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HEAD OFFICE IN MILAN
IN VIA NEGRI 10
PIRELLI & C. REAL ESTATE

CALL TO GENERAL ANNUAL SHAREHOLDERS' MEETING

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

Head office in Milan - Via G. Negri 10

Share capital € 17,822,220 fully paid-in

Milan Companies Registry and Tax Code No. 02473170153

Tax Code and VAT No. 02473170153

NOTICE OF THE GENERAL ANNUAL SHAREHOLDERS' MEETING

Notice is hereby given that the ordinary and extraordinary session of the General Annual Meeting of the shareholders of Pirelli & C. Real Estate S.p.A. will be held in Milan, Via Agnello 18, in first call on April 2, 2002 at 9:30 A.M., and, if necessary, in second call on April 5, 2002, at the same time and place, to pass resolutions on the following

AGENDA

Ordinary session

1. Approval of the financial statements for the year ended December 31, 2001.

Extraordinary session

1. Proposal for a stock split by reducing the par value of the shares from Euros 52 to Euros 0.5 and consequent amendment of article 5 of the by-laws.
2. Share capital increase up to a maximum par value of Euros 455,271, through the issue of a maximum of 910,542 ordinary shares of par value Euros 0.5 per share plus a share premium of Euros 3,333,563 to be paid through the contribution in kind of the share capital in Camfin S.p.A., Altair Facility Management S.A. and Petra Facility Management S.A. and consequent amendment of article 5 of the by-laws.

Be hereby advised that the meeting may only be attended by shareholders who, at least five days prior to the date set for the meeting, have deposited their share certificates, in accordance with the law, at the registered office of the corporation in Milan, Via G. Negri 10 or at the UniCredito Italiano bank and the Leonardo bank in Milan.

Milan, 13 March 2002

For the Board of Directors

The Chairman

Marco Tronchetti Provera



LA BICOCCA DEGLI ARCIMBOLDI
REPRESENTATIVE OFFICES
PIRELLI & C. GROUP

BOARD OF DIRECTORS, BOARD OF STATUTORY AUDITORS AND INDEPENDENT AUDITORS

BOARD OF DIRECTORS

Marco Tronchetti Provera	Chairman
Carlo Alessandro Puri Negri	Deputy Chairman and CEO
Giovanni Nassi	Deputy Chairman
Carlo Buora	Director
Carlo Bianco	Director
Emilio Biffi	Director
Giulio Malfatto	Director
Giampietro Nattino	Director
Andrea Pecchio	Director
Vincenzo Sozzani	Director

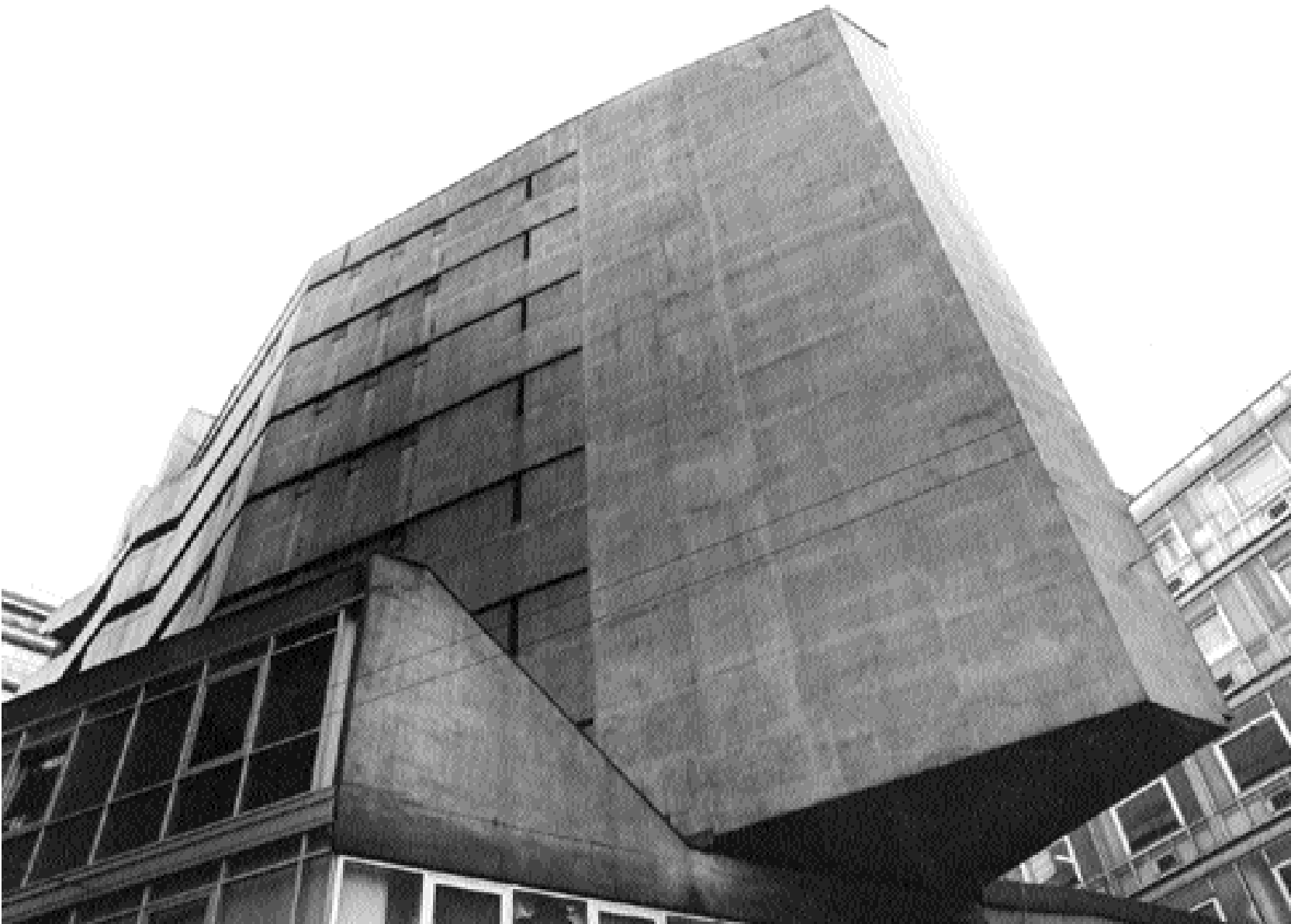
BOARD OF STATUTORY AUDITORS

Roberto Bracchetti	Chairman
Gianfranco Polerani	Standing Auditor
Paolo Carrara	Standing Auditor
Franco Ghiringhelli	Alternate
Paola Giudici	Alternate

INDEPENDENT AUDITORS

PricewaterhouseCoopers S.p.A.

DIRECTORS' REPORT ON OPERATIONS FOR 2001



DIRECTORS' REPORT ON OPERATIONS FOR 2001

Pirelli & C. Real Estate S.p.A. is the Company in the Pirelli & C. Group that is involved in the Asset Management of real estate properties and non-performing loans (ensuring strategic management services and acquiring minority stakes in real estate portfolio companies). It also acts as a service provider of Specialist Services (Residential Agency, Commercial Agency, Project Management, and Property & Facility Management) to these same companies 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 towards that of the “fund management company”.

During the year, the 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”.

In order to provide a clearer picture of the performance of the Company, the statement of income is divided into what management considers to be its “core” and non-core” business activities.

The financial statements for the year ended December 31, 2001 show a net income attributable to the parent company of Euros 161 million, compared to Euros 152 million in 2000. Excluding non-core business activities, the net income from the core business in 2001 is Euros 34 million, compared to Euros 21 million in the prior year, +63%.

MAJOR EVENTS DURING THE YEAR

- 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, the Pirelli & C. Real Estate Group 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 S.p.A., a contract was sealed with the Fininvest group for the acquisition of Edilnord 2000. The agreement calls for Pirelli & C. Real Estate's purchase of 100% of the share capital of three service companies (Edilnord Progetti, Edilnord Gestioni and Servizi Immobiliari Edilnord) and the acquisition, as well as management, in keeping with the Company's usual business model, of the minority interests in the vehicle companies owning land parcels zoned for building in the Milan area. The service companies of the Group 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 about Euros 560 million. The value of this portfolio will be leveraged by setting up two vehicle companies, one for the residential real estate portfolio and the other for the commercial real estate portfolio. The Company will acquire minority interests in these vehicle companies and manage the real estate assets (strategic management) as well as provide the necessary specialist services.
- 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 real estate assets and the service activities of the respective real estate segments of the Olivetti-Telecom group and the Pirelli Group.

REVIEW OF RESULTS OF OPERATIONS

	2001			2000		
	Total	Core activities	Non-core activities	Total	Core activities	Non-core activities
Production value	326,237	311,563	14,674	244,397	186,439	57,958
Production costs	(281,935)	(261,751)	(20,184)	(209,874)	(151,916)	(57,958)
Operating profit (loss)	44,302	49,812	(5,510)	34,523	34,523	0
Net income (loss) from equity investments	2,787	8,471	(5,684)	(219)	5,599	(5,818)
Operating profit (loss) after income (loss) from equity	47,089	58,283	(11,194)	34,304	40,122	(5,818)
Financial income (expenses), net	(3,191)	(4,353)	1,162	(42,212)	(7,015)	(35,197)
Income (loss) before extraordinary items	43,898	53,930	(10,032)	(7,908)	33,107	(41,015)
Extraordinary income (expenses), net	163,799	(2,963)	166,762	206,162	(1,760)	207,922
Income before income taxes and minority interests	207,697	50,967	156,730	198,254	31,347	166,907
Income taxes	(46,312)	(17,436)	(28,876)	(46,266)	(11,153)	(35,113)
Income before minority interests	161,385	33,531	127,854	151,988	20,194	131,794
Minority interests	25	25	0	430	430	0
Net income	161,410	33,556	127,854	152,418	20,624	131,794

- The consolidated production value in 2001 is Euros 326 million, compared to Euros 244 million in 2000. Production value from core activities total Euros 312 million in 2001, compared to Euros 186 million recorded in the prior year (+67%).

The figures in the column "non-core activities" include a series of non-typical and/or nonrecurring activities. They refer, in particular, to the Internet start-up which is almost entirely directed 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 trading of the securities acquired in Unim's investment portfolio and the impact of the acquisition, reorganization and restructuring of Unim by and into the Group; the construction of the Arcimboldi Theater (Teatro degli Arcimboldi).
 Note: By production value is meant the sum of net sales and the change in inventories. By operating profit (loss) after income (loss) from equity investments is meant the sum of the operating profit (loss) and the share of the income (loss) of the companies accounted for using the equity method.

The increase in consolidated production value is due to the expansion of the Group's operations in the sectors of both asset management and as a service provider.

- It should also be pointed out that the activities carried out by Pirelli & C. Real Estate Group, in keeping with its business model, encompass the entire spectrum of activities including the acquisition of minority stakes in the real estate portfolio companies and the complete development of these same companies. Production value includes revenues from asset management, equal to more than Euros 700 million, defined as the result obtained from also consolidating the production value from the companies in which the Group holds minority interests.

- The operating profit is Euros 44 million against Euros 35 million in 2000. Excluding non-core activities, the operating profit for 2001, equal to Euros 50 million, can be compared to Euros 35 million in the prior year (+44%).

- The operating profit (loss) after income (loss) from equity investments (that is, the sum of the operating profit (loss) and the share of the income (loss) from the real estate investment holdings) is equal to Euros 47 million, compared to Euros 34 million in 2000.

In terms of core activities, the figure in 2001 is Euros 58 million against Euros 40 million in the prior year (+45%).

- The profit before income taxes and minority interests is Euros 208 million, compared to Euros 198 million in 2000. Euros 208 million include Euros 164 million of extraordinary items mainly from the sale of a part of the securities portfolio. Excluding non-core activities of the Group, the profit before income taxes and minority interests in 2001, equal to Euros 51 million, compares to Euros 31 million in the prior year (+62%), thanks to good financial management.

- The net income is equal to Euros 161 million, compared to Euros 152 million in 2000. Excluding non-core activities of the Group, the net income is Euros 34 million in 2001 and compares to Euros 21 million in the prior year (+63%).

The main statement of income data by line of business is presented in the notes.

REVIEW OF SELECTED BALANCE SHEET DATA

	12/31/2001	12/31/2000
Fixed assets	74	168
Net working capital	249	324
of which inventories	346	308
% to be sold	36%	49%
net invested capital	324	492
net financial position	142	364
net cash flows (from previous year)	222	(286)
shareholders' equity attributable to the Group	131	74

N.B. The net financial position does not include a loan for the development of a building already sold on which a contract similar to project financing has been set up.

Fixed assets, mainly consisting of securities and equity investments, total Euros 74 million, compared to Euros 168 million at December 31, 2000. The decrease can be ascribed to the partial sale of the securities portfolio and the reclassification of the remaining securities to current assets in view of their future sale.

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

Consolidated inventories totaling Euros 346 million (which have already been sold for about 64% of the total) compared to Euros 308 million at December 31, 2000, refer to areas to be developed, properties under construction or renovation and properties completed and held for trading activities. The increase in the amount of inventories is mainly due to the stage of completion of the work on long-term contracts in progress.

The net financial position, always net of a loan for the development of a building already sold on which a contract similar to project financing has been set up, amounts to Euros 142 million compared to Euros 364 million at December 31, 2000.

The net reduction of Euros 222 million at December 31, 2000 is due to the closing of the loans related to the aforementioned sale of securities.

Shareholders' equity attributable to the Group amounts to approximately Euros 131 million while the total at December 31, 2000 was Euros 74 million. The increase is due to the net income for the year (Euros 161 million), the share capital increase with a share premium (Euros 30 million) and the payment of dividends of about Euros 134 million.

SUBSEQUENT EVENTS

- On January 11, 2002, Pirelli & C. Real Estate acquired the entire share capital of Pirelli & C. Credit Servicing, a company that manages non-performing loans, from the parent company Pirelli & C., thus completing the range of services it offers.
- On January 22, 2002, as previously mentioned, the closing was finalized on the Edilnord deal.
- The Company, together with other partners, is currently taking part in the bid for the purchase of the non-instrumental real estate properties of the RAS group.
- During the 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.
- The Board of Directors, in its meeting today, approved the project for the acquisition of Cames S.p.A. (a subsidiary of Cam Finanziaria S.p.A.), a company operating in the sector of Facility Management.

• The Board of Directors, in today's meeting, approved the proposal to list the Company on the automated screen market of Borsa Italiana and to increase its share capital for the stock's listing and to set up a stock option plan for the employees and directors of the Company for the next three years aimed at promoting corporate allegiance in the medium to long-term. Both matters will be put before the ordinary and extraordinary sessions of the shareholders' meeting that is being called.

FUTURE OUTLOOK

As far as the business outlook is concerned, the current year remains positive partly because of the good performance of the real estate sector.

RELATED PARTY TRANSACTIONS

Disclosure is set forth as required by article 2428 of the Italian Civil Code regarding transactions by Group companies with related parties to the effect that all the transactions, including those between the parent company and its subsidiaries, and those among subsidiaries, took place in the normal course of the business of the Group and are carried out at arm's length.

