

Pirelli & C. six months results

The Board of Managing Partners Meets

PIRELLI & C. GROUP FIRST HALF 2002 RESULTS APPROVED

- **THE UNPRECEDENTED CRISIS IN WORLD TLC CABLES AND SYSTEMS MARKET PROVOKES A DROP OF PBIT FROM INDUSTRIAL OPERATIONS**
- **REAL ESTATE OPERATIONS CONFIRM STRONG GROWTH TREND**

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- **REVENUES: 3,494 MILLION EUROS, COMPARED WITH 4,051 MILLION EUROS IN THE FIRST HALF OF 2001**
- **OPERATING INCOME: 101 MILLION EUROS COMPARED WITH 191 MILLION EUROS (250 MILLION EUROS INCLUSIVE OF CISCO SUPPLY AGREEMENT) IN THE FIRST HALF OF 2001**
- **NET INCOME AFTER MINORITIES: 130 MILLION EUROS, COMPARED WITH 57 MILLION EUROS FOR THE FIRST HALF OF 2001**
- **NET DEBT: 2,314 MILLION EUROS**

Milan, 11 September 2002 - At today's meeting, Pirelli & C. Board of Managing Partners examined and approved the results for the first half of the year, ended June 30th 2002. As already communicated, industrial operations' performance over the first six months of the year was penalized by an unprecedented crisis in the Telecommunications Cables and Systems market, which registered an almost two-thirds drop in worldwide demand. Despite the extremely negative market conditions brought about by the world economic crisis and its particularly strong impact on the Telecommunications Cable and Systems industry, although it has experienced a slowdown, the Group as a whole has in general outperformed its principal competitors.

However, profitability of the Energy Cables and Systems Sector posted a marked improvement, despite being affected by the highly unfavourable international market conditions, while the Tyres Sector confirmed its positive trend already recorded in the first quarter of 2002, with further strong growth in the "top of the range" segments. These improved performances, combined with the cost containment actions, were, however, insufficient to fully offset the negative performance recorded by the Telecommunications Cables and Systems Sector. The Group is oriented towards accentuating its actions to improve profitability, even in a market that at the present time offers no expectation of an upturn.

To complete the picture, subsidiary company Pirelli & C. Real Estate operations continued to create value from the real estate and assets under management, confirming its trend of significant growth in results. During the period the company was listed on the stock market.

The Group

In the first half of the year sales amounted to 3,494 million euros, a 10.6% reduction compared with the first half 2001 figure of 4,051 million euros - net of the currency effect. This essentially reflects the revenues contraction in the Telecommunications Cables and Systems sector, though this was partially offset by revenues generated by Pirelli & C. Real Estate operations. It should be noted that in the real estate business the "sales" figure does not signify the volume of business registered, as operations are conducted principally through acquisition of qualified minority participations in companies which own real estate assets under management. A more significant indicator of the business volume actually managed by Pirelli & C. Real Estate is the aggregate value of production (the sum of revenues and changes to inventory), which also includes the minority equity interests managed. As at 30 June 2002 this figure corresponded to 3,340 million euros, compared with 358 million euros for the first half

of 2001.

The gross operating profit/EBITDA corresponded to 305 million euros (8.7% of sales), compared with 456 million euros for the first six months of 2001. The 33% decrease may be ascribed to industrial operations performance in the Telecommunications Cables and Systems Sector in particular. It should be underlined that the first half 2001 figures were boosted by 59 million euros generated by the Cisco Systems supply agreement.

Operating income for the first half of 2002 amounted to 101 million euros (2.9% of sales). This compares with an equivalent figure of 191 million euros as at 30 June last year, taking into account first half 2001 revenue items associated with the Cisco Systems supply agreement (equal to 59 million euros).

The result from equity interests amounted to a 43 million euro loss, compared with 22 million euros for the first half of 2001. This includes the results of companies valued using the shareholders' equity method. In particular, it includes the Olimpia S.p.A. effect on Pirelli S.p.A. results, which yielded a 54 million euro loss; real estate sector companies (Pirelli & C. Real Estate Group), however, posted profits of 13 million euros (compared with a 7 million euro loss in the first half of 2001).

