

Pirelli S.p.A. - Milan

**Quarterly report
3rd Quarter 2001**

PIRELLI Società per azioni

Head office in Milan, Viale Sarca 222

Share Capital Euros 1,043,094,358.28

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 Director	Carlo Buora
Directors	Carlo Ciani Eugenio Coppola di Canzano Carlo De Benedetti Alberto Falck Giovanni Ferrario Giuseppe Gazzoni-Frascara Mario Greco Georg F. Kraye Luigi Orlando Riccardo Perissich Giampiero Pesenti Ennio Presutti Carlo Alessandro Puri Negri Vincenzo Sozzani Frank Vischer

Secretary to the Board	Sergio Lamacchia
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Board of Statutory Auditors

Chairman	Luigi Guatri
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Alternate members	Mario Brughera Alfredo Malguzzi

General Managers

Finance and Administration	Carlo Buora
Administration and Control	Claudio De Conto
Finance	Luciano Gobbi
Tyres Sector	Giovanni Ferrario
Cables and Systems Sector - Energy	Oscar Cristianci
Cables and Systems Sector - Telecom	Kevin Riddett

PIRELLI S.p.A. - MILAN
Quarterly Report – 3rd Quarter 2001

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MANAGEMENT'S REPORT

Performance of the Group

The scenario of a marked slowdown in the U.S. economy, the crisis in Japan, the failure of the European economy to take off and, more particularly, the worsening of the crisis in the reference market of the telecommunications cables sector, as already described in the six-month report 2001, influenced the results of the Group for the third quarter 2001.

In particular, the cumulative gross operating profit for the nine months to September 30, 2001 is equal to Euros 569 million (10 percent of sales revenues) compared to Euros 626 million (11.5 percent of sales revenues) for the same period of the prior year; the cumulative operating profit for the first nine months of 2001 reached Euros 290 million (5.1 percent of sales revenues) compared to Euros 339 million (6.2 percent of sales revenues) for the same period of the prior year.

Major events in the 3rd quarter 2001

On July 30, 2001, Pirelli S.p.A. and Edizione Holding S.p.A. signed an agreement with Bell S.A. for the acquisition, through a company to be named, of the Olivetti S.p.A. stock package owned by Bell S.A., representing about 23.3 percent of Olivetti S.p.A.'s share capital.

The agreement called for the acquisition of 1,552,662,120 ordinary shares and 68,409,125 warrants 2001-2002 on ordinary shares of Olivetti S.p.A., at a per unit price, respectively, equal to Euros 4.175 and Euros 1.0875, for a total price of Euros 6,557 million, value date at August 31, 2001. By value date is meant that the price would be reduced if the payment was made before August 31, 2001 and increased if made after that date on the basis of the following formula: interest = total price x (1-

month Euribor + 0.75 percent) x the number of days of early or delayed payment / 360.

On August 3, 2001, Pirelli S.p.A. (80 percent) and Edizione Finance International S.p.A. (20 percent - wholly-owned company of Edizione Holding S.p.A.), set up Olimpia S.p.A., the company designated for the acquisition of the Olivetti S.p.A. stake held by Bell S.A..

On August 9, 2001, Kallithea S.p.A. (a subsidiary of Pirelli S.p.A.) sold 147,337,880 Olivetti S.p.A. ordinary shares to Olimpia S.p.A. for a price per share of Euros 4.193, for a total of approximately Euros 618 million. These shares had previously been sold by Bell S.A. and GPP International SA at the same conditions established by the aforementioned July 30, 2001 agreement. On the same date, Pirelli Finance Luxembourg S.A. (a subsidiary of Pirelli S.p.A.) and Edizione sold a total of 265,302,250 Olivetti S.p.A. ordinary shares previously purchased on the market to Olimpia S.p.A., at a total price of approximately Euros 576 million,

On September 19, 2001, an agreement was signed among the majority shareholders, Bell S.A., Pirelli S.p.A., Edizione Holding S.p.A. and Olimpia S.p.A., for the settlement of the sale of the stake in Olivetti S.p.A. in two tranches, the first for 552,000,000 Olivetti S.p.A. shares to be carried out on September 27, 2001 and the second for the remaining shares and warrants by October 12, 2001.

The finalization of the acquisition transaction was subject to obtaining the necessary authorizations from the EU Commission, which were received on September 20, 2001.