LIST OF COMPANIES INCLUDED IN CONSOLIDATION BY CONSOLIDATION METHOD

<i>Companies consolidated line-by-line</i>	%	<i>Companies consolidated using the equity method</i>	%
	held		held
Progetto Grande Bicocca S.r.l.	100%	P.B. La Piazza S.r.l.	26%
Tau S.r.l.	100%	Progetto Grande Bicocca Multisala S.r.l.	33%
Beta S.r.l.	100%	Progetto Lainate S.r.l.	25%
Pirelli e C. Opere Generali S.p.A.	100%	Orione Immobiliare Prima S.p.A.	25%
Progetto Navigli S.r.l.	100%	Auriga Immobiliare S.r.l.	36%
Iota S.r.l.	100%	Eurostazioni S.p.A.	32%
Progetto Bicocca Centro Tecnologico S.r.l.	100%	M.S.M.C. Italy Holding B.V.	25%
Kappa S.r.l.	100%	IN Holdings I S.a.r.l.	25%
Holdim S.r.l.	100%	Inimm Due S.a.r.l.	25%
Alfa Due S.p.A.	100%	MSMC Solferino S.a.r.l.	31%
Lambda S.r.l.	100%	Progetto Fontana S.r.l.	23%
Promedil '84 S.r.l.	100%	Iniziative Immobiliari S.r.l.	38%
Alfa S.r.l.	100%	Immobiliare Prizia S.r.l.	30%
Progetto Bicocca II Centro S.r.l.	100%	Sci Roev Texas Partners L.P.	10%
Stella Polare S.r.l. (in liquidazione)	100%	Regus Business Centres Italia S.p.A.	35%
Partecipazioni Real Estate S.p.A.	100%	Casaclick S.p.A.	39%
Centrale Immobiliare S.p.A.	100%	A.G.I.E.D. S.r.l.	28%
Progetto Bicocca Esplanade S.p.A.	100%		
Acquario S.r.l. (in liquidazione)	100%		
Pirelli & C. Property Management S.p.A.	32%		
Servizi Amministrativi Real Estate S.p.A.	100%	Progetto Bicocca Università S.r.l.	34%
Pirelli & C. Project Management S.p.A.	100%	G6 Advisor	42%
Pirelli & C Agency S.p.A.	100%		
Pirelli e C. Real Estate Ltda	50%		
Cagisa S.p.A.	92%		
Pirelli & C. Casa S.p.A.	100%		
Progetti Creativi S.r.l.	100%		

Milan, 13 March 2002
 For the Board of Directors
 The Chairman
 Dr. Marco Tronchetti Provera

CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2001



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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2001

(in thousands of euros)

ASSETS			December 31, 2001	December 31, 2000
A CAPITAL SUBSCRIPTION RIGHTS				
1	Portion called			
2	Portion uncalled			
TOTAL CAPITAL SUBSCRIPTION RIGHTS (A)			0	0
B FIXED ASSETS				
I Intangible assets				
1	Start-up and capital costs		182	142
5	Goodwill		1,684	2,242
6	Difference on consolidation		1,892	1,245
7	Assets under development and payments on account		4,028	4,815
8	Other intangible assets		4,449	1,569
Intangible assets			12,235	10,013
II Property, plant and equipment				
2	Plant and machinery		353	268
4	Other assets		3,092	3,218
Property, plant and equipment			3,445	3,486
III Financial assets				
1	Investments			
a	Investments in unconsolidated subsidiaries		450	419
b	Investments in associated companies		52,801	53,169
c	Investments in other companies		3,820	99,543
Total investments			57,071	153,131
2	Financial receivables			
c	Receivables from unconsolidated subsidiaries			4,093
d	Receivables from associated companies		0	215,858
e	Receivables from other Group companies		0	19,242
h	Receivables from others		1,807	0
Total financial receivables			1,807	235,100
3	Other securities		4,203	202
Financial assets			1,807	239,303
TOTAL FIXED ASSETS (B)			313,861	376,797

ASSETS

December 31, 2001 December 31, 2000

		December 31, 2001	December 31, 2000
C CURRENT ASSETS			
I Inventories			
1 Areas to be developed/properties to be renovated		56,965	83,938
2 Properties under construction / renovation		164,885	97,702
4 Trading properties held for sale		54,662	88,641
5 Work in progress on orders		69,517	36,405
7 Advances			1,575
Inventories		346,029	308,261
II Accounts receivable			
	within 1 year	beyond 1 year	
1 Trade receivables	98,453	12,911	111,364
2 Receivables from Pirelli & C. A.p.A.	17,656		17,656
4 Receivables from unconsolidated subsidiaries	676		676
5 Receivables from associated companies	22,158		22,158
7 Receivables from Pirelli S.p.A. group companies	7,361		7,361
8 Receivables from Pirelli & C. A.p.A. group companies	589		589
9 Advances	4,289		4,289
11 Other receivables	87,738	3,080	90,818
Accounts receivable	238,920	15,991	254,911
III Current financial assets			
4 Other investments		20,700	0
6 Marketable securities		823	1,104
Current financial assets		21,523	1,104
IV Cash and banks			
1 Bank and postal deposits		8,472	6,287
2 Current account with the Pirelli & C. A.p.A.		0	8,685
3 Current account with Pirelli S.p.A. group companies		28,815	48,191
4 Checks		1,484	4,521
5 Cash on hand		195	17
Cash and banks		38,966	67,701
TOTAL CURRENT ASSETS (C)		661,429	717,415
D ACCRUED INCOME AND PREPAID EXPENSES			
I Accrued income and prepaid expenses			
1 Accrued income		878	2,478
2 Prepaid expenses		1,445	399
TOTAL ACCRUED INCOME AND PREPAID EXPENSES (D)		2,323	2,877
TOTAL ASSETS		977,613	1,097,089

LIABILITIES AND SHAREHOLDERS' EQUITY		December 31, 2001	December 31, 2000
A SHAREHOLDERS' EQUITY			
I Share capital		17,307	15,861
II Share premium reserve		28,936	0
III Revaluation reserve		15	15
IV Legal reserve		3,438	3,172
V Reserve for treasury shares			0
VI Statutory reserves			0
VII Other reserves			0
a Negative consolidation difference		0	0
b Cumulative translation adjustments		(7)	7
VIII Retained earnings		54,022	2,950
IX Net income			
a Dividends distributed		(134,130)	(100,426)
b Net income		161,410	152,418
Shareholders' equity - Group		130,991	73,997
Minority interests in share capital and reserves		1,111	2,311
Minority interests in net income (loss)		(25)	(430)
Minority interests		1,086	1,881
TOTAL SHAREHOLDERS' EQUITY (A)		132,077	75,878
B PROVISIONS FOR LIABILITIES AND EXPENSES			
2 Provisions for income taxes		15,287	15,102
3 Provision for future risks and expenses		2,741	4,954
4 Other provisions		22,189	24,053
TOTAL PROVISIONS FOR LIABILITIES AND EXPENSES (B)		40,217	44,109
C PROVISION FOR EMPLOYEES' LEAVING INDEMNITY			
		7,955	6,133
TOTAL PROVISION FOR EMPLOYEES' LEAVING INDEMNITY (C)		7,955	6,133
D PAYABLES			
	within 1 year	beyond 1 year	
3 Bank borrowings	19,294	95,512	114,806
4 Loans due to minority shareholders			0
5 Payables to other financial institutions	75,969	1,679	77,648
6 Advances from customers	34,854	12,911	47,765
7 Advances from Group companies	9,843		9,843
8 Trade payables	81,875	17,518	99,393
10 Payables to Pirelli & C. A.p.A.	2,058		2,058
11 Payables to parent companies			0
13 Payables to associated companies	971		971
15 Payables to Pirelli S.p.A. group companies	306,049	13,193	319,242
16 Payables to Pirelli & C. A.p.A. group companies	92		92
17 Taxes payable	27,093	7,067	34,160
18 Social security contributions payable	2,002		2,002
19 Urbanization fees payable	0	43,840	43,840
20 Other payables	29,317	520	29,837
TOTAL PAYABLES (D)	589,417	192,240	781,657
E ACCRUED LIABILITIES AND DEFERRED INCOME			
I Accrued liabilities and deferred income			
1 Accrued liabilities		1,406	3,075
2 Deferred income		14,277	15,563
4 Accrued liabilities and deferred income - Group		24	0
TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME (E)		15,707	18,638
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		977,613	1,097,089
MEMORANDUM ACCOUNTS			
1 Guarantees received		26,314	15,820
2 Guarantees granted		150,816	146,193
3 Securities held by third parties as guarantees		27,214	93,295
4 Third party securities held as guarantees		460	460
5 Securities to be delivered		75,946	335,237
6 Commitments for the acquisition of investments		8,522	0
7 Hedging transactions		908	0

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2001

(in thousands of euros)

STATEMENT OF INCOME	2001	2000
A PRODUCTION VALUE		
1 Revenues from sales and services:		
a Revenues from sales of areas to be developed	48,479	0
c Revenues from sales of properties	118,658	84,976
d Revenues from sales of properties to Pirelli S.p.A. group companies		13,944
g Revenues from services	45,748	38,913
h Revenues from services to Pirelli & C. Real Estate Group companies	30,988	13,109
i Revenues from services to Pirelli S.p.A. group companies	18,173	15,762
l Revenues from services to Pirelli & C. A.p.A. companies	1,340	142
m Rental revenues	3,630	46,105
n Rental revenues from Pirelli S.p.A. group companies	140	81
Total revenues from sales and services	267,156	213,032
2 Change in inventories of land and properties	5,777	(1,549)
3 Change in inventories of work in progress on orders	33,112	17,086
5 Other revenues and income		
a Recoveries and reimbursements	13,555	13,259
b Recoveries and reimbursements from Pirelli & C. Real Estate S.p.A. Group companies	2,445	66
c Recoveries and reimbursements from Pirelli S.p.A. group companies	3,005	734
d Recoveries and reimbursements from Pirelli & C. A.p.A. group companies	447	620
e Income from joint ventures	740	1,149
Total other revenues and income	20,192	15,828
Total production value (1+2+3+5)	326,237	244,397
B PRODUCTION COSTS		
6 Purchases		
a purchases of land	(27,054)	(6,507)
c purchases of properties	(8,313)	(31,492)
e purchases of land/properties through the acquisition of shares	(29,174)	(3,051)
f purchases of other assets	(225)	(996)
Total purchases of properties	(64,766)	(42,046)
7 Service expenses		
a Services	(150,125)	(106,797)
c Services from Pirelli S.p.A. group companies	(3,295)	(1,568)
d Services from Pirelli & C. A.p.A. group companies	(658)	(621)
Total service expenses	(154,078)	(108,986)
8 Lease and rent expenses		
a Lease and rent expenses from third parties	(4,324)	(1,828)
c Lease and rent expenses from Pirelli & C. S.p.A. group companies	(547)	(604)
Total lease and rent expenses	(4,871)	(2,432)
9 Personnel expenses		
a Salaries and wages	(25,858)	(25,417)
b Social security contributions	(8,094)	(8,154)
c Employees' leaving indemnity	(2,646)	(1,269)
e Other personnel expenses	(605)	(995)
Total personnel expenses	(37,203)	(35,835)
10 Amortization, depreciation and writedowns		
a Amortization of intangible assets	(2,720)	(2,719)
b Amortization of difference on consolidation	(357)	(223)
c Depreciation of property, plant and equipment	(1,232)	(2,017)
d Other writedowns of fixed assets	(1,087)	0
e Writedowns of receivables included in current assets	(2,771)	(4,061)
Total amortization, depreciation and writedowns	(8,167)	(9,020)
12 Accruals to the provisions for liabilities and expenses	(3,634)	(1,420)
14 Other operating expenses		
a other taxes	(1,261)	(6,200)
b taxes/duties and permits	(320)	(755)
c other expenses - Pirelli & C. Real Estate S.p.A. Group	(7,635)	(3,180)
Total other operating expenses	(9,216)	(10,135)
Total production costs (6+7+8+9+10+12+14)	(281,935)	(209,874)
Operating profit (A - B)	44,302	34,523

	2001	2000
C FINANCIAL INCOME AND EXPENSES		
15 Investment income		
c From other companies	85	0
Total investment income	85	0
16 Other financial income		
a Income from receivables recorded in fixed assets		
From Pirelli & C. Real Estate Group companies	123	95
From Pirelli S.p.A. group companies		37
From others		265
Total other financial income	123	397
b Income from securities recorded in fixed assets	20	20
c Income from marketable securities recorded in current assets	8	0
d Other income		
Interest income from banks	225	280
Interest income from Pirelli & C. A.p.A.		1
Interest income from unconsolidated subsidiaries		128
Interest income from associated companies	12,584	8,469
Interest income from Pirelli S.p.A. group companies	1,380	16,124
Interest income from Pirelli & C. A.p.A. group companies	30	0
Interest income from others		515
Sundry income	10,391	13,467
Total other income	24,610	38,984
TOTAL FINANCIAL INCOME	24,846	39,401
17 Interest and other financial expenses		
Interest expense to banks	(5,584)	(19,613)
Interest expense to Pirelli & C. A.p.A.	(92)	(26,595)
Interest expense to associated companies		(72)
Interest expense to Pirelli S.p.A. group companies	(10,885)	(20,875)
Interest expense to minority shareholders		(6)
Interest expense to others	(104)	(123)
Other financial expenses	(11,372)	(14,329)
Total interest and other financial expenses	(28,037)	(81,613)
Interest expenses, net (15+16-17)	(3,191)	(42,212)
D VALUATION ADJUSTMENTS TO FINANCIAL ASSETS		
18 Revaluations		
d Share of income from equity investments	9,908	17,146
Total revaluations	9,908	17,146
19 Writedowns		
a Writedowns of investments in other companies	(64)	0
e Share of loss from equity investments	(7,057)	(17,365)
Total writedowns	(7,121)	(17,365)
Total valuation adjustments (18-19)	2,787	(219)
E EXTRAORDINARY ITEMS		
20 Extraordinary income		
a Gains on sales of assets		4,656
b Gains on sales of securities	178,589	23,804
c Gains on sales of investments	0	1,019
d Other gains	1,724	0
e Other extraordinary income	4,315	303,033
Total extraordinary income	184,628	332,512
21 Extraordinary expenses		
a Losses on sales of assets	(7)	(675)
c Losses on sales of investments	0	(46,518)
e Other extraordinary expenses	(20,822)	(79,157)
Total extraordinary expenses	(20,829)	(126,350)
Extraordinary income, net (20-21)	163,799	206,162
Income before income taxes and minority interests (A + B + C + D + E)	207,697	198,254
22 Income taxes	(46,312)	(46,266)
Net income before minority interests	161,385	151,988
Minority interests	25	430
Net income	161,410	152,418

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT
DECEMBER 31, 2001



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2001

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with existing law (Legislative Decree No. 127 dated April 9, 1991) and are expressed in thousands of euros.

For purposes of providing more meaningful information, the statement of cash flows, the reconciliation between the net income and the shareholders' equity of the parent company and the corresponding consolidated figures and the consolidated statement of changes in shareholders' equity are also presented.

All of the companies in the Group have a business purpose similar or comparable to that of the parent company.

For a more complete disclosure of the nature and evolution of the Group's operations during the course of the year, as well as significant subsequent events, reference should be made to the report on operations for the year ended December 31, 2001.

SCOPE OF CONSOLIDATION

The consolidated financial statements for the year ended December 31, 2001 include the financial statements of the parent company, Pirelli & C. Real Estate S.p.A. (prior to February 19, 2001, Milano Centrale S.p.A.), and the companies in which Pirelli & C. Real Estate S.p.A. holds, directly or indirectly, more than 50 percent of the share capital, consolidated using the line-by-line method.

The investments in Consorzio G6 Advisor (42.3%) and in Progetto Bicocca Università S.r.l. (34%) are consolidated using the proportional method due to the nature of the type of control over these two companies.

Investments in associated companies, apart from those indicated in the preceding paragraph, are valued using the equity method.

In conformity with art. 30 of Legislative Decree 127/1991, the financial statements used in consolidation have the same closing date as the parent company. For those companies whose financial year-end does not coincide with that of the parent company, specific financial statements have been drawn up according to accepted accounting principles.

A list of the companies included in the scope of consolidation is presented below together with the year-end dates of their statutory financial statements.

(in thousands of euros)	Year-end		12/31/2001		12/31/2001
			Share capital	% ownership	Share capital
Subsidiaries					
Acquario S.r.l. In liquidazione (**)	12/31/01	(a)	258	100.00%	500
Alfa Due S.p.A.	12/31/01	(a)	1,300	100.00%	1,300
Alfa S.r.l.	9/30/01	(a)	2,600	100.00%	2,600
Beta S.r.l.	12/31/01	(a)	26	100.00%	26
Cagisa S.p.a.	12/31/01	(a)	624	100.00%	620
Centrale Immobiliare S.p.A.	12/31/01	(a)	5,200	100.00%	5,165
Holdim S.r.l.	9/30/01	(a)	14	100.00%	14
Iota S.r.l.	12/31/01	(a)	94	100.00%	94
Kappa S.r.l.	9/30/01	(a)	10	100.00%	10
Lambda S.r.l.	12/31/01	(a)	624	100.00%	624
Partecipazioni Real Estate S.p.A.	12/31/01	(a)	1,360	100.00%	153
Pirelli & C. Agency 2 S.p.A.(ora Pirelli & C. Agency S.p.A.*)	12/31/01	(a)	832	100.00%	826
Pirelli & C. Agency S.p.A.	12/31/01	(a)	-	-	516
Pirelli & C. Casa S.p.A.	12/31/01	(a)	520	100.00%	516
Pirelli & C. Opere Generali S.p.A.	9/30/01	(a)	104	100.00%	104
Pirelli & C. Project Management S.p.A.	12/31/01	(a)	520	100.00%	520
Pirelli & C. Property Management S.p.A.	12/31/01	(a)	114	92.00%	114
Pirelli & C. Real Estate L.t.d.a.	12/31/01	(a)	978	60.00%	1,099
Progetti Creativi S.r.l.	12/31/01	(a)	51	100.00%	99
Progetto Bicocca Centro Tecnologico S.r.l.	12/31/01	(a)	94	100.00%	94
Progetto Bicocca Esplanade S.p.A. (**)	12/31/01	(a)	2,500	100.00%	4,753
Progetto Bicocca Il Centro S.r.l.	12/31/01	(a)	93	100.00%	93
Progetto Grande Bicocca S.r.l.	12/31/01	(a)	94	100.00%	93
Progetto Navigli S.r.l.	9/30/01	(a)	52	100.00%	52
Promedil '84 S.r.l.	9/30/01	(a)	10	100.00%	10
Servizi Amministrativi Real Estate S.p.A.	12/31/01	(a)	520	100.00%	516
Stella Polare S.r.l. (in liquidazione)	12/31/01	(a)	289	100.00%	289
Tau S.r.l.	9/30/01	(a)	94	100.00%	93
Associated companies					
G6 Advisor S.r.l.	12/31/01	(b)	50	42.30%	50
Progetto Bicocca Universita' S.r.l.	12/31/01	(b)	874	34.00%	868
A.G.I.E.D. S.r.l.	12/31/01	(c)	100	30.00%	103
Auriga Immobiliare S.r.l.	12/31/01	(c)	25,602	36.02%	26,445
Casaclick.com S.p.A.	12/31/00	(c)	9,410	39.06%	7,678
Eurostazioni S.p.A.	12/31/01	(c)	60,000	31.67%	60,000
IN Holdings I S.a.r.l.	12/31/01	(c)	-	25.00%	-
Inim Due S.a.r.l.	12/31/00	(c)	-	25.01%	-
Iniziativa Immobiliari S.r.l.	9/30/01	(c)	4,313	38.45%	4,313
M.S.M.C. Italy Holding B.V.	12/31/00	(c)	9,532	25.00%	9,532
M.S.M.C. Solferino S.a.r.l.	12/31/01	(c)	500	31.25%	500
Orione Immobiliare Prima S.p.a.	5/31/01	(c)	104	25.00%	103
Progetto Bicocca La Piazza S.r.l.	9/30/01	(c)	3,151	26.00%	3,151
Progetto Fontana S.r.l.	12/31/01	(c)	500	23.00%	500
Progetto Grande Bicocca Multisala S.r.l.	12/31/01	(c)	1,530	33.00%	1,530
Progetto Lainate S.r.l.	12/31/00	(c)	26	25.00%	26
Regus Business Centres Italia S.p.A.	12/31/00	(c)	2,500	35.00%	10
Immobiliare Prizia S.r.l.	12/31/01	(c)	15,000	30.00%	-
Other companies					
S.C.I. Roev Texas, L.P.	12/31/01	(c)	23,589	10.00%	826

(a) Companies consolidated line-by-line.

