

Pirelli & C. 2002 financial statements

Board Of Managing Partners Approves 2002 Financial Statements

- **Consolidated Sales: 6,718 Million Euro, -8,2%
After Exchange Rate Effect**
- **Operating Income: 523 Million Euro Versus
704 Million Euro In 2001**
- **Ebit: 118 Million Euro Versus 297 Million Euro In 2001 Which Comprised 59
Mln Euro From Cisco Systems Agreement**
- **Net Result Attributable To Pirelli & C: Negative To An Extent Of 58 Million Euro
(Profit Of 125 Million Euro In 2001)**
- **Net Financial Position: Negative To An Extent Of 2,050 Million Euro Shows
Improvement With Respect To End June
(-2,234 Million Euro)**
- **Pirelli & C Parent Company Profit: 60 Million Euro; Recommended Dividend
0,08 Euro Per Ordinary Share, 0,0904 Euro Per Saving Share Like Previous
Year**
- **Results Affected By 70% Drop In Worldwide Demand For Tlc Components**
 - **Constant Growth Of Tyre Sector**
 - **Energy Cables And Systems Improves Profitability Despite Economic
Slowdown Real Estate Activities Show Strong Growth**
- **In 2003 Significant Improvement Expected In Operating Income Of Industrial
Activities; Further Growth Expected In Real Estate**

Milano, 12 marzo 2003 - The Pirelli & C Board of Managing Partners approved the company's financial statements for the full year 2002.

Group performance at 31 December 2002

In 2002 sales amounted to 6,718 million euro, -8,2% compared to previous year, after the exchange rate effect (-5.2%). The variation is chiefly due to lower volumes (-7,.)% and the negative price/mix effect (-1.1%).

The industrial sector (Pirelli SpA Group) contributed to the above sales value with 6,311 million (-10.6%) and the real estate sector (Pirelli & C. Real Estate Group) with 420 million (+57%). It should be remembered, however, that in the real estate sector, sales are not representative of the volume of business since the activity has grown primarily through the acquisition of qualified minority shareholdings in companies owning real estate assets the management of which has been entrusted to Pirelli & C Real Estate.

The volume of business managed by the real estate sector therefore is more significantly expressed by the aggregated production value (sum of sales revenues and inventory variations), which also includes the part attributable to the minority participations managed. The aggregated production value at 31 December 2002, after the deduction of acquisitions, amounted to 1,297.3 million euro, with a growth of 113% in comparison with 607.6 million euro in 2001. Such value, acquisitions included, amounts to roughly 6,018.8 million euro versus 792.7 million in 2001.

Operating income was 523 million euro (7.8% of sales) compared to 704 million in 2001 (9.1% of sales). This poorer performance is entirely due to the contraction of the Telecom Cables and Systems sector (156 million euro) as a result of the worsening crisis in its reference market and of the expected missed contribution from the Cisco Systems supply agreement (59 million

euro), which were only partially off-set by the improvement in the results of the Energy Cables and Systems Sector and by the growth of the Tyres and Real Estate Sectors.

Earnings before interest and tax (EBIT) at 31 December 2002 amounted to 118 million euro (1.8% of sales) and compare with a figure of 297 million euro in 2001, which included a 59 million euro contribution from the supply agreement with Cisco Systems.

The negative trend of the international economy and the lack of recovery in capital investments impacted the Energy Cables and Systems Sector, which nonetheless showed a slight improvement in profitability. Tyre Sector results continued their constant growth. The Telecom Cables and Systems Sector suffered from the extremely severe fall in demand - over 70% by value - but managed to contain the loss thanks to the timely achieved significant efficiencies.

The effort made by the management of the Group to react to falling market demand through the recovery of efficiency (the value of which in 2002 can be estimated to amount to roughly 215 million euro gross and roughly 160 million net) was unable to fully off-set such a markedly negative market situation; it did, however, allow a significant growth of the free cash flow and the containment of indebtedness. In fact, in November last year the management of the Group decided to speed up and intensify efficiency measures under way in the respective sectors of activity, so as to be ready in good time for the first signs of recovery. The impact of these measures on the year 2002 corresponded to 275 million euro.

The fourth quarter of 2002 showed the first signs of improvement in the Energy Cables and Systems Sector, as well as the persistent growth of the Tyre Sector.

