

## **PRESS RELEASE**

### **The Board of Directors Meets HALF-YEAR 2002 RESULTS APPROVED**

- **THE UNPRECEDENTED CRISIS IN WORLD TELECOMMUNICATIONS MARKET, WITH A TWO-THIRDS FALL IN WORLD DEMAND FOR TLC CABLES AND SYSTEMS, PROVOKES A DROP OF APPROX. 90 MILLION EUROS IN GROUP'S PBIT (150 MILLION EUROS INCLUDING THE SUPPLY AGREEMENT WITH CISCO) COMPARED WITH FIRST HALF OF 2001**
- **DRASTIC COST REDUCTION ALLOWS GROUP SAVINGS OF AROUND 90 MILLION EUROS OVER THE HALF-YEAR**
- **ENERGY SECTOR PROFITABILITY IMPROVES, THE POSITIVE TREND IN THE TYRES SECTOR IS CONFIRMED**
- **REVENUES: 3,352 MILLION EUROS, COMPARED WITH 3,946 MILLION EUROS IN THE FIRST HALF OF 2001**
- **EBITDA: 278 MILLION EUROS COMPARED WITH 432 MILLION EUROS IN THE FIRST HALF OF 2001**
- **OPERATING INCOME: 93 MILLION EUROS COMPARED WITH 184 MILLION EUROS (243 MILLION EUROS INCLUSIVE OF CISCO SUPPLY AGREEMENT) IN THE FIRST HALF OF 2001**
- **NET INCOME EXCLUDING OLIMPIA: 2 MILLION EUROS PROFIT**
- **NET INCOME INCLUDING OLIMPIA 52 MILLION EUROS LOSS**
- **NET DEBT: 1,618 MILLION EUROS**

*Milan, September 9, 2002* - Pirelli S.p.A. Board of Directors met today and examined the results of the accounts for the first half of 2002, ended June 30th 2002.

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.

As already announced, the Telecommunications Cables and Systems reference markets are undergoing a crisis of unprecedented gravity worldwide which is impacting industry-wide performance far more greatly than could possibly have been predicted. The serious difficulties the sector has been encountering since mid-2001 have become increasingly marked and have caused a two-thirds fall in world demand to date: the collapse in volume has been followed also by a significant drop in prices.

The comparison between the first half of 2001 and the first half of 2002 is between

the best period in the history of Telecom Cables and Systems and what is proving to be absolutely the worst period.

As a consequence, despite the positive results achieved by both the Energy Cables and Systems and Tyres Sectors, Group's operating income over the first half of 2002 - equal to approx. 93 million euros, compared with 184 million euros during the first half of 2001 (243 million euros inclusive of the supply agreement with Cisco Systems) - posts a decrease of 91 million euros.

In such difficult environment, the Group is implementing structural actions to contain costs. In the first half of 2002 this produced gross efficiency gains from structures and operational processes corresponding to approximately 90 million euros. The Group is therefore maintaining its capability to react to drastically different market conditions.

The Energy Cables and Systems Sector registered improved profitability despite being affected by unfavourable international market conditions, while the Tyres Sector has confirmed its positive trend already recorded in the first quarter of 2002, with further strong growth in the "top of the range" segments.

The improved performances by the Energy Cables and Systems and Tyres Sectors 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.

## **The Group**

In the first six months of 2002 Group sales amounted to 3,352 million euros, falling 11.9% (net of the currency effect) compared with the first half of last year. This essentially reflects the revenues contraction in the Telecom Cables and Systems Sector (-65%, roughly), even though the Company increased its market share in this sector.

The Group's gross operating profit/EBITDA in the first half of 2002 corresponded to 278 million euros, compared with 432 million euros in the first six months of last year. The bulk of the 35% reduction was registered in the Telecom Cables and Systems Sector, while the Tyres Sector held firm and the Cables and Energy Systems Sector posted an improved result. It should be highlighted that the first half of 2001 took profit from the tune of 59 million euros from the Cisco Systems supply agreement.