(b) Companies established with other operators to carry out specific real estate initiatives, in which no one shareholder holds control, consolidated proportionally.

(c) Companies valued using the equity method.

(*) As regards the investment in Pirelli & C. Agency S.p.A., on November 26, 2001, this company was merged by absorption in Pirelli & C. Agency 2 S.p.A., which then changed its name to Pirelli & C. Agency S.p.A.. The merger is effective for tax and accounting purposes as of January 1, 2001. Further more, on February 27, 2002, Pirelli & C. Agency S.p.A. changed its name to Pirelli & C. Commercial Agency S.p.A.; in these financial statements, the company is referred to by its previous name.

(**) As regards the investments in Acquario and Progetto Bicocca Esplanade, previously classified under associated companies, the change in classification is due to the acquisition of the controlling interests during the year. Both companies are now consolidated line-by-line.

The following companies have been excluded from the scope of consolidation:

- inasmuch as the companies are not yet or no longer operational:
P.B. Le Torri S.r.l., Parcheggi Bicocca S.r.l., Popoy B.V., Robino B.V. e Delta S.p.A., Progetto Moncalieri S.r.l. and Project Saint Maurice S.a.s..
- inasmuch as the company has filed for bankruptcy:
Movimento Fabrica G.m.b.h.

BASIS OF CONSOLIDATION

The principles of consolidation applied are in accordance with the provisions of Legislative Decree 127/91 and with the accounting principles issued by the National Boards of Dottori Commercialisti and Ragionieri.

The line-by-line consolidation of the companies in which the parent company owns more than 50% and exercises control can be summarized as follows:

- all assets and liabilities, costs and revenues, regardless of the percentage of ownership, have been recorded in full, and the minority interest in the net equity and the results of operations is shown separately;
- the carrying value of the investments included in consolidation is eliminated against the underlying share of net equity at the date of acquisition and/or formation;
- the differences between the carrying value and the net assets of the consolidated companies, whenever they have not been attributed to the assets or liabilities of the investee company, if negative, form part of the consolidation reserve, except when they can be related to expenses or future losses of the consolidated company, in which case they are charged to a specific provision for expenses and restructurings. If the differences are positive, they are recorded in the intangible assets under difference on consolidation and amortized on the straight-line basis;
- receivables, payables, revenues and costs related to transactions between consolidated companies have been eliminated;
- gains arising from transactions between 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.

ACCOUNTING POLICIES

The accounting policies adopted are those set forth by the provisions of art. 2426 of the Italian Civil Code, with reference to the provisions set by 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

Intangible assets are stated at purchase cost, net of accumulated amortization. Intangible assets are amortized on the straight-line method over their estimated period of future benefit, and, in any case, for a period of not more than five years.

Start-up and capital costs and advertising costs are recorded in assets with the consent of the Board of Statutory Auditors.

Goodwill and the positive difference on consolidation are amortized over an appropriate period in relation to the future earnings of the investee companies, and, in any case, for a period of not more than five years, except for the subsidiary Cagisa S.p.A., for which the amortization period has been extended to a period of 10 years owing to the specific circumstances of the company.

When, at the end of the year, the future residual benefit of the intangible assets is permanently reduced to below that originally estimated, appropriate writedowns are made to the net book value.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at purchase or production cost including directly attributable incidental expenses, adjusted by accumulated depreciation.

Depreciation is calculated on the straight-line method at rates designed to completely write-off the assets over their estimated useful lives, reduced by half for additions during the year. The depreciation rates are reported in the notes.

When, at the end of the year, the estimated useful lives of the property, plant and equipment is permanently reduced to below that originally

estimated, appropriate writedowns are made to the net book value. The property, plant and equipment included in the financial statements do not include monetary or economic revaluations.

FINANCIAL ASSETS

Investments

Equity investments in unconsolidated subsidiaries, associated companies and other companies are valued at cost.

The purchase cost is adjusted for any permanent impairment in value. The original amount is reinstated whenever the reasons for the adjustment no longer apply.

The investment in Sci Roev Texas Partners L.P., governed by a partnership agreement, has been valued using the equity method since 1998.

Financial receivables

Financial receivables are stated at estimated realizable value.

Other securities recorded in fixed assets

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

- *Senior Notes and Junior Notes*

These are recorded at their subscription price.

Income is recorded on the accrual basis according to the contract terms in the note agreement.

- *Other securities*

Other securities are stated at their purchase cost including the amortization of any discount or premium received or paid upon subscription

- *Derivative financial instruments*

Derivative financial instruments consist of equity swap agreements used to hedge the market price of listed securities. These agreements are valued consistently with the securities to which they relate. The income or expenses accruing at year-end are recorded on the accrual basis in the statement of income under "Financial income and expenses".

RECEIVABLES RECORDED IN CURRENT ASSETS

Receivables are stated at estimated realizable value

INVENTORIES

Inventories consist of land to be developed, properties to be renovated, properties under construction or renovation, properties completed and held for sale, trading properties and work in progress on orders.

Land to be developed is stated at the lower of purchase cost, plus expenses increasing the value of the property and interest expense capitalized in the pre-construction phase, and the corresponding realizable value.

Properties under construction and/or renovation, which are covered by sales agreements, also take into account a portion of the anticipated profit margin. This margin is calculated on the basis of the total contractually 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.

In the absence of a sales agreement, properties under construction and/or renovation, are valued at the lower of cost plus incremental expenses and interest expense, and the corresponding realizable value.

Trading properties held for sale are valued at the lower of cost and market value determined by reference to recent property transactions that are similar by area and by type. The purchase cost is increased by any pre-sale incremental expenses up to the date of sale.

Work in progress on orders is valued according to the agreed sales price based on the stage of completion of the order.

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

Furthermore, any requests for additional expenditures associated with the construction of university buildings is recorded based upon a prudent estimate of the amount to be recognized.

Requests for any additional sales consideration over and above the

contracted price are recorded in the financial statements based on amounts for which collection is considered reasonably certain.

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

CURRENT FINANCIAL ASSETS

Derivative financial instruments

Derivative financial instruments consist of equity swap agreements used to hedge the market price of listed securities. These agreements are valued consistently with the securities to which they relate. The income or expenses accruing at year-end are recorded on the accrual basis in the statement of income under "Financial income and expenses".

Marketable securities

Such securities are stated at the lower of cost, calculated using the FIFO method, and market value at the end of the year; the estimated realizable value of unlisted securities is determined by reference to a comparison with the prices of similar listed securities and, where unavailable, with the valuation of the net assets of the company.

CASH AND BANKS

Cash and banks are stated at nominal value.

ACCRUALS AND DEFERRALS

These are calculated according to the matching principle and on the accrual basis.

PROVISIONS FOR LIABILITIES AND EXPENSES

These provisions include the accruals for identified losses and liabilities that are definite or likely to be incurred.

The provisions include accruals for adjustments to account for losses of value in excess of the carrying value of the investments stated at cost or valued using the equity method, or amounts to cover risks on guarantees given to third parties.

They also comprise accruals for restructuring and reorganization costs that are definite or likely to be incurred but, at year-end, are uncertain as to the amount or as to the date on which they will arise.

Requests made by contractors for additional compensation are valued on a prudent basis.

PROVISION FOR EMPLOYEES' LEAVING INDEMNITY

The provision for employees' leaving indemnity is calculated for each single employee on the basis of length of service in accordance with current laws and national labor contracts.

PAYABLES

Payables are stated at nominal value.

COMMITMENTS AND CONTINGENCIES

Commitments and contingencies are disclosed in the memorandum accounts at either their contractual value or their nominal value, net of any amounts already recorded as liabilities.

RECOGNITION OF COSTS AND REVENUES

Costs and revenues are recorded in the financial statements according to the principle of prudence and using accrual-basis accounting.

Revenues from the sales of properties are recognized at the time of transfer of the notarized deed of title.

Revenues from finance leases and those from the performance of services are recognized on the accrual basis.

INCOME TAXES

Current income tax liabilities are calculated by each consolidated company on the basis of a realistic estimate of the tax expense payable under the current tax laws.

Deferred taxes are calculated on the temporary timing differences existing between the value of the assets and liabilities in the balance sheet and their tax basis.

Deferred tax assets are recorded only where there is a reasonable certainty of recovery against future taxable income.

Deferred tax assets are not recorded whenever the period of their reversal is uncertain.

Deferred tax liabilities are recorded in the provision for income taxes under "Provisions for liabilities and expenses", calculated using the current tax rate.

TRANSACTIONS IN FOREIGN CURRENCY

Transactions in foreign currency have been recorded at the exchange rate as of the date of transaction. Any differences resulting from the translation of outstanding foreign currency receivable and payable

balances at year-end exchange rates are recorded, only if negative, for medium and long-term transactions and, in all cases, for short-term transactions.

TRANSLATION OF FINANCIAL STATEMENTS OF CONSOLIDATED FOREIGN COMPANIES

The financial statements of companies expressed in foreign currencies other than the currency used for consolidation have been translated at rates prevailing at year-end for the balance sheet and at average annual exchange rates for the statement of income.

DEPARTURES ACCORDING TO ARTICLE 2423 OF THE ITALIAN CIVIL CODE

There were no departures in the financial statements according to article 2423 of the Italian Civil Code.

OTHER INFORMATION

For purpose of additional disclosure, these notes include the “consolidated statement of cash flows” and the “reconciliation between the net income and the shareholders' equity of the parent company and the corresponding consolidated figures”.

BALANCE SHEET ANALYSIS



ASSETS

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

B] FIXED ASSETS

B I. Intangible assets

Intangible assets include the following charges benefiting future periods:

	12/31/2001	12/31/2000
Start-up and capital costs	182	142
Goodwill	1,684	2,242
Difference on consolidation	1,892	1,245
Assets under development and payments on account	4,028	4,815
Other intangible assets	4,449	1,569
Total	12,235	10,013

Start-up and capital costs include expenses incurred for share capital increases, amounts paid against future capital increases, mergers and disposals.

Goodwill entirely relates to the difference between the carrying value of the investment and the underlying share of net equity arising at the time of the merger between Pirelli & C. Casa S.p.A. (ex-Milano Centrale Mediacasa S.p.A.) and Mediacasa S.r.l..

The difference on consolidation relates to the positive difference, not allocated to other assets in the financial statements of subsidiaries, between the carrying value of the investments and the net equity of the consolidated companies at the date of acquisition.

Other intangible assets include software applications costs, legal and notary fees for the purchase of properties and land, related tax charges and registration taxes and improvements made to the properties.

Movements during the year, excluding the difference on consolidation, are as follows:

	Movements in intangible assets						Balance 12/31/2001
	Balance 12/31/2000	Change in scope of consolidation	Increase	Decrease	Amortization	Reclas- sifications	
Start-up and capital costs	142	57	40	0	(57)	0	182
Goodwill	2,242	0	0	0	(558)	0	1,684
Assets under development and payments on account	4,815	0	3,008	(1,087)	0	(2,708)	4,028
Other intangible assets	1,569	37	2,240	0	(2,105)	2,708	4,449
Total	8,768	94	5,288	(1,087)	(2,720)	0	10,343

The major increases refer to the costs incurred for new computer projects (business systems, reporting systems and data-warehouse systems) recorded in assets under development which are still in the process of being implemented.

The decrease refers to the writedown of the development costs of intangible assets to bring the project costs incurred into line with their residual possibility of future utilization.

The reclassifications refer to certain projects that were open at December 31, 2000 and completed during 2001.

The difference on consolidation recorded in the financial statements arose from the purchase of certain investments and is being amortized using the straight-line method on the basis of estimated future benefits. Movements in the difference on consolidation are as follows:

	Balance			Balance			Use	Balance 12/31/2001	Net book value at 12/31/2001
	12/31/2000	Increase	Decrease	12/31/2001	12/31/2000	Amort.			
Cagisa S.p.A.	1,555	0		1,555	(310)	(157)		(467)	1,088
Progetti Creativi S.r.l.	0	1,004		1,004	0	(200)		(200)	804
Kappa S.r.l.	252	0		252	(252)	0		(252)	0
Holdim S.r.l.	115	0		115	(115)	0		(115)	0
P.B. Esplanade S.p.A.	238	0		238	(238)	0		(238)	0
P.B. Il Centro S.r.l.	97	0		97	(97)	0		(97)	0
Beta S.r.l.	16	0		16	(16)	0		(16)	0
Total	2,273	1,004	0	3,277	(1,028)	(357)	0	(1,385)	1,892

The increase in this items is due to the acquisition of the entire share capital of Progetti Creativi S.r.l. by Pirelli & C. Agency; the decrease is due to the amortization charge for the year.

B II. Property, plant and equipment

Property, plant and equipment, net of accumulated depreciation at December 31, 2001, total Euros 3,445 thousand compared to Euros 3,486 thousand in the prior year.

The depreciation charge for the year 2001 is Euros 1,232 thousand, compared to Euros 2,071 thousand in the prior year.

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

	Changes in tangible assets					Balance 12/31/2001
	Balance 12/31/2000	Change in scope of consoli- dation	Increase	Decrease	Depreciation charge	
Plant and machinery	268	4	205	(85)	(39)	353
Other assets	3,218	1	1,317	(251)	(1,193)	3,092
Total	3,486	5	1,522	(336)	(1,232)	3,445

Additions during the year mainly refer to the purchase of furniture and new computer equipment principally for the opening of the new office in Rome.

Ordinary depreciation charges shown in the above table have been calculated at depreciation rates designed to write-off the individual assets over their estimated useful lives.

Depreciation rates are as follows:

Plant and machinery	20%
Vehicles	25%
Office equipment - computers	50%
Furniture	12%

B III. Financial assets

Investments:

Equity investments went from Euros 153,131 thousand at December 31, 2000 to Euros 57,071 thousand at December 31, 2001, after net adjustments of Euros 2,851 thousand to account for the share of the income (loss) of equity investments valued using the equity method, as better described in the comments on the statement of income.

Movements in investments are presented as follows:

	Balance 12/31/2000	Change in scope of consolidation	Acquisitions/ Change in share capital and reserves	Disposals	Write-downs	Other changes	Share of earnings or losses	Reclas- sifications	Provision for risks	Balance 12/31/2001
<i>Investments in unconsolidated subsidiaries</i>										
Delta S.p.A.	0		136							136
Progetto Moncalieri S.p.A.	0		90							90
P.B. Le Torri S.r.l.	29		35							64
Parcchegg Bicocca S.r.l.	20		44							64
Project saint Maurice	0		38							38
Popoy B.V.	32									32
Robino B.V.	26									26
Fin Zeta S.r.l.	157			(157)						0
Partecipazioni Real Estate S.p.a.	155	(155)								0
Total	419	(155)	343	(157)	0	0	0	0	0	450
<i>Investments in associated companies</i>										
Eurostazioni S.p.A. (ex-Schema Ventiquattro S.r.l.)	18,280						(154)			18,126
M.S.M.C. Holding, B.V.	7,122		1,452			58	6,385			15,017
Auriga immobiliare S.r.l.	10,991					2	(309)			10,684
Iniziativa Immobiliari S.r.l.	1,392		204				1,542			3,138
IN Holding Italy S.a.r.l.	1,034						936			1,970
Inim Due S.a.r.l.	603						816			1,419
Regus Business Centre Italia S.p.A.	159		816				(320)			655
P.B. La Piazza S.r.l.	861						(211)			650
MSMC Solferino S.a.r.l.	427		354			(93)	(251)			437
A.G.I.E.D. S.r.l.	0		387				39			426
Progetto Grande Bicocca Multisala S.r.l.	243						(107)			136
Progetto Lainate S.r.l.	28		70				(17)			81
Orione Immobiliare Prima S.p.A.	8,163		(7,963)				(142)			58
Immobiliare Prizia S.r.l.	0		4							4
Progetto Fontana S.r.l.	90						(92)		2	0
Acquario S.r.l.	0									0
Progetto Creativi S.r.l.	22	(22)								0
Casaclick (ex-Domusclic.com S.p.A.)	3,754		1,488				(5,454)		212	0
RDP bockerage	0	17			(17)					0
Total	53,169	(5)	(3,188)	0	(17)	(33)	2,661	0	214	52,801
<i>Investments in other companies</i>										
Sci Roev Texas Partners L.P.	2,260						(45)	190		2,405
I.G.E.I.	744									744
Efi Banca	560									560
Rita S.r.l.	66									66
SVI Lombardia S.p.A.	52				(23)					29
Istanbul Rea	10									10
Servizi Aziendali Pirelli S.p.A.	3									3
Ceat	1									1
Sif	0		1							1
Tirrena assicurazioni	0					1				1
Titoli "swap"	65,621			(51,892)				(13,729)		0
Adeguamento valore	30,202			(23,231)				(6,971)		0
Tecnocittà S.r.l.	24				(24)					0
Total	99,543	0	1	(75,123)	(47)	(44)	190	(20,700)	0	3,820
Total investments	153,131	(160)	(2,844)	(75,280)	(64)	(77)	2,851	(20,700)	214	57,071

Investments in unconsolidated subsidiaries

Partecipazioni Real Estate S.p.A. has been consolidated line-by-line since 2001 when it began to operate actively. In fact, the parent company Pirelli & C. Real Estate S.p.A. sold Partecipazioni Real Estate S.p.A. the stock portfolio of other listed companies held the previous year by Unione Immobiliare S.p.A., which it had acquired through the merger by absorption of the company.

