100.00%		Pirelli S.p.A.
Progetti Creativi S.r.l.	Real estate	Milan	Euro 51,000	100.00%		Pirelli & C. Agency S.p.A.
Progetto Ambiente Alfa S.r.l.	Environment	Milan	Euro 25,500	100.00%		Pirelli Ambiente S.p.A.
Progetto Ambiente Beta S.r.l.	Environment	Milan	Euro 25,500	100.00%		Pirelli Ambiente S.p.A.
Progetto Ambiente Gamma S.r.l.	Environment	Milan	Euro 25,500	100.00%		Pirelli Ambiente S.p.A.
Progetto Bicocca Centro Tecnologico S.r.l.	Real estate	Milan	Euro 93,600	100.00%		Pirelli & C. Real Estate S.p.A.
Progetto Bicocca Esplanade S.p.A.	Real estate	Milan	Euro 2,500,000	100.00%		Pirelli & C. Real Estate S.p.A.
Progetto Bicocca Il Centro S.r.l.	Real estate	Milan	Euro 93,000	100.00%		Pirelli & C. Real Estate S.p.A.
Progetto Grande Bicocca S.r.l.	Real estate	Milan	Euro 93,600	100.00%		Pirelli & C. Real Estate S.p.A.
Progetto Navigli S.r.l.	Real estate	Milan	Euro 52,000	100.00%		Pirelli & C. Real Estate S.p.A.
Promedil '84 S.r.l.	Real estate	Milan	Euro 10,400	100.00%		Pirelli & C. Real Estate S.p.A.
Servizi Amministrativi Real Estate S.p.A.	Real estate	Milan	Euro 520,000	100.00%		Pirelli & C. Real Estate S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Service	Milan	Euro 104,000	93.00% 0.50% 0.50% 1.00% 1.00% 1.00% 1.00% 1.00%		Pirelli S.p.A. Pirelli Cavi e Sistemi Energia S.p.A. Pirelli Cavi e Sistemi Telecom S.p.A. Pirelli Pneumatici S.p.A. Polo Viaggi S.r.l. Pirelli Pneumatici Holding S.p.A. Pirelli & C. A.p.A. Pirelli & C. Real Estate S.p.A. Alfa Due S.p.A.

Company	Business	Headquarters	Share capital	% ownership	% of vote	Held by
Sistema Puntogomme S.p.A.	Tyres	Milan	Euro	3,060,000	100.00%	Pirelli Pneumatici Holding S.p.A.
Stella Polare S.r.l. (in liquidation)	Real estate	Milan	Euro	289,215	100.00%	Pirelli & C. Real Estate S.p.A.
Tau S.r.l.	Real estate	Milan	Euro	93,600	100.00%	Pirelli & C. Real Estate S.p.A.
Trefin S.r.l.	Financial	Milan	Euro	4,242,476	100.00%	Pirelli S.p.A.
<b>LUXEMBOURG</b>						
Gamirco S.A. (formerly Gamirco Holding S.A.)	Financial	Luxembourg	Fr.Sv.	2,100,000	100.00%	Pirelli Finance (Luxembourg) S.A.
Pirelli Finance (Luxembourg) S.A.	Financial	Luxembourg	Euro	270,228,168	100.00%	Pirelli S.p.A.
Pirelli & C. Luxembourg S.A.	Financial	Luxembourg	Fr.Sv./000	270,000	100.00%	Pirelli & C.A.p.A.
<b>NORWAY</b>						
Pirelli Kabler og Systemer AS	Energy Cables and Systems	Ski	Corona Nor.	100,000	100.00%	Pirelli Cables and Systems OY
<b>THE NETHERLANDS</b>						
Optical Technologies The Netherlands B.V.	Financial	Delft	Euro	183,235,100	67.88% 32.12%	0.00% Pirelli S.p.A. Optical Technologies The Netherlands B.V.
Pirelli Cable Holding N.V.	Systems Holding Company	Delft	Euro	272,515,065	100.00%	Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Cable Overseas N.V.	Telecom Cables and Systems	Delft	Euro	10,000,000	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli Cables and Systems N.V.	Energy Cables and Systems	Delft	Euro	5,000,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Submarine Telecom Systems Holding B.V.	Telecom Cables and Systems	Delft	Euro	4,500,000	90.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli Telecom Cables and Systems The Netherlands N.V. (formerly Pirelli Technology and Intellectual Property Licensing N.V.)	Telecom Cables and Systems	Delft	Euro	50,000	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli Tyre Holding N.V.	Tyre Holding Company	Breukelen	Euro	798,396,003	100.00%	Pirelli S.p.A.
Pirelli Tyres Nederland B.V.	Tyres	Breukelen	Euro	18,152	100.00%	Lunares S.A.
Sipir Finance N.V.	Financial	Rotterdam	Euro	41,146,522	100.00%	Pirelli Tyre Holding N.V.
<b>POLAND</b>						
Pirelli Polska Sp.zo.o.	Tyres	Warsaw	Pol. Zloty	6,257,708,500	100.00%	Lunares S.A.
<b>PORTUGAL</b>						
Desco Fabrica Portuguesa de Material Electrico e Electronico S.A.	Energy Cables and Systems	Arcozelo Vnगाia	Euro	1,545,000	70.93% 29.07%	Pirelli Energie Cables et Systèmes France S.A. (già Pirelli Cables et Systèmes S.A.) Eurelectric S.A.
<b>SLOVAK REPUBLIC</b>						
Kablo Bratislava Spol. S.R.O.	Energy Cables and Systems	Bratislava	Slov. Koruna	523,334,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Slovakia S.R.O.	Tyres	Bratislava	Slov. Koruna	200,000	100.00%	Lunares S.A.
<b>RUMANIA</b>						
S.C. Pirelli Romania Cabluri si Sisteme S.A.	Energy Cables and Systems	Slatina	Leu Rumeni/000	208,927,700	100.00%	Pirelli Cable Holding N.V.
<b>SPAIN</b>						
Fercable S.A.	Energy Cables and Systems	Barcelona	Euro	3,606,073	100.00%	Pirelli Cables y Sistemas S.A.
Omnia Motor S.A.	Tyres	Barcelona	Euro	1,502,530	100.00%	Pirelli Neumaticos S.A.
Pirelli Cables y Sistemas S.A.	Energy Cables and Systems	Barcelona	Euro	24,000,000	100.00%	Pirelli Cable Holding N.V.

