Pirelli SpA six months results

Milan, 10 September 2001 - The Board of Directors of Pirelli SpA today examined and approved the consolidated financial statements of the Group for the six months ended 30 June 2001.

The first six months show a growth of over 52% in the consolidated net income before extraordinary items and taxes, which amounts to 276 million Euro in comparison with 181 million Euro at 30 June 2000.
Consolidated sales revenues have risen 9.7%, from 3,598 million Euro to 3,946 million Euro. This increase is due to volumes (+6.7%), prices (+2.0%), mix and other items (+1.9%), which offset an exchange rate effect of -0.9%. The sales breakdown by Sector was as follows: Cables and Systems 63% (60% same period 2000) and Tyres 37% (40%). The breakdown by geographical area was: Europe 42% (44%), North America 16% (16%), Central and South America 16% (16%), Australia, Africa and Asia 12% (13%), Italy 14% (11%).
The gross operating profit shows a growth of 7.5%, rising from 402 million Euro to 432 million. Euro. In addition to ongoing actions to increase efficiency, also the supply agreement with Cisco Systems contributed to this improvement to an extent of 59 million Euro (26 million Euro for the first half of 2000).
The consolidated operating profit has improved by over 14% to 243 million Euro with a return on sales of 6.2% (5.9% in 2000). This is primarily due to price, volume and efficiency increases, as well as the previously mentioned supply agreement with Cisco Systems, opposed by exchange rate effect, higher cost of materials and unit cost variation.
The consolidated net income amounts to 200 million Euro (after extraordinary net income of 52 million and tax charges of 128 million) compared to 961 million Euro for the first half of 2000 (after extraordinary income of 1,166 million derived from the sale to Cisco Systems of the Terrestrial Optical Systems business, and tax charges of 386 million Euro).
The consolidated income attributable to Pirelli S.p.A. amounts to 197 million in comparison with 958 million Euro for the first six months of 2000.
The net financial position is positive to an extent of 2,225 million Euro compared to 3,495 million Euro at 31 December 2000. 286 million Euro of this variation is to be attributed to the distribution of profit for the year 2000 and 614 million Euro to the payment of taxes planned and provided for previous year; the remainder is mainly the result of the customary, seasonal, worsening of the working capital (233 million Euro) and the disbursement of 101 million Euro in respect of manufacturing optimization programs already provided for in the 2000 accounts.
The consolidated Shareholders' equity has moved from 5,958 million Euro

at 31 December 2000 to 5,870 million as a result of the profit for the period and dividends distributed.
Investments in fixed assets amount to 310 million Euro compared to 235 million Euro same period 2000, with an increase of over 30%. The ratio with depreciation is 1.88 (1.41 in 2000).
R & D expenditure, equal to 109 million Euro (compared to 105 in the first half of last year) are fully charged to the profit and loss account and represent 2.8% of sales (2.9% in 2000).
Employees were 40,674 in number at 30/06/2001 in comparison with 41,914 at 31/12/2000 and 41,809 at 30/06/2000.
The first half of 2001 therefore highlights an improvement in all the operating features; the period was characterised by a marked acceleration of investments in a market affected by an economic scenario that is showing signs of a slow-down, with constant tension on selling prices and on the cost of raw materials. The strong slow-down in the US economy, the crisis in Japan, the failed take-off of the European economy and above all the sharpening crisis in the telecom cable sector's reference market, cannot but affect Group performance compared to previous year.
Nevertheless, in spite of a foreseeably lower operating profit, the income before extraordinary items, tax and the effects of the Olivetti operation (expected to amount to roughly 60 million Euro) could be in line with that of 2000.

As for the performance of the Sectors during the period:

Cables and Systems Sector
Sales revenues, equal to 2,478 million Euro, are 14.1% higher compared to the first six months of 2000; the increase is due to volumes (+10.1%), prices (+1.5% metals, +2.3% non metal) and mix (+0.2%).
The operating profit amounts to 161 million Euro (inclusive of the 59 million Euro contribution derived from the Cisco Systems supply agreement) compared to 124 million Euro previous year (which included 26 million Euro for the Cisco Systems supply).
Extraordinary income and charges show a positive balance of 22 million Euro due to income received from Cisco Systems related to last year's sale of the Terrestrial Optical Systems business, opposed by lower charges borne by the various Affiliates. The first half of 2000 showed extraordinary income of 1,305 million Euro as the balance between the gain, before tax, derived from the sale of Terrestrial Optical Systems to Cisco Systems and extraordinary charges resulting from extraordinary manufacturing restructuring and rationalization activities.
The net income for the first half of 2001 amounts to 117 million Euro compared to 1,080 million for the corresponding period of 2000.
The net financial position at 30 June is negative to an extent of 729 million Euro, compared to a positive 1,644 million Euro at 31 December 2000.