In December 2001, the entire holding in the company Fin Zeta S.r.l. was sold to Siemens Kapitalanlagegesellschaft GmbH.

Investments in associated companies

After the Group acquired 100% of the share capital of Progetto Creativi S.r.l., the company was consolidated line-by-line in 2001.

The most important movements during the year refer to additional investments in the company MSMC Holding BV through payments made against future capital increases to sustain new investment initiatives, the investment made by the Group in Casaclick S.p.A., a company 39.06%-owned by Pirelli & C. Casa S.p.A., and the capital increase in the company Regus Business Centre Italia S.p.A., intended to sustain the development of a chain of temporary offices in Italy (Partecipazioni Real Estate S.p.A. had acquired a 35% stake in the share capital of this company in the prior year).

In 2001, the Group acquired a 100% stake in the Property Management company AGIED S.r.l. and a 5.976% stake in the share capital of Iniziative Immobiliari S.r.l. from Financière Gazzoni Frascara Netherlands BV which brought the total percentage ownership to 38.447%.

Orione Immobiliare Prima S.p.A.'s profits, instead, were entirely distributed during the year to the parent company Pirelli & C. Real Estate S.p.A..

Investments in other companies

Investments in other companies at December 31, 2000 totaled Euros 99,543 thousand and mainly included stocks owned by the company Pirelli & C. Real Estate that were hedged by equity swaps. During the year, all of the stock was sold to Partecipazioni Real Estate S.p.A. in order to rationalize the investment holdings at Group level. In the second half of 2001, a large part of these securities was sold and the remaining amount of Euros 20,700 thousand was reclassified to "other financial assets" in the current assets since it is the Group's intention to sell the portfolio in the short term. Additional details are provided in the note on "other financial assets".

The subsidiary Partecipazioni Real Estate S.p.A., in October 2001, purchased 2% of the share capital of the company S.I.F. S.r.l. (Southern Italian Finance S.r.l.). S.I.F. purchased a portfolio of loans without recourse secured by mortgages in a securitization transaction. The total purchase price was paid through the securitization of these loans with the issue of senior notes (Class A) and subordinated notes (Class B).

Part of the notes issued were acquired by Partecipazioni Real Estate S.p.A. and classified in these financial statement under other securities in fixed assets.

2) Financial receivables:

Financial receivables show a balance of Euros 236,907 thousand compared to Euros 209,965 thousand in the prior year. They consist of the following:

	12/31/2001	12/31/2000
<i>Receivables from unconsolidated subsidiaries (due within 1 year)</i>		
Progetto Lainate S.r.l.	0	4,093
	0	4,093
<i>Receivables from associated companies (due beyond 1 year)</i>		
Auriga S.r.l.	97,903	95,967
Eurostazioni S.p.A.	52,920	15,731
MSMC Italy Holding B.V.	19,922	31,598
Iniziative Immobiliari S.r.l.	18,667	16,007
Progetto Lainate S.r.l.	6,663	0
P.B. La Piazza S.r.l.	6,629	6,629
Inim Due S.a.r.l.	3,426	3,426
P.B. Multisala S.r.l.	3,401	2,609
MSMC Solferino S.r.l.	2,351	2,350
Casaclick S.p.A.	2,175	0
Progetto Fontana S.r.l.	882	852
Regus Business Centre Italia S.p.A.	601	0
Orione Immobiliare Prima S.r.l.	291	2,386
IN Holding I S.a.r.l.	27	27
Acquario S.r.l.	0	1,115
	215,858	178,697
<i>Receivables from other Group companies (due beyond 1 year)</i>		
Iniziative Negozi S.r.l.	11,727	10,795
MSMC Italy Sub Holding B.V.	6,678	12,023
Sci Roev Texas L.P.	837	860
	19,242	23,678
<i>Receivables from others (due within 1 year)</i>		
Capital contributions	865	865
Tax advances under law No. 140/97	499	508
Other	401	0
Knight Frank	42	43
MSMC Italy Sub Holding B.V.	0	0
Other banks	0	2,081
	1,807	3,497
Total	236,907	209,965

The repayment plan of financial receivables from associated companies and other Group companies is linked to the divestiture plan for the real estate assets owned directly or indirectly by the above companies. In view of the fact that the sales plan extends over a period of more than one year, such receivables have been reclassified to due beyond 1 year.

The above receivables present the following characteristics:

- receivables from P.B. La Piazza S.r.l., Orione Immobiliare Prima S.p.A.,

Iniziative Immobiliari S.r.l., MSMC Solferino S.a.r.l., Inim Due S.a.r.l. and IN Holding I S.a.r.l. are non-interest bearing while all the other receivables bear interest at market rates. The receivable from Iniziative Immobiliari S.r.l. bears interest starting from December 2001.

- the receivable from Sci Roev Texas L.P. represents a loan in foreign currency equal to US\$ 800,000.

- receivables from others mainly refer to dedeed trading property for which financing is being awaited to settle the price.

- capital contributions refer to payments made by Alfa Due S.r.l. to become a partner in some joint ventures for the marketing of residential trading units.

- the change in the percentage of ownership held by the Group in Progetto Lainate S.r.l. (equal to 25% of share capital at December 31, 2001), compared to the prior year, led to the reclassification of the relative balance to receivables from associated companies.

3) Other securities recorded in fixed assets:

Other securities recorded in fixed assets at December 31, 2001 amount to Euros 4,203 thousand compared to Euros 202 thousand at the end of the prior year. They consist of BTP treasury bills of Euros 203 thousand expiring February 1, 2006 for a face value of Euros 207 thousand held by P.B.Centro Tecnologico S.r.l., Euros 3,000 thousand of Senior Notes (Class A) and Euros 1,000 thousand of subordinated notes (Class B) subscribed to during the year by Partecipazioni Real Estate S.p.A., as indicated in the note on "Investments in other companies", to which reference should be made.

C] CURRENT ASSETS

C I. Inventories

Inventories total Euros 346,029 thousand at December 31, 2001 compared to Euros 308,261 thousand at December 31, 2000 Details are as follows:

	12/31/2001	12/31/2000
Areas to be developed/properties to be renovated	56,965	83,938
Properties under construction/renovation	164,885	97,702
Trading properties held for sale	54,662	88,641
Work in progress on orders	69,517	36,405
Advances	0	1,575
Total	346,029	308,261

The areas to be developed are located in Milan in Viale Sarca, Via Savona and Quinto Romano (owned by Progetto Grande Bicocca S.r.l., Società Promedil S.r.l. and Pirelli & C. Real Estate S.p.A.), in Rome (owned by Progetto Navigli S.r.l.), in Saronno (owned by Lambda S.r.l.) and in Pero-Molino Dorino (owned by Acquario S.r.l.).

Properties under construction or renovation mainly consist of properties located in the Bicocca area (Milan) owned by Alfa S.r.l., Lambda S.r.l. and Progetto Bicocca Il Centro S.r.l..

The trading properties held for sale are owned by Alfa S.r.l., Iota S.r.l., Centrale Immobiliare S.p.A., Stella Polare S.r.l., Tau S.r.l., Promedil S.r.l. and Kappa S.r.l..

Work in progress on orders refer to general contracting managed by Pirelli & C. Opere Generali S.p.A. and Lambda S.r.l.

C II. Accounts receivable

Accounts receivable total Euros 254,911 thousand compared to Euros 340,349 thousand at December 31, 2000. The balance includes the following:

	12/31/2001	12/31/2000
<u>Trade receivables</u>	111,364	48,050
<u>Receivables from Pirelli & C. A.p.A.</u>	17,656	20,669
<u>Receivables from unconsolidated subsidiaries</u>	676	0
<u>Receivables from associated companies</u>	22,158	25,047
<u>Receivables from Pirelli S.p.A. group companies</u>		
Pirelli Cavi e Sistemi S.p.A.	2,847	167,554
Pirelli Pneumatici S.p.A.	1,726	33
Pirelli S.p.A.	1,631	2,012
Pirelli Submarines S.p.A.	316	0
Pirelli Labs S.p.A.	259	0
Other group companies	223	375
Pirelli Informatica S.p.A.	159	72
Pirelli Cables Ltd.	141	141
Pirelli Coordinamento Pneumatici S.p.A.	0	2,176
Pirelli S.A.	0	122
Other group companies	59	33
	<u>7,361</u>	<u>172,518</u>
<u>Receivables from Pirelli & C. A.p.A. group companies</u>	7,361	172,518
Pirelli & C. Credit Servicing S.p.A.	492	528
Pirelli Ambiente S.p.A.	58	13
Milano Centrale Altomim S.p.A.	0	0
Other group companies	39	41
	<u>589</u>	<u>582</u>
<u>Advances</u>	4,289	2,582
<u>Other receivables</u>	90,818	70,901
Total	<u>254,911</u>	<u>340,349</u>

Trade receivables

Trade receivables, by company, are as follows:

	12/31/2001	12/31/2000
Pirelli & C. Real Estate	24,434	15,289
Lambda S.r.l. (*)	25,832	102
Pirelli & C. Property Management S.p.A.	15,725	11,526
Pirelli & C. Agency 2 S.p.A. (ex M. C. Servizi S.p.A.)	0	0
Pirelli & C. Agency S.p.A.	11,670	9,567
Progetto Bicocca Il Centro S.r.l.	11,223	0
Progetto Bicocca Esplanade S.p.A.	6,989	5
Servizi Amministrativi Real Estate S.p.A.	2,791	1,751
Progetto Bicocca Università S.r.l.	2,298	1,489
Pirelli & C. Project Management S.p.A.	2,132	1,481
Alfa S.r.l.	1,820	160
Cagisa S.p.A.	1,806	2,006
Iota S.r.l.	1,321	720
G6 Advisor	828	39
Tau S.r.l.	567	210
Kappa S.r.l.	436	330
Pirelli & C. Real Estate Ltda	416	0
Pirelli & C. Casa S.p.A.	361	1,148
Progetto Grande Bicocca S.r.l.	258	63
Pirelli & C. Opere Generali S.p.A.	230	230
Promedil S.r.l.	132	1,665
Centrale Immobiliare S.r.l.	50	0
Beta S.r.l.	26	0
Progetti Creativi S.r.l.	19	0
P.B. Centro Tecnologico S.r.l.	0	160
Stella Polare S.r.l.	0	110
Total	111,364	48,050

(*) of which Euros 12,911 thousand are due beyond 1 year.

Receivables from the company Lambda S.r.l. refer to Euros 25,822 thousand due from the company Fin Zeta S.r.l.: Euros 3,098 thousand regard the balance on the sale of the land located in Bicocca intended for the construction of the second phase of the Siemens' offices and Euros 22,724 thousand for the advances on the supply contract also for this phase of the work, of which Euros 12,911 thousand will be collected at the beginning of 2003.

Receivables from Progetto Bicocca Il Centro include Euros 11,038 thousand for the balance on the sale of the building called "Torre U9", collected on January 16, 2002.

Receivables from Progetto Bicocca Esplanade S.p.A. include Euros 6,578 thousand for the sale of land located in Bicocca to Eurocom S.r.l. on June 25, 2001. Such receivables are secured by guarantees expiring December 2002, the date on which the receivables are expected to be collected.

Receivables are shown net of an allowance for doubtful accounts of Euros 22,842 thousand (Euros 20,313 thousand at December 31, 2000).

Receivables from Pirelli & C. A.p.A.

Receivables from Pirelli & C. A.p.A. are due by the following Group companies:

	12/31/2001		12/31/2000	
<i>Receivables for consolidated VAT</i>				
Lambda S.p.A.	6,340		2,419	
Pirelli & C. Real Estate S.p.A.	2,844		6,510	
Alfa S.r.l.	3,606		7,664	
Pirelli & C. Opere Generali S.p.A.	2,535		2,091	
Progetto Navigli S.r.l.	619		67	
Progetto Grande Bicocca S.r.l.	371		79	
Promedil S.r.l.	90		106	
Servizi Amministrativi Real Estate S.p.A.	53		9	
P.B. Centro Tecnologico S.r.l.	31		39	
Alfadue S.p.A.	25		41	
Pirelli & C. Agency S.p.A.	0		736	
Iota S.r.l.	0		620	
Pirelli & C. Project Management S.p.A.	0		127	
Pirelli & C. Property Management S.p.A.	0		46	
Holdim S.r.l.	6		0	
Partecipazioni Real Estate S.p.A.	2		0	
Beta S.r.l.	0		71	
Tau S.r.l.	0		2	
M.C. Mediaimpresa S.p.A.	0		30	
	<u>16,522</u>	16,522	<u>20,657</u>	20,657
<i>Trade receivables</i>				
Pirelli & C. Property Management S.p.A.	1,134		11	
Holdim S.r.l.	0		1	
	<u>1,134</u>	1,134	<u>12</u>	12
Total	<u>17,656</u>		<u>20,669</u>	

Receivables from Pirelli & C. A.p.A. are for consolidated VAT which is interest-free and refers to the periodical settlement of Group VAT; the receivables become collectible when Pirelli & C. A.p.A. compensate them against taxes payable to the tax authorities.

Trade receivables due from Pirelli & C. Property Management S.p.A. refer to the renovation work on the head offices in Milan at Via Negri.

Receivables from unconsolidated subsidiaries

The balance at December 31, 2001 totals Euros 676 thousand. Details are as follows:

- Euros 633 thousand refer to trade receivables from the company Progetto Bicocca Le Torri for project designs (Euros 483 thousand), administrative coordination (Euros 21 thousand) and asset management (Euros 129 thousand) performed in connection with a development activity in the health sector that will be realized over the next few years;
- Euros 43 thousand refer to trade receivables from Parcheggi Bicocca S.r.l. for asset management.

Receivables from associated companies

Receivables from associated companies, which total Euros 22,158 thousand at December 31, 2001 compared to Euros 25,047 thousand at December 31, 2000, relate to services provided at normal market terms.

The year-end balance in the prior year related to receivables due largely from Auriga Immobiliare S.p.A. and Orione Immobiliare Prima S.p.A.; at December 31, 2001, the balance is still chiefly receivable from Auriga Immobiliare S.p.A., but also includes receivables due from Iniziative Immobiliari S.r.l. for agency services and property management services regarding the real estate properties located in Naples.

Receivables from Pirelli S.p.A. group companies

These receivables total Euros 7,361 thousand compared to Euros 172,518 thousand at December 31, 2000 and principally regard property and facility management services charged according to market conditions. The decrease is primarily due to the collection of the receivable that was due from Pirelli Cavi e Sistemi S.p.A. at December 31, 2000 as a result of the transfer of a tax receivable in the prior year.

Advances

Advances total Euros 4,289 thousand at December 31, 2001 compared to Euros 2,582 thousand in the prior year; they largely refer to advances

received on contracting work still to be performed under the Bicocca Project.

Other receivables

Other receivables stand at Euros 90,818 thousand compared to Euros 70,901 thousand last year. Details are as follows:

	12/31/2001			12/31/2000		
	Short-term	Medium-term	Total	Short-term	Medium-term	Total
Deferred tax assets	33,338	0	33,338	10,970	6,543	17,513
Pending costs	13,779	0	13,779	7,008	0	7,008
Receivables from tax office for IRPEG/IRAP	13,246	0	13,246	15,943	0	15,943
Down-payments on purchases	8,029	0	8,029	3,887	0	3,887
Receivables due from INA	4,340	0	4,340	7,345	0	7,345
VAT balance due from tax office	3,374	0	3,374	4,778	0	4,778
Grants receivable from Campania region	2,831	0	2,831	1,090	0	1,090
Receivables due from joint ventures	2,411	0	2,411	1,066	0	1,066
Receivable for purchase of business segment	1,339	0	1,339	0	0	0
Withholding taxes	986	0	986	0	0	0
Security deposits	0	829	829	0	1,668	1,668
Receivables from tax office for IRPEG/ILOR refunds	0	422	422	310	0	310
Leaving indemnity policy	0	1,829	1,829	0	3,044	3,044
Dividend withholding taxes	0	0	0	3,722	0	3,722
Sundry receivables	4,065	0	4,065	3,527	0	3,527
Total	87,738	3,080	90,818	59,646	11,255	70,901

The increase in deferred tax assets is mainly due to the tax effect of recording consolidation adjustments to eliminate the intercompany gains on the contribution of the "Investment Management" business segment by Pirelli & C. Real Estate S.p.A. to Partecipazioni Real Estate S.p.A..