Company	Business	Headquarters	Share capital	% ownership	% of vote	Held by
Pirelli Esmar S.A.	Energy Cables and Systems	Torredembarra	Euro	8,714,675	100.00%	Pirelli Cables y Sistemas S.A.
Pirelli Neumaticos S.A.	Tyres	Barcelona	Euro	45,075,908	100.00%	Pirelli Tyre Holding N.V.
Pirelli Telecom Cables y Sistemas Espana S.L.	Telecom Cables and Systems	Barcelona	Euro	12,000,000	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
<b>SWEDEN</b>						
Pirelli Kablar och System AB	Energy Cables and Systems	Hoganas	Kr. Sv.	100,000	100.00%	Pirelli Cables and Systems OY
Pirelli Tyre Nordic AB	Tyres	Stocolma	Kr. Sv.	950,000	100.00%	Lunares S.A.
<b>SWITZERLAND</b>						
Agom S.A.	Tyres	Conthey	Frs.	50,000	75.00%	Lunares S.A.
Agom S.A. Bioggio	Tyres	Bioggio	Frs.	590,000	75.00%	Lunares S.A.
Agom S.A. Locarno (in liquidation)	Tyres	Locarno	Frs.	50,000	75.00%	Lunares S.A.
Agom S.A. Lugano (in liquidation)	Tyres	Lugano	Frs.	102,000	75.00%	Lunares S.A.
Biasi S.A. (in liquidation)	Tyres	Lugano	Frs.	250,000	75.00%	Lunares S.A.
Lunares S.A.	Tyre Holding Company	Basel	Frs.	10,000,000	100.00%	Pirelli Tyre Holding N.V.
Pirelli Cables and Systemes S.A.	Energy Cables and Systems	Basel	Frs.	500,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Produkte Holding A.G. (in liquidation)	Energy Cables and Systems	Basel	Frs.	9,500,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Société de Services S.a.r.l.	Financial	Basel	Frs.	50,000	100.00%	Pirelli Société Générale S.A.
Pirelli Société Générale S.A.	Financial	Basel	Frs.	28,000,000	100.00%	Pirelli S.p.A.
Pirelli Submarine Telecom Systems S.A.	Telecom Cables and Systems	Basel	Frs.	1,230,000	100.00%	Pirelli Submarine Telecom Systems Holding B.V.
Pirelli Tyre (Europe) S.A.	Tyres	Basel	Frs.	1,000,000	100.00%	Lunares S.A.
<b>TURKEY</b>						
Celikord A.S.	Tyres	Istanbul	TL/mil.	12,100,000	49.75% 0.71% 0.27% 0.27%	Pirelli Tyre Holding N.V. Sipir Finance N.V. Pirelli Pneumatici Holding S.p.A. Pirelli Deutschland A.G.
Turk-Pirelli Lastikleri A.S.	Tyres	Istanbul	TL/mil.	59,000,000	60.884% 1.565% 0.076% 0.076% 0.076% 0.076% 0.076% 0.076% 0.076% 0.076%	Pirelli Tyre Holding N.V. Sipir Finance N.V. Pirelli Deutschland A.G. Pirelli UK Tyres Ltd Pirelli Pneumatici S.p.A. Lunares S.A. Pirelli Pneumatici Holding S.p.A. Metzeler Reifen GmbH Pirelli Reifenwerke GmbH & Co. K.G. Pirelli Neumaticos S.A.
Turk-Pirelli Kablo ve Sistemleri A.S.	Energy Cables and Systems	Mudania/Bursa	TL/mil.	3,780,000	83.746%	Pirelli Cable Holding N.V.
Zalsan Zirai Arac Lastikleri A.S.	Tyres	Istanbul	TL/mil.	1,400,000	70.00%	Turk-Pirelli Lastikleri A.S.
<b>HUNGARY</b>						
Kabel Keszletertekesito BT.	Energy Cables and Systems	Budapest	HUF/000	1,239,841	100.00%	MKM Magyar Kabel Muvek Rt.

