

## Pirelli SpA Six-Month Report at June

*Milan, September 1, 2000* - The Board of Directors of Pirelli SpA has today examined and approved the consolidated financial statements of the Group for the six months ended June 30, 2000.

Sales show a growth of 12.8% compared to the first half of 1999, from Euro 3,190 million to Euro 3,598 million; the gross operating margin shows a growth of 17%, from Euro 343 million (10.8% of sales) to Euro 402 million (11.2% of sales); the operating profit shows a growth of 20% from Euro 177 million to Euro 213; the net income rises from Euro 119 million for the first semester 1999 (Euro 305 million for the full year 1999) to Euro 961 million at June 30, 2000. This growth takes into account the extraordinary items related to the sale of the Terrestrial Optical Systems business to Cisco Systems.

The six-month Report stresses the Group's unprecedented commitment to investments - over Euro 1 billion planned for the current year - aimed at strengthening Pirelli's strategic and competitive positioning on the international key markets. In particular:

- \* Euro 240 million have been earmarked for the telecommunications area and mainly to: increase optical fiber and optical cables production capacity (mainly in Southern Italy, Brazil and UK); launch, in co-operation with Cisco Systems, new activities in the optical components sector in the USA and in Italy, and to develop submarine optical systems; acquire the controlling interest in Pirelli Telecom Cables Co. Ltd. Wuxi (China);

- \* Euro 355 million have been earmarked to consolidate Pirelli's world leadership in the energy cables market: for the acquisition of new capacities (BICC General and NKF, after Siemens and Metal Manufacturers in 1999) and the subsequent concentration of the Group's productive bases;

- \* Euro 220 million have been earmarked for the Tyre Sector, with particular reference to the introduction of new process and product technologies, mainly in the high performance segment, including the revolutionary new MIRS technology;

- \* Euro 254 million have been earmarked to optimise productive efficiency in both Cables and Systems and Tyre Sectors.

A more detailed view of the six-month Report shows the following:

The increase in sales is due to volumes (+ 5.3%), to currency exchange (+ 6.4%), to prices (+ 1.1%) and to acquisitions (+ 3.6%), partly compensated by the deconsolidation of the activity sold to Cisco (- 3.7%). The sales breakdown by Sector is: 60% Cables and Systems (59% for the six months of the prior

year) and 40% Tyres (41%); the breakdown by geographical area: 55% Europe (57%), 16% North America (16%), 16% Central and South America (18%), 13% Australia, Africa and Asia (9%).

The growth in the operating profit, which has moved from 5.5% to 5.9% of sales, is attributable to both Sectors and is due to volumes and efficiency actions.

The increase in the consolidated net result takes into account a Euro 36 million growth in the operating result and the Euro 1,411 million net capital gain before taxes from the sale to Cisco; these are offset by Euro 254 million of extraordinary charges for efficiency actions, a worsening of the financial income/charges balance of Euro 29 million (due to the real rates reduction in Turkey and Brazil and extraordinary currency exchange income in the first half of 1999), an increase of Euro 325 million in tax charges, substantially due to the Cisco operation.

Net financial position is positive for Euro 296 million, compared to a net financial debt of Euro 1,017 million at 31.12.99, essentially due to the net effect of extraordinary operations.

Shareholders' equity moved from Euro 2,454 million at 31.12.99 to Euro 3,288 million, due to the effect of the period's result and the distribution of dividends.

Investments in fixed assets are equal to Euro 235 million compared to Euro 204 million in the first half of '99, with a ratio to depreciation of 1.41 (1.35 in 1999).

R&D expenditure, equal to Euro 105 million (Euro 95 million in the first half of 1999), are fully charged to the profit and loss account and represent 2.9% of sales (3% in 1999).

The work force numbered 41,809 (40,994 taking the same consolidation perimeter into consideration) compared to 40,123 at June 30, 1999 and 40,103 at December 31, 1999.

As far as the results for the second six months are concerned, it is expected that the operating result may improve in the second half, and thus make it possible to consolidate the improvement already achieved.

As for the performance of the operating sectors during the period:

#### Cables and Systems Sector

Sales revenues, equal to Euro 2,171 million, are 14.7% higher compared to the first six months of 1999. The increase is due to volumes (+ 3.7%), to prices and mix (+ 6.9%), to the exchange rates (+ 6.1%) and to the effect of the acquisitions (+ 3.6%), which partly compensates the deconsolidation of the activity sold to Cisco (- 5.6%). The operating result increases from Euro 99 million at 30.6.1999 to Euro 124 million at 30.6.2000. Net income is equal to Euro 1.080 million compared to Euro 63 at 30.6.99, and includes the Cisco capital gain after deduction of related costs, together with provisions for

investments aimed at the optimisation of productive efficiency mainly in the recently acquired areas. The strong improvement in the net financial position - from a negative Euro 700 million at the end of the previous year to a positive Euro 843 million - is also connected to the income from the Cisco operation.