Receivables due from INA, that were largely collected in January 2002, refer to certain items relating to the previous spin-off transactions regarding Unim Immobiliare S.p.A., which is now held by Pirelli & C. Real Estate S.p.A..

Down-payments include Euros 4,648 thousand of commitments undertaken as part of the Edilnord deal.

Sundry receivables relate principally to advances made to suppliers for the performance of work.

Details of pending costs are provided below:

	12/31/2001	12/31/2000
Project/property management costs	4,477	1,450
Osservatorio project	3,806	2,676
Feasibility studies - commercial and residential	3,038	1,109
Purchase and sale commissions	720	894
Advisory services	554	0
Marketing expenses	388	391
Other sundry costs	796	488
Total	13,779	7,008

Costs connected with project management are pending in order to achieve a proper matching of contract costs and revenues on orders.

The costs incurred in winning the bid for the "Osservatorio" project by G6 Advisor, a consortium in which Pirelli & C. Agency S.p.A. has a stake, are pending in order to achieve a proper matching of the project costs and revenues.

The costs for feasibility studies, which mainly include the expenses for the Edilnord deal, relate to initiatives which are reasonably certain of producing developments with positive economic repercussions over the next few years.

Marketing costs refer to those incurred for residential and commercial development projects for which the related revenues are earned when the sales contracts are signed with the third-party buyers.

Other sundry costs of Euros 796 thousand include Euros 473 thousand for the expenses incurred to furnish the offices in Tor Marancia which, by contract, are chargeable to the owners.

There are no receivables due beyond five years.

C III. Current financial assets

Other investments

Other investments consist of stocks owned by the company Partecipazioni Real Estate S.p.A. for a total amount of Euros 20,700 thousand, including Euros 6,971 thousand for value adjustments. Such value adjustments refer to the difference between the purchase cost and the underlying net assets at the date Unione Immobiliare S.p.A. was first consolidated and can be ascribed to the listed securities which it held at that date. An equity swap agreement has been taken out on such securities to guarantee the market value of the listed stocks in portfolio. The securities, classified at December 31, 2000 in financial assets in fixed assets were reclassified to current assets following the decision of the company to sell the securities within a short period of time.

Details of the securities hedged by the equity swap agreements at December 31, 2001 are as follows:

	12/31/2001
Value adjustment	6,971
Alleanza savings shares n.c.	3,561
Ras ordinary shares	2,533
Imi San Paolo/Beni Stabili	2,371
Eni ordinary shares	1,413
Tim savings shares n.c.	1,361
Edison ordinary shares	1,190
Alleanza ordinary shares	458
Seat savings shares n.c.	447
Bayerische Vita	395
Comit ordinary shares	-
Ass. Generali	-
Olivetti	-
Seat ordinary shares	-
Telecom ordinary shares	-
Telecom savings shares n.c.	-
Unicredito	-
<i>Total</i>	<i>20,700</i>

Marketable securities

Marketable securities total Euros 823 thousand at December 31, 2001 compared to Euros 1,104 thousand at December 31, 2000 and refer to the temporary investment of liquid resources in investment funds by Pirelli & C. Real Estate Ltda. that can be sold on demand.

C IV. Cash and banks

Cash and banks refer to temporary liquid resources held by the companies of the Group at December 31, 2001 amounting to Euros 38,966 thousand at December 31, 2001 and Euros 67,701 thousand at December 31, 2000.

Details are as follows:

	12/31/2001	12/31/2000
Bank and postal deposits	8,472	6,287
Current accounts with Pirelli & C. A.p.A.	0	8,685
Current accounts with Pirelli S.p.A. group companies	28,815	48,191
Pisefi S.p.A.	<u>28,815</u>	<u>48,191</u>
Checks	1,484	4,521
Cash on hand	195	17
Total	<u>38,966</u>	<u>67,701</u>

Bank accounts include Euros 83 thousand (Euros 171 thousand at December 31, 2000) deposited with Mediobanca which, at the date of December 31, 2001, guaranteed an endorsement credit granted by Mediobanca in order to exercise the squeeze-out allowed by art. 111 of the Tax Code on the Unim take-over.

The current accounts with Pisefi S.p.A. are held by the following companies:

	12/31/2001	12/31/2000
Centrale Immobiliare S.r.l.	9,046	0
Alfa S.r.l.	7,858	14,893
Tau S.r.l.	4,630	0
Pirelli & C. Property Management S.p.A.	2,039	8,158
P.B. Centro Tecnologico S.r.l.	1,812	1,683
Alfadue S.p.A.	1,614	2,576
Cagisa S.p.A.	871	808
Beta S.r.l.	809	37
Holdim S.p.A.	136	169
Pirelli & C. Real Estate S.p.A.	0	429
Pirelli & C. Opere Generali S.p.a.	0	17,747
Pirelli & C. Casa S.p.A.	0	261
Pirelli & C. Agency S.p.A.	0	262
Pirelli & C. Project Management	0	1,130
Servizi Amministrativi Real Estate S.p.A.	0	38
Total	28,815	48,191

D] ACCRUED INCOME AND PREPAID EXPENSES

Accrued income and prepaid expenses total Euros 2,323 thousand, compared to Euros 2,877 thousand at December 31, 2000. Details are as follows:

	12/31/2001	12/31/2000
<i>Accrued income</i>	878	2,478
<i>Prepaid expenses</i>	1,445	399
Total	2,323	2,877

At December 31, 2001, accrued income includes Euros 830 thousand of income earned on the loan transaction on the stock portfolio, Euros 10 thousand of accrued interest income on BTP treasury bills and Euros 38 thousand of accrued interest income on the Sci Roev financing.

Prepaid expenses include Euros 904 thousand of prepaid rent on the new offices in Tor Marancia, as well as prepaid insurance premiums and commissions on guarantees granted.

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LIABILITIES AND SHAREHOLDERS' EQUITY

A] SHAREHOLDERS' EQUITY

The changes in shareholders' equity are presented below:

	Share capital	Share premium reserve	Revaluation reserve	Legal reserve	Cumulative translation adjustments	Retained earnings	Dividends	Net income for the year	Shareholders' equity
Shareholders' equity – Group at December 31, 2000	15,861	0	15	3,172	7	2,950	(100,426)	152,418	73,997
Reclassification of dividends As voted by the ordinary shareholders' meeting on December 20, 2000							100,426	(100,426)	
- Share capital increase	1,328								1,328
- Share premium		28,936							28,936
As voted by the ordinary and extraordinary shareholders' meeting on October 10, 2000:									
- Share capital increase	118					(118)			0
- Distribution of dividends							(134,130)		(134,130)
- Transfer to reserves				266		215,850		(216,116)	0
Difference between the statutory and consolidated result						(164,124)		164,124	0
Other changes					(14)	(536)			(550)
Net income								161,410	161,410
Shareholders' equity – Group at December 31, 2001	17,307	28,936	15	3,438	(7)	54,022	(134,130)	161,410	130,991
Minority interests – capital and reserves at December 31, 2001									1,111
Minority interest – net loss									(25)
Total shareholders' equity at December 31, 2001	17,307	28,936	15	3,438	(7)	54,022	(134,130)	161,410	132,077

I. Share capital

Share capital at December 31, 2001 is entirely subscribed to and paid in and amounts to Euros 17,307,056 compared to Euros 15,861,166 in the prior year. Share capital consists of 332,828 ordinary shares of par value Euros 52 each. The increase from December 31, 2000 is due to the issue of 25,713 shares for Euros 1,328 thousand in execution of the resolution passed by the ordinary shareholders' meeting on December 20, 2000 and Euros 118 thousand from the conversion of share capital into euros in execution of the resolution passed by the extraordinary shareholders meeting on October 10, 2001.

The extraordinary shareholders' meeting on December 27, 2001 also voted to increase share capital by Euros 515,164 to service the contribution of the assets by Edilnord 2000 (now named Ground Immobiliare S.p.A.), finalized on January 22, 2002.

II. Share premium reserve

The share premium reserve was set up during the year for Euros 28,936 thousand following the issue of 25,713 shares.

III. Revaluation reserves

The revaluation reserve includes the monetary revaluation reserves established in accordance with Law No. 72 of March 19, 1983 (Visentini bis) on properties that have now been sold; the amount has remained unchanged compared to the prior year.

IV. Legal reserve

The legal reserve totals Euros 3,438 thousand, compared to Euros 3,172 thousand at December 31, 2000. The increase is due to the appropriation of a part of the profits of the preceding year as voted by the shareholders' meeting which approved the statutory financial statements of the parent company Pirelli & C. Real Estate S.p.A. that closed on June 30, 2001.

VIII. Retained earnings

This caption not only includes the retained earnings of the parent company, Pirelli & C. Real Estate S.p.A., and the effects of the elimination of intercompany profit not yet realized with third parties, but also the differences between carrying value of investments included in the consolidated financial statements and the underlying share of net equity.

Minority interest

This caption consists of the minority interest in share capital and reserves and also in the result for the year of the companies consolidated using the line-by-line consolidation method.

Minority interests at December 31, 2001 total Euros 1,086 thousand compared to Euros 1,881 thousand at December 31, 2000 and consist of Euros 1,111 thousand of share capital and Euros 25 thousand of the loss for the year.

During the second half, the Group purchased the remaining 39.25% of the company Progetto Navigli S.r.l., acquiring control of the company.

Details of the minority interest in shareholders' equity are provided below:

	Share capital	Net income (loss)	12/31/2001	12/31/2000
Progetto Navigli S.r.l.	210	(210)	0	887
Pirelli & C. Real Estate Ltda	537	(103)	434	610
Pirelli & C. Property Management S.p.A.	209	229	438	229
Cagisa S.p.A.	155	59	214	155
		0		
Total	1,111	(25)	1,086	1,881

B] PROVISION FOR LIABILITIES AND EXPENSES

Provisions for income taxes

The provisions for income taxes at December 31, 2001 total Euros 15,287 thousand compared to Euros 15,102 thousand at December 31, 2000. Details are as follows:

	Balance	Movements		Balance	
	12/31/2000	Increase	Reclas sifications	Decrease	12/31/2001
Deferred taxes on gains from the sale of property	1,920			(829)	1,091
Deferred taxes on gains from the sale of securities	8,222	1,005		(2,339)	6,888
Other deferred taxes and accruals	4,960	3,585		(1,237)	7,308
Total	15,102	4,590	0	(4,405)	15,287

This caption mainly includes “deferred taxes on gains from the sale of securities” deriving from the deferral of the tax charge over five years and “other deferred taxes and accruals” deriving from consolidation adjustments.

Provision for future risks and expenses

The provision for future risks and expenses totals Euros 2,741 thousand, compared to Euros 4,954 thousand at December 31, 2000. Details of the companies to which the provision refers are as follows:

	Balance	Movements		Balance	
	12/31/2000	Increase	Reclas sifications	Decrease	12/31/2001
P. Grande Bicocca Multisala S.r.l.	1,919	0		0	1,919
Pirelli & C. Real Estate S.p.A.(equity Casaclick)	0	212		0	212
Alfa S.r.l.	236	0		(74)	162
Progetto Bicocca Centro Tecnologico S.r.l.	152	0		0	152
Progetto Navigli S.r.l.	119	0		0	119
Iota S.r.l.	119	0		(36)	83
Tau S.r.l.	47	0		0	47
Pirelli & C. Agency S.p.A.	45	0		0	45
Pirelli & C. Real Estate S.p.A. (equity P. Fontana)	0	2		0	2
Pirelli & C. Real Estate S.p.A. (equity Orione S.p.A.)	0	0		0	1
Pirelli & C. Real Estate S.p.A. (badwill Il Centro)	93	0		(93)	0
Lambda S.r.l.	543	0		(543)	0
Progetto Grande Bicocca S.r.l. (museum contribution)	749	0	(749)	0	0
Progetto Grande Bicocca S.r.l. (reclamation contributions)	671	0		(671)	0
Pirelli & C. Real Estate S.p.A. (writedown Acquario)	261	0		(261)	0
Total	4,954	214	(749)	(1,678)	2,741

The balance refers to accruals for losses to be incurred and margins yet to be realized on commercial and residential development and trading initiatives.

The provision for future risks and expenses of Progetto Grande Bicocca S.r.l., amounting to Euros 749 thousand at December 31, 2000 and referring to the estimated expenses to be incurred on the construction of the Museum of the Automobile has been reclassified to “other provisions” for a better

representation of the type of expenses involved in the project.

Other provisions

Other provisions went from Euros 24,053 thousand at December 31, 2000 to Euros 22,189 thousand at December 31, 2001. Movements during the year are as follows:

	Balance	Movements			Balance
	12/31/2000	Increase	Reclas- sifications	Decrease	12/31/2001
Pirelli & C. Property Management (restructuring provision)	17,530	0		(3,070)	14,460
Progetto Grande Bicocca S.r.l.	0	2,249	749	0	2,998
Pirelli & C. Real Estate S.p.A. (arbitration provision)	0	1,862		0	1,862
Pirelli & C. Real Estate S.p.A. (litigation provision)	0	659		0	659
Pirelli & C. Real Estate S.p.A. (ex-Unim)	381	135		0	516
Pirelli & C. Real Estate S.p.A. (works provision)	0	775		(274)	501
Pirelli & C. Property Management (litigation provision)	349	0		0	349
P.B.II Centro S.r.l./ Lambda S.r.l. (guaranteed income)	524	172		(428)	268
Lambda S.r.l. (penalties for delays in deliveries)	0	258		0	258
Pirelli & C. Property Management (RN provision)	5,268	0		(5,087)	181
Progetto Bicocca Università (litigation provision)	0	73		0	73
Alfa (litigation provision)	0	35		0	35
Sundry provisions	0	28		0	28
Total	24,053	6,246	749	(8,859)	22,189

The ending balance of Euros 22,189 thousand mainly includes commitments for work on buildings delivered in previous years, expenses to be incurred for the construction of the Museum of the Automobile (Progetto Grande Bicocca S.r.l., for which Euros 749 thousand were reclassified from the Provisions for future risks and expenses for a better representation of the costs), accruals for expenses to be incurred by Pirelli & C. Property Management S.p.A. for restructurings following the contribution of "property management" business segments to this company by Unione Immobiliare S.p.A. and Risanamento Napoli S.p.A..

The arbitration provision was set aside after analyzing simultaneous requests made by Pirelli & C. Real Estate S.p.A. and the counterparts, and on the basis of legal advice. The provision is considered sufficient to meet the expected outcomes of pending litigation.

The provision of the company Lambda refers to penalties which it could be charged owing to delays in delivering a building.

C] PROVISION FOR EMPLOYEES' LEAVING INDEMNITY

The provision for employees' leaving indemnity totals Euros 7,955 thousand compared to Euros 6,133 thousand at December 31, 2000. Movements during the year are as follows:

	12/31/2001	12/31/2000
Leaving indemnity – beginning of year	6,133	1,994
Accruals	2,646	1,269
Change due to personnel received	1,632	4,698
Change due to personnel leaving	0	0
Indemnities paid	(2,456)	(1,828)
Leaving indemnity – end of year	7,955	6,133

The change in personnel received is mainly due to the transfer of personnel following the purchase of Risanamento Napoli S.p.A.'s business segment by Pirelli & C. Property Management S.p.A..

D] PAYABLES

Bank borrowings

Bank borrowings amount to Euros 114,806 thousand at December 31, 2001 compared to Euros 129,978 thousand at December 31, 2000. An analysis of bank borrowings by individual consolidated company is provided as follows:

	12/31/2001		12/31/2000	
<i>Short-term bank borrowings</i>				
Progetto Navigli S.r.l.	16,812		16,807	
P.B. Università S.r.l.	2,411		2,291	
Progetto Grande Bicocca S.r.l.	57		19,315	
Pirelli e C. Real Estate Ltda	12		0	
Progetti Creativi S.r.l.	2		0	
Pirelli e C. Real Estate S.p.A.	0		870	
Cagisa S.r.l.	0		167	
	<u>19,294</u>	<u>19,294</u>	<u>39,451</u>	<u>39,451</u>
<i>Medium-term bank borrowings</i>				
Alfa S.r.l.	76,073		72,339	
P.B. Esplanade S.p.A.	13,206		13,204	
Progetto Grande Bicocca S.r.l.	5,985		0	
Kappa S.r.l.	223		224	
Pirelli e C. Real Estate S.p.A.	25		0	
Progetto Bicocca Il Centro	0		4,761	
	<u>95,512</u>	<u>95,512</u>	<u>90,527</u>	<u>90,527</u>
Total	114,806		129,978	

The balance for Progetto Bicocca Esplanade S.p.A. of Euros 13,206 thousand relates to revocable letters of credit which are secured by mortgages on the land owned by the company.

The caption includes a liability for project financing equal to Euros 75,662 thousand, of which Euros 75,093 thousand refer to a contract stipulated with Deutsche Bank after finalizing a preliminary agreement in 1997 for the sale of a building under construction. In effect, this is an advance against work in progress.

The decrease in bank borrowings is mainly due to the reduction in Progetto Grande Bicocca S.r.l.'s exposure as a result of the collection made on sales of land during the year.

Loans due to minority shareholders

These show a nil balance at December 31, 2001 whereas the balance at December 31, 2000 was Euros 100 thousand and referred to the liability of Progetto Navigli S.r.l. payable to other shareholders; the liability was extinguished following the acquisition of the entire stake in this company on July 19, 2001.