Company	Business	Headquarters	Share capital	% ownership	% of vote	Held by
MKM Magyar Kabel Muvek RT.	Energy Cables and Systems	Budapest	HUF/000	6,981,070	100.00%	Pirelli Cable Holding N.V.
Pirelli Construction Hungary Limited	Energy Cables and Systems	Budapest	HUF/000	3,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Hungary Tyre Trading and Services Limited	Tyres	Budaors	HUF/000	3,000	100.00%	Lunares S.A.
<b>NORTH AMERICA</b>						
<b>CANADA</b>						
Pirelli Power Cables and SystemsCanada Ltd (formerly Pirelli Cables and Systems Inc.)	Energy Cables and Systems	Saint John (New Brunswick)	Can. \$	40,000,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Tire Inc.	Tyres	Ottawa (Ontario)	Can. \$	6,000,000	100.00%	Lunares S.A.
<b>U.S.A.</b>						
Metzeler Motorcycle Tire North America Corp.	Tyres	Seattle (Washington)	US \$	150,000	100.00%	Metzeler Reifen GmbH
Pirelli Communications Cables and Systems USA LLC (formerly Pirelli Cables and Systems LLC)	Telecom Cables and Systems	Wilmington (Delaware)	US \$	10	100.00%	Pirelli North America Inc. "B1"
Pirelli Construction Services Inc.	Energy Cables and Systems	Dover (Delaware)	US \$	1,000	100.00%	Pirelli Power Cables and Systems USA LLC
Pirelli Jacobson Inc.	Energy Cables and Systems	Dover (Delaware)	US \$	2,000	100.00%	Pirelli Power Cables and Systems USA LLC
Pirelli North America Inc. "A"	Tyres	Wilmington (Delaware)	US \$	3.15	100.00%	Pirelli Tyre Holding N.V.
Pirelli North America Inc. "B1" (già Pirelli North America Inc. B)	Telecom Cables and Systems	Wilmington (Delaware)	US \$	5.75	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli North America Inc. "B2" (formerly Pirelli North America Inc. B)	Energy Cables and Systems	Wilmington (Delaware)	US \$	1.10	100.00%	Pirelli Cavi e Sistemi EnergiaS.p.A.
Pirelli Power Cables and Systems USA LLC	Energy Cables and Systems	Wilmington (Delaware)	US \$	10	100.00%	Pirelli North America Inc. "B2"
Pirelli RNC Inc.	Commercial	Wilmington (Delaware)	US \$	1	100.00%	Pirelli Tyre Holding N.V.
Pirelli Tire LLC	Tyres	Wilmington (Delaware)	US \$	1	100.00%	Pirelli North America Inc. "A"
<b>CENTRAL/SOUTH AMERICA</b>						
<b>DUTCH ANTILLES</b>						
Pirelli Financial Services Company N.V.	Financial	Curaçao	US \$	11,000,000	100.00%	Pirelli Finance (Luxembourg) S.A.
Pirelli Insurance & Reinsurance Company N.V.	Insurance	Curaçao	US \$	10,000,000	100.00%	Pirelli Financial Services Co NV
<b>ARGENTINA</b>						
Fipla S.A.	Energy Cables and Systems	Buenos Aires	Arg. Peso	1	66.97%	Pirelli Cons. Cond.Inst. SAIC
Pirelli Argentina de Mandatos S.A.	Service	Buenos Aires	Arg. Peso	500,000	100.00%	Pirelli Société Générale S.A.
Pirelli Consultora Conductores e Instalaciones S.A.I.C.	Energy Cables and Systems	Buenos Aires	Arg. Peso	2,227	100.00%	Pirelli Cable Holding N.V.
Pirelli Consultora de Telecomunicaciones S.A.	Telecom Cables and Systems	Buenos Aires	Arg. Peso	12,000	100.00%	Pirelli Cable Holding N.V.
Pirelli Energia Cables y Sistemas de Argentina S.A. (formerly Pirelli Cables S.A.I.C.)	Energy Cables and Systems	Buenos Aires	Arg. Peso	44,509,458	74.91% 24.69%	Pirelli Consultora Conductores e Instalaciones SAIC Pirelli Cable Holding N.V.
Pirelli Neumaticos S.A.I.C.	Tyres	Buenos Aires	Arg. Peso	19,016,500	99.02% 0.98%	Pirelli Tyre Holding N.V. Pirelli Pneumatici Holding S.p.A.
Pirelli Telecomunicaciones Cables y Sistemas de Argentina S.A.	Telecom Cables and Systems	Buenos Aires	Arg. Peso	12,000	75.00% 25.00%	Pirelli Consultora Conductores e Instalaciones SAIC Pirelli Cable Holding N.V.
Tel 3 S.A.	Energy Cables and Systems	Buenos Aires	Arg. Peso	11,075,000	51.00%	Pirelli Energia Cables y Sistemas de Argentina S.A. (già Pirelli Cables S.A.I.C.)

