



Quarterly Report

First Quarter 2002

PIRELLI Società per azioni

Registered office in Milan, Viale Sarca 222

Share Capital - Euros 1,043,604,420.04 fully paid in

Milan Companies Registry No. 00886890151

PIRELLI S.p.A.**Board of Directors**

Chairman and Chief Executive Officer	Marco Tronchetti Provera
Deputy Chairman	Alberto Pirelli
Managing Directors and General Managers	Carlo Buora Giovanni Ferrario
Directors	Gilberto Benetton Carlo Ciani Eugenio Coppola di Canzano Carlo De Benedetti Alberto Falck Giuseppe Gazzoni-Frascara Mario Greco Georg F. Kraye Massimo Moratti Luigi Orlando Giampiero Pesenti Ennio Presutti Carlo Alessandro Puri Negri Vincenzo Sozzani Frank Vischer

Secretary to the Board	Sergio Lamacchia
------------------------	------------------

Board of Statutory Auditors

Chairman	Luigi Guatri
Standing members	Rosalba Casiraghi Paolo Francesco Lazzati
Alternate members	Franco Ghiringhelli Sebastiano Guido

General Managers

Administration and Control	Claudio De Conto
Finance	Luciano Gobbi
Cables and Systems Sector - Energy	Valerio Battista
Cables and Systems Sector - Telecom	Kevin Riddett
Tyres Sector	Francesco Gori

The Board of Directors and the Board of Statutory Auditors were appointed on May 9, 2002

PIRELLI S.p.A. - MILAN
Quarterly Report – 1st Quarter 2002

CONTENTS

- Management's report	page	4
Performance of the Group	page	4
Major events in the 1 st quarter 2002	page	4
The Group	page	6
Related party disclosures	page	10
Significant events subsequent to the end of the quarter and the outlook for the current year	page	13
Cables and Systems Sector	page	14
Tyres Sector	page	21
Proforma data	page	24
- Quarterly data and comments	page	26
Quarterly data	page	27
Comments on quarterly data	page	28

MANAGEMENT'S REPORT

Performance of the Group

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

Major events in the 1st quarter 2002

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

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

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

- In March, the placement was completed for bonds of Euros 500,000,000 issued by Pirelli Finance (Luxembourg) S.A., maturing April 4, 2007, with a fixed interest rate of 6.5 percent.

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

The Group

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

	in millions of euros		
	1 st Quarter 2002	1 st Quarter 2001	Year 2001
. Net sales	1,688	1,933	7,509
. Gross operating profit	137	228	666
% of net sales	8.1%	11.8%	8.9%
. Operating profit	42	134	295
% of net sales	2.5%	6.9%	3.9%
. Financial income (expenses)	(62)	20	(55)
. Extraordinary items	0	65	(16)
. Income taxes	(19)	(71)	(138)
. Net income (loss)	(39)	148	86
% of net sales	-2.3%	7.7%	1.1%
. Net income attributable to Pirelli S.p.A.	(37)	149	82
. Earning per share (in euros)	(0.02)	0.07	0.04
. Shareholders' equity	5,629	6,078	5,660
. Shareholders' equity attributable to Pirelli S.p.A.	5,422	5,893	5,462
. Equity per share (in euros)	2.70	2.94	2.72
. Net financial (liquidity)/debt position	1,406	(3,318)	1,089
. R&D expenditures	59	55	237
. Employees (at period end)	38,260	41,330	39,127
. Factories (number)	82	87	84

Net sales

Net sales for the quarter ending March 31, 2002 amount to Euros 1,688 million, with a decrease of 12.7 percent compared to the corresponding period of the prior year. The main changes are in the volumes and mix (-8.5 percent), in prices (-2.6 percent) and in the currency exchange effect (-1.6 percent).

Gross operating profit

The gross operating profit (Euros 137 million) is equal to 8.1 percent of net sales, compared to 11.8 percent in the first quarter of 2001.

Operating profit

The operating profit in the first quarter of 2002 amounts to Euros 42 million and is equal to 2.5 percent of net sales compared to Euros 134 million in the same period of the 2001 (6.9 percent of net sales).