Operating income inclusive of equity interests results amounted to 58 million euros, compared with 228 million euros for the first half of 2001. This result breaks down as follows: industrial operations (Pirelli S.p.A. Group) 38 million euros (229 million euros in the first half of 2001); real estate operations (Pirelli & C. Real Estate Group) 42 million euros (21 million euros as at 30 June 2001). In consideration of the Group's adopted business model, this is the most significant indicator for operational performance.

Item Financial Charges / Income posted a negative balance of 87 million euros, compared with a positive balance of 44 million euros during the same period last year.

Extraordinary income exceeded charges by 199 million euros. This item essentially includes capital gains generated by the stock market placement of Pirelli & C. Real Estate S.p.A. shares (143 million euros) and capital gains from the disposal (54 million euros) by Pirelli & C. Real Estate S.p.A. of the last tranche of securities in its portfolio following acquisition of UNIM.

Group net income recorded a profit of 93 million euros. Excluding the impact of the equity interest in Olimpia, the first half 2002 result posted a profit of 147 million euros. This compares with a first half 2001 profit of 188 million euros.

The net result breaks down as follows: industrial operations (Pirelli S.p.A. Group) registered a 52 million euro loss (compared with a profit of 200 million euros in the first half of 2001), and real estate operations (Pirelli & C. Real Estate Group) generated a profit of 71 million euros (13 million euros in the corresponding period in 2001).

The Pirelli & C. net result after minorities as at 30 June 2002 was a profit of 130 million euros, compared with 57 million euros for the first six months of 2001.

Shareholders' equity at 30 June 2002 amounted to 5,233 million euros, compared with 5,407 million euros at year-end 2001. The 174 million euro reduction was principally due to exchange rate variations following the devaluation of South American currencies against the euro.

Shareholders' equity after minorities at 30 June 2002 amounted to 2,150 million euros, compared with 2,119 million euros at year-end 2001, an increase of 31 million euros. The reduction in the Pirelli & C. share of Pirelli S.p.A. shareholders' equity was more than offset by the increase in Pirelli & C. Real Estate shareholders' equity. Shareholders' equity per share after minorities was reduced from 3.39 euros at year-end 2001 to 3.29 euros as at 30 June 2002, following conversion of the Pirelli & C. 1998/2003 bonded loan.

The net financial position registered a debt of around 2,314 million euros, compared with

2,029 million euros at year-end 2001. This may principally be ascribed to the change in the net financial position of the Pirelli SpA Group (529 million euros) and payout of 52 million euros in dividends; this was offset in part by the positive effects of the Pirelli & C. Real Estate stock market placement (282 million euros).

Investments in capital assets amounted to 153 million euros, compared with 312 million euros for the first half of 2001. The ratio of investments to depreciation was 0.95 (1.89 in the first half of 2001).

Headcount was equal to 39,135, compared with 39,771 at year-end 2001.

Significant events occurring after the end of the half-year period include Pirelli & C.'s acquisition of 8,396,856 Pirelli S.p.A. ordinary shares for an average unit price of 0.99 euros. After this transaction, Pirelli & C. directly and indirectly owns 39.05% of Pirelli S.p.A. voting shares (37.76% of total shares). The average balance sheet value corresponds to 2.28 euros per share.

Prospects for the second half of the year for the industrial operations (Pirelli S.p.A. Group) are conditioned by market evolution in the Telecommunications Cables and Systems Sector. At an operating income level, considering both the Energy Cables and Systems and Tyres Sectors' firm hold, it is expected that the Group's recorded trend during the first half of 2002 may be substantially confirmed, thanks to the efficiency exercise under way, while still influenced by the evolution of the Telecom Cables and Systems Sector reference market. Group management is continuing to closely monitor the high degree of instability characterizing the macro-economic framework, particularly in regard to the telecommunications and energy markets, and is ready to intensify its rationalization actions.

As the real estate operations (Pirelli & C. Real Estate Group) are concerned, basing upon available information, it is reasonable to forecast for 2002 as a whole a significant improvement compared to previous year in Ebit including income from equity interests. Therefore, it is expected that the operating income of the Pirelli & C. Group for the whole year 2002 will be lower if compared with 2001, taking into account a forecast lower operating income from Pirelli S.p.A. operations, only partially offset by the improvement of Pirelli & C. Real Estate income.