Company	Business	Headquarters	Share capital	% ownership	% of vote	Held by
<b>BRAZIL</b>						
Muriaé Ltda	Financial	Santo André	Bra Real	80,000,000	100.00%	Pirelli Pneus S.A.
Pirelli Energia Cabos e Sistemas do Brasil S.A. (formerly Pirelli Cabos S.A.)	Energy Cables and Systems	Santo André	Bra Real	98,566,717	87.202% 12.167%	88.783% 10.278% Pirelli Cavi e Sistemi Energia S.p.A. Pirelli S.A.
Pirelli Pneus Nordeste Ltda	Tyres	Feira de Santana	Bra Real	29,991,402	100.00%	Pirelli Pneus S.A.
Pirelli Pneus S.A.	Tyres	Santo André	Bra Real	264,618,982	54.662% 41.322% 3.595%	18.929% 79.776% 0.646% Pirelli Pneumatici S.p.A. Pirelli Tyre Holding N.V. Pirelli S.A.
Pirelli Produtos Especiais Ltda	Energy Cables and Systems	Cerquilha	Bra Real	43,143,421	100.00%	Pirelli Energia Cabos e Sistemas do Brasil S.A.
Pirelli S.A.	Financial	Santo André	Bra Real	45,848,684	100.00%	Pirelli S.p.A.
Pirelli Telecomunicações Cabos e Sistemas do Brasil S.A.	Telecom Cables and Systems	Sorocaba	Bra Real	64,240,293	87.202% 12.168%	88.782% 10.279% Pirelli Cavi e Sistemi Telecom S.p.A. Pirelli S.A.
Pirelli & C. Real Estate Ltda (formerly MCM Empreendimentos Imobiliarios - Empresa Pirelli & C. Ltda)	Real estate	Santo André	Bra Real	2,000,000	60.000% 30.000%	Pirelli & C. Real Estate S.p.A. Pirelli S.A.
Pneuc Comercial e Importadora Ltda	Tyres	San Paolo	Bra Real	12,913,526	100.00%	Pirelli Pneus S.A.
Solac - Laminadora de Cobre Ltda	Energy Cables and Systems	Jacarei	Bra Real	8,485,100	89.00%	Pirelli Energia Cabos e Sistemas do Brasil S.A.
<b>CHILE</b>						
Pirelli E y T S.A.	Energy Cables and Systems	Santiago	Chile Peso/000	3,072,471	99.82%	Pirelli Instalaciones Chile S.A.
Pirelli Instalaciones Chile S.A.	Energy Cables and Systems	Santiago	Chile Peso/000	918,707	90.00% 10.00%	Pirelli Consultora Conductores e Instalaciones SAIC Cite S.A.
Pirelli Neumaticos Chile Limitada	Tyres	Santiago	US \$	1,918,451	99.98% 0.02%	Pirelli Pneus S.A. Pneuc Comercial e Importadora Ltda
<b>COLOMBIA</b>						
Pirelli de Colombia S.A.	Tyres	Santa Fe De Bogota	Col. Peso/000	10,977,466	94.95% 1.63% 1.14% 1.14% 1.14%	Pirelli Pneus S.A. Pirelli de Venezuela C.A. Muriaé Ltda Pirelli Pneus Nordeste Ltda Pneuc Comercial e Importadora Ltda
<b>MEXICO</b>						
Pirelli Neumaticos de Mexico S.A. de C.V. (formerly Pirelmex S.A. de C.V.)	Tyres	Mexico City	Mex Peso	35,098,600	99.98% 0.02%	Pirelli Pneus S.A. Pneuc Comercial e Importadora Ltda
<b>URUGUAY</b>						
Cite S.A.	Energy Cables and Systems	Montevideo	Urug. Peso	4,900,000	100.00%	Pirelli Energia Cables y Sistemas de Argentina S.A. (già Pirelli Cables S.A.I.C.)
<b>VENEZUELA</b>						
Pirelli de Venezuela C.A.	Tyres	Valencia	Ven. Bolivar/000	13,062,679	96.22%	Pirelli Tyre Holding N.V.