During the first half of the year dividends amounting to 1,495 million Euro were paid to Pirelli S.p.A. and 583 million Euro were paid in taxes largely as a result of the previous year's extraordinary operations. Energy
In the Energy Sector sales revenues for the first six months grew 10.5% (1,691 million Euro compared to 1,530 million at the end of June 2000), with an operating result of 20 million Euro (1.2% of sales) versus 41 million same period previous year (2.7% of sales).
The increase in sales by volume is due to the acquisition of the former BICC Units. The contribution of these higher volumes to profitability was partly eroded by a worsening mix and by a contained drop of prices.
In Europe sales have grown 25% as a result of the former BICC units, but dropped (-2.5%) in North America as a result of the current recession. South America performed well and show an increase in sales of 24% in the first six months; the Brazilian energy crisis and Argentina's economic/financial problems would appear so far not to have significantly impacted the Company's local Units. On analysing the performance of individual product lines, Special Cables have done well while activities related with the Utilities have on average suffered from lower volumes and prices.
Energy Submarine Systems continue to pursue new contract acquisition activities in the Off-Shore field (in the United States in particular). Worthy of note is the acquisition of a contract to link up the islands of Malta-Comino and Gozo; furthermore a marine survey has been completed in Australia for the Basslink project (inter-connection between Australia and Tasmania).

Telecommunications
The Sector's sales revenue increase (+24.5%) stands out from among the period's most significant data; 812 million Euro compared to 652 million for the first half of 2000, with an operating result of 82 million Euro (10.1% on sales) compared to 58 million Euro at the end of June 2000 (8.9%).
The demand for Telecom Cables continued its positive trend during the first quarter of the year but started to show signs of slowing down in the second quarter primarily on account of the North American market. Increased volumes and constant cost cutting allowed profitability improvements in any event.
The demand for Optical Fiber followed the same pattern with a slight weakening of the mix as a result of the reduced use of fibre for long distance cables. Sales growth in Europe was good (+41%), particularly in Italy, France and Spain. Business continued to grow in North America too (+38%) but with signs of a slow down in the last months. Sales in South America have practically doubled and this is true of both copper and fiber cables. Business activity in Australia is stable but at a good level, while the Chinese affiliate has recorded a good growth.
As regards Telecom Submarine Systems completion of the production of Tight cables for contracts acquired in 2000 characterized the first half of

2001.
Cable production for the Palma-Algeri project is at an advanced stage; installation will take place between the end of 2001 and the beginning of 2002. A stagnant international context is negatively impacting this activity, while R & D activities continue.
Research and Development Activities
In the Energy field the introduction phase of products based on the new Air-Bag Cable SystemTM continues. The technical and economic advantages of this technology will favour the diffusion of underground systems ("Undergrounding") which are more reliable, safer and more environment compatible than conventional systems. This technology is giving birth to a series of products for a vast range of applications (general market, industrial and special markets).
In the Optical Fiber field a new monomode fibre for WDM systems with low hydroxyl ion contamination has been developed and industrially qualified. The new fibres "FineLight" (designed for broad band access networks and Fiber-to-the-Home) and "Advanced FreeLight", studied for long distance and high speed transmission applications, with a 50% cut in PMD (Polarization Mode Dispersion) were presented.
In the Optical Cables field a new fully dielectric cable, optimized for railway applications, with Air-BagTM technology based protection, has been developed. Furthermore a family of cables for metro rings, with a potential of up to 100 fibres, fitted with a low smoke, low halogen, flame resistant sheath, has been developed and put into production.

The Energy Cables and Systems Sector's forecasts for the second half of the year indicate a recovery of gross contribution thanks also to the Group's improvements in manufacturing efficiency; the Telecommunications Cables and Systems Sector, in the light of the more recent trends, will suffer the marked slow-down of its reference market.

Tyre Sector
Sales revenues for the first half of 2001 show an increase of 3.6% compared to the same period previous year. This variation is due to the increase in volumes (+3.1%), better mix (+2.8%), partly eroded by the exchange rate effect (-1.6%) and prices (-0.7%).
The operating profit, equal to 111 million Euro with a return on sales of 7.5%, represents an increase of 4 million Euro in comparison with the same period previous year.
The net income stands at 51 million Euro compared to a negative 125 million Euro for the first half of 2000, which comprised a negative extraordinary income/charges balance of 168 million Euro primarily due to industrial restructuring costs.