In brief, the main changes are due to the lower contribution by the Cables and Systems Sector - Telecom (equal to Euros 83 million, of which Euros 26 million is connected with the conclusion of the supply agreement with Cisco Systems) and intensive research and development activity that involved expenditures totaling Euros 4 million.

This change is due to:

	<u>in millions of euros</u>	
• Prices (excluding metals)	-	12
• Volumes/mix	-	62
• Efficiency	+	20
• Unit costs of production factors (excluding metals)	+	2
• R&D	-	4
• Supply agreement with Cisco Systems	-	26
• Other	-	10
	-	<hr style="width: 100%; border: 0.5px solid black;"/> 92 <hr style="width: 100%; border: 0.5px solid black;"/>

Financial income (expenses)

Financial income (expenses) shows an expense balance of Euros 62 million compared to an income balance of Euros 20 million in the corresponding period of the prior year. The deterioration can be attributed to the valuation of the investment in Olimpia S.p.A. using the equity method (Euros 27 million) and higher average debt.

Extraordinary items

Extraordinary items, which have a minor impact this first quarter, in the corresponding quarter of the prior year mainly included the pretax gain on the sale of Pirelli S.p.A. treasury shares on the market (Euros 30 million) and Euros 36 million paid by Cisco Systems under the terms of the sale of the Terrestrial Optical Systems in 2000.

Net income (loss)

The first quarter of 2002 shows a net loss of Euros 39 million (after financial expenses of Euros 62 million and income taxes of Euros 19 million) compared to a net income of Euros 148 million in the first three months of 2001 (after financial income of Euros 20 million, extraordinary income of Euros 65 million and income tax expenses of Euros 71 million).

Excluding the effect on the net result of the share of the losses of Olimpia for the first quarter ending March 31, 2002, the net loss is equal to Euros 12 million.

Shareholders' equity

The consolidated shareholders' equity went from Euros 5,660 million at December 31, 2001 to Euros 5,629 million at March 31, 2002, substantially due to the effect of the result for the first quarter.

Net financial position

The net financial position shows a debt position of Euros 1,406 million compared to Euros 1,089 million at December 31, 2001 and a liquidity position of Euros 3,318 million at March 31, 2001. The change from December 31, 2001 is chiefly the result of seasonal factors which caused working capital to rise and payments made for the reorganization program accrued in prior years.

R&D expenditures

Despite the adverse economic situation, the priority of the commitment to research and technological innovation was again confirmed in the first quarter of 2002, with an increase in R&D expenditures incurred by the Group from Euros 55 million (2.8 percent of net sales) to Euros 59 million (3.5 percent of net sales).

Employees

At March 31, 2002, employees number 38,260 compared to 39,127 at December 31, 2001. There was a reduction of 867 from the end of the prior year and 3,070 from March 31, 2001.

Related party disclosures

With reference to the disclosure required by Consob Communications No. 97001574 of February 20, 1997 and No. 98015375 of February 27, 1998 which deal with related party transactions among Group companies, the effects of such transactions on the balance sheet and statement of income of the consolidated financial statements at March 31, 2002 are presented in the following table.

All the transactions, including those between the parent company and its subsidiaries and among subsidiaries, fall within the ordinary operations of the Group and are carried out at arm's length and there are no transactions of an unusual and exceptional nature, or constituting a potential conflict of interests.

The following table presents the major transactions at March 31, 2002 that Pirelli S.p.A. Group has entered into with the parent companies (Pirelli & C. A.p.A. and Pirelli & C. Luxembourg S.A.) and the subsidiaries of the latter companies, which are included in the scope of consolidation of Pirelli & C. A.p.A..

(in millions of euro)			
Type of transaction	With parent companies	With subsidiaries of Pirelli & C. A.p.a	Total
TRADE RECEIVABLES AND OTHER	0.3	15.7	16.0
TRADE PAYABLES AND OTHER	(1.1)	(6.7)	(7.8)
FINANCIAL RECEIVABLES	138.3	295.4	433.7
FINANCIAL PAYABLES	(250.0)	(67.8)	(317.8)
REVENUES FOR GOODS AND SERVICES	0.3	1.1	1.4
COSTS FOR GOODS AND SERVICES	(1.0)	(3.1)	(4.1)
FINANCIAL INCOME	0.5	3.0	3.5
FINANCIAL EXPENSES	(5.2)	(0.2)	(5.4)
EXTRAORDINARY EXPENSES	0.0	(0.2)	(0.2)