Company	Business	Headquarters	Share capital	% ownership	% of vote	Held by
<b>AFRICA</b>						
<b>IVORY COST</b>						
SICABLE - Société Ivoirienne de Cables S.A.	Energy Cables and Systems	Abidjan	Cfa Franc.	740,000,000	51.00%	Pirelli Energie Câbles et Systèmes France S.A. (già Pirelli Câbles et Systèmes S.A.)
<b>EGYPT</b>						
Alexandria Tire Company S.A.E.	Tyres	Alexandria	Egy. Pound	300,000,000	74.54% 8.19%	Pirelli Pneumatici Holding S.p.A. Pirelli Pneumatici S.p.A.
International Tire Company Ltd	Tyres	Alexandria	Egy. Pound	50,000	96.00%	Alexandria Tire Company S.A.E.
<b>SOUTH AFRICA</b>						
Pirelli Cables & Systems (Proprietary) Limited (formerly El Granada Investments (Pty) Ltd)	Commercial	Woodmead, S.A.	S.A. Rand	100	100.00%	Pirelli Cavi e Sistemi Energia S.p.A.
Pirelly Tyre (Pty) Ltd (formerly Italian Tyre Pty Ltd)	Tyres	Sandton	S.A. Rand	1	100.00%	Lunares S.A.
<b>OCEANIA</b>						
<b>AUSTRALIA</b>						
Pirelli Power Cables & Systems Australia PTY Limited	Energy Cables and Systems	Liverpool - N.S.W.	Aus. \$	15,000,000	100.00%	Pirelli Cavi e Sistemi Energia S.p.A.
Pirelli Telecom Cables & Systems Australia PTY Limited (formerly Pirelli Cables Australia Ltd)	Telecom Cables and Systems	Liverpool - N.S.W.	Aus. \$	38,500,000	100.00%	Pirelli Cavi e Sistemi Telecom S.p.A.
Pirelli Tyres Australia Pty Ltd	Tyres	Pymble - N.S.W.	Aus. \$	150,000	100.00%	Lunares S.A.
<b>NEW ZEALAND</b>						
Pirelli Power Cables & Systems New Zealand Limited	Energy Cables and Systems	Auckland	N.Z. \$	10,000	100.00%	Pirelli Power Cables & Systems Australia PTY Limited
Pirelli Telecom Cables & Systems New Zealand Limited (formerly Pirelli Cables NZ Ltd)	Telecom Cables and Systems	Auckland	N.Z. \$	10,000	100.00%	Pirelli Telecom Cables & Systems Australia PTY Limited
Pirelli Tyres (NZ) Ltd	Tyres	Wellington	N.Z. \$	100	100.00%	Pirelli Tyres Australia Pty Ltd
<b>ASIA</b>						
<b>CHINA</b>						
BICCGeneral Baosheng Cable Co. Ltd	Energy Cables and Systems	Jiangsu	US \$	19,500,000	67.00%	Pirelli Cables Asia-Pacific Pte Ltd
Invex Insulated Conductors (Baoying) Co. Ltd	Energy Cables and Systems	Yangzhou	Euro	6,000,000	100.00%	Pirelli Cables Holding N.V.
Pirelli Cables (Shanghai) Trading Co. Ltd	Energy Cables and Systems	Shanghai	US \$	500,000	100.00%	Pirelli Cables Asia-Pacific Pte Ltd
Pirelli Telecom Cables Co. Ltd Wuxi	Telecom Cables and Systems	Xuelang Town	US \$	28,640,750	70.565%	Pirelli Cable Overseas N.V.
Tianjin Top Power Cables Co. Ltd	Energy Cables and Systems	Tianjin Municipality	US \$	13,100,000	51.145%	Pirelli Cable Holding N.V.
<b>JAPAN</b>						
P & A K.K.	Tyres	Tokyo	Jap. Yen	1,700,000,000	51.00%	Pirelli Tyre Holding N.V.
Pirelli K.K.	Tyres	Tokyo	Jap. Yen	40,000,000	100.00%	Lunares S.A.
<b>INDIA</b>						
Pirelli Cables (India) Private Limited	Energy Cables and Systems	New Delhi	India Rupee	10,000,000	99.998% 0.002%	Pirelli Cable Holding N.V. Pirelli Cavi e Sistemi Energia S.p.A.
<b>INDONESIA</b>						
P.T. Pirelli Cables Indonesia	Energy Cables and Systems	Jakarta	US \$	50,000,000	99.30% 0.70%	Pirelli Cable Holding N.V. Pirelli Cable Overseas N.V.

Company	Business	Headquarters	Share capital	% ownership	% of vote	Held by
<b>MALAYSIA</b>						
BICC (Malaysia) Sdn Bhd	Energy Cables and Systems	Kuala Lumpur	Mal. Ringgit	100,000	100.00%	Pirelli Cables Asia-Pacific Pte Ltd
Submarine Cable Installation Sdn Bhd	Energy Cables and Systems	Kuala Lumpur	Mal. Ringgit	10,000	99.00% 1.00%	Pirelli Cavi e Sistemi Energia S.p.A. Pirelli Cable Systems Pte Ltd
<b>MAURITIUS</b>						
BICCGeneral Asia Pacific Holdings	Energy Cables and Systems	Port Louis	US \$	2	100.00%	Pirelli Cables Asia-Pacific Pte Ltd
<b>SINGAPORE</b>						
BICC Cables Malaysia Pte Ltd (in liquidation)	Energy Cables and Systems	Singapore	Sing. \$	2	100.00%	Pirelli Cables Asia-Pacific Pte Ltd
BICC Energy Cables Pte Ltd (in liquidation)	Energy Cables and Systems	Singapore	Sing. \$	3,000,000,000	100.00%	Pirelli Cables Asia-Pacific Pte Ltd
Pirelli Asia Pte Ltd	Tyres	Singapore	Sing. \$	2	100.00%	Lunares S.A.
Pirelli Cable Systems Pte Ltd	Energy Cables and Systems	Singapore	Sing. \$	25,000	50.00% 50.00%	Pirelli General plc Pirelli Cable Holding N.V.
Pirelli Cables Asia-Pacific Pte Ltd (formerly BICCGeneral Asia Pacific Cables Pte Ltd)	Energy Cables and Systems	Singapore	Sing. \$	213,324,290	100.00%	Pirelli Cable Holding N.V.
Trans-Power Cables PTE Ltd	Cables and Systems	Singapore	Sing. \$/000	1,500	100.00%	Pirelli & C. Luxembourg S.A.