The net financial position is negative to an extent of 709 million Euro, in

comparison with 748 million Euro at 31/12/2000. This variation is mainly due to the acquisition by Pirelli S.p.A. of an additional participation in the Brazilian affiliate (62 million), following the "delisting" from the Sao Paulo stock exchange in November 2000, and to the seasonal worsening of the working capital; counter to this Pirelli S.p.A. has increased the share capital of Pirelly Tyre Holding, Tyre Sector's parent, by 240 million Euro. The first half of 2001 shows raw material prices above the average for 2000, year in which they had already reached extremely high levels mainly due to the devaluation of the Euro against the US dollar and the price of oil which swung around 25/30 US$ the barrel. The "cost saving" programmes kicked off previous year have consequently been intensified.
On the human resources development and organization front, worthy of note is the implementation of the new organization structure by Business Unit (Car & Light Truck, Truck, Motorcycle and Steel Cord) which ensures a better focus on resources and corporate competencies, generating a better managerial transparency. In the new organization, the role of general coordinator of activities provider of services and competence centre has been kept at Sector level.

Individual Business Unit performance shows the following:

Car/Light Truck
The Replacement business ends a first six months with a positive increase in volumes worldwide compared to the previous year, pulled by strong growth in Europe and Export areas that compensate for the contraction in North America, South America and Turkey. In terms of market share, it has increased in almost all areas (with the exception of minor erosions in Brazil and Argentina), also thanks to an excellent brand mix trend (the higher Pirelli brand sales more than offset the more contained second brand sales trend) and product mix, where the significant increase in the "premium" segments has allowed our market share to grow in all the major markets.
As regards Original Equipment, in Europe, the first half of 2001 has witnessed a highly competive situation in the marketplace. It is important to note the growth of volumes in the "premium" Passenger Car and Sport Utility Vehicle segments, thanks, above all, to the homologations secured with the new products P6000 Powergy, P Zero Rosso and Scorpion. Lower volumes in Turkey due to the fall in demand. The volumes trend in South America is positive. As for product development, the first half of 2001 has seen a significant renewal in the two key segments of the range: High-Performance and Winter, Sport Utility Vehicle included.

Truck
In sales volume terms the Truck Business Unit shows a growth of 2% compared to the same period in 2000, with a positive contribution from the Replacement channel (+6%), which has more than offset the drop in

Original Equipment (-16%). In particular, the first half of 2001 was characterized by the economic crisis which is affecting the Turkish market, where the fall in volumes, in Replacement as well as Original Equipment, was partly compensated by bigger volumes in European, African, Middle and Far East markets.
The market trend therefore has highlighted a growth in Europe of 6%; in Egypt, with a growing market, there is confirmation of volume increases for radial tyres and a greater penetration of the Pirelli brand; in South America, the fall in the Brazilian market is opposed by growth in the other markets. In particular and again in South America, the strengthening of the radialization process is noticeable, above all in Original Equipment.
Motorcycle
The first half of 2001 shows a significant increase in volumes compared to the same period 2000. The markets that have grown more in comparison with previous year are Italy and the United Sates. The Scooter segment stands at the same level as last year, in spite of a falling market. As regards Original Equipment, again compared to previous year, volumes lagging behind in Italy are more than offset by the positive trend in Latin America and Japan.

The Tyre Sector's forecasts for the second six months of the year indicate a highly competitive market, made even more aggressive by the economic crisis in both Turkey and South America, Argentina and Brazil in particular. Consequently performance, while staying generally in line with that of the previous year, could be conditioned by how the macro-economic conditions of these two important geographical areas evolve.

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Subsequent to the close of the first six months, the Company announced the acquisition of a significant share of the capital of Olivetti in agreement with Edizione Holding, and the start of a new industrial strategy of the Group, which is at the base of this acquisition.
Completion of the agreement will take place after the necessary authorizations from the competent authorities. As regards financing, it is envisaged that the purposely established newco Olimpia will have equity of up to 6 billion Euro and a five-year loan agreement with a pool of primary banking institutions for up to a maximum of 3 billion Euro.
The Pirelli Group's new strategy envisages the new Telecommunications activities heading up to Olivetti-Telecom flanked by a select number of highly profitable businesses, with top end of the range segmentation. In brief Tyre Sector's passenger car and motorcycle activities, the future developments of which are strictly connected to the new MIRS technology, the production of optical fiber and telecommunication cables and the real estate activities heading up to Pirelli & C.