To complete the picture, the real estate activities of the affiliate Pirelli & C. Real Estate experienced a particularly meaningful year: the Company has in fact started to operate in new lines of business with interesting growth prospects, the main one of these being non performing loans; it has started to re-organize the tertiary industry portfolio by building up a first line of long term investments which will lead to the creation of real estate funds; it has completed the share listing process. The attainment of these objectives has allowed the affiliate to close the year 2002 with a sharp growth in results. In 2002 Operating income inclusive of the pro-quota results from participations more than doubled to reach 102.2 million euro, versus 47.2 milioni del 2001 (+117%).

The financial charges / income balance is negative to an extent of 178 million euro, compared to 38 million euro at 31 December 2001. The amount includes 38 million euro as a result of the adjustment of the value of portfolio shares to market prices; income of 20 million euro from participations; while the remaining 160 million euro are the balance of financial charges / income correlated to the net indebtedness trend.

The consolidated net income of the Pirelli & C. Group is negative to an extent of 405 million euro compared to a profit of 194 million euro previous year. The result was impacted by 275 million euro restructuring charges, extraordinary income of 13 million euro, write-downs of 138 million euro and by 150 million in respect of the valuation of the holding in Olimpia S.p.A. according to the net equity method. On the opposite side there is extraordinary income of 51 million euro in Pirelli & C. Real Estate derived from the gain from the sale of the last lot of ex-Unim stock in the portfolio, the gain resulting from the placing of a share of Pirelli & C. Real Estate S.p.A (149 million euro before tax) on the Stock Exchange.

The net income attributable to Pirelli & C. is negative to an extent of 58 million euro, in comparison with a profit of 125 million euro at 31 December 2001.

The net financial position at 31 December 2002 is negative to an extent of 2,050 million euro, an improvement compared to the value of 2,234 million euro at 30 June 2002. Moreover, it compares with -1,954 million euro at the end of 2001; this comparison reflects: the variation

in the net financial position of the Pirelli S.p.A. Group to an extent of 380 million euro; the payment of dividends amounting to 52 million euro, offset in part by the positive effect of the placing of Pirelli & C. Real Estate shares on the Stock Exchange (equal to 284 million euro, 105 million euro of which as an increase in the share capital of Pirelli & C. Real Estate and 179 million euro from the sale of stock in Pirelli & C.'s portfolio).

Net equity stands at 4,626 million euro, in comparison with 5,407 million euro end 2001. Attributable net equity amounts to 1,933 million euro (2.96 euro per share), versus 2,119 million euro (3.39 euro per share) previous year.

During the past year the number of Group employees dropped from 39,771 to 36,882, i.e. a decrease of around 2,900. Of this total decrease, roughly 1,500 was the result of the new efficiency measures implemented in the industrial sector.

The Pirelli & C. Group operates principally in the following sectors:

- Energy Cables and Systems (through the affiliate Pirelli SpA),
- Telecom Cables and Systems (through the affiliate Pirelli SpA),
- Tyres (through the affiliate Pirelli SpA),
- Real Estate (through the affiliate Pirelli & C. Real Estate),
- Environment (through the subsidiary Pirelli & C. Ambiente).

For detailed information concerning the performance of the Cables and Systems, Tyres and Real Estate sectors, please refer to the press releases issued today by Pirelli SpA and by Pirelli & C. Real Estate SpA.

Pirelli & C. Ambiente S.p.A.

During 2002 the company continued activities in the field of renewable energy sources; it did so by producing a waste derived quality fuel (CDR-P) targeted, as a substitute for primary fossil, on energy recovery. The main actions taken during the year followed three routes: the start up of investments to build the first CDR-P production facility which was completed through to the actual acceptance test; commercial actions directed at initiating a number of negotiations in Italy with potential CDR-P users for direct co-combustion as well as after gasification; the monitoring of the course of legislation in the environmental and energy fields which will support the creation of a market for quality CDR as a source of renewable energy. As regards direct co-combustion, the first industrial concern related to this project is IDEA Granda S.Cons.R.L.; established in 2001, with 49% of the shares owned by Pirelli & C. Ambiente, and managed by the latter, it completed the construction of a CDR-P production facility at the end of last year. Production proper began at the start of the current year and the CDR-P so produced is intended to partially replace (initially according to the authorised limit of 10% as opposed to the technological 35/40% limit) traditional fossil fuels in the main burner of one the Buzzi-Unicem group's cement works. The 2003 production plan envisages the utilization of roughly 10,500 tons of dry solid urban waste sourced from the Province of Cuneo; shredded plastic materials and tyres will be added to these in order to obtain around 13,600 tons of CDR-P.