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**COMPANIES CONSOLIDATED USING THE PROPORTIONAL METHOD**

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Company	Business	Headquarters	Share capital	% ownership	% of vote	Held by
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**EUROPE**

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**ITALY**

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Progetto Bicocca Università S.r.l.	Real estate	Milan	Euro	873,600	34.00%	Pirelli & C. Real Estate S.p.A.
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## INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Company	Business	Headquarters	Share capital	% ownership	% of vote	Held by
<b>Jointly controlled companies</b>						
<b>EUROPE</b>						
<b>ITALY</b>						
Olimpia S.p.A.	Industrial Holding Company	Milan	Euro	1,562,596,150	60.00%	Pirelli S.p.A.
<b>Associated companies</b>						
<b>EUROPE</b>						
<b>GERMANY</b>						
Drahtcord Saar Geschäftsführungs GmbH	Tyres	Merzig	Marchi T.	60,000	50.00%	Pirelli Deutschland A.G.
Drahtcord Saar GmbH & Co. K.G.	Tyres	Merzig	Marchi T.	30,000,000	50.00%	Pirelli Deutschland A.G.
Kabeltrommel Gesellschaft GmbH & Co. K.G.	Energy Cables and Systems	Cologne	Marchi T.	20,000,000	27.48%	Pirelli Kabel und Systeme GmbH & Co. KG
<b>UNITED KINGDOM</b>						
Rodco Ltd	Energy Cables and Systems	Gravesend	Lira Sterl.	5,000,000	40.00%	Pirelli General plc
<b>ITALY</b>						
Agied S.r.l.	Real estate	Rome	Euro	100,000	30.00%	Cagisa S.p.A.
Auriga Immobiliare S.r.l.	Real estate	Rome	Euro	25,602,000	36.02%	Pirelli & C. Real Estate S.p.A.
Casaclick S.p.A.	Real estate	Milan	Euro	10,669,723	39.06	Pirelli & C. Casa S.p.A.
Epiclink S.p.A.	Informatica	Milan	Euro	12,500,000	30.30%	Pirelli S.p.A.
Eurostazioni S.p.A.	Real estate	Rome	Euro	60,000,000	31.67%	Partecipazioni Real Estate S.p.A.
Idea Granda S. Consortile r.l.	Environment	Cuneo	Euro	1,292,500	49.00%	Pirelli Ambiente S.p.A.
Immobiliare Prizia S.r.l.	Real estate	Milan	Euro	15,000	30.00%	Pirelli & C. Real Estate S.p.A.
Iniziative Immobiliari S.r.l.	Real estate	Milan	Euro	4,312,591	38.45%	Pirelli & C. Real Estate S.p.A.
Orione Immobiliare Prima S.p.A.	Real estate	Milan	Euro	104,000	25.00%	Pirelli & C. Real Estate S.p.A.
Progetto Bicocca La Piazza S.r.l.	Real estate	Milan	Euro	3,151,800	26.00%	Pirelli & C. Real Estate S.p.A.
Progetto Fontana S.r.l.	Real estate	Milan	Euro	500,000	23.00%	Pirelli & C. Real Estate S.p.A.
Progetto Grande Bicocca Multisala S.r.l.	Real estate	Milan	Euro	1,530,000	33.00%	Pirelli & C. Real Estate S.p.A.
Progetto Lainate S.r.l.	Real estate	Milan	Euro	25,500	25.00%	Pirelli & C. Real Estate S.p.A.
Regus Business Centres Italia S.p.A.	Real estate	Milan	Euro	2,500,000	35.00%	Partecipazioni Real Estate S.p.A.
SMP Melfi S.r.l.	Tyres	Melito (NA)	Euro	3,511,906	50.00%	Pirelli Pneumatici Holding S.p.A.
<b>LUXEMBOURG</b>						
Inimm Due S.a.r.l.	Real estate	Luxembourg	Euro	240,950	25.00%	Pirelli & C. Real Estate S.p.A.
In Holdings I S.a.r.l.	Real estate	Luxembourg	Euro	50,000	25.00%	Pirelli & C. Real Estate S.p.A.
M.S.M.C. Solferino S.a.r.l.	Real estate	Luxembourg	Euro	136,700	31.25%	Pirelli & C. Real Estate S.p.A.
<b>THE NETHERLANDS</b>						
M.S.M.C. Italy Holding B.V.	Real estate	Amsterdam	F.O.L./000	40	25.00%	Pirelli & C. Real Estate S.p.A.
<b>SPAIN</b>						
Optiwire S.L.	Cables and Systems	Barcelona	Euro	6,010	50.00%	Pirelli Cables y Sistemas S.A.