The Group's strategy can be summed up as the reinvestment in Olivetti-Telecom of capital gains totaling around 3.9 billion Euro realized through the sale of optical components and systems, thereby creating prospects of growth for the Group in a sector with great potential, regardless of the present market crises. All this brings the Group's financial position to a level very similar to that prior to the above-mentioned sales, without taking the new disposals envisaged into consideration. In this latter connection, note should be taken that Truck activities in South America are considered strategic to the Group and consequently not for sale.

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The Board has also examined and approved the figures at 30 June 2001 of the Group holding Company Pirelli S.p.A., which show a net income of 12 million Euro compared to 226 million Euro at 30 June 2000 and 1,733 million Euro for the full year 2000. These variations are exclusively due to the dividends accounting principle which, as already highlighted in the report on the financial statements for the year 2000, has changed from a cash accounting principle to one of competence; this change involved charging the 2000 financial statements with greater dividends to an extent of 1,500 million, while the first half of 2000 comprised dividends accounted for according to the cash principle to an extent of 228 million.

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Finally, the Board of Directors appointed Claudio De Conto General Manager Administration and Luciano Gobbi General Manager Finance.

Appendices: highlights of the Pirelli Group's consolidated figures and of the income statement and balance sheet, submitted for audit according to the criteria indicated by Consob in resolution n. 10867 of 31.7.1997.

Highlights of the Pirelli Group's consolidated figures at 30/06/2001:

(in millions of Euro)

	30/06/2001	30/06/2000	31/12/2000
. Sales revenues	**3,946**	3,598	7,477
. Gross operating profit	**432**	402	820
% of sales	**10.9%**	11.2%	11.0%
. Operating profit	**243**	213	437
% of sales	**6.2%**	5.9%	5.9%
. Financial income and expenses	**33**	(32)	(75)
Net income before extraordinary items and taxes	**276**	181	362
% of sales	**7.0%**	5.0%	4.8%
. Extraordinary income/expenses	**52**	1,166	4,277
. Taxes	**(128)**	(386)	(1.013)
. Net income	**200**	961	3,626
% of sales	**5.1%**	n.s.	n.s.
. Net income attributable to Pirelli S.p.A.	**197**	958	3,632
. Net income attributable per share (in Euro)	**0.10**	0.48	1.82
Shareholders' equity	**5,870**	3,288	5,958
Shareholders' equity attributable to Pirelli S.p.A.	**5,672**	3,114	5,756
Shareholders' equity attributable per share (in Euro)	**2.83**	1.57	2.89
. Net financial position (positive)/negative	**(2,225)**	(296)	(3,495)
. Investments in fixed assets	**310**	235	562
. R & D expenditure	**109**	105	213
. No. employees (at end of period)	**40,674**	41,809	41,914
.No. factories	**86**	86	87
. Pirelli S.p.A. ordinary shares (No. in millions)	**1,917**	1,901	1,903
. Pirelli S.p.A. savings shares (No. in millions)	**88**	88	88
. Total Pirelli S.p.A.shares	**2,005**	1,989	1,991

PIRELLI S.P.A.

Summary Data

BALANCE SHEET	30/06/2001	30/06/2000	31/12/2000
			(in millions of Euro)
Intangible Assets	21.6	12.6	15.2
Tangible Assets	27.8	26.8	27.5
Financial Assets	2,693.3	2,406.8	2,625.8
Net Working Capital	135.0	131.9	1,605.5
	2,877.7	**2,578.1**	**4,274.0**
Shareholders' Equity	3,506.8	2,257.1	3,766.8
Funds	76.3	64.4	62.8
Net Financial Position	(705.3)	256.6	444.4
	2,877.8	**2,578.1**	**4,274.0**
INCOME STATEMENT			
Financial Income and Expenses	1.4	0.6	2,367.9
Value adjustments to financial assets	0.0	-	(0.7)
Other operating income/(expenses)	(19.8)	(13.7)	(21.4)
Income from ordinary operations	**(18.4)**	**(13.1)**	**2,345.8**
Extraordinary Income and Expenses	30.4	301.6	330.1
Income Tax	(0.2)	(62.5)	(943.0)
Net Income for the period	**11.8**	**226.0**	**1,732.9**