Olimpia S.p.A., during the period between the date of its constitution and the formalization of the acquisition of the stake in Olivetti S.p.A., was the subject of numerous capital transactions aimed at establishing a suitable level of capitalization and extending the shareholder base to new shareholders.

Today Olimpia S.p.A.'s share capital is divided among Pirelli S.p.A. (60 percent), Edizione Finance International S.p.A. (20 percent), IntesaBci S.p.A. (10 percent) and UniCredito Italiano S.p.A. (10 percent).

There are pacts among Olimpia S.p.A.'s shareholders regulating the powers and discipline of their common quality as shareholders.

THE GROUP

The consolidated figures of the Group at September 30, 2001 can be summarized as follows:

	(in millions of euros)				
	3rd quarter 2001	3rd quarter 2000	cumulative 9/30/2001	cumulative 9/30/2000	cumulative 12/31/2000
. Sales revenues	1,749	1,832	5,695	5,430	7,477
. Gross operating profit	137	224	569	626	820
% of sales	7.8%	12.2%	10.0%	11.5%	11.0%
. Operating profit	47	126	290	339	437
% of sales	2.7%	6.9%	5.1%	6.2%	5.9%
. Financial income (expenses),net	(36)	(16)	(3)	(48)	(75)
. Income before extraordinary items and income taxes	11	110	287	291	362
% of sales	0.6%	6.0%	5.0%	5.4%	4.8%
. Extraordinary items	24	(8)	76	1,158	4,277
. Income taxes	(20)	(39)	(148)	(425)	(1,013)
. Net income	15	63	215	1,024	3,626
% of sales	0.9%	3.4%	3.8%	n.s.	n.s.
. Net income attributable to Pirelli S.p.A.			211	1,020	3,632
. Earning per share (in euros)			0.11	0.51	1.82
. Net financial position (liquidity)/debt	2,283 *	185 *	58	(111)	(3,495)
. R&D expenditures	59 *	51 *	168	156	213
. Employees (at period end)	(907) *	(1,281) *	39,767	40,528	41,914
. Factories (number)	0 *	0 *	86	86	87

(*) The figures indicated refer to the change from the end of the previous quarter

Sales revenues

Sales revenues for the nine months to September 30, 2001 amount to Euros 5,695 million, with an increase of 4.9 percent compared to the same period of the prior year.

Third quarter 2001 sales revenues total Euros 1,749 million against Euros 1,832 million for the third quarter 2000.

Operating profit

Operating profit for the nine months ended September 30, 2001 amounts to Euros 290 million and is equal to 5.1 percent of sales revenues compared to Euros 339 million (6.2 percent of sales revenues) for the first nine months of 2000.

Operating profit for the third quarter 2001 is equal to Euros 47 million against Euros 126 million for the same period of 2000 (of which Euros 28 million are relative to the supply agreement with Cisco Systems).

The Cables and Systems - Energy Sector reported a better third quarter 2001 than the third quarter 2000 while the Cables and Systems - Telecommunications Sector registered a fall and the Tyres Sector generally held steady.

Income before extraordinary items and income taxes

The result for the nine months to September 30, 2001, equal to Euros 287 million compared to Euros 291 million for the first nine months of 2000, includes the adjustment to the value of the investment in F.C. Internazionale Milano S.p.A. (Euros 12 million) and the effects of the transaction involving Olimpia S.p.A. (Euros 6 million).

Extraordinary items

Extraordinary items, net, for the nine months show an income balance of Euros 76 million. They mainly include the gain before taxes of Euros 30 million on the sale of Pirelli S.p.A. treasury shares on the market, Euros 36 million received from Cisco Systems as part of the sale of the Terrestrial Optical Systems business in the prior year, the gain of Euros 39 million on the sale of real estate properties in the third quarter countered by restructuring costs of Euros 22 million.

In the corresponding period of the prior year, extraordinary items included the gain before taxes on the sale of the Terrestrial Optical Systems business and production restructuring and rationalization expenses.

Net income

Net income for the nine months of 2001 is equal to Euros 215 million (after net extraordinary income of Euros 76 million and income taxes of Euros 148 million) compared to Euros 1,024 million for the first nine months of 2000 (after net extraordinary income of Euros 1,158 million and income taxes of Euros 425 million).