Company	Business	Headquarters	Share capital	% ownership	% of vote	Held by
<b>CENTRAL/SOUTH AMERICA</b>						
<b>ARGENTINA</b>						
Lineas de Transmision de Buenos Aires S.A.	Energy Cables and Systems	Buenos Aires	Arg. Peso/000	12	20.00%	Pirelli Argentina de Mandatos S.A.
<b>BRAZIL</b>						
K.M.P. Cabos Especiais e Sistemas Ltda	Energy Cables and Systems	San Paolo	Real	6,600,916	40.00%	Pirelli Energia Cabos e Sistemas do Brasil S.A.
<b>ASIA</b>						
<b>SAUDI ARABIA</b>						
Stew-Saudi Italian Co. for Electrical Works Ltd	Energy Cables and Systems	Jeddah	Saudi Rials/000	1,000,000	34.00%	Pirelli Cable Holding N.V.

## OTHER INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Company	Business	Headquarters	Share capital	% ownership	% of vote	Held by
<b>EUROPE</b>						
<b>AUSTRIA</b>						
Pirelli Kabelwerke und Systeme GmbH	Energy Cables and Systems	Vienna	Euro	36,336	100.00%	Pirelli Cavi e Sistemi Energia S.p.A.
<b>BELGIUM</b>						
Euroque S.A.	Services	Bruxelles	Euro	77,461,250	21.81%	Pirelli & C. Luxembourg S.A.
<b>FRANCE</b>						
LDS France - Soc.de Transport et Distribution S.A.	Distribution	Bagnolet Cedex	Euro	98,625	100.00%	Pirelli S.p.A.
Project Saint-Maurice S.a.S.	Real estate	Paris	Euro	38,200	100.00%	Pirelli & C. Real Estate S.p.A.
<b>GERMANY</b>						
Industriekraftwerk Breuberg GmbH	Cogeneration	Breuberg/Odenwald	Euro	1,533,876	26.00%	Pirelli Deutschland A.G.
Movimento Fabrica, Haus Des Graphischen Gewerbes G.m.b.H.	Real estate	Berlin	DM/000	50	25.00%	Pirelli & C. Real Estate S.p.A.
<b>ITALY</b>						
Delta S.p.A.	Real estate	Milan	Euro	153,000	100.00%	Pirelli & C. Real Estate S.p.A.
Parcchegi Bicocca S.r.l.	Real estate	Milan	Euro	25,500	75.00%	Pirelli & C. Real Estate S.p.A.
Progetto Bicocca Le Torri S.r.l.	Real estate	Milan	Euro	10,400	100.00%	Pirelli & C. Real Estate S.p.A.
Progetto Moncalieri S.r.l.	Real estate	Milan	Euro	90,000	100.00%	Pirelli & C. Real Estate S.p.A.
<b>THE NETHERLANDS</b>						
Popoy Holding B.V.	Real estate	Rotterdam	F.Ol.	53,100	100.00%	Pirelli & C. Real Estate S.p.A.
Robino Holding Amsterdam B.V.	Real estate	Amsterdam	F.Ol.	40,420	100.00%	Pirelli & C. Real Estate S.p.A.
<b>SPAIN</b>						
Euro Driver Car S.L.	Tyres	Barcelona	Euro	153,000	49.00%	Pirelli Neumatics S.A.
<b>HUNGARY</b>						
Ipoly Kábeldob KFT.	Energy Cables and Systems	Szecsény	HUF/000	36,330	25.16%	MKM Magyar Kabel Muevek Rt.
<b>AFRICA</b>						
<b>SOUTH AFRICA</b>						
AFCAB Holdings (Proprietary) Ltd	Energy Cables and Systems	Sandton	Rand Sudaf.	4,000	50.00%	Pirelli Cable Holding N.V.
African Cables Ltd	Energy Cables and Systems	Vereeniging	Rand Sudaf.	9,886,098	100.00%	AFCAB Holdings (Proprietary) Ltd
ATC (Proprietary) Ltd	Energy Cables and Systems	Brits	Rand Sudaf.	632,912	21.00%	African Cables Limited
<b>TUNISIA</b>						
Auto Cable Tunisie	Energy Cables and Systems	Tunis	TND	4,450,000	51.00%	Pirelli Energie Câbles et Systèmes France S.A.
<b>ZIMBABWE</b>						
BICC CAFCA Limited	Energy Cables and Systems	Harare	\$ Zimbabwe	15,706,000	73.46%	African Cable Limited
BICC (CENTRAL AFRICA) (Private) Limited	Energy Cables and Systems	Harare	\$ Zimbabwe	200,000	100.00%	BCC CAFCA Limited
Zimbabwe Cables (Pte) Limited	Energy Cables and Systems	Harare	\$ Zimbabwe	2	100.00%	BCC CAFCA Limited

Company	Business	Headquarters	Share capital	% ownership	% of vote	Held by
<b>ASIA</b>						
<b>MALAYSIA</b>						
Power Cables Malaysia Sdn Bhd (formerly BICCGeneral Cables (Malaysia) Sdn Bhd)	Energy Cables and Systems	Selangor Darul Ehsan	Ringgit Mal.	8,000,000	40.00%	Pirelli Cables Asia - Pacific Pte Ltd
<b>OCEANIA</b>						
<b>AUSTRALIA</b>						
MM Cables Energy Products Superannuation Pty Ltd	Energy Cables and Systems	Sydney	Aust. Schilling	2	100.00%	Pirelli Power Cables & Systems Australia PTY Ltd