Transactions of Pirelli S.p.A. and its subsidiaries with the **parent companies** mainly refer to the following:

- . **financial receivables**, relating to loans receivable by Pirelli International Ltd - UK - (subsidiary of Pirelli S.p.A.) from Pirelli & C. Luxembourg S.A.;
- . **financial payables**, relating to payables from transactions on the current account by Pirelli Servizi Finanziari S.p.A. with Pirelli & C. A.p.A.;
- . **revenues for goods and services**, relating to the performance of various services rendered by Pirelli S.p.A. and Pirelli Informatica S.p.A. to Pirelli & C. A.p.A.;
- . **costs for goods and services**, relating to costs for corporate secretarial services and internal auditing rendered by Pirelli & C. A.p.A. on behalf of Pirelli S.p.A.;
- . **financial income and expenses**, relating to interest income and expenses on the aforementioned current account transactions and loans, as well as costs and revenues for hedging transactions carried out by Pirelli International Ltd. (subsidiary of Pirelli S.p.A.) on behalf of Pirelli & C. A.p.A..

Transactions of Pirelli S.p.A. and its subsidiaries with the **subsidiaries of Pirelli & C. A.p.A.** mainly refer to the following:

- . **trade receivables and other**, relating to the sales of buildings by Pirelli Cavi e Sistemi S.p.A. to Lambda S.r.l. (indirectly held subsidiary of Pirelli & C. A.p.A.);
- . **trade payables and other**, relating to services rendered by companies in the Pirelli & C. Real Estate S.p.A. Group (subsidiary of Pirelli & C. A.p.A.) to Pirelli S.p.A. and its subsidiaries;
- . **financial receivables and payables**, relating to transactions on the current account by Pirelli Servizi Finanziari S.p.A. with companies in the Pirelli & C. Real Estate S.p.A. Group (subsidiary of Pirelli & C. A.p.A.);
- . **revenues for goods and services**, relating to cost recoveries for various services rendered by Pirelli S.p.A. and Pirelli Informatica S.p.A. (subsidiary of Pirelli S.p.A.) on behalf of Pirelli & C. Real Estate S.p.A. and its subsidiaries;

- . **costs for goods and services**, relating to costs for property management services incurred by Pirelli S.p.A. and its subsidiaries for the services rendered by companies in the Pirelli & C. Real Estate S.p.A. Group (subsidiary of Pirelli & C. A.p.A.);
- . **financial income and expenses**, relating to interest income and expenses on the aforementioned current account and loan transactions.

Furthermore, in order to provide more complete information, the transactions in the first quarter of 2002 between the Pirelli S.p.A. Group and the Olivetti-Telecom group, and which fall within normal operations, are carried out at arm's length and there are no transactions of an unusual and exceptional nature, or constituting a potential conflict of interests. They refer to:

- **revenues for goods and services**, relating mainly to the supply of telecommunications cables (Euros 11.4 million);
- **costs for goods and services**, relating mainly to telephone services received (Euros 2 million);
- **trade receivables**, relating to the supply of the goods and services described above (Euros 18 million);
- **trade payables**, relating to the telephone services described above (Euros 0.9 million).

Significant events subsequent to the end of the quarter and the outlook for the current year

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

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

Despite the persisting difficulties in the Telecom market (the first signs of a recovery are expected towards the end of the year), the fact that the Tyres Sector managed to maintain a steady level of profitability, together with the effect of the reorganization and restructuring measures that were undertaken, especially in the Cables and Systems Sector - Telecom and Energy, suggests that the Group will achieve a further improvement in the operating profit in the second quarter. For the current year, the operating profit is likely to be more or less in line with that of the prior year, net of nonrecurring events and provided that there is no further deterioration in the reference markets.