Net financial position

The net debt position is equal to Euros 58 million compared to a liquidity position of Euros 2,225 million at June 30, 2001 and Euros 3,495 million at December 31, 2000. The change from June 30, 2001 can principally be ascribed to the investment in Olimpia S.p.A. (Euros 2,100 million).

R&D expenditures

R&D expenditures, equal to Euros 168 million, compared to Euros 156 million for the first nine months of 2000, are entirely expensed to income and represent 3 percent of sales revenues (compared to 2.9 percent in 2000).

The increase compared to the first nine months of 2000 (8 percent) bears witness to the Group's strong-felt wish to maintain and strengthen its technological leadership in products and processes, both in the Tyres Sector – where the new MIRS (Modular Integrated Robotized System) system is rapidly becoming established on the market with the first homologation received from BMW – and in the Cables and Systems - Energy Sector – where new cables for high voltage power transmission based on Air-

Bag Cable System technology are being introduced to the market – and in Telecommunications, where the new buildings that will house the Pirelli Labs in Milano-Bicocca are nearing completion.

Employees

At September 30, 2001, employees number 39,767 compared to 40,674 at June 30, 2001 and 41,914 at December 31, 2000. This is equivalent to a reduction in the workforce of 907 compared to June 30, 2001 and 2,147 compared to the year-end 2000. Action geared to the reorganization and the recovery of efficiency will continue in the following months.

Related party disclosures

According to 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 September 30, 2001 are presented in the following table.

All the transactions, including those between the parent company and its subsidiaries and among the subsidiaries, fall within the ordinary operations of the Group, governed by market terms, and there are no transactions of an unusual and exceptional nature, or constituting a potential conflict of interest.

The following table presents the major transactions at September 30, 2001 that the 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 euros)			
Type of transaction	With parent companies	With subsidiaries of Pirelli & C. A.p.a	Total
TRADE RECEIVABLES AND OTHER	0.2	13.9	14.1
TRADE PAYABLES AND OTHER	(1.3)	(9.6)	(10.9)
FINANCIAL RECEIVABLES	131.1	164.8	295.9
FINANCIAL PAYABLES	0.0	(42.1)	(42.1)
REVENUES FOR GOODS AND SERVICES	0.9	5.2	6.1
COSTS FOR GOODS AND SERVICES	(3.6)	(7.6)	(11.2)
FINANCIAL INCOME	2.6	8.2	10.8
FINANCIAL EXPENSES	(8.8)	(0.9)	(9.7)
EXTRAORDINARY EXPENSES	0.0	(0.7)	(0.7)

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.;
- . **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 the 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 sale of Pirelli Cavi e Sistemi S.p.A. buildings (subsidiary of Pirelli S.p.A.) to Lambda S.r.l. (indirect 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.

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

As established by the agreement, on October 5, 2001, the remaining 1,000,662,120 ordinary shares and 68,409,125 warrants of Olivetti S.p.A. were sold to Olimpia S.p.A. by Bell S.A..

The September 19, 2001 agreement also called for the commitment by the majority shareholders of Bell S.A. to guarantee that the latter would subscribe to the bonds issued by Olimpia S.p.A. upon payment of the price on the part of the same Olimpia S.p.A. for the purchase of the stake in Olivetti S.p.A..

The bond issue was subscribed to on October 5, 2001. The features of the bond are as follows: the amount is approximately Euros 1,033 million for a six-year period, entirely redeemable at the maturity date, unless early redemption is elected by the bondholder, in exchange for Olivetti S.p.A. shares, at a ratio of one share for every bond of face value Euros 3.92, with remuneration at an annual gross fixed rate of interest of 1.5 percent, payable in cash at maturity or at the date of early redemption.

On October 31, 2001, Olimpia S.p.A. purchased 54,000,000 Olivetti S.p.A. ordinary shares from Bell S.A., at a unit price of Euros 4.175 per share, in execution of art. 16 of the July 30, 2001 agreement among Pirelli S.p.A., Edizione Holding S.p.A. and Bell S.A., concerning the sale of the stake in Olivetti S.p.A. held by the same Bell S.A.. Such shares had been purchased by Bell S.A. on October 15, 2001 from Banca di Roma S.p.A./Mediocredito Centrale S.p.A. on the basis of a previous joint sales agreement.

Olimpia S.p.A. currently holds a 27.7 percent stake in Olivetti S.p.A..

