# Pirelli SpA 2002 financial statements

**Results for Year Ended 31 December 2002 Approved**

- **The Contraction of 70% in World-Wide Demand for Telecommunication Equipment Impacts Financial Results**
- **Tyres: Continued Progress**
- **Energy Cables and Systems Business Delivers Growing Results, in Spite of The Economic Slowdown**
- **Consolidated Revenues: Euros 6,311 Million, -10.6% Net of Exchange Rate Effects**
- **Ebitda: Euros 480 Million against Euros 666 Million In 2001**
- **Ebit: Euros 117 Million against Euros 295 Million In 2001, Which included Euros 59 Million from The Cisco Systems Supply Agreement**
- **Net Profit: Euros -60 Million. Gross of Extraordinary and Restructuring Items, Write-Downs and Olimpia Investment Effect: Euros -610 Million**
- **Net Financial Position Improves against June 30 (Euros -1,618 Million): Negative for Euros 1,469 Million**
- **Free Cash Flow Posts a Strong Increase to over Euros 400 Million**
- **Operating Income Expected to Markedly Improve In 2003**

*Milan, 12 March 2003* - The Board of Directors of Pirelli SpA approved the company's consolidated financial statements for the year ended 31 December 2002.

The performance of Pirelli SpA Group in 2002 was strongly affected by the unprecedented crisis in the telecommunications equipment and infrastructure market, which impacted the performance of the sector in the major developed world markets. This market has seen a world-wide contraction in demand of approximately 70% in value.

The international economic environment slowdown and the uncertainties in the macroeconomic framework impacted the Energy Cables and Systems sector, which, notwithstanding the non-resumption of investments, slightly improved its profitability.

The Tyres Sector has continued to deliver growth.

Company actions, aimed at facing the economic downturn through improved efficiency measures - which resulted for 2002 in a gross figure of Euros 215 million and a net figure of Euros 160 million - could not offset the negative market conditions, but succeeded in a marked free cash flow improvement and in keeping debt under control.

Against this backdrop, which has impacted the telecommunications equipment and infrastructure market along with the failed recovery of investments in the Energy sector, the Group's management, as already announced in November 2002, has decided to accelerate and intensify the efficiency actions in order to take advantage of any upturn in the market. These actions, focused in the Energy and Telecom Cables and Systems Sectors, impacted 2002 accounts for an overall amount of Euros 275 million.

The efficiency actions are being carried out as scheduled and they will be substantially completed by March.

The fourth quarter of 2002, in fact, showed first signs of improvement in Energy Cables and Systems sector, as well as continued growth in Tyres sector.

**The Group's Results at 31 December 2002**

Group's revenues in 2002 amounted to Euros 6,311 million, down 10.6% on last year (Euros 7,509 million) net of currencies effect (-5.4%); this decrease can be fully attributed to the already mentioned crisis in tlc infrastructures market (-9.3%). Lower volumes impacted for 9.3%, while the negative ratio prices/mix impacted for 1.3%.

EBITDA amounted to Euros 480 million, against Euros 666 million in 2001. This decrease can be fully attributable to the crisis in the Telecom Cables and Systems Sector (Euros 156 million) and to the end of the supply agreement with Cisco Systems (Euros 59 million), partially offset by growth in Tyres and Energy Cables and Systems Sectors.

Consolidated EBIT amounted to Euros 117 million, against Euros 295 million in 2001, figure that included Euros 59 million arising from the supply agreement with Cisco Systems. In particular, Tyres sector profitability continued to strongly grow; Energy Cables and Systems sector improved, notwithstanding the economic slowdown; Telecom Cables and Systems sector was impacted by falling demand, but was able to limit losses thanks to significant and timely efficiencies measures.

Consolidated Return on Sales (ROS) was 1.9%, compared with 3.9% in 2001 (about 3.1% not considering the supply agreement with Cisco Systems).

The financial charges and proceeds line at 31 December 2002 was negative by Euros 173 million. Euros 38 million of this figure were related to the adjustment of portfolio securities to market prices.

The result from investment holdings, negative by Euros 230 million, relates to the valuation by the net asset method of the investment in Olimpia (Euros 150 million), to the write-down of the holding in F.C. Internazionale Milano S.p.A. (Euros 18 million), to the write-down of the holding in e.Biscom S.p.A. (Euros 35 million) and to the write-down of the holding in Caltagirone Editore S.p.A. (Euros 24 million).

The extraordinary costs/receipts balance was negative by Euros 262 million. This includes restructuring costs related to the new rationalisation measures targeted on the Telecom and Energy Cables and Systems Sectors (Euros 275 million) and capital gains realised by Pirelli SpA (Euros 17 million) related to a broad process of reallocation of property. It should be noted in this context the sale by Pirelli & C. of its headquarters in Rome and the historic Bicocca degli Arcimboldi building. The same period last year included the capital gain from real estate operations of the Telecom Cables and Systems Sector (Euros 61 million), an earn-out for Euros 70 million from Cisco Systems in the context of the supply agreement and restructuring financial charges (Euros 151 million).

Net profit was negative by Euros 610 million (against a positive figure of Euros 86 million in 2001). This includes Euros 275 million related to restructuring costs, positive extraordinary items for Euros 13 million and write-downs for Euros 138 million; it also includes the effect of the Olimpia investment valued using the shareholders equity method (Euros 150 million). Net of these effects, net profit was negative by Euros 60 million.