Cables and Systems Sector

A comparison with the prior year can be made with the combined total of the Cables and Systems Sector for the three months to March 31, 2002, detailed as follows:

	in millions of euros				
	Energy Cables 1 st Quarter 2002	Telecom Cables 1 st Quarter 2002	Combined 1 st Quarter 2002	Total 1 st Quarter 2001	Total Year 2001
. Net sales	796	164	960	1,209	4,688
. Gross operating profit	28	14	42	136	357
% of net sales	3.5%	8.5%	4.4%	11.2%	7.6%
. Operating profit (loss)	1	(2)	(1)	90	179
% of net sales	0.1%	-1.2%	-0.1%	7.4%	3.8%
. Financial income (expenses)	(12)	(5)	(17)	14	(33)
. Extraordinary items	0	0	0	36	11
. Income taxes	(6)	4	(2)	(47)	(81)
. Net income (loss)	(17)	(3)	(20)	93	76
% of net sales	-2.1%	-1.8%	-2.1%	7.7%	1.6%
. Net financial (liquidity)/debt position	585	431	1,016	(1,508)	890
. R&D expenditures	13	13	26	25	112
. Employees (at period end)	13,941	3,446	17,387	19,874	18,314
. Factories (number)	49	12	61	65	63

Cables and Systems Sector - Energy

in millions of euros

	1st Quarter 2002	1 st Quarter 2001	Year 2001
. Net sales	796	815	3,532
. Gross operating profit	28	37	149
% of net sales	3.5%	4.5%	4.2%
. Operating profit	1	12	52
% of net sales	0.1%	1.5%	1.5%
. Financial income (expenses)	(12)	n.a.	n.a.
. Extraordinary items	0	n.a.	n.a.
. Income taxes	(6)	n.a.	n.a.
. Net income (loss)	(17)	n.a.	n.a.
% of net sales	-2.1%	n.a.	n.a.
. Net financial (liquidity)/debt position	585	n.a.	526
. R&D expenditures	13	n.a.	n.a.
. Employees (at period end)	13,941	n.a.	14,135
. Factories (number)	49	n.a.	50

Net sales for the first quarter of 2002 amount to Euros 796 million, with a decrease of 2.3 percent compared to the corresponding period of the prior year.

The reduction is due to:

• Currency exchange effect	-	0.9%
• Volumes	-	2.1%
• Prices - Metals	-	3.4%
• Mix and other	+	4.1%
	-	<u>2.3%</u>

The Energy sector recorded lower net sales than in the first three months of the prior year, mainly because of a reduction in volumes.

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

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

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

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

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

Operating profit for the first quarter to March 31, 2002 is Euros 1 million compared to Euros 12 million in the first quarter of the same period of the prior year; the operating result is equal to 0.1 percent of net sales against 1.5 percent in the prior year.

Details of the change are provided as follows:

	<u>in millions of euros</u>	
• Volumes/mix	-	8
• Efficiency	+	7
• Unit costs of production factors	-	2
• Amortization and depreciation	-	2
• Other	-	6
	-	<hr style="width: 100%; border: 0.5px solid black;"/> 11 <hr style="width: 100%; border: 0.5px solid black;"/>

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

Employees number 13,941 at March 31, 2002, with a reduction of 194 from 14,135 at December 31, 2001.

Cables and Systems Sector - Telecom

in millions of euros

	1 st Quarter 2002	1 st Quarter 2001	Year 2001
.Net sales	164	399	1,230
. Gross operating profit	14	71	134
% of net sales	8.5%	17.8%	10.9%
. Operating profit	(2)	55	76
% of net sales	-1.2%	13.8%	6.2%
. Financial income (expenses)	(5)	n.a.	n.a.
. Extraordinary items	(0)	n.a.	n.a.
. Income taxes	4	n.a.	n.a.
. Net income (loss)	(3)	n.a.	n.a.
% of net sales	-1.8%	n.a.	n.a.
. Net financial (liquidity)/debt position	431	n.a.	367
. R&D expenditures	13	n.a.	n.a.
. Employees (at period end)	3,446	n.a.	4,077
. Factories (number)	12	n.a.	13

Net sales for the first quarter of 2002 amount to Euros 164 million, showing a marked reduction compared to the same period in the prior year.