The previously-described deterioration in the general macro-economic scenario and the recent international events, will also affect the last quarter of the current year. Notwithstanding, in spite of a lower operating profit, the income before extraordinary items, income taxes and the effects of the transaction involving Olimpia S.p.A. will decline only slightly compared to the year 2000.

CABLES AND SYSTEMS SECTOR

Highlights of the Cables and Systems Sector at September 30, 2001 can be summarized as follows:

	(in millions of euros)				
	3rd quarter 2001	3rd quarter 2000	cumulative 9/30/2001	cumulative 9/30/2000	cumulative 12/31/2000
. Sales revenues	1,093	1,105	3,571	3,276	4,591
. Gross operating profit	68	139	319	349	466
% of sales	6.2%	12.6%	8.9%	10.7%	10.2%
. Operating profit	26	93	187	217	289
% of sales	2.4%	8.4%	5.2%	6.6%	6.3%
. Financial income (expenses),net	(23)	(2)	(14)	(12)	(14)
. Income before extraordinary items and income taxes	3	91	173	205	275
% of sales	0.3%	8.2%	4.8%	6.3%	6.0%
. Extraordinary items	28	(17)	50	1,288	2,173
. Income taxes	(6)	(29)	(81)	(368)	(668)
. Net income	25	45	142	1,125	1,780
% of sales	2.3%	4.1%	4.0%	n.s.	n.s.
. Net financial position (liquidity)/debt	160 *	108 *	889	(735)	(1,644)
. Employees (at period end)	(521) *	(1,301) *	18,871	18,939	20,496
. Factories (number)	*	0 *	65	64	65

(*) The figures indicated refer to the change from the end of the previous quarter

Sales revenues for the nine months to September 30, 2001 are Euros 3,571 million, with an increase of 9 percent over the same period of the prior year. This is principally due to the contribution made by the energy activities acquired during 2000, that were not present in the first nine months of 2000 (the ex BICC operations), as well as higher volumes in optical telephone cables.

Such change is due to:

• Currency exchange	-	1.0%
• Volumes	+	8.2%
• Prices - Metals	+	0.3%
- Non Metals	+	2.3%
• Mix and other	-	0.8%
	+	<u>9.0%</u>

Third quarter 2001 sales revenues amount to Euros 1,093 million compared to Euros 1,105 million for the same quarter of 2000.

Operating profit for the nine months to September 30, 2001 is Euros 187 million (with the contribution made by the supply agreement with Cisco Systems amounting to Euros 59 million) against Euros 217 million for the first nine months of 2000 (including the contribution made the aforementioned supply agreement of Euros 56 million); operating profit is equal to 5.2 percent of sales revenues (3.6 percent excluding the effects of the Cisco Systems supply agreement) compared to 6.6 percent in the prior year (4.9 percent excluding the effect of the Cisco Systems supply agreement).

The change can be summarized as follows:

	<u>Millions of euros</u>	
• Currency exchange	+	1
• Prices (excluding metals)	+	50
• Volumes	+	40
• Efficiency	+	14
• Variation in unit costs	-	14
• Mix and other (*)	-	124
• Supply Agreement with Cisco Systems	+	3
	-	<u>30</u>

(*) including accruals of Euros 45 million, expenses to increase productive capacity of Euros 18 million, e-business costs of Euros 6 million, effect of high-inflation accounting of Euros 6 million, R & D expenditures of Euros 10 million

Third quarter 2001 operating profit is equal to Euros 26 million compared to Euros 93 million in the corresponding period of the previous year.

Income before extraordinary items and income taxes for the nine months to September 30, 2001 is equal to Euros 173 million compared to Euros 205 million for the first nine months of 2000.

Extraordinary items for the nine months to September 30, 2001 show an income balance of Euros 50 million mainly as a result of the amount received from Cisco Systems on the sale of the Terrestrial Optical Systems business last year (Euros 36 million), gains from the sale of real estate properties (Euros 39 million) countered by restructuring costs.

In the same period of 2000, extraordinary income, net, was Euros 1,288 million and included the gain before taxes on the sale of the Terrestrial Optical Systems business to Cisco Systems as well as restructuring costs.

Net income for the nine months to September 30, 2001 is equal to Euros 142 million, after income taxes of Euros 81 million.