At 31 December 2002, the result of the company, still in the start-up phase, was negative to an extent of 1.7 million euro versus a loss of 0.1 million euro previous.

Prospects for 2003

As regards the industrial sector (Pirelli SpA Group), the uncertain economy and the unstable international political framework do not allow us to make hypothesis of a significant recovery in the reference markets.

In particular, in the Telecom infrastructure sector signs of recovery are not expected at least until the end of the year; as regards the Energy sector the selective approach to investments

on the part of the utilities is expected to continue and there should be a slow recovery of demand in other application fields. The Group's Tyre Sector will continue to pursue the policy of focusing on the high performance end of the range, which is expected to grow.

In this context the Pirelli & C. Group envisages an increase in EBIT as a whole. In particular, in the industrial sector (Pirelli SpA Group) the benefits resulting from restructuring actions taken will be capitalized, while in the real estate sector (Pirelli & C. Real Estate Group), on the basis of information available, it is considered reasonable to expect for 2003, in comparison with previous year, a further growth of EBIT inclusive of pro-quota income from participations.

Financial Statements of the Parent Company

The 2002 accounts of Parent Company Pirelli & C. close with a profit of 60.2 million euro.

The Board of Managing Partners shall recommend to the Shareholders Meeting the distribution of a dividend of 0,08 euro per ordinary share and of 0,0904 euro per saving share. The Board consequently authorized the Chairman and Deputy Chairman to convene the Shareholders Meeting to approve the Financial Statements for the full year 2002; the meeting is expected to take place during the first decade of May; should this forecast be confirmed it is likely that the dividend will be paid in June.

In 2002 Pirelli & C. purchased on the market n. 16,329,356 ordinary shares of Pirelli S.p.A. at a unit price of 1.05 euro.

After these operations and taking into account the write-down effected by Pirelli & C for tax purposes, at 31 December 2002 Pirelli & C. owned, directly or indirectly through Pirelli & C. Luxembourg S.A., 39.20% of the voting capital (37.90% of the entire share capital) of Pirelli S.p.A.. The average book value was equal to 2,10 euro per share.

After the closure of the full year 2002, BZ Group on 10 March 2003, in accordance with the agreements made with the Pirelli Group in March 1998, exercised the second option to sell a number of Pirelli SpA ordinary shares equal to 2.5% of the voting share capital, at a price calculated - as provided for in the agreements - on the basis of the average price of the share on the stock exchange during the 90 working days which preceded the exercise date, for a total amount of around 43 million euro. Following the above, Pirelli & C. A.p.A. holds, directly and indirectly, a total of n° 800,191,375 Pirelli SpA ordinary shares, equal to 41.7% of the voting share capital.

The statements of income and balance sheets highlights have not yet been audited by the external auditors nor verified by the Board of Auditors.

All. 1 - Pirelli & C. Group consolidated 2002 accounts highlights (PDF,12Kb)

All. 2 - Parent Company Pirelli & C. (PDF,11Kb)

All. 3 - Pro-forma adjustments (PDF,12Kb)

All. 4 - Pro-Forma Pirelli & C. Balance Sheet/Financial Data Highlights (PDF,10Kb)

Pirelli & C. Group consolidated 2002 accounts highlights:

	31/12/2002 excl. Olimpia	31/12/2002	(million euros) 31/12/2001
Sales	6,718	6,718	7,762
Gross Operating Profit / EBITDA	523	523	704
<i>% of sales</i>	7.8%	7.8%	9.1%
Operating Income	118	118	297
<i>% of sales</i>	1.8%	1.8%	3.8%
Results from equity interests	(25)	(175)	(32)
Operating income including result from equity interest	93	(57)	265
Financial Charges / Income	(178)	(178)	(38)
Extraordinary Charges / Income	(83)	(83)	156
Pre-tax result	(168)	(318)	383
<i>% of sales</i>	-2.5%	-4.7%	4.9%
Fiscal Charges	(87)	(87)	(189)
Net Income	(255)	(405)	194
<i>% of sales</i>	n.s.	n.s.	2.5%
Pirelli & C. Net income after minorities		(58)	125
Pirelli & C. Net income per share after minorities (euros)		(0.09)	0.20
Shareholders' Equity		4,626	5,407
Pirelli & C. Shareholders' Equity after minorities		1,933	2,119
Pirelli & C. Shareholders' Equity per share after minorities (euros)		2.96	3.39
Net financial position (assets)/liabilities		2,050	2,029
Investments in capital assets		337	646
Research and Development Expenses		219	237
Employees (at the end of the period)		37,350	39,771
Pirelli & C. Ordinary Shares (no. millions)		618.3	591.4
Pirelli & C. Saving Shares (no. millions)		34.4	34.4
Total shares in circulation		652.7	625.8
Own shares held (no. millions)		2.6	2.6