Such change is due to:

• Currency exchange effect	-	0.4%
• Volumes	-	39.5%
• Prices	-	4.9%
• Mix and other	-	14.1%
	-	<u>58.9%</u>

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

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

The reduction in volumes, together with a deterioration of the product mix (lower sales of premium fiber optic cables) had repercussions on the levels of profitability. After the factory closings made in the second half of 2001, it was decided to carry out further industrial rationalization in the United Kingdom, whereas in all the other factories, actions geared to recovering efficiency continued, the effects of which should already become apparent in the results of the second half of the current year. These measures will ensure that the profitability objectives fixed for 2002 will be achieved, even if the current uncertainty of the market should persist.

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

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

The **operating result for the first quarter of 2002** is a loss of Euros 2 million, compared to an operating profit of Euros 55 million in the first quarter of the prior year, due mainly to the trend of the above-mentioned market. The result includes a payment for damages of Euros 6 million on an insurance claim for the fire that broke out in 2001 at the Fibre Ottiche Sud factory in Battipaglia.

The change can be summarized as follows:

	<u>in millions of euros</u>	
• Volumes/mix	-	77
• Prices	-	10
• Efficiency	+	10
• Unit costs of production factors	+	6
• Amortization and depreciation	-	1
• Other	+	15
	-	<u>57</u>

The **net financial position** shows a debt position of Euros 431 million compared to Euros 367 million at December 31, 2001. The change is mainly due to the operating requirements for the period.

At March 31, 2002, **employees** number 3,446, a reduction of 631 persons from 4,077 at December 31, 2001.

Tyres Sector

The consolidated figures of the Tyres Sector for the first quarter of March 31, 2002 can be summarized as follows:

	in millions of euros		
	1st Quarter 2002	1 st Quarter 2001	Year 2001
. Net sales	758	729	2,831
. Gross operating profit	101	101	347
% of net sales	13.3%	13.9%	12.3%
. Operating profit	54	57	172
% of net sales	7.1%	7.8%	6.1%
. Financial income (expenses)	(19)	(17)	(75)
. Extraordinary items	(0)	(0)	(27)
. Income taxes	(12)	(12)	(36)
. Net income (loss)	23	28	34
% of net sales	3.0%	3.8%	1.2%
. Net financial (liquidity)/debt position	806	851	684
. R&D expenditures	31	30	125
. Employees (at period end)	19,992	20,655	19,994
. Factories (number)	21	22	21

Net sales for the first quarter of 2002 amount to Euros 758 million, with an increase of 4 percent compared to the corresponding period of the prior year.

Such change can be summarized as follows:

• Currency exchange effect	-	3.6%
• Volumes	+	2.6%
• Prices/Mix	+	5.0%
	+	<hr/> 4.0% <hr/>

Car/Light truck volumes for the first quarter of 2002 close much in line with the first quarter of 2001: the reduction in the Original Equipment channel, mainly in South America and Turkey, was compensated by the favorable performance of Replacements volumes in Europe.

The volumes of the “high-performance” car segment were particularly positive, with a 12 percent increase over the prior year.

Truck Volumes rose by 2 percent compared to 2001, with slightly lower net sales in South America but showed a positive performance in the other geographical areas. The higher volumes of Replacements compensate the decrease of Original Equipment, with a considerable gain in terms of market share. The performance of the **Motorcycle** market was positive, with total volumes showing an increase of more than 2 percent.

Operating profit for the first quarter ending March 31, 2002 is equal to Euros 54 million compared to Euros 57 million in the corresponding period of the prior year.

Operating profit, as a percentage net sales, is 7.1 percent, compared to 7.8 percent in the first quarter of 2001.

The change can be summarized as follows:

	<u>in millions of euros</u>	
• Volumes/mix	+	17
• Prices /mix	+	4
• Efficiency	+	2
• Unit costs of production factors	-	6
• Amortization and depreciation	-	4
• MIRS Start up	-	4
• Brand support, currency exchange and other	-	12
	-	<u>3</u>

The **net income for the first quarter ending March 31, 2002** is equal to Euros 23 million (after financial expenses of Euros 19 million and income taxes of Euros 12 million) compared to Euros 28 million in the first three months of 2001 (after financial expenses of Euros 17 million and income tax expenses of Euros 12 million).

The **net financial position** is a debt position of Euros 806 million compared to Euros 684 million at December 31, 2001 and Euros 851 million at March 31, 2001. The change from December 31, 2001 is due mainly to operating requirements during the period.