The **net debt position** is Euros 889 million, Euros 160 million more than at June 30, 2001; at December 31, 2000, the balance showed a net liquidity position of Euros 1,644 million. The change from June can be ascribed mainly to the operating requirements for the period.

At September 30, 2001, **employees** number 18,871, with a reduction of 1,625 persons compared to 20,496 at December 31, 2000 and a reduction of 521 compared to June 30, 2001.

Certain key data and a brief commentary regarding the Energy and Telecommunications Sectors are presented below for purposes of information:

	Energy Sector			Telecommunications Sector		
	9/30/2001	9/30/2000	12/31/2000	9/30/2001	9/30/2000	12/31/2000
	(in millions of euros)					
Sales revenues	2,487	2,268	3,162	1,124	1,018	1,376
Gross operating profit	37	47	58	94	108	154
<i>% of sales</i>	1.5%	2.1%	1.8%	8.4%	10.6%	11.2%

Energy

The Energy Sector shows an increase in sales revenues over the first nine months of the prior year (+9.7 percent) largely due to the increase in volumes subsequent to the acquisition of the ex BICC and NKF businesses.

The positive sales performance of the General Market, High Voltage, Special Cables and Accessories business is partly neutralized by the negative performance of the Power Distribution, Installations and Submarine System businesses.

Geographically, Europe and South America posted an increase in sales revenues whereas North America showed a reduction in volumes as a result of the unfavorable economic climate.

Overall operating profit decreased on account of the deterioration in the mix and the persistence of certain productive inefficiencies despite the restructuring currently taking place.

Restructuring continues, in particular, in the United Kingdom, Italy (ex BICC units) and Germany.

Telecommunications

Sales revenues in the Telecommunications Sector record an increase of 10 percent compared to the same period of the prior year.

During the first six months of the year, the dynamic nature of the market and the extended shortage of optic fibers made it possible to achieve a good performance, with sales revenues for the six-month period reaching +24 percent more than the prior year.

However, the third quarter posted an opposite trend, with a slide of 14 percent compared to the third quarter of the prior year, due to the start of the economic recession phase in North America and the economic crisis in Argentina, which had serious repercussions on other South American countries.

On the other hand, sales on the European and Asian markets continued the positive trend of the first six months of the year, with an improvement of 28 percent over the prior year.

Action intended to recover efficiency in the productive structure of the sector made it possible to keep profitability at satisfactory levels during the first nine months of the year. The above action also compensated the lower contribution made by the Submarine Cables and Systems business, where many projects are encountering problems in getting started on account of uncertainty about the evolution of the international economic situation and, in some cases, difficulty in securing financial resources.

The strengthening of activities in new business areas continues (Fiber to the Home – Access Network), both in the form of internal developments and the creation of important technological and strategic alliances, such as the ones signed with Alloptic (U.S.A.) and e-Biscom.

TYRES SECTOR

The key consolidated figures for the Tyres Sector at September 30, 2001 are presented below:

(in millions of euros)

	3rd quarter 2001	3rd quarter 2000	cumulative 9/30/2001	cumulative 9/30/2000	cumulative 12/31/2000
. Sales revenues	656	730	2,133	2,155	2,880
. Gross operating profit	76	88	277	292	370
. % of sales	11.6%	12.1%	13.0%	13.5%	12.8%
. Operating profit	33	39	144	146	180
. % of sales	5.0%	5.3%	6.8%	6.8%	6.3%
. Financial income (expenses),net	(19)	(17)	(52)	(52)	(79)
. Income before extraordinary items and income taxes	14	22	92	94	101
. % of sales	2.1%	3.0%	4.3%	4.4%	3.5%
. Extraordinary items	0	(1)	0	(169)	(224)
. Income taxes	(11)	(10)	(38)	(39)	(49)
. Net income	3	11	54	(114)	(172)
. % of sales	0.5%	1.5%	2.6%	(5.3%)	(6.0%)
. Net financial position (liquidity)/debt	10 *	44 *	719	766	748
. Employees (at period end)	(403) *	6 *	20,072	20,819	20,637
. Factories (number)	0 *	0 *	21	22	22

(*) The figures indicated refer to the change from the end of the previous quarter

Sales revenues for the nine months ended September 30, 2001 show a decline of 1 percent compared to the first nine months of 2000.