Net financial position at December 31st 2002, in line with targets set out in the 2002-2004 Industrial Plan,is negative by Euros 1,469 million, improving (-9%) when compared with negative figure of Euros 1,618 at June 30th 2002, thanks to efficiencies in Net Working Capital management. The variation on end 2001 (Euros 1,089 million) relates to: the payment of the final non-recurring taxes for Euros 263 million on the sale of Optical Technologies to Corning; non-recurring restructuring costs for Euros 130 million; the payment of dividends for Euros 149 million.

Group's free cash flow from operations in 2002 markedly improved and was Euros 419 million (Euros -152 million in 2001), thanks to the efficiency measures and in spite of the lower operating profit. Net free cash flow was negative by Euros 376 million.

The Group's priority commitment to Research and Development is confirmed, with investments equal to 3.5% of sales, compared with 3.2% in 2001.

The total number of employees at January 1st 2003 was 35,610, down about 3,500 from 39,127 at end of 2001; out of this number, 1,500 related to new efficiency measures.

Fourth - and last - quarter of 2002 showed signs of improvement: EBIT amounted to Euros 22 million, against Euros 2 million in third quarter 2002 and Euros 5 million in fourth quarter 2001. Sales in fourth quarter amounted to Euros 1,501 million, against Euros 1,458 in third quarter 2002 and Euros 1,814 million in fourth quarter 2001.

First signs for year 2003 confirm the improvement trend already shown in fourth quarter 2002 as well as the expected benefits deriving from restructuring actions. Even in the economic and political uncertain scenario, thanks also to the marked focus on high value-added marked segments foremost in Tyres and Energy Cables and Systems Sectors, an improvement in operating profit in 2003 could be expected.

**Parent Company Pirelli SpA**

The net profit of the parent company Pirelli SpA at 31 December 2002 was positive to the tune of Euros 112 million, against Euros 1,489 million in 2001.

**Business Unit Results for 2002**

***Energy Cables and Systems***

Sales at 31 December 2002 were Euros 3,021 million, down 10.6% on the same period last year, net of the exchange rate effect.

Operating income was Euros 55 million against Euros 52 million last year. This was equal to 1.8% of sales (1.5% 2001).

Net profit was negative by Euros 120 million post financial costs of Euros 44 million, extraordinary costs of Euros 121 million and fiscal charges of Euros 10 million.

The net financial position at 31 December 2002 was negative by Euros 373 million, an improvement with respect to the Euros 526 million negative figure at 31 December 2001.

Employee numbers at 1st January 2003 stood at 12,187, down 2,336 on the figure at the end of 2001.

***Telecom Cables and Systems***

Sales at 31 December 2002 were Euros 468 million 58.5% down on the same period last year, net of the exchange rate effect, facing an unprecedented crisis in its reference market.

Operating income was negative by Euros 84 million against a positive Euros 76 million last year. It reflects lower volumes related to market crisis.

Net profit was negative by Euros 263 million post financial costs of Euros 54 million, extraordinary costs of Euros 121 million and fiscal charges of Euros 4 million.

The net financial position at 31 December 2002 was negative to the extent of Euros 431 million against Euros 367 million at the end of 2001. The change relates principally to operating requirements for the period accentuated by the continued fall in results, the effect of which has been partially offset by the containment of working capital.

Research and Development expenditures, which are managed by a cross-country integrated structure, topped Euros 45 million and are equal to 9.6% of sales.

Employee numbers at 1st January 2003 stood at 2,408 down 1,281 on the figure at the end of 2001.

***Tyres***

Sales at 31 December 2002 were Euros 2,857 million, in line with last year.

Operating income was Euros 191 million against Euros 172 million for 2001. Return on Sales (ROS) is up to 6.7% from 6.1% in 2001.

Net profit was positive by Euros 78 million (post financial charges of Euros 55 million, extraordinary charges of Euros 11 million and fiscal charges of Euros 47 million). This compares to Euros 34 million in 2001.

The net financial position was negative to the extent of Euros 492 million against Euros 684 million at 31 December 2001. The reduction was attributable to the Euros 80 million capital increase by the parent company Pirelli SpA balanced by the payment of Euros 30 million in dividends received by the parent company. Further reduction is attributable principally to actions to contain working capital and to the alignment of the Capex to the depreciations.

Employee numbers at 1st January 2003 stood at 20,192 an increase of 198 over the end of 2001 as a result of higher numbers of temporary staff.

**Prospects for 2003**

Current economic scenario and political uncertain framework do not allow for expecting a marked improvement in reference markets of the Group.

In particular, no sign of recovery in the telecommunication infrastructure market is expected before the last period of the year. In the Energy sector, utilities could be foreseen selecting investments, as in 2002; demand in other markets of this sector is expected to slowly recover. Tyres Sector will continue focusing on High Performance segments, which are seen growing.

In this scenario, the Group will benefit from restructuring actions and will target an improve of operating income for Energy Cables and Systems Sector, also through a major focus of its products portfolio on higher value-added segments. In the Telecom Cables and Systems Sector the already mentioned restructuring actions should allow operating result to reach break-even in fourth quarter, while it is expected a further improvement in operating result of Tyres Sector.

The Board of Directors shall recommend to the Shareholders' Meeting the distribution of a dividend of 0.0364 euros per savings share. The Board also grant powers to Pirelli SpA Chairman and Vice-President to convene the Shareholders' Meeting, which will approve financial statements for the year ended 31st December 2002; it is expected the Meeting to be convened during the first ten days of May. In this case, dividend pay out will be scheduled from 22 May 2002.
*Appendixes: Balance Sheet / Income Statement of Pirelli S.p.A. for year ended 31 December 2002, not audited by the Independent Auditors nor by the Board of Statutory Auditors.*