At March 31, 2002, **employees** number 19,992, practically the same number of 19,994, at December 31, 2001.

Proforma data

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

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

	Consolidated financial statements at March 31, 2002 Pirelli S.p.A. (1)	Proforma adjustments			Total proforma adjustments	Proforma consolidated financial statements at March 31, 2002 Pirelli S.p.A. (2)
		Elimination of share of earnings in Olimpia S.p.A. of Pirelli S.p.A. (60%)	Olimpia S.p.A. line-by-line consolidation	Consolidation adjustments and valuation of investment in Olivetti S.p.A. using the equity method		
(in millions of euros)						
Net sales	1,688		0		0	1,688
Operating profit	42		0		0	42
Financial income (expenses)/Valuation adjustments to financial assets	(62)	26	(43)	(109)	(126)	(188)
Extraordinary items	0		0		0	0
Income taxes	(19)		0		0	(19)
Net income	(39)	26	(43)	(109)	(126)	(165)
Net income - Pirelli S.p.A.	(37)	26	(26)	(65)	(65)	(102)
Shareholders' equity	5,629	45	5,125	(3,185)	1,985	7,614
- of which shareholders' equity - Pirelli S.p.A.	5,422	45	3,075	(3,159)	(39)	5,383
Net financial (liquidity)/debt position	1,406		3,549		3,549	4,955

(1) Pirelli S.p.A. consolidated financial statements (investments in Olimpia S.p.A. accounted for using the equity method)

(2) proforma data (line-by-line consolidation of Olimpia S.p.A. and equity method valuation of Olivetti S.p.A.)

The proforma consolidated financial statements have been prepared using the statutory financial statements of Olimpia S.p.A. at March 31, 2002 and the consolidated financial statements of the Olivetti S.p.A. group.

The principal proforma adjustments above are described in the following paragraphs:

- in the column “Elimination of share of earnings in Olimpia S.p.A. of Pirelli S.p.A. (60 percent)”: elimination of the statement of income and balance sheet effects of

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

- in the column “Olimpia S.p.A. line-by-line consolidation”: inclusion of the assets, liabilities, revenues and costs resulting from the financial statements at March 31, 2002 of Olimpia S.p.A., attributing the share of net equity and results of operations to the minority interest.
- in the column “Consolidation adjustments and valuation of investment in Olivetti S.p.A. using the equity method”: inclusion of the effect of accounting for Olivetti S.p.A. using the equity method, giving rise to a valuation adjustment of Euros 109 million, of which Euros 55 million relate to the amortization of implicit goodwill for three months out of a total twenty-year period, and Euros 54 million to Olimpia S.p.A.’s share of the first quarter 2002 earnings of the Olivetti group.

A comparison of shareholders’ equity and net debt between the consolidated financial statements at March 31, 2002 of Pirelli S.p.A. and the proforma consolidated financial statements at March 31, 2002 of Pirelli S.p.A. is presented below, assuming:

- the line-by-line consolidation of Olimpia S.p.A. and the valuation of the investment in Olivetti S.p.A. using the equity method;
- the line-by-line consolidation of both Olimpia S.p.A. and the Olivetti S.p.A. group.

(in millions of euros)	Shareholders' equity		Net debt		Net debt/Shareholders' equity		Shareholders' equity - Pirelli S.p.A.	
	12/31/2001	03/31/2002	12/31/2001	03/31/2002	12/31/2001	03/31/2002	12/31/2001	03/31/2002
Pirelli S.p.A. Group: consolidated financial statements	5,660	5,629	1,089	1,406	0.19	0.25	5,462	5,422
Pirelli S.p.A. Group: proforma consolidated data with Olimpia S.p.A. consolidated line-by-line and Olivetti S.p.A. valued using the equity method	7,739	7,614	4,598	4,955	0.59	0.65	5,469	5,383
Pirelli S.p.A. Group: proforma consolidated data with Olimpia S.p.A. and the Olivetti Group consolidated line-by-line	30,435	31,495	42,960	42,115	1.41	1.34	5,469	5,383

**QUARTERLY DATA
AND
COMMENTS**

Quarterly data

(in millions of euros)