Such change can be summarized as follows:

• Currency exchange	-	3.4%
• Volumes	+	1.6%
• Prices	-	0.5%
• Mix and other	+	1.3%
	-	<u>1.0%</u>

Third quarter 2001 sales revenues amount to Euros 656 million against Euros 730 million for the third quarter 2000.

Car/Light Truck volumes for the first nine months of 2001 close with a decline of 2 percent compared to the first nine months of 2000, mainly on account of the fall in Original Equipment. Performance by Replacements was positive and higher volumes in other geographical areas compensated for Turkey, North America and South America which fell behind. The contribution made by Pirelli brand high performance passenger tyres was particularly favorable thanks to the good results of the Replacements channel, which show an increase of 16 percent over 2000, especially in Europe and South America.

Truck volumes are down by 2 percent from 2000, with gains made in the Replacements channel of 3 percent. The good performance in Europe, Egypt and the African and Asian markets was not enough to bridge the gap left by Turkey and South America.

The **Motorcycle** market was positive, with total volumes up 14 percent; both Replacements and Original Equipment volumes were higher, especially in South America.

Operating profit for the nine months ending September 30, 2001 is equal to Euros 144 million against Euros 146 million for the corresponding period of the prior year, representing 6.8 percent as a percentage of sales revenues for both periods. The positive contribution by volumes and mix, as well as actions to improve efficiency on both variable components and the staff structures, were not sufficient to fully compensate the negative change in sales prices, the increase in raw material prices, the increment in costs and the negative contribution generated by the currency exchange effect.

The negative variation of Euros 2 million compared to the same period of the prior year is due to:

	<u>Millions of euros</u>	
• Currency exchange	-	13
• Prices	-	10
• Volumes	+	39
• Materials	-	45
• Efficiency	+	17
• Variation in unit costs	-	13
• Mix and other	+	23
	-	<u>2</u>

Third quarter 2001 operating profit is equal to Euros 33 million compared to Euros 39 million for the corresponding period last year.

Income before extraordinary items and income taxes for the nine months ending September 30, 2001, equal to Euros 14 million, shows a reduction from Euros 22 million for the same period of the prior year.

Extraordinary items for the nine months to September 30, 2001, which show a nil balance for 2001, can be compared to a net expense balance for the nine months ending September 30, 2000 equal to Euros 169 million, mainly due to industrial restructuring costs.

Net income for the nine months ended September 30, 2001 is Euros 54 million compared to a loss of Euros 114 million for the first nine months of 2000.

The **net debt position** registers a slight increase compared to June 30, 2001 (Euros 10 million), but shows an improvement over December 31, 2000 (Euros 29 million). Cash absorption, due mainly to seasonal factors and the current investment plan, is more than compensated by the share capital increase subscribed to in May by Pirelli S.p.A. in Pirelli Tyre Holding (Euros 240 million).

Employees at September 30, 2001 number 20,072, with a reduction of 565 from December 31, 2000.

The Board of Directors
Milan, November 5, 2001

**QUARTERLY DATA
AND
COMMENTS**

QUARTERLY DATA

(in millions of euros)

Statement of income	3rd quarter 2001	3rd quarter 2000	cumulative 9/30/2001	cumulative 9/30/2000	cumulative 12/31/2000
. Sales revenues	1,749	1,832	5,695	5,430	7,477
. Other revenues	11	61	151	169	233
. Value of production	1,760	1,893	5,846	5,599	7,710
. Cost of sales	(1,265)	(1,295)	(4,136)	(3,833)	(5,310)
. Labor cost	(359)	(374)	(1,142)	(1,140)	(1,580)
. Amortization and depreciation	(90)	(98)	(279)	(287)	(383)
. Operating profit	47	126	290	339	437
. Financial income and expenses	(36)	(16)	(3)	(48)	(75)
. Income before extraordinary items and income taxes	11	110	287	291	362
. Extraordinary items	24	(8)	76	1,158	4,277
. Income taxes	(20)	(39)	(148)	(425)	(1,013)
. Net income	15	63	215	1,024	3,626

(in millions of euros)

Net financial position	9/30/2001	6/30/2001	12/31/2000
. Short-term financial payables	825	687	581
. Accrued liabilities and deferred income for interest	35	32	22
. Cash and banks	(1,445)	(2,389)	(3,701)
. Other securities	(260)	(1,456)	(1,237)
. Short-term financial receivables	(347)	(372)	(369)
. Accrued income and prepaid expenses for interest	(15)	(12)	(13)
Net short-term liquidity position	(1,207)	(3,510)	(4,717)
. Medium/long-term financial payables	1,357	1,381	1,327
. Medium/long-term financial receivables	(85)	(88)	(97)
. Other securities	(7)	(9)	(8)
Net medium/long-term debt position	1,265	1,285	1,222
Net financial position (liquidity)/debt	58	(2,225)	(3,495)

COMMENTS ON QUARTERLY DATA

Form and content

The accounting principles, valuation criteria and principles of consolidation used in preparing the quarterly data at September 30, 2001 are the same as those adopted for the financial statements at December 31, 2000 and disclosed in the previous annual report.