Payables to other financial companies

Payables to other financial companies total Euros 77,648 thousand at December 31, 2001 compared to Euros 336,939 thousand at December 31, 2000. Details are as follows:

	12/31/2001		12/31/2000	
<i>Payables for capital contributions</i>				
Tau S.r.l.	1,291		1,291	
Beta S.r.l.	388		388	
	<u>1,679</u>	1,679	<u>1,679</u>	1,679
<i>Other loans</i>				
Partecipazioni Real Estate S.p.A.	75,945		0	
Alfa S.r.l.	23		23	
Pirelli & C. Real Estate S.p.A.	1		0	
Unione Immobiliare S.p.A.	0		335,237	
	<u>75,969</u>	75,969	<u>335,260</u>	335,260
Total		77,648		336,939

The interest-free payables of the companies Tau S.r.l. and Beta S.r.l. refer to capital contributions made by third parties under joint venture contracts.

The loan payable by the company Partecipazioni Real Estate S.p.A., equal to Euros 75,945 thousand, relates to a loan made by Morgan Stanley Ltd in connection with the previously-described equity swaps. In 2000, this liability was payable by the subsidiary Unione Immobiliare. The decrease in other loans is due to the repayment of a loan due to Merrill Lynch International that amounted to Euros 209,123 thousand at December 31, 2000 and the partial payment of a loan due to Morgan Stanley Ltd that amounted to Euros 126,114 thousand at December 31, 2000, following the sale of a part of the securities portfolio linked to the aforementioned equity swap agreements.

Advances from customers

Advances from customers amount to Euros 47,765 thousand compared to Euros 25,608 thousand at December 31, 2000 and relate to advances received from customers. Details are as follows:

	12/31/2001		12/31/2000	
<i>Commercial activities</i>				
Lambda S.p.A.	28,412		3,829	
Acquario S.r.l.	186		0	
	<u>28,598</u>	28,598	<u>3,829</u>	3,829
<i>Residential activities</i>				
Progetto Bicocca Esplanade S.p.A.	2,362		6,127	
Stella Polare S.r.l.	231		436	
Alfa S.r.l.	220		0	
Kappa S.r.l.	100		83	
Tau S.r.l.	60		0	
Iota S.r.l.	48		15	
Kappa S.r.l.	37		0	
Promedil S.r.l.	31		0	
Centrale Immobiliare S.r.l.	9		0	
Beta S.r.l.	0		8	
	<u>3,098</u>	3,098	<u>6,669</u>	6,669
<i>Land and urbanization</i>				
Pirelli & C. Opere Generali S.p.A.	16,069		15,110	
	<u>16,069</u>	16,069	<u>15,110</u>	15,110
Total		47,765		25,608

Payables for advances by Lambda S.p.A. relate to contracts for work on building 12 (Euros 2,789 thousand), the new Pirelli offices (Euros 2,899 thousand) and the second phase of the Siemens' offices (Euros 22,724 thousand): the latter will be collected over the next few years, as described in the note on trade receivables under assets.

Advances from Group companies

Advances from Group companies consolidated proportionally or accounted for by the equity method amount to Euros 9,843 thousand compared to Euros 9,454 thousand at December 31, 2002. Details are as follows:

	12/31/2001	12/31/2001
P.B. La Piazza S.r.l.	6,826	3,430
Progetto Bicocca Università S.r.l.	2,712	2,712
P.G.B. Multisala S.r.l.	305	305
P.B. Esplanade	0	3,007
Total	9,843	9,454

Trade payables

Trade payables amount to Euros 99,393 thousand (compared to Euros 103,221 thousand at December 31, 2000), of which Euros 17,518 thousand are medium-term (compared to Euros 30,712 thousand at December 31, 2000).

Trade payables to suppliers include Euros 21,651 thousand that originated from the purchases of land and buildings to be used for the development and trading activities of the following companies:

	Short-term	Medium-term	Total	Total
			12/31/2001	12/31/2000
<i>Trade payables for properties</i>				
Alfa S.r.l.	0	13,386	13,386	28,879
Centrale Immobiliare S.p.A.	4,133	0	4,133	0
Iota S.r.l.	0	4,132	4,132	6,817
Promedil '84 S.r.l.	0	0	0	3,419
Lambda - Area Saronno	0	0	0	5,857
Progetto Grande Bicocca S.r.l.	0	0	0	0
Kappa S.r.l.	0	0	0	0
Total	4,133	17,518	21,651	44,972

There are no payables due beyond five years.

Payables to Pirelli & C. A.p.A.

These total Euros 2,058 thousand compared to Euros 2,031 thousand at December 31, 2000. Details are as follows:

	12/31/2001	12/31/2000		
<i>Intercompany current account</i>				
P.B. Esplanade S.r.l.	0	33		
Progetto Navigli S.r.l.	0	21		
	<u>0</u>	0	<u>54</u>	54
<i>Loans</i>				
Holdim S.r.l.	1,858	1,778		
Progetto Navigli S.r.l.	0	180		
	<u>1,858</u>	1,858	<u>1,958</u>	1,958
<i>Trade payables</i>				
Pirelli & C. Real Estate S.p.A.	194	19		
Pirelli & C. Agency Due S.p.A.	6	0		
	<u>200</u>	200	<u>19</u>	19
Total		2,058		2,031

All the above amounts are due in the short term.

Payables to parent companies

The balance at December 31, 2001 is nil compared to Euros 87 thousand at December 31, 2000.

Payables to associated companies

The balance at December 31, 2001 is Euros 971 thousand compared to Euros 1,403 thousand at December 31, 2000. The balance is composed of payables to Iniziative Immobiliari S.r.l. and payables of Pirelli & C. Real Estate S.p.A. to Auriga Immobiliare S.r.l. and M.S.M.C. Immobiliare S.r.l..

Payables to Pirelli S.p.A. Group companies

Details are as follows:

	Short-term	Medium-term	Total 12/31/2001	Total 12/31/2000
Financial payables:				
Pirelli Servizi Finanziari S.p.A.	303,927	0	303,927	242,482
Trade payables:				
Pirelli S.p.A.	194		194	149
Pirelli Cavi e Sistemi S.p.A.	149		149	131
Pirelli Informatica S.p.A.	63		63	198
Other group companies	10		10	80
	416	0	416	558
Trade payables to suppliers for properties:				
Lambda S.r.l. to Pirelli Cavi S.p.A.	1,706	13,193	14,899	14,899
	1,706	13,193	14,899	14,899
Total	306,049	13,193	319,242	257,939

Financial payables to Pirelli Servizi Finanziari S.p.A. refer to current account transactions at normal market terms.

Trade payables for properties refer to the remaining amount due for the purchase of buildings and a land site situated in Milan Bicocca.

Payables to Pirelli & C. A.p.A. group companies

These total Euros 92 thousand at December 31, 2001 compared to Euros 82 thousand at December 31, 2000.

Taxes payable

The balance is Euros 34,160 thousand compared to Euros 36,146 thousand at December 31, 2000 and represents the amount payable to the tax authorities by the consolidated companies of the Pirelli & C. Real Estate Group.

Details are as follows:

	12/31/2001			12/31/2000		
	Short-term	Medium-term	Total	Short-term	Medium-term	Total
Income taxes for the year	22,062	0	22,062	14,849		14,849
Substitute tax on 2000 contribution	3,533	7,067	10,600	3,533	10,600	14,133
VAT	692	0	692	5,072		5,072
Other taxes payable	486	0	486	223		224
Payroll/self-employed withholding taxes	320	0	320	1,868		1,868
Total	27,093	7,067	34,160	25,545	10,600	36,146

The payable for the substitute equalization tax refers to the amount accrued in the prior year on the gain realized on the contribution by Unione Immobiliare S.p.A.; the payment of the original substitute equalization tax is deferred over five years.

At December 31, 2000, VAT payable included Euros 1,904 thousand from the effect of the merger with Unione Immobiliare S.p.A..

Social security contributions payable

The balance of Euros 2,002 thousand compared to Euros 2,221 thousand at December 31, 2000 includes payables of Euros 1,415 thousand to INPS, Euros 366 thousand to INPDAI/INPDAC/FASDAC/INAIL and Euros 221 thousand to other social security agencies.

Urbanization fees payable

These total Euros 43,840 thousand compared to Euros 26,989 thousand at December 31, 2000. The increase is mainly due to new building permits acquired for the Bicocca area. Such amounts will be paid by deducting the fees against the urbanization works that are completed and sold to the City of Milan.

Other payables

Other payables total Euros 29,837 thousand compared to Euros 20,133 thousand at December 31, 2000. Details are as follows:

	12/31/2001			12/31/2000		
	Short-term	Medium-term	Total	Short-term	Medium-term	Total
Payables to directors	7,774	0	7,774	803	0	803
Payables for down-payments	5,247	0	5,247	4,293	0	4,293
Payables to principals	4,545	0	4,545	2,671	0	2,671
Payables to employees	4,018	0	4,018	4,367	0	4,367
Payables for security deposits	2,400	0	2,400	2,618	0	2,618
Payables for items pending	1,477	0	1,477	684	0	684
Payables to joint partners	715	0	715	316	0	316
Sundry revenues pending	526	0	526	541	0	541
Payables for capital contributions	0	520	520	0	520	520
Payables to ex-shareholders Unim	82	0	82	171	0	171
Payables for advances on inventories	0	0	0	0	1,531	1,531
Payables for acquisitions of investments	0	0	0	750	0	750
Sundry other payables	2,533	0	2,533	868	0	868
Total	29,317	520	29,837	18,082	2,051	20,133

Payables for down-payments include the price advances made by clients for residential properties on contracts which have not yet been finalized. Such down-payments are mainly held by Pirelli & C. Real Estate S.p.A., Tau S.r.l., Iota S.r.l., Kappa S.r.l., Promedil '84 S.r.l., Alfa S.r.l. and Progetto Bicocca Esplanade S.p.A..

Payables to the directors include Euros 6,604 thousand for compensation commensurate with the results reached by the Group for extraordinary transactions and therefore with a contra-entry to "extraordinary expenses" in the statement of income.

Payables to the ex Unim S.p.A. shareholders refer to the remaining amount that Pirelli & C. Real Estate S.p.A. must pay for the shares purchased by exercising the squeeze-out right under art. 111 of the Tax Code; the decrease from the prior year is due to the payments made to the former shareholders.

Payables to principals refer almost entirely to the management of properties by Cagisa S.p.A. on behalf of third parties.

Payables to employees include the accrual for holidays, the 13th month salary and bonuses.

Payables to joint ventures originated from the results attributable to the third-party partners in the joint ventures Beta S.r.l. and Tau S.r.l.

Capital contributions payable by Cagisa S.p.A. relate to the seven-tenths of capital not yet called up by the company INPS Gestione Immobiliare S.r.l..

Revenues pending on the sales of land and urban promotion projects refer to the consolidation adjustments of Progetto Bicocca La Piazza S.r.l. (valued using the equity method).

E] ACCRUED LIABILITIES AND DEFERRED INCOME

Accrued liabilities and deferred income total Euros 15,707 thousand at December 31, 2001 compared to Euros 18,638 thousand at al December 31, 2000. Details are as follows:

	12/31/2001	12/31/2000
<i>Accrued liabilities</i>	1,406	3,075
<i>Deferred income</i>	14,301	15,563
Total	15,707	18,638

Accrued liabilities for financial expenses mainly relate to the equity swap agreements described in the assets.

Deferred income includes Euros 13,960 thousand of deferred gains generated by the partial reversal of the results realized on the contribution by Unione Immobiliare S.p.A. in the prior year and the intercompany sale of properties by Orione Immobiliare Prima S.p.A., not yet realized with third parties. Deferred gains relating to the commercial sector total Euros 9,187 thousand while those relating to the residential sector total Euros 4,773 thousand.

MEMORANDUM ACCOUNTS

	12/31/2001	12/31/2000
Guarantees granted	150,816	146,193
Securities held by third parties as guarantees	27,214	93,295
Securities to be delivered	75,946	335,237
Commitments for the acquisition of investments	8,522	0
Hedging transactions	908	0

Memorandum accounts include:

Guarantees granted include Euros 50,015 thousand of bank guarantees by Pirelli & C. Opere Generali S.p.A. to the City of Milan to guarantee the performance of work to be deducted from the urbanization fees. The amount recorded in the memorandum accounts is net of the amount payable to the City of Milan that is recorded in the consolidation financial statements under urbanization fees payable.

Securities held by third parties as guarantees amount to Euros 27,214 thousand and mainly refer to the equivalent amount of the equity swaps on the securities portfolio, the ownership of which has been temporarily transferred to the related counterparts for Euros 13,729 thousand and a pledge on the quotas of Auriga Immobiliare S.r.l. recorded in the financial statements for Euros 11,387 thousand.

Securities to be delivered total Euros 75,946 thousand and refer to the amount fixed by contract with the counterpart Morgan Stanley for the previously described equity swaps. The decrease from December 31, 2000 is mainly due to the early termination of the contract, on October 24, 2001, by Partecipazioni Real Estate S.p.A., that was open with Merrill Lynch at

December 31, 2000, and a part of the contract still open with Morgan Stanley.

Commitments for the acquisition of investments relate to the companies of the Edilnord group.

Hedging transactions refer to exchange risks on foreign currency loans receivable.

Other memorandum accounts of the Group are as follows:

	12/31/2001	12/31/2000
Guarantees received	26,314	15,820
Third party securities held as guarantees	460	460

Guarantees received from third parties on our behalf were issued by banks and/or insurance companies for Euros 19,735 thousand to guarantee the proper execution of work by contractors and for Euros 6,579 thousand to guarantee the receivables recorded in the consolidated financial statements in trade receivables.

It should be noted that following the stipulation of certain agreements with the Partners which hold investments in the vehicle companies intended for the purpose of carrying out real estate property transactions in the residential sector, the Group has occasionally undertaken specific guarantees to take back the unsold properties. Such commitments have not been quantified because of the contingent nature of the commitments such that a reliable estimate would not be possible.

COMMENTS ON THE CONSOLIDATED STATEMENT OF INCOME



COMMENTS ON THE CONSOLIDATED STATEMENT OF INCOME

Comments on the overall trend in costs and revenues are provided in the report on operations in accordance with paragraph 1 of article 2428 of the Italian Civil Code.

In analyzing and monitoring the results of operations, management uses criteria for classification purposes based upon a subdivision between core and non-core activities. The rationale behind this subdivision is to present the results from the typical development transactions of the Group separately from the results of specific nonrecurring transactions.

The following table present the economic performance of the Group for the two years 2000-2001 showing core and non-core activities separately.

	2001			2000		
	Total	Core activities	Non-core activities	Total	Core activities	Non-core activities
Production value	326,237	311,563	14,674	244,397	186,439	57,958
Production cost	(281,935)	(261,751)	(20,184)	(209,874)	(151,916)	(57,958)
Operating profit (loss)	44,302	49,812	(5,510)	34,523	34,523	0
Net income (loss) from equity investments	2,787	8,471	(5,684)	(219)	5,599	(5,818)
Operating profit (loss) after income (loss) from equity investments	47,089	58,283	(11,194)	34,304	40,122	(5,818)
Financial income (expenses), net	(3,191)	(4,353)	1,162	(42,212)	(7,015)	(35,197)
Income (loss) before extraordinary items	43,898	53,930	(10,032)	(7,908)	33,107	(41,015)
Extraordinary income (expenses), net	163,799	(2,963)	166,762	206,162	(1,760)	207,922
Income before income taxes and minority interests	207,697	50,967	156,730	198,254	31,347	166,907
Income taxes	(46,312)	(17,436)	(28,876)	(46,266)	(11,153)	(35,113)
Income before minority interests	161,385	33,531	127,854	151,988	20,194	131,794
Minority interests	25	25	0	430	430	0
Net income	161,410	33,556	127,854	152,418	20,624	131,794

Non-core activities refer to specific non-typical and/or nonrecurring activities as follows:

a) **Internet start-up** almost entirely directed at the development of an open portal.

- b) **Eurostazioni**, a 32%-owned company which in turns holds a 40% stake in Grandi Stazioni, managed by the Italian railway operator, Ferrovie dello Stato, and thus considered as an investment holding.

- c) **The effects of trading in the securities portfolio** acquired in the take-over of UNIM.

- d) **All of the effects connected with the Unim take-over** during the period, which lasted for the whole of 2000, for the corporate restructuring and reorganization needed to transform Unim from a “property company” model to a P&C RE business model company.

- e) **The construction of the Arcimboldi Theater** (Teatro degli Arcimboldi) for the City of Milan and the Scala Theater Foundation (Fondazione Teatro alla Scala), carried out as a community service for social and cultural projects.