Statement of income	1st Quarter 2002	1st Quarter 2001	Year 2001
. Net sales	1,688	1,933	7,509
. Other revenues	17	91	80
. Value of production	1,705	2,024	7,589
. Cost of sales	(1,200)	(1,404)	(5,421)
. Labor cost	(368)	(392)	(1,502)
. Amortization and depreciation	(95)	(94)	(371)
. Operating profit	42	134	295
. Financial income (expenses)	(62)	20	(55)
. Income (loss) before extraordinary items and income taxes	(20)	154	240
. Extraordinary items	0	65	(16)
. Income (loss) before income taxes	(19)	219	224
. Income taxes	(19)	(71)	(138)
. Net income (loss)	(39)	148	86

(in thousands of euros)

Net financial position	03/31/2002	12/31/2001
. Short-term financial payables	1,468,820	1,236,708
. Accrued interest expenses	30,759	11,702
. Cash and banks	(391,813)	(442,061)
. Other securities	(477,563)	(552,952)
. Short-term financial receivables	(451,918)	(439,864)
. Accrued interest income	(15,659)	(7,294)
Net short-term (liquidity)/debt position	162,626	(193,761)
. Medium/long-term financial payables	1,358,611	1,370,701
. Medium/long-term financial receivables	(93,520)	(80,193)
. Other securities	(21,332)	(7,462)
Net medium/long-term debt position	1,243,759	1,283,046
Net financial debt position	1,406,385	1,089,285

Comments on quarterly data

Form and content

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

Economic review

Net sales

Net sales for the first quarter ending March 31, 2002 amount to Euros 1,688 million compared to Euros 1,933 million for the first three months of 2001.

The reduction of 12.7 percent compared to the corresponding period of 2001 can be analyzed as follows:

• Currency exchange effect	-	1.6%
• Volumes/mix	-	8.5%
• Prices	-	2.6%
	-	<u>12.7%</u>

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

Sector	1 st Quarter 2002	1 st Quarter 2001	Geographical area	1 st Quarter 2002	1 st Quarter 2001
Cables and Systems - Energy	46%	62%	Italy	19%	18%
			Other European countries	42%	42%
Cables and Systems - Telecom	9%		North America	12%	16%
Tyres	45%	38%	Central and South America	13%	16%
			Australia, Africa and Asia	14%	8%

Labor costs

Labor costs for the first three months ended March 31, 2002 total Euros 368 million and represent 21.8 percent of net sales compared to 20.3 percent in the corresponding period of last year.

Amortization and depreciation

Amortization and depreciation for the three months to March 31, 2002 total Euros 95 million, of which Euros 12 million refer to the amortization of intangible assets and Euros 83 million to the depreciation of property, plant and equipment; the total is in line with the same period of the prior year.

Operating profit

Operating profit is Euros 42 million (2.5 percent of net sales), with a decrease of Euros 92 million compared to the corresponding period of 2001.

The change in operating profit is due to the following:

	<u>in millions of euros</u>	
• Currency exchange effect	-	3
• Prices (excluding metals)	-	12
• Volumes/mix	-	62
• Materials (excluding metals)	+	9
• Efficiency	+	20
• Per unit costs	-	7
• R&D	-	4
• Supply agreement with Cisco Systems	-	26
• Other	-	-7
	-	<u>92</u>

Net income (loss)

The net loss for the first quarter ending March 31, 2002 is Euros 39 million compared to a net income of Euros 148 million in the first three months of 2001. The net loss mainly reflects the lower contribution made by the operations of the Telecom Sector (Euros 57 million), the lower contribution by the supply agreement with Cisco Systems (Euros 26 million), higher financial expenses due to a higher average debt compared to the same period of 2001 (Euros 55 million), the valuation of the investment in Olimpia S.p.A. using the equity method (Euros 27 million) and lower extraordinary income (Euros 65 million), only partly compensated by lower income taxes (Euros 52 million).

Net financial position

The net financial position shows a debt position of Euros 1,406 million compared to Euros 1,089 million at December 31, 2001 and a liquidity position of Euros 3,318 million at March 31, 2001. The change from December 31, 2001 is chiefly the result of seasonal factors which caused working capital to rise and payments made for the reorganization program accrued in prior years.