Economic review

Sales revenues

Sales revenues for the nine months ended September 30, 2001 amount to Euros 5,695 million compared to Euros 5,430 million for the nine months ended September 30, 2000.

The change of + 4.9 percent, compared to the corresponding period of 2000, can be analyzed as follows:

• Currency exchange	-	2.2%
• Volumes	+	5.8%
• Prices	+	1.4%
• Mix and other	-	0.1%
	+	<u>4.9%</u>

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

Sector	9/30/2001	9/30/2000	Geographical Area	9/30/2001	9/30/2000
Cables and Systems	63%	60%	Italy	14%	12%
Tyres	37%	40%	Other European countries	42%	44%
			North America	15%	16%
			Central and South America	16%	16%
			Australia, Africa and Asia	13%	12%

Third quarter 2001 sales revenues amount to Euros 1,749 million, compared to Euros 1,832 million for the third quarter 2000.

Labor costs

Labor costs for the nine months ended September 30, 2001 amount to Euros 1,142 million and represent 20 percent of sales revenues compared to 21 percent for the corresponding period of the prior year. Labor costs for the third quarter were Euros 359 million (20.5 percent of sales revenues) compared to Euros 374 million (20.4 percent of sales revenues) for the third quarter 2000.

Amortization and depreciation

Amortization and depreciation for the first nine months of 2001 amount to Euros 279 million, of which Euros 36 million refer to the amortization of intangible assets and Euros 243 million to the depreciation of property, plant and equipment. They present a decrease compared to the corresponding period of the prior year.

Amortization and depreciation for the third quarter 2001, amounting to Euros 90 million, also show a reduction from Euros 98 million for the third quarter 2000.

Operating profit

Third quarter 2001 operating profit is Euros 290 million (5.1 percent of sales revenues). This is a decrease of Euros 49 million from the same period of 2000. This change can mainly be ascribed to:

	<u>Millions of euros</u>	
• Currency exchange	-	12
• Prices (excluding metals)	+	40
• Volumes	+	80
• Materials	-	42
• Efficiency	+	31
• Variation in unit costs	-	35
• Mix and other (*)	-	114
• Supply Agreement with Cisco Systems	+	3
	-	<u>49</u>

(*) including accruals of Euros 45 million, expenses to increase productive capacity of Euros 18 million, e-business costs of Euros 12 million, effect of high-inflation accounting of Euros 6 million, R & D expenditures of Euros 18 million

Income before extraordinary items and income taxes

Income before extraordinary items and income taxes for the nine months ended September 30, 2001, equal to Euros 287 million compared to Euros 291 million for the first nine months 2000, includes the writedown of the investment in F.C. Internazionale Milano S.p.A. (Euros 12 million) and the effects of the transaction involving Olimpia S.p.A. (Euros 6 million).

Extraordinary items

Extraordinary items for the first nine months of 2001 mainly include the gain before taxes on the sale of Pirelli S.p.A. treasury shares on the market (Euros 30 million), an amount received from Cisco Systems as part of the sale of the Terrestrial Optical Systems last year (Euros 36 million), the gain on the sale of real estate properties (Euros 39 million) in the third quarter 2001 and restructuring costs (Euros 22 million).

In the corresponding period of 2000, extraordinary items mainly included the gain before taxes on the sale of the Terrestrial Optical Systems as well as production restructuring and rationalization expenses.

Net financial position

The net debt position of Euros 58 million at September 30, 2001 can be compared to the net liquidity positions of Euros 2,225 million at June 30, 2001 and Euros 3,495 million at December 31, 2000.

The negative change during the quarter, equal to Euros 2,283 million, is mainly due to the investment in Olimpia S.p.A. (Euros 2,100 million).