**OTHER INVESTMENTS CONSIDERED SIGNIFICANT AS PER CONSOB RESOLUTION N. 11971 OF MAY 14, 1999**

Company	Business	Headquarters	Share capital	% ownership	% of vote	Held by
<b>AUSTRALIA</b>						
Optix Australia Ltd	Telecom Cables and Systems	Tottenham (Victoria)	Austr. \$	4,000,000	15.00%	Pirelli Telecom Cables & Systems Australia PTY Ltd
<b>ITALY</b>						
Eurofly Service S.p.A.	Services	Caselle Torinese	Euro	1,235	16.33%	Pirelli S.p.A.
F.C. Internazionale Milano S.p.A.	Sport	Milan	Euro	35,840,777	14.04%	Pirelli S.p.A.
Fin. Priv. S.r.l.	Financial	Milan	Euro	20,000	7.14% 7.14%	Pirelli & C. A.p.A. Pirelli S.p.A.
Servizio Titoli S.r.l.	Services	Turin	Euro	105,000	12.381%	Pirelli S.p.A.
Superga S.p.A.	Manufacturing	Rivoli	Euro	5,711,000	19.00%	Pirelli & C. A.p.A.
Tecnocittà S.r.l. (in liquidation)	Real estate	Milan	Euro	547,612	12.00%	Pirelli & C. Real Estate S.p.A.
<b>THE NETHERLANDS</b>						
MB Venture Capital Fund I Participating Company G.N.V.	Financial	Amsterdam	Euro	50,000	14.00%	Pirelli Finance (Luxembourg) S.A.
<b>UNITED KINGDOM</b>						
Cable Makers Properties and Services Ltd	Energy Cables and Systems	East Molesey	British Pound	337,000	18.30%	Pirelli General plc
<b>SWITZERLAND</b>						
Voltimum S.A.	Energy Cables and Systems	Meyrin	Swiss Franc	2,850,120	14.286%	Pirelli Cavi e Sistemi Energia S.p.A.
<b>TUNISIA</b>						
Société Tunisienne des Industries de Pneumatiques S.A.	Tyres	Tunis	Tun. Dinar	38,252,940	15.83%	Pirelli Pneumatici S.p.A.
<b>TURKEY</b>						
Türk Sodel Enerji A.S.	Cogeneration	Istanbul	Turk. Lira/mil.	900,000	13.98% 4.99%	Türk-Pirelli Lastikleri A.S. Celikord A.S.
<b>U.S.A.</b>						
Alloptic Inc.	Telecom Cables and Systems	Pleasanton (CA)	US \$	120,675,987	15.441%	Pirelli Cavi e Sistemi Telecom S.p.A.



**“This report has been translated from the original which was issued in accordance with Italian legislation.”**

**AUDITORS’ REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW  
 DECREE N° 58 DATED 24 FEBRUARY 1998**

Sede legale: Milano 20124 Via Vittor Pisani 20 Tel. 0267831 Fax 0266981433 Cap. Soc. 3.734.400,00 Euro i.v., C.F. e P. IVA e Reg. Imp. Milano 12979880155 Iscritta all’Albo Consob - Altri uffici: **Ancona** 60123 Via Corridoni 2 Tel. 07136881 - **Bari** 70125 Viale della Repubblica 110 Tel. 0804254220 - **Belluno** 82010 Via delle Lame 111 Tel. 051526611 - **Brescia** 25124 Via Cefalonia 70 Tel. 0302219811 - **Firenze** 50129 Tel. 0554627000 - **Genova** 16121 Piazza Dante 7 Tel. 01029041 - **Milano** 20122 Corso Europa 2 Tel. 0277851 - **Napoli** 80121 Piazza dei Martiri 30 Tel. 0817644441 - **Padova** 35137 Largo Europa 16 Tel. 0498762677 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43100 V.le Tanara 20/A Tel. 0521242848 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10139 Corso Montevecchio 37 Tel. 011556771 - **Trento** 38100 Via Manzoni 16 Tel. 0461237004 - **Treviso** 31100 Piazza Crispien 10 Tel. 042254220 - **Udine** 33100 Via Mammoli 12 Tel. 043222789 - **Verona** 37122 Corso Italia Nuova 123 R.P. 0459002501

To the shareholders of  
**Pirelli & C. Accomandita per Azioni**  
 We have audited the consolidated financial statements of Pirelli & C. Accomandita per Azioni and its subsidiaries (“Pirelli & C. group”) as of and for the year ended 31 December 2001. These financial statements are the responsibility of Pirelli & C. Accomandita per Azioni’s directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report dated 11 April 2001.

3 In our opinion, the consolidated financial statements of Pirelli & C. group as of 31 December 2001 comply with the laws governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and of the results of operations of the group.

Milan, 22 April 2002

PricewaterhouseCoopers SpA