The power cables sales increase is mainly due to the effect of volumes and mix. The overall increase in raw material prices has been compensated by an increase in profitability driven by volumes, efficiency and product mix. The steady demand for telecommunication cables, together with continuous costs improvements has led to a recovery of profitability. The growing demand for optical fiber has also led to the full exploitation of production capacity, which is being expanded according to the approved plans. Submarine energy and telecom systems production is proceeding at a high rate.

As far as the research activities are concerned, the development of optical components and high performance optical fibers is going ahead at a very fast pace, in particular for metropolitan area and "fiber to the home" applications. In the power sector development work continues on Pirelli's "undergrounding" system, which allows considerable cost cuts in the undergrounding of transmission and distribution networks and offers higher reliability and lower environmental impact compared to traditional aerial cables.

A consolidation of the improvements made in the first half is expected for the second part of the year.

### Tyres Sector

Sales revenues amount to Euro 1,425 million, with a 10% growth compared to the first half of 1999. The good trend in volumes (+ 10.3%, of which + 2.5% is the result of the Alexandria Tire Company consolidation) and the positive exchange effect (+ 4.9%) are partly eroded by the fall in the sales price index for both Original Equipment and Replacement tyres (- 5.2%). The operating profit, equal to Euro 107 million (7.5% of sales), shows an increase of Euro 8 million compared to the first half of 1999, while the net income - burdened by Euro 168 million of extraordinary items (almost entirely due to the reorganization of the industrial structure) - is a negative Euro 125 million (Euro + 61 million at 30.6.99). Net financial debts, equal to Euro 722 million, show an increase of Euro 230 million compared to June '99 and of Euro 187 millions compared to 31.12.99 due, in particular, to the consolidation of Alexandria Tire Company.

The increase in oil prices has brought strong pressure on production costs, not yet compensated by selling prices due to the ongoing competitive pressure. However, raw materials cost-saving programmes have been activated which have already had some effect in the first six months of 2000; furthermore, the Group has started to transfer on the Internet part of the services and goods procurement activities (*e-procurement*), with significant impact in terms of prices and efficacy on the entire purchasing cycle.

The sales volumes of Pirelli car and light truck tyres have recorded an increase of 6% worldwide, with an 18% growth in the Original Equipment, while Replacement sales are in line with the previous year. Highly positive results were registered in the High Performance segment, with a growth of sales

exceeding 20% in the premium car segment and in the Scorpion products for SUV.

With regard to products, the first half of 2000 was characterised by the launch of the P Zero Rosso, which strengthens Pirelli's technological and market leadership in the Ultra High Performance segment. Moreover, since the beginning of March it is possible - in the main European countries - to buy on the Internet the latest Pirelli product for medium size cars, the P2500 Euro.

Sales volumes showed an increase also in the Truck business, which took advantage of the contribution provided by the Egyptian affiliate Alexandria Tire Company, the largest truck tyre production unit in the African Continent. The volume increase in the Motorcycle business takes into account significant performances in the USA, Latin America and Greece; the new Website "Pirellimoto.it" for the direct sale of Pirelli motorcycle products to the public was launched in June 2000.

The operative results at 31.12.2000 are expected to confirm the advantage already acquired in the first half. This perspective is directly related to the endurance of the South American results (in particular in Brazil) and to the confirmation of the European trends.

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Following the six-month closure, the Group has announced the intention to proceed with the delisting of the Brazilian affiliates Pirelli Cabos SA and Pirelli Pneus SA from the Sao Paulo Stock Exchange, through the launch of a public bid for the stocks in circulation. As previously announced, the global expenditure in the case of a successful total public bid amounts to US\$ 92.9 million. This initiative is part of the strategy - undertaken some years ago - to simplify as much as possible the Group's shareholding structure.

In addition to this, a further investment plan of US\$ 84 million has been announced in the USA, aimed to increasing the Group's fiber optic cables productive capacity in South Carolina. Pirelli will proceed with the expansion of the existing Lexington plant and with the building of a new facility, located in the Columbia Airport Enterprise Park, specialised in the production of fiber optic cables for indoor applications ("fiber to the home").

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The Board has also examined and approved the figures at June 30, 2000 of the Group holding company Pirelli S.p.A., which show a net income of Euro 226 million compared to Euro 220 million for the first half 1999 and Euro 229 million for the entire year 1999.

Appendices: highlights of the income statement and balance sheet, submitted for audit according to the criteria indicated by Consob in resolution No. 10867 of July 31, 1997.