Operating income for the first half of 2002 corresponded to 93 million euros, compared with 184 million euros in the first six months of last year. The 49.4% decrease rises to 61.7% when taking into account the revenue impact on the first half of 2001 of the previously-mentioned Cisco Systems supply agreement.

The variations may be summarized as follows:

- Gross efficiencies achieved thanks to the above-mentioned actions taken have had a positive effect worth 87 million euros;
- Commercial variances recorded a drop of 157 million euros (the Telecommunications Cables and Systems Sector alone accounting for a drop of 197 million euros);
- The unit cost for production factors, the impact of volumes reduction, exchange rate effects and further variations had a negative impact corresponding to approximately

21 million euros;

· The end of the Cisco Systems supply agreement, as noted above, yielded a reduction in revenues of approximately 59 million euros.

Item Financial Charges/Income posted a negative balance of 82 million euros, compared with a positive balance of 33 million euros in the same period last year. This figure is inclusive of 21 million euros arising from adjustment of the value of securities in the portfolio to market prices. The residual 61 million euro sum may be attributed to the balance of financial charges and income generated by net debt.

The result from equity interests, equal to 54 million euros, derives from the valuation, using the shareholders' equity method, of the equity interest in Olimpia S.p.A. Extraordinary income exceeded charges by 24 million euros. This item essentially consists of capital gains realized by Pirelli SpA (totalling 17 million euros) from the real estate reallocation process: among this, the sale to Pirelli & C. of the Rome Company Headquarters and the historical Bicocca degli Arcimboldi building. In the first half of 2001 this item consisted principally of pre-tax capital gains realized on the disposal on the open market of Pirelli SpA shares held by the company (30 million euros), and 36 million euros paid by Cisco Systems as part of the disposal of the Terrestrial Optical Systems unit in 2000.

Group net income in the first six months of 2002, excluding the impact of the equity stake in Olimpia, was equivalent to a 2 million euro profit; taking Olimpia into consideration this becomes a 52 million euro loss, compared with a 200 million euro profit recorded in the first half of 2001.

Shareholders' equity as at 30 June 2002 amounted to 5,207 million euros, compared with 5,660 million euros at year-end 2001. The difference derived from losses over the period (52 million euros), payout of dividends (149 million euros) and, above all, the negative impact of exchange rates, corresponding to 236 million euros.

Net debt met the targets stated in the three-year plan and at 30 June 2002 stood at 1,618 million euros (1,089 million euros at year-end 2001). This figure includes: the final 263 million euro tax payment for the disposal of Optical Technologies to Corning; 149 million euros in dividend payouts; and 72 million euros in charges for restructuring.

Free cash flow was positive to an extent of 59 million euros.

Investments in capital assets amounted to 150 million euros, compared with 310 million euros for the first half of 2001. The ratio of investments to depreciation is 0.94 (1.88 in 2001).

The Group's priority commitment to research and technological innovation, despite negative conditions, has been confirmed during the first half of 2002 with research and development costs rising to 115 million euro (109 million euros for the first half of 2001), corresponding to 3.4% of sales (2.8%).

Group headcount as at 30 June 2002 was 38,043, against 39,127 at year-end 2001 and 40,674 at the end of June 2001.

Prospects for the second half of the year 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.

## **Group business breakdown**

### Energy Cables and Systems

Sales by this Sector in the six months to 30 June 2002 amounted to 1,614 million euros, a 4.6% reduction on the same period during the previous year.

Operating income corresponded to 26 million euros, compared with 20 million euros during the first half of 2001. This result was equal to 1.6% of sales, as opposed to 1.2% during the same period last year.

Net income in the first half of 2002 was negative by an extent of 1 million euro after financial charges corresponding to 27 million euros, extraordinary income for 10 million euros and fiscal charges for 10 million euros.

The net financial position as at 30 June 2002 was negative by 521 million euros, matching the level registered at year-end 2001.