Performance breakdown by main subsidiary company

For information on Pirelli SpA Group performance, please see the Company's 9 September 2002 press release.

For information on the Pirelli & C. Real Estate SpA Group, please see the Company's 10 September 2002 press release.

Pirelli & C. Ambiente S.p.A. - The Company operates in the environmental industry, specifically in the energy retrieval from waste sector, through conversion of waste into quality alternative fuels (CDR-P) for use in existing, non-dedicated industrial plants. Through 49%-owned project company "IDEA Granda S.Cons.R.L.", based in the Italian province of Cuneo, at the end of the six-month period construction began on an initial production facility to manufacture CDR-P for use as quality fuel in the Buzzi Unicem Group cement works.

The company net income as at 30 June 2002 - the company remains in a start-up phase following disposal of its cogeneration interests having refocused on energy retrieval from waste - was a 0.6 million euro loss. This compares with a 0.2 million euro profit for the first half of 2001, after capital gains of 0.5 million euros generated by the disposal of subsidiary company Pirelli Energie Deutschland A.G.

Parent company Pirelli & C. closed the first half of 2002 with a net profit of approx. 126 million euros. This compares with approx. 28 million euros for the first half of 2001 and approx. 148 million euros for the full-year 2001. The "dividends and tax credits" item in the first half 2002 accounts consists essentially of the Pirelli & C. Real Estate S.p.A. dividend and associated tax

credit (approx. 30 million euros).

The stock market placement of Pirelli & C. Real Estate S.p.A. generated pre-tax extraordinary income of approx. 131 million euros.

Appendixes 1 and 2: Balance Sheet / Income Statement for the sixth months ended June 30th 2002, not audited by the Independent Auditors nor by the Board of Statutory Auditors. (.PDF, 11.8Kb)

Appendix 3 and 4 - Pro-forma illustration of Pirelli & C. Balance Sheet/Income Statement at 30/06/2002 assuming the full consolidation of Olimpia S.p.A. and valuation of the participation in Olivetti S.p.A. with the net equity method. (.PDF, 11.5Kb)

Pirelli & C. Group consolidated first-half 2002 accounts highlights:

	30/06/2002 excl. Olimpia	30/06/2002	30/06/2001	31/12/2001 (million euros)
Sales	3,494	3,494	4,051	7,762
Gross Operating Profit / EBITDA	305	305	456	704
<i>% of sales</i>	8.7%	8.7%	11.3%	9.1%
Operating Income	101	101	250	297
<i>% of sales</i>	2.9%	2.9%	6.2%	3.8%
Results from equity interests	11	(43)	(22)	(32)
Operating income including result from equity interest	112	58	228	265
Financial Charges / Income	(87)	(87)	44	(38)
Extraordinary Charges / Income	199	199	55	156
Pre-tax result	224	170	327	383
<i>% of sales</i>	6.4%	4.9%	8.1%	4.9%
Fiscal Charges	(77)	(77)	(139)	(189)
Net Income	147	93	188	194
<i>% of sales</i>	4.2%	2.7%	4.6%	2.5%
Pirelli & C. Net income after minorities		130	57	125
Pirelli & C. Net income per share after minorities (euros)		0.20	0.09	0.20
Shareholders' Equity		5,233	5,770	5,407
Pirelli & C. Shareholders' Equity after minorities		2,150	2,094	2,119
Pirelli & C. Shareholders' Equity per share after minorities (euros)		3.29	3.35	3.39
Net financial position (assets)/liabilities		2,314	(1,397)	2,029
Investments in capital assets		153	312	646
Research and Development Expenses		115	109	237
Employees (at the end of the period)		39,135	41,314	39,771
Pirelli & C. Ordinary Shares (no. millions)		618.3	591.0	591.4
Pirelli & C. Saving Shares (no. millions)		34.4	34.4	34.4
Total shares in circulation		652.7	625.4	625.8
Own shares held (no. millions)		2.6	2.6	2.6

Parent Company Pirelli & C.