Parent Company Pirelli & C.

DATA HIGHLIGHTS*(million euros)*

BALANCE DATA SHEET	31/12/2002	31/12/2001	Variations
Tangible and Intangible Fixed Assets	24,458	2,095	22,363
Long-term Investments			
Equity interests	752,188	859,263	(107,075)
Other securities	2,582	2,582	-
Own Shares	4,678	4,678	-
Financial Receivables	894,345	988,025	(93,680)
Other long-term investments that do not constitute fixed assets	8,447	8,335	112
Other Assets	60,563	62,611	(2,048)
	1,747,261	1,927,589	(180,328)
Shareholders' Equity	1,264,980	1,194,513	70,467
Reserves	17,410	13,334	4,076
Financial liabilities	457,024	696,248	(239,224)
Other liabilities	7,847	23,494	(15,647)
	1,747,261	1,927,589	(180,328)
INCOME STATEMENT	31/12/2002	31/12/2001	Variations
Financial Income and Charges	13,167	11,427	1,740
Dividends and Tax Credit	83,449	228,389	(144,940)
Capital gains from disposals of securities	-	163	(163)
Adjustment of the value of investment assets	(134,377)	(998)	(133,379)
Depreciation	(2,067)	(1,711)	356
Other operating income / (costs)	(6,908)	(7,319)	411
Pre-tax result from ordinary operations	(46,736)	229,951	(276,687)
Extraordinary income and charges	139,612	(3,455)	143,067
Taxes on income	(32,679)	(78,110)	45,431
Operating Profit / Loss	60,197	148,386	(88,189)

	Pirelli & C. A.p.A. year 2002 consolidated financial statements (1)	Pro-forma adjustments			Total pro- forma adjustments	Pirelli & C. A.p.A. 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	6,718	-	-	-	-	6,718
Operating income	118	-	(1)	-	(1)	117
Charges/Income Investments / Adj. Value of long-term investments	(353)	150	(241)	(440)	(531)	(884)
Extraordinary (Charges)/Income	(83)	-	(4)	-	(4)	(87)
Taxes	(87)	-	-	-	-	(87)
Net income	(405)	150	(246)	(440)	(536)	(941)
Net income after minorities	(58)	62	(61)	(108)	(107)	(165)
Effect of write-downs for goodwill	3	-	-	589	589	592
Net income excluding write-downs for goodwill	(402)	150	(246)	149	53	(349)
Net income after minorities excluding write-downs for goodwill	(55)	62	(61)	36	37	(18)
Reclassified balance sheet						
Fixed assets	6,596	169	8,541	(3,597)	5,113	11,709
Working capital	991	-	58	-	58	1,049
Total net invested capital	7,587	169	8,599	(3,597)	5,171	12,758
Funded by:						
Shareholders' equity	4,626	169	4,923	(3,597)	1,495	6,121
- of which shareholders' equity after minorities	1,933	69	2,954	(1,396)	1,627	3,560
Reserves	911	-	-	-	-	911
Net financial position (assets)/liabilities	2,050	-	3,676	-	3,676	5,726

(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	
	31 Dec. 02	31 Dec. 2001	31 Dec. 02	31 Dec. 2001	31 Dec. 02	31 Dec. 2001	31 Dec. 02	31 Dec. 2001
Pirelli & C. Group: consolidated data	4,626	5,407	2,050	2,029	0.44	0.38	1,933	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.	6,121	7,486	5,726	5,538	0.94	0.74	1,817	2,123
Pirelli & C. Group: pro-forma consolidated data incl. Olimpia S.p.A. and the Olivetti group wholly consolidated	23,428	30,182	39,125	43,900	1.67	1.45	1,817	2,123