A] PRODUCTION VALUE

Production value by business segment is provided in the following table:

	2001	% (*)	2000	% (*)
Asset Management:				
- Residential	71,572	22.97%	62,890	33.73%
<i>among business units</i>	536		736	
<i>consolidated</i>	71,036		62,154	
- Commercial	104,280	33.47%	29,644	15.90%
<i>among business units</i>	963		376	
<i>consolidated</i>	103,317		29,268	
- Land and urbanization	50,928	16.35%	30,796	16.52%
<i>among business units</i>	870		140	
<i>consolidated</i>	50,058		30,656	
- Non-performing loans (**)	0	0.00%	0	0.00%
Total	226,780	72.79%	123,330	66.15%
<i>among business units</i>	2,369		1,252	
<i>consolidated</i>	224,411		122,078	
<i>net of purchases</i>	162,238		85,319	
Service provider:				
- Residential agency	19,833	6.37%	14,390	7.72%
<i>among business units</i>	3,420		5,208	
<i>consolidated</i>	16,413		9,182	
- Commercial agency	16,860	5.41%	12,127	6.50%
<i>among business units</i>	902		2,036	
<i>consolidated</i>	15,958		10,091	
- Project Management	18,344	5.89%	12,961	6.95%
<i>among business units</i>	7,988		7,373	
<i>consolidated</i>	10,356		5,588	
- Property Management	22,709	7.29%	13,959	7.49%
<i>among business units</i>	1,663		2,557	
<i>consolidated</i>	21,046		11,402	
- Facility Management	18,815	6.04%	20,245	10.86%
<i>among business units</i>	1,758		250	
<i>consolidated</i>	17,057		19,995	
- Credit Servicing (**)	0	0.00%	0	0.00%
Total	96,561	30.99%	73,682	39.52%
<i>among business units</i>	15,731		17,424	
<i>consolidated</i>	80,830		56,258	
Other (****)	6,322	2.03%	8,103	4.35%
Total core activities	311,563	100%	186,439	100%
<i>net of purchases (***)</i>	247,021	79.28%	148,428	79.61%
Non-core activities				
- UNIM effects	0		50,247	
- Arcimboldi Theater	14,674		7,711	
Total non-core activities	14,674		57,958	
Total production value	326,237		244,397	
<i>net of purchases (***)</i>	261,696		203,347	

(*) Percentage calculated on total production value of core activities.

(**) Activities begun in 2002. Such items will be omitted in the next tables.

(***) Net of purchases made during the period included in production costs in "Purchases of land and properties".

(****) The item includes revenues for administrative assistance and advisory services offered to associated companies.

The total production value rose by 33.5% due to the effect of the mix of an increase in core activities and a decrease in non-core activities.

Specifically, the increase in production value, net of purchases for core activities, is Euros 98,593 thousand (+66.4%), which came from all the lines of business, especially commercial asset management.

Production value from non-core activities totaled Euros 57,958 thousand in 2000 and Euros 14,674 thousand in 2001. In 2000, such activities mainly referred to rental income in connection with the UNIM deal that was earned prior to the contribution of the properties to the associated companies, and in 2001, to the stage of completion of the construction work on the Arcimboldi Theater.

The following table provides an additional breakdown of the production value for Asset Management activities:

	2001	2000
Residential Asset Management		
Fees for services rendered	5,524	4,686
Purchases for trading	8,315	28,147
Trading	21,871	23,498
Purchases for development	23,069	0
Development	12,793	6,559
Total Residential	71,572	62,890
<i>net of purchases</i>	<i>40,188</i>	<i>34,743</i>
Commercial Asset Management		
Fees for services rendered	11,270	5,334
Purchases for trading	0	0
Trading	0	0
Purchases for development	27,025	0
Development	65,985	24,310
Total Commercial	104,280	29,644
<i>net of purchases</i>	<i>77,255</i>	<i>29,644</i>
Land and Urbanization Asset Management		
Fees for services rendered	1,128	1,090
Purchases for trading	0	0
Trading	0	0
Purchases for development	6,133	9,864
Development	43,667	19,842
Total Land and Urbanization	50,928	30,796
<i>net of purchases</i>	<i>44,795</i>	<i>20,932</i>

Revenues from sales and services

Revenues from sales and services total Euros 267,156 thousand compared to Euros 213,032 thousand in 2000.

Details are as follows:

	2001	2000
Sales of areas to be developed	48,479	0
Sales of properties	118,658	84,976
Sales of properties to Pirelli S.p.A. group companies	0	13,944
Services	96,249	67,926
Rental revenues	3,770	46,186
Total	267,156	213,032

Sales of properties by type and company are analyzed below:

	2001	2000
<i>Sale of areas to be developed</i>		
Lambda S.r.l.	29,035	0
Centrale Immobiliare S.p.A.	12,183	0
Progetto Bicocca Esplanade S.p.A.	6,925	0
Pirelli & C. Real Estate S.p.A.	336	0
	<u>48,479</u>	<u>0</u>
<i>Sale of residential properties</i>		
P.B. Esplanade S.p.A.	29,269	14,203
Alfa S.r.l.	21,057	38,485
Iota S.r.l.	16,169	11,099
Stella Polare S.r.l.	10,349	0
Tau S.r.l.	6,327	3,049
Beta S.r.l.	3,735	4,436
Kappa S.r.l.	2,390	5,305
Lambda S.r.l.	542	3,873
Promedil S.r.l.	0	4,526
	<u>89,838</u>	<u>84,976</u>
<i>Sale of commercial properties</i>		
P.B. Il Centro S.r.l.	22,624	0
Pirelli & C. Real Estate S.p.A.	4,563	0
Progetto Bicocca Università S.r.l.	1,633	0
	<u>28,820</u>	<u>0</u>
<i>Total sales of properties</i>	<u>118,658</u>	<u>84,976</u>
<i>Sale of properties to Pirelli S.p.A. group companies</i>		
Progetto Grande Bicocca S.r.l.	0	7,230
Lambda S.r.l.	0	6,714
	<u>0</u>	<u>13,944</u>
	<u>0</u>	<u>13,944</u>
Total	167,137	98,920

On November 30, 2001, Lambda sold Finzeta S.r.l. the land located in Bicocca for the second phase of the construction for Siemens' offices; in December 2001, Finzeta was sold to Siemens Kapitalanlagegesellschaft.

The sales made by Progetto Bicocca Esplanade S.p.A. relate to deeds on the delivery of apartments relating to the development of land zoned for residential purposes situated in Bicocca (buildings 1P1, 1P2, 1O4).

At the end of December, Progetto Bicocca il Centro S.r.l. delivered the building to be used for commercial purposes commonly called Torre U9 located in Bicocca.

Revenues earned by Progetto Bicocca Università S.r.l. and Pirelli & C. Real Estate S.p.A. refer to the agreement reached with the buyer of a large university building complex over additional compensation for changes made to buildings that had already been delivered.

Revenues in the prior year relating to the sale of properties to the Pirelli S.p.A. group referred to the price received upon their sale by Progetto Grande Bicocca S.r.l. and Lambda S.r.l. to Pirelli Cavi e Sistemi S.p.A. on, respectively, December 28, 2000 and June 29, 2000.

Revenues from services refer to the following:

	2001	2000
Services to third-party clients	45,748	38,913
Services to Pirelli & C. Real Estate S.p.A. Group companies	30,988	13,109
Services to Pirelli S.p.A. group companies	18,173	15,762
Services to Pirelli & C. A.p.A. group companies	1,340	142
Total	96,249	67,926

Change in inventories

The change in inventories is an increase of Euros 38,889 thousand compared to a corresponding change of Euros 15,537 thousand in the prior year. Euros 33,112 thousand of the change relates to general contracting for work in progress on orders, compared to a positive change Euros 17,086 thousand in the prior year.

The change refers to the following:

	2001	2000
Areas to be developed/buildings to be renovated	(27,426)	24,918
Properties under construction	67,183	(1,702)
Trading properties	(33,980)	(24,765)
Work in progress on orders	33,112	17,086
Total	38,889	15,537

The changes during the year can mainly be ascribed to the events described under "revenues from sales and services".

Other revenues and income

Details are as follows:

	2001	2000
Recoveries and reimbursements	13,555	13,259
Recoveries and reimbursements from Pirelli & C. Real Estate S.p.A. Group companies	2,445	66
Recoveries and reimbursements from Pirelli S.p.A. group companies	3,005	734
Recoveries and reimbursements from Pirelli & C. A.p.A. group companies	447	620
Income from joint ventures	740	1,149
Total	20,192	15,828

Recoveries and reimbursements refer mainly to costs that have been recharged for the management of owned properties.

Recoveries and reimbursements from Pirelli S.p.A. group companies include Euros 1,859 thousand paid by Pirelli S.p.A. to Pirelli & C. Opere Generali S.p.A. for expenses and reclamation work incurred by the latter for work inside the Bicocca area.

Income from joint ventures, equal to Euros 740 thousand, relates to joint venture contracts in which the company Alfa Due S.p.A. and Ruggiero Settimo are partners. The contracts cover the marketing of the properties located in the City of Milan and the City of Florence.

B] PRODUCTION COSTS

Purchases

Details are as follows:

	2001	2000
<u>Purchases of land</u>	27,054	6,507
Lambda S.r.l.		
	<u>27,054</u>	<u>6,507</u>
<u>Purchases of properties</u>		0
Centrale Immobiliare S.p.A.	8,263	7,165
Iota S.r.l.	50	20,970
Alfa S.r.l.	0	3,357
Lambda S.r.l.	0	
	<u>8,313</u>	<u>31,492</u>
<u>Purchases of land/properties through the acquisition of shares</u>		0
Progetto Bicocca Esplanade S.p.A.	23,069	0
Acquario S.r.l.	6,105	3,051
Unim S.p.A.	0	
	<u>29,174</u>	<u>3,051</u>
<u>Purchases of other assets</u>	<u>225</u>	<u>996</u>
Total	64,766	42,046

The land purchased by the company Lambda S.r.l. is located in Milan Bicocca.

The properties purchased by Centrale Immobiliare S.p.A. are located in the City of Pontedera (Pisa) and are intended for trading activities.

“Purchases of properties through the acquisition of shares” refer to the increase in inventories following the purchase of investment holdings.

Service expenses

Service expenses total Euros 154,078 thousand compared to Euros 108,986 thousand in the prior year. Details are as follows:

	2001		2000	
<i>Service expenses</i>				
Building construction (work-in progress)	77,454		27,164	
Management expenses of third party properties/Other costs to recover	17,123		31,227	
Urbanization fees	14,092		2,537	
Technical consulting fees	10,981		9,485	
Commissions and incentives	6,490		3,180	
Other consulting fees	6,020		10,717	
Advertising and promotions expenses	3,083		2,151	
Directors' fees	2,987		2,499	
Software assistance and programs	2,028		5,859	
Consulting/Legal and notary fees	1,887		3,978	
Travel and other personnel costs	1,866		707	
Utilities	1,555		1,101	
Maintenance and other expense on trading properties charged to owners	835		2,074	
Maintenance-insurance-cleaning	563		845	
Statutory auditors' fees	377		313	
Independent auditors' fees	250		288	
Entertainment- gifts	92		160	
Mailing/telegraph/fax	76		187	
Other expenses	2,366		2,325	
	150,125	150,125	106,797	106,797
<i>Service expenses from Pirelli S.p.A. group companies</i>				
	3,295	3,295	1,568	1,568
<i>Service expenses from Pirelli & C. A.p.A. group companies</i>				
	658	658	621	621
Total		154,078		108,986

As can be seen from the above table, the increase in expenses relating to building construction is largely due to the progress on the construction of office buildings and the work on the construction of the Arcimboldi Theater, delivered in January 2002, and the work for the urbanization of the land situated in Milan Bicocca and for the construction of the Metro-tram line.

The decrease in management expenses of properties can be ascribed to the fact that at the end of the prior year such expenses included the expenses for the management of Unim S.p.A.'s real estate properties that were contributed in May 2000 to vehicle companies accounted for using the equity method.

Extraordinary expenses include the fees to the directors relating to transactions of an extraordinary nature.

Lease and rent expenses

Lease and rent expenses include rent and maintenance expenses incurred on properties not owned by the company for a total of Euros 4,871 thousand,

compared to Euros 2,432 thousand in the prior year.

Personnel expenses

Personnel expense total Euros 37,203 thousand compared to Euros 35,835 thousand in the prior year.

The number of employees, excluding auxiliary employees, by category, is provided in the following table:

	Number at year-end		Average number during year	
	2001	2000	2001	2000
Senior management	66	55	63	46
Middle management	112	95	111	92
Employees	384	346	365	326
Total	562	496	539	464

Amortization, depreciation and writedowns

Amortization, depreciation and writedowns total Euros 8,167 thousand compared to Euros 9,020 thousand in the prior year.

	2001	2000
Amortization of intangible assets	2,720	2,719
Amortization of difference on consolidation	357	223
Depreciation of property, plant and equipment	1,232	2,017
Other writedowns of fixed assets	1,087	0
Writedowns of receivables included in current assets	2,771	4,061
Total	8,167	9,020

A portion of the costs incurred for some computer projects was written down during the year since there are no prospects for their future recoverability.

The writedowns of receivables made during the year are considered sufficient to cover the uncollectibility of certain receivables positions.

Accruals to the provisions for liabilities and expenses

The accruals to the provisions for liabilities and expenses made during the year ended December 31, 2001 amount to Euros 3,634 thousand compared to Euros 1,420 thousand in the prior year.

Details are as follows:

	2001	2000
Progetto Grande Bicocca S.r.l.		
- Museum of Automobile provision	2,249	749
- Reclamation provision	0	671
	<u>2,249</u>	<u>1,420</u>
Pirelli & C. Real Estate S.p.A.		
- Commitments for work on buildings already delivered	775	0
- Litigation in progress	114	0
	<u>889</u>	<u>0</u>
Lambda S.r.l.		
- Penalties for late delivery	258	
- Guaranteed income	172	
	<u>430</u>	<u>0</u>
Beta S.r.l. - Promedil 84 S.r.l. - Alfa S.r.l.		
- Litigation in progress		
	<u>66</u>	<u>0</u>
Total	3,634	1,420

The accruals were made on the basis of a prudent estimate of the expenses that the companies will incur over the next few years.

Other operating expenses

Other operating expenses total Euros 9,216 thousand compared to Euros 10,135 thousand in the prior year. Details are as follows:

	2001	2000
Other taxes	1,261	6,200
Taxes/ duties and permits	320	755
Sundry expenses	7,218	2,872
Penalties for late delivery of properties	2,335	0
Reclamation expenses	1,878	1
Loss on the disposal of fixed assets	469	0
Rent of third parties	388	0
Expenses for the "Fine Arts "	0	1,279
Other sundry expenses	2,148	1,592
Joint venture expenses	417	308
Total	9,216	10,135

Other taxes consist mainly of city property taxes (ICI).

Joint venture expenses refer to the minority interest in the earnings of the joint ventures of the following companies:

	2001	2000
Tau S.r.l.	294	63
Beta S.r.l.	123	171
Alfa Due S.p.A.	0	56
Kappa S.r.l.	0	18
Total	417	308

Operating profit

The following table presents the operating profit (loss) by business segment:

	2001	2000
<i>Asset Management:</i>		
- Residential	15,590	14,385
- Commercial	14,834	11,225
- Land	9,818	3,873
- Non-performing loans	0	0
	40,242	29,483
<i>Service provider:</i>		
- Project Management	3,168	1,248
- Property Management	1,173	10
- Residential agency	5,790	5,096
- Commercial agency	7,742	4,098
- Facility Management	1,397	720
- Credit Servicing	0	0
	19,270	11,172
<i>Other core activities</i>	(9,700)	(6,132)
Total core activities	49,812	34,523
<i>Non-core activities</i>		
- Unim effects	0	2,003
- Arcimboldi Theater	(4,424)	(774)
- Internet activities	(1,086)	(1,229)
Total non-core activities	(5,510)	0
Total operating profit	44,302	34,523

Operating profit from core activities went from Euros 34,523 thousand in 2000 to Euros 49,812 thousand in 2001 (+44.3%), with growth spread over all lines of business.

Non-core activities in 2001 produced an operating loss of Euros 5,510 thousand mainly due to the investments in the Internet start-up and the costs relative to the Arcimboldi Theater, the losses of which are comparable to sponsorship expenses, which can be considered as a donation of an extraordinary nature.

C] FINANCIAL INCOME AND EXPENSES

Financial income

Financial income for the year ended December 31, 2001 amounts to Euros 24,846 thousand compared to Euros 39,401 thousand in the prior year.

Details are as follows:

	2001	2000
Investment income		
c) from other companies	85	0
	<u>85</u>	<u>0</u>
Other financial income		
a) from receivables recorded in fixed assets		
from Pirelli & C. Real Estate Group companies		
Sci Roev Texas L.P.	123	95
from Pirelli S.p.A. group companies	<u>123</u>	<u>95</u>
Pirelli SA	0	37
from others	<u>0</u>	<u>37</u>
From third parties	0	205
From loans granted to employees	0	60
b) from securities recorded in fixed assets	<u>0</u>	<u>265</u>
c) from marketable securities recorded in current assets	20	20
d) Other income	<u>8</u>	<u>0</u>
Interest income from banks	225	280
Interest income from Pirelli & C. A.p.A. group companies	<u>225</u>	<u>280</u>
Progetto Bicocca Università S.r.l.	0	1
Interest income from unconsolidated subsidiaries	<u>0</u>	<u>1</u>
Progetto Lainate S.r.l.	0	128
Auriga Immobiliare S.r.l.	0	0
	<u>0</u>	<u>128</u>
Interest income from associated companies from receivables in fixed assets		
Orione Immobiliare Prima S.p.A.	0	0
Eurostazioni S.p.A.	1,992	0
Casaclick S.p.A.	47	0
Progetto Lainate S.r.l.	374	0
Iniziative Immobiliare S.r.l.	34	0
Auriga Immobiliare S.r.l.	7,686	7,250
M.S.M.C. Italy Holding B.V.	1,708	1,104
Iniziative Negozi S.r.l.	235	0
Progetto Grande Bicocca Multisala S.r.l.	183	82
Progetto Fontana S.r.l.	49	33
	<u>12,308</u>	<u>8,469</u>
Interest income from associated companies from trade receivables		
Progetto Bicocca La Piazza S.r.l.	209	0
Orione S.p.A.	67	0
	<u>276</u>	<u>0</u>
Total interest income from associated companies	<u>12,584</u>	<u>8,469</u>
Interest income from Pirelli S.p.A. group companies		
Pirelli Servizi Finanziari S.p.A.	1,380	16,124
	<u>1,380</u>	<u>16,124</u>
Interest income from Pirelli & C. group companies		
Progetto Grande Bicocca S.r.l.	30	0
	<u>30</u>	<u>0</u>
Interest income from others		
Interest income from tax authorities	0	515
	<u>0</u>	<u>515</u>
Sundry income	10,391	13,467
	<u>10,391</u>	<u>13,467</u>
Total other income	<u>24,610</u>	<u>38,984</u>
Total financial income	<u>24,846</u>	<u>39,401</u>

Other financial income is largely recorded in the books of Partecipazioni Real Estate S.p.A. and comes from the previously-described loan transactions in securities.