At the end of June 2002 headcount stood at 13,421, a 714 reduction on year-end 2001.

Despite the uncertain macro-economic situation, in the second half of 2002 the Energy Cables and Systems Sector is expected to post improved results driven by the efficiency and rationalization actions currently underway.

### Telecommunications Cables and Systems

Sales by this Sector in the six months to 30 June 2002 amounted to 284 million euros, a steep drop compared with the same period in 2001 (-65%). As noted previously, the entire market is going through a crisis of unprecedented gravity.

Operating income posted a loss of 20 million euros, compared with an operating profit of 82 million euros during the first half of 2001. This reflects the lower volumes brought about by the market crisis.

Net income in the first half of 2002 registered a 33 million euro loss, after financial charges corresponding to 10 million euros, 1 million euros in extraordinary charges, and fiscal charges corresponding to 2 million euros.

The net financial position as at 30 June 2002 was negative by 409 million euros, compared with 367 million euros at year-end 2001. The difference may principally be ascribed to operating requirements over the period.

At the end of June 2002 headcount numbered 3,220, down 857 on year-end 2001.

In the second half of 2002 the expectation is that the Telecommunications Cables and

Systems industry is unlikely to register a significant market upturn. Efficiency enhancement initiatives during the first half of the year aim at alleviating the negative repercussions of current market trends. The benefits of these initiatives may already become evident as early as in the second half of the current year.

## Tyres

Sales in the six months to 30 June 2002 amounted to 1,488 million euros, a 0.7% rise over the same period in 2001.

Operating income, at 111 million euros (corresponding to 7.5% of sales), matched the performance for the first half of 2001.

Net income in the first half of 2002 corresponded to 55 million euros (after financial charges equal to 32 million euros, 1 million euros in extraordinary charges, and fiscal charges corresponding to 23 million euros), compared with 51 million euros for the first half of 2001.

The net financial position as at 30 June 2002 was negative by 607 million euros. This compares with 684 million euros at year-end 2001. This improvement was the result of an 80 million euro capital increase undertaken by Parent company Pirelli SpA (counterbalanced by the 30 million euro dividend payments received by the parent company), in addition to working capital controlling actions.

At the end of June 2002 headcount stood at 20,533, up by 539 compared with the end of 2001. The rise was wholly owing to higher numbers of temporary workers (+579).

Tyre Sector performance in the second half of 2002 is expected to show a slight improvement over the preceding year.

Appendixes: Balance Sheet / Income Statement of Pirelli S.p.A. for the sixth months ended June 30th 2002, not audited by the Independent Auditors nor by the Board of Statutory Auditors.

## Appendix 1

### The Group

	(million euros)			
	30/06/2002	30/06/2002	30/06/2001	31/12/2001
	(excluding Olimpia)			
. Sales	3.352	3.352	3.946	7.509
. Gross Operating Income/EBITDA	278	278	432	666
% of sales	8.3%	8.3%	10.9%	8.9%
. Operating Income	93	93	243	295
% of sales	2.8%	2.8%	6.2%	3.9%
. Financial Charges/Income	(82) (*)	(82) (*)	33	(22)
. Results from Equity Interests		(54)		(33)
. Extraordinary Charges/Income	24	24	52	(16)
. Fiscal Charges	(33)	(33)	(128)	(138)
. Net Income	2	(52)	200	86
% of sales	0.1%	(1.6)%	5.1%	1.1%
. Pirelli S.p.A. Net income after minorities		(52)	197	82
. Pirelli S.p.A. Net income per share after minorities (in euros)		(0.03)	0.10	0.04
. Shareholders equity		5.207	5.870	5.660
. Pirelli S.p.A. Shareholders Equity after minorities		5.023	5.672	5.462
. Pirelli S.p.A. Shareholders Equity per share after minorities (in euros)		2.50	2.83	2.72
. Net financial position (assets)/liabilities		1.618	(2.225)	1.089
. Investments in capital assets		150	310	643
. Research and Development expenses		115	109	237
. Employees (at the end of period)		38.043	40.674	39.127
. Factories n.		81	86	84
. Pirelli S.p.A. Ordinary Shares (n. millions)		1.919	1.917	1.918
. Pirelli S.p.A. Saving Shares (n. millions)		88	88	88
. Total Pirelli S.p.A. Shares		2.007	2.005	2.006