DATA HIGHLIGHTS*(million euros)*

BALANCE DATA SHEET	30/06/2002	31/12/2001	30/06/2001
Tangible and Intangible Fixed Assets	25,598	2,095	2,730
Long-term Investments			
Equity interests	865,075	859,263	573,083
Other securities	2,582	2,582	19,109
Own Shares	4,678	4,678	4,678
Financial Receivables	816,368	988,025	756,883
Other long-term investments that do not constitute fixed assets	8,391	8,335	8,279
Other Assets	30,930	62,611	64,874
	1,753,622	1,927,589	1,429,636
Shareholders' Equity	1,331,055	1,194,513	1,073,948
Reserves	16,400	13,334	13,064
Financial liabilities	361,604	696,248	314,865
Other liabilities	44,563	23,494	27,759
	1,753,622	1,927,589	1,429,636
INCOME STATEMENT	30/06/2002	30/06/2001	31/12/2001
Financial Income and Charges	5,901	14,171	11,427
Dividends and Tax Credit	31,333	36,080	228,389
Capital gains from disposals of securities	-	163	163
Adjustment of the value of investment assets	-	-	(998)
Depreciation	(848)	(865)	(1,711)
Other operating income / (costs)	(4,489)	(4,082)	(7,319)
Pre-tax result from ordinary operations	31,897	45,467	229,951
Extraordinary income and charges	131,156	152	(3,455)
Taxes on income	(36,678)	(16,869)	(78,110)
Operating Profit / Loss	126,357	28,750	148,386

	Pirelli & C. A.p.A. half year 2002 consolidated financial statements (1)	Pro-forma adjustments			Total pro- forma adjustments	Pirelli & C. A.p.A. half- year 2002 consolidated financial statements pro-forma (2)
		Reversal of Olimpia S.p.A. result owing to Pirelli S.p.A. (60%)	Olimpia S.p.A. full	Consolidation adjustments and valuation of the Olivetti S.p.A. equity stake using the shareholders' equity method		
<i>(million euros)</i>						
Sales	3,494	-	-	-	-	3,494
Operating income	101	-	-	-	-	101
Charges/Income Investments / Adj. Value of long-term investments	(130)	53	(87)	(257)	(291)	(421)
Extraordinary (Charges)/Income	199	-	(1)	-	(1)	198
Taxes	(77)	-	-	-	-	(77)
Net income	93	53	(88)	(257)	(292)	(199)
Net income after minorities	130	21	(21)	(62)	(62)	68
Effect of write-downs for goodwill	1	-	-	295	295	296
Net income excluding write-downs for goodwill	94	53	(88)	38	3	97
Net income after minorities excluding write-downs for goodwill	131	21	(21)	9	9	140
Reclassified balance sheet						
Fixed assets	6,940	72	8,610	(3,449)	5,233	12,173
Working capital	1,439	-	66	-	66	1,505
Total net invested capital	8,379	72	8,676	(3,449)	5,299	13,678
Funded by:						
Shareholders' equity	5,233	72	5,081	(3,449)	1,704	6,937
- of which shareholders' equity after minorities	2,150	29	1,222	(1,330)	(79)	2,071
Reserves	832	-	-	-	-	832
Net financial position (assets)/liabilities	2,314	-	3,595	-	3,595	5,909

(1) Pirelli & C. A.p.A. consolidated accounts (equity investment in Olimpia S.p.A. valued using shareholders' equity method)

(2) Pro-forma data (full consolidation of Olimpia S.p.A. and shareholders' equity method valuation of Olivetti equity stake)

PRO-FORMA PIRELLI & C. BALANCE SHEET/FINANCIAL DATA HIGHLIGHTS

<i>(in million euros)</i>	Shareholders' equity		Net debt		Net debt/shareholders' equity		Company shareholders' equity	
	30 Jun. 02	31 Dec. 2001	30 Jun. 02	31 Dec. 2001	30 Jun. 02	31 Dec. 2001	30 Jun. 02	31 Dec. 2001
Pirelli & C. Group: consolidated data	5,233	5,407	2,314	2,029	0.44	0.38	2,150	2,119
Pirelli & C. Group: pro-forma consolidated data incl. Olimpia S.p.A. wholly consolidated and valued using the shareholders' equity method for the equity investment in Olivetti S.p.A.	6,937	7,486	5,909	5,538	0.85	0.74	2,071	2,123
Pirelli & C. Group: pro-forma consolidated data incl. Olimpia S.p.A. and the Olivetti group wholly consolidated	26,810	30,182	43,003	43,900	1.60	1.45	2,071	2,123