Interest and other financial expenses

Interest and other financial expenses show a balance of Euros 28,037 thousand compared to Euros 81,613 thousand in the prior year.

Details are as follows:

	2001	2000
Interest expense to banks	5,584	19,613
Interest expense to Pirelli & C. A.p.A.	92	26,595
Interest expense to associated companies	0	72
Interest expense to Pirelli S.p.A. group companies	10,885	20,875
Interest expense to minority shareholders	0	6
Interest expense to others	104	123
Other financial expenses	11,372	14,329
Total	28,037	81,613

Interest expense from banks are analyzed by company as follows:

	2001	2000
Alfa S.r.l.	2,858	2,661
Progetto Bicocca Esplanade S.p.A.	996	762
Progetto Navigli S.r.l.	902	421
Progetto Grande Bicocca S.r.l.	494	484
Pirelli & C. Real Estate S.p.A.	165	14,706
Progetto Bicocca Università S.r.l.	119	109
Progetto Bicocca Il Centro S.r.l.	45	284
Centrale Immobiliare S.p.A.	5	0
Beta S.r.l.	0	146
Kappa S.r.l.	0	12
Iota S.r.l.	0	26
Cagisa S.p.A.	0	2
Total	5,584	19,613

Interest expenses to Pirelli S.p.A. group companies refer to interest on the outstanding intercompany current account balances with Pirelli Servizi Finanziari S.p.A..

Other financial expenses mainly consist of expenses relating to previously-described equity swaps.

D] VALUE ADJUSTMENTS TO FINANCIAL ASSETS

Valuation adjustments to financial assets total a positive amount of Euros 2,787 thousand compared to a negative amount of Euros 219 thousand in the preceding year. Details are as follows:

	2001		2000	
<i>Share of income from equity investments accounted for using the equity method</i>				
M.S.M.C. Italy Holding B.V.	6,385		423	
Iniziative Immobiliari S.r.l.	1,542		0	
I N Holdings	936		0	
Iniziative Immobiliari Due S.r.l.	816		0	
Sci Roev Texas Partners L.P.	190		1,003	
Agjed S.r.l.	39		0	
Uniorias Due S.r.l.	0		10,596	
Orione Immobiliare Prima S.p.A.	0		5,124	
Total revaluations	9,908	9,908	17,146	17,146
<i>Writedowns of investments</i>				
Tecnocittà S.r.l.	24		0	
Svi Lombardia S.p.A.	23			
RDP Brokerage	17			
	64	64	0	0
<i>Share of loss from equity investments accounted for using the equity method</i>				
Casaclick S.p.A.	5,454		2,064	
Regus Business Center Italia S.p.A.	320		0	
Auriga Immobiliare S.r.l.	309		13,285	
MSMC Solferino S.r.l.	251		89	
P.B. La Piazza S.r.l.	211		264	
Eurostazioni S.p.A.	154		717	
Orione Immobiliare Prima S.p.A.	142		0	
P.G. Bicocca Multisala S.r.l.	107		106	
Progetto Fontana S.r.l.	92		24	
Progetto Lainate S.r.l.	17		37	
IN Holdings S.a.r.l.	0		206	
Iniziative Immobiliari S.r.l.	0		228	
Acquario S.r.l.	0		309	
Progetti Creativi S.r.l.	0		36	
	7,057	7,057	17,365	17,365
Total writedowns		7,121		17,365
Total valuation adjustments		2,787		(219)

The composition of the income (loss) from equity investments by business segment is as follows:

	2001	2000
<i>Asset Management:</i>		
- Residential	879	4,949
- Commercial	7,873	1,101
	8,752	6,050
<i>Service provider:</i>		
- Commercial agency	0	(37)
- Property Management	39	0
- Facility Management	(320)	0
	(281)	(37)
<i>Intereliminations and other</i>		
	0	(414)
Income from equity investments in core activities	8,471	5,599
<i>Companies with non-core activities</i>		
- Internet activities	(5,530)	(2,064)
- Eurostazioni	(154)	(716)
- UNIM effects	0	(3,038)
Loss from companies with non-core activities	(5,684)	(5,818)
Total income (loss) from equity investments	2,787	(219)

Operating profit (loss) after income (loss) from equity investments
 The following table presents the operating profit (loss) after income (loss) from equity investments accounted for using the equity method, commented in paragraph D.

	2001	2000
<i>Asset Management:</i>		
- Residential	16,469	19,334
- Commercial	22,707	12,326
- Land	9,818	3,873
- Non-performing loans	0	0
	48,994	35,533
<i>Service provider:</i>		
- Project Management	3,168	1,248
- Property Management	1,212	10
- Residential agency	5,790	5,096
- Commercial agency	7,742	4,061
- Facility Management	1,077	720
- Credit Servicing	0	0
	18,989	11,133
<i>Other core activities</i>		
	(9,700)	(6,544)
Total core activities	58,283	40,122
<i>Non-core activities</i>		
- UNIM effects	0	(1,035)
- Arcimboldi Theater	(4,424)	(774)
- Internet activities	(6,616)	(3,293)
- Eurostazioni	(154)	(716)
Total non-core activities	(11,194)	(5,818)
Total operating profit (loss) after income (loss) from equity investments	47,089	34,304

The operating profit (loss) after income (loss) from equity investments from core activities went from Euros 40,122 thousand in 2000 to Euros 58,283 thousand in 2001 (+45.3%), while the non-core activities produced a loss in 2001 of Euros 11,194 thousand.

E] EXTRAORDINARY ITEMS

Extraordinary income

Extraordinary income totals Euros 184,628 thousand, compared to Euros 332,512 thousand in 2000.

	2001	2000
Gains on sales of assets: properties	0	4,656
Gains on sales of securities recorded in fixed assets	178,589	23,804
Total	<u>178,589</u>	<u>28,460</u>
<u>Gains on sales of investments:</u>		
- Pirelli & C. Property Management S.p.A.	0	506
- Auriga Immobiliare S.r.l.	0	513
Total	<u>0</u>	<u>1,019</u>
<u>Other gains:</u>		
- Realization of deferred gains	1,724	0
Total	<u>1,724</u>	<u>0</u>
<u>Other extraordinary income:</u>		
- Gains on contributions of properties	0	90,347
- Prior years' income taxes	342	1,058
- UNIM tax credit	0	166,962
- Dividends and tax credit - Immobiliare Auriga	0	1,230
- Dividends and tax credit - Uniorias Due	0	36,257
- Prior period income	1,645	0
- Prior period income from adjustments	1,807	0
- Prior period income from cancellation fees	0	4,519
- Sale of Mediacasa network	0	1,110
- Other	521	1,550
Total other extraordinary income	<u>4,315</u>	<u>303,033</u>
Total extraordinary income	<u>184,628</u>	<u>332,512</u>

Gains on sales of securities refer to the partial disposal of securities hedged by equity swaps, described in the note on financial assets.

The realization of deferred gains reflects the effects of the sale to third parties of the properties contributed by Unim S.p.A. to the dedicated vehicle companies.

Prior period income relates to transactions entered into during the year to close disputes relating to prior years.

Extraordinary expenses

Extraordinary expenses amount to Euros 20,829 thousand compared to Euros 126,350 thousand in the prior year. Details are as follows:

	2001	2000
<u>Losses on the sales of assets:</u>		
- Properties	7	675
	<u>7</u>	<u>675</u>
<u>Losses on sales of investments:</u>		
- Uniorias Due S.r.l.	0	46,518
	<u>0</u>	<u>46,518</u>
<u>Other extraordinary expenses:</u>		
- Fees to directors	6,604	6,765
- Expenses relating to securities transactions	2,373	0
- Prior period expenses for adjustments	2,204	0
- Writedown of Unim receivables	2,200	3,305
- Expenses for arbitration proceedings in progress	1,938	0
- Writedown of corporate projects	1,703	0
- Prior period expenses regarding INA – UNIM items	1,221	0
- Franchising network transaction	646	0
- Understatement of prior year's income taxes	640	648
- Prior period expenses from prior years' properties transactions	367	0
- Creation of provision for future expenses	0	23,262
- Direct costs of take-over bid for Unim S.p.A.	0	33,463
- Pbu arbitration award	0	1,223
- Contribution expenses - UNIM	0	1,000
- INA items	0	2,297
- Take-over bid invoices to be received	0	1,549
- Minus Facility	0	471
- SAP in transit	0	781
- Movimento Fabbrica settlement	0	1,058
- Legal and other consulting fees	0	1,085
- Sundry	926	2,250
Total other extraordinary expenses	<u>20,822</u>	<u>79,157</u>
Total extraordinary expenses	20,829	126,350

Extraordinary expenses mainly refer to the settlement, currently under way, of matters regarding the activities conducted previously by Unim S.p.A., in addition to prudent accruals made to meet pending litigation and open positions.

Fees to directors recorded in extraordinary expenses regard compensation commensurate with the results achieved by the Group for extraordinary transactions.

Income taxes

Current income taxes total Euros 46,312 thousand compared to Euros 46,266 thousand in the prior year.

Details of income taxes are as follows:

	2001	2000
<u>Current income taxes</u>		
- IRPEG/IRAP	11,630	11,023
- Substitute equalization tax on gains	50,136	18,037
- Other	186	1,057
Total	61,952	30,117
<u>Deferred tax assets</u>	(15,825)	4,353
<u>Deferred tax liabilities</u>	185	11,796
Total income taxes	46,312	46,266

The income tax charge for 2001, amounting to Euros 46,312 thousand, equal to 22.3% of consolidated net income, benefited from a 19% tax rate on gains realized on the sale of securities.

The substitute equalization tax refers to the gain realized by the parent company Pirelli & C. Real Estate S.p.A. on the contribution of the "investment management" business segment.

The posting of deferred tax assets essentially regards consolidation adjustments in respect of the aforementioned contribution transaction.

Information on the nature of deferred taxes is provided in the comments on the balance sheet.

Minority interests in the net result for the year

The minority interest in the result for the year is a loss of Euros 25 thousand compared to Euros 430 thousand in the prior year.

The minority interest refers to the companies consolidated line-by-line. Details are as follows:

	2001	2000
Progetto Navigli S.r.l.	(210)	(415)
P&C.R.E. L.t.d.a.	(103)	(61)
Pirelli & C. Property Management S.p.A.	229	12
Cagisa S.p.A.	59	35
Total	(25)	(430)

These financial statements present a true and fair view of the consolidated financial condition and results of operations for the year.

For the Board of Directors
 The Chairman
 Dr. Marco Tronchetti Provera

SUPPLEMENTARY INFORMATIONS



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

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of euros)

	2001	2000
Net income	161,410	152,418
Depreciation and amortization	4,309	4,959
Writedowns	3,858	4,061
Accruals to provisions for liabilities and expenses	3,634	1,420
Accruals to provision for leaving indemnity	2,646	1,269
Cash flows provided by current operating activities	175,857	164,127
<i>Effect of changes in working capital</i>		
Inventories	(37,768)	(12,692)
Trade receivables	(63,879)	(32,354)
Other assets	123,809	(205,902)
Accrued income and prepaid expenses	(1,043)	(20)
Payables	(3,162)	(32,528)
Advances	22,546	2,456
Taxes payable	(1,986)	31,944
Other current liabilities	33,366	14,233
Accrued liabilities and deferred income	(1,127)	15,713
Provisions for liabilities and expenses	(7,526)	38,934
Employees' leaving indemnity	(824)	2,870
Cash flows provided by (used for) operating activities	62,406	(177,346)
Increase in intangible assets	(6,386)	(10,476)
(Increase)/decrease in property, plant and equipment	(1,191)	(4,005)
(Increase)/decrease in financial assets	96,009	(147,474)
Cash flows provided by (used for) investing activities	88,432	(161,955)
Change in shareholders' equity		
- distribution of dividends	(134,130)	(108,718)
- increase in share capital/share premium	30,264	0
Payable for capital contributions	0	(2,557)
Cash flows used for financing activities	(103,866)	(111,275)
(Decrease)/increase in cash	222,829	(286,449)
Net financial position at beginning of year	(364,471)	(78,022)
Net financial position at end of year	(141,642)	(364,471)

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

RECONCILIATION BETWEEN THE NET INCOME AND SHAREHOLDERS' EQUITY OF THE PARENT COMPANY AND THE CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of euros)

	Net income	Shareholders' equity
Parent company financial statements at December 31, 2001	230,221	175,485
<u>Dividends from equity investments:</u>		
- interim dividends 2001	(12,350)	(12,350)
- dividends 2001	(21,247)	(21,247)
<u>Share of income (loss) of equity investments from:</u>		
- companies consolidated line-by-line	26,152	26,152
- companies consolidated proportionally	(368)	(368)
- companies consolidated by the equity method	2,784	2,784
<u>Retained earnings:</u>		
- consolidation reserve - line-by-line consolidation		(2,288)
- consolidation reserve - proportional consolidation		358
- consolidation reserve - equity method		7,365
- adjustments to consolidation reserve for difference on consolidation		2,249
- adjustments to consolidation reserve for goodwill on securities		30,202
- adjustments to consolidation reserve for future losses		(411)
- adjustments to consolidation reserve for minority interests		(210)
- adjustments to consolidation reserve for income taxes		(1,997)
- adjustments to retained earnings for prior years' intereliminations		(10,944)
<u>Cumulative translation adjustments</u>		(7)
<u>Consolidation adjustments:</u>		
- investment writedowns	7,209	7,209
- intercompany earnings movements	3,780	3,780
- adjustment of gain on contribution	(49,520)	(49,520)
- income taxes	(1,663)	(1,663)
- adjustment of goodwill on securities	(23,231)	(23,231)
- amortization of difference on consolidation	(357)	(357)
Consolidated financial statements at December 31, 2001	161,410	130,991

AUDITOR'S REPORT



Introduction
Directors' Report on Operations for 2001
Consolidated Financial Statements at December 31, 2001
Notes to Consolidated Financial Statements at December 31, 2001
Supplementary Information



PricewaterhouseCoopers SpA

AUDITORS' REPORT

PIRELLI & C. REAL ESTATE SPA

CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD FROM 1 JANUARY 2001 TO 31 DECEMBER 2001

To the Shareholders of
Pirelli & C. Real Estate SpA

- 1 We have audited the consolidated financial statements of Pirelli & C. Real Estate SpA (the Pirelli & C. Real Estate Group), formerly Milano Centrale SpA, for the period from 1 January 2001 to 31 December 2001. These financial statements are the responsibility of Pirelli & C. Real Estate SpA's directors. Our responsibility is to express an opinion on these consolidated 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 consolidated 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 consolidated financial statements for the period from 1 January 2000 to 31 December 2000, which data are presented for comparative purposes as required by law, reference is made to our report dated 28 March 2002.

- 3 In our opinion, the consolidated financial statements of Pirelli & C. Real Estate SpA (the Pirelli & C. Real Estate Group) for the period from 1 January 2001 to 31 December 2001 comply with the laws governing the criteria for their preparation, under the assumption that the year-end closing date has always been 31 December; accordingly, they give a true and fair view of the financial position and of the results of operations of the Group.
- 4 We draw your attention, for information purposes, to the fact that on 10 October 2001, the Shareholders' meeting of Pirelli & C. Real Estate SpA had passed a resolution to anticipate the year-end closing date to 31 December 2001 (a six-month period). The consolidated financial statements for the period from 1 January 2001 to 31 December 2001 have been prepared by the directors of the company Pirelli & C. Real Estate SpA on the basis of the balance sheet and statement of income of Pirelli & C. Real Estate Group, for purposes of their inclusion in the consolidated financial statements of Pirelli & C. Group and supplemented, for purposes of this report, by the notes and the directors' report on operations. The aforementioned balance sheet and statement of income as at 31 December 2001 of Pirelli & C. Real Estate Group have been audited by us and we have issued a document thereon addressed to the auditors of Pirelli & C., dated 11 March 2002. The conclusions expressed in this report are based upon the results of our examination of the aforementioned balance sheet and statement of income of Pirelli & C. Real Estate Group.

Milan, 28 March 2002

PricewaterhouseCoopers SpA

Elisabetta Caldirola
(Partner)

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