(\*) it includes 21 million euros from adjusting securities' value in portfolio

## PIRELLI SPA

## Data Highlights

	<b>(million euros)</b>		
<b>BALANCE SHEET</b>	<b>30.06.2002</b>	<b>30.06.2001</b>	<b>31.12.2001</b>
Intangible fixed assets	13.6	21.6	15.8
Tangible fixed assets	15.9	27.8	27.5
Long-term investments	5,829.6	2,693.3	5,707.3
Current assets	33.9	135.0	(86.1)
	<b>5,893.0</b>	<b>2,877.7</b>	<b>5,664.5</b>
Shareholders' equity	5,079.0	3,506.8	4,984.9
Reserves	54.5	76.2	49.1
Net financial position	759.5	(705.3)	630.5
	<b>5,893.0</b>	<b>2,877.7</b>	<b>5,664.5</b>
<b>INCOME STATEMENT</b>			
Financial income and charges	242.9	1.4	1,061.1
Adjustment of the value of investment assets	0.0	0.0	(38.2)
Other operating income/(costs)	(12.5)	(19.8)	(37.0)
<b>Result from ordinary operations</b>	<b>230.4</b>	<b>(18.4)</b>	<b>985.9</b>
Extraordinary income and charges	19.9	30.4	767.9
Taxes on income	4.6	(0.2)	(264.5)
<b>Operating profit/loss</b>	<b>254.9</b>	<b>11.8</b>	<b>1,489.3</b>

	Pirelli S.p.A. half-year 2002 consolidated financial statements (1)	Pro-forma adjustments			Total pro-forma adjustments	Pirelli S.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>(in million euros)</i>						
<b>Statement of Income summary</b>						
Sales	3,352	-	-	-	-	3,352
Operating income	93	-	-	-	-	93
Charges/Income Investments / Adj. value of long-term investments	(136)	53	(87)	(257)	(291)	(427)
Extraordinary (Charges)/Income	24	-	(1)	-	(1)	23
Taxes	(33)	-	-	-	-	(33)
Net income	(52)	53	(88)	(257)	(292)	(344)
Net income after minorities	(52)	53	(53)	(154)	(154)	(206)
Effect of write-downs for goodwill	1	-	-	295	295	296
Net income excluding write-downs for goodwill	(51)	53	(88)	38	3	(48)
Net income after minorities excluding write-downs for goodwill	(51)	53	(53)	23	23	(28)
<b>Reclassified balance sheet</b>						
Fixed assets	6,471	72	8,610	(3,449)	5,233	11,704
Working capital	1,122	-	66	-	66	1,188
Total net invested capital	7,593	72	8,676	(3,449)	5,299	12,892
Funded by:						
Shareholders' equity	5,207	72	5,081	(3,449)	1,704	6,911
- of which shareholders' equity after minorities	5,023	72	3,049	(3,317)	(196)	4,827
Reserves	768	-	-	-	-	768
Net financial position (assets)/liabilities	1,618	-	3,595	-	3,595	5,213

(1) Pirelli S.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 S.P.A. 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 SpA Group: consolidated data	5,207	5,660	1,618	1,089	0.31	0.19	5,023	5,462
Pirelli SpA 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.	6,911	7,739	5,213	4,598	0.75	0.59	4,827	5,469
Pirelli SpA Group: pro-forma consolidated data incl. Olimpia S.p.A. and the Olivetti group wholly consolidated	26,784	30,435	42,307	42,960	1.58	1.41	4,827	5,469