

Pirelli SpA Nine months results

Milan, 5 November 2001 - The Board of Directors of Pirelli SpA today examined the Group's consolidated financial statements at 30 September 2001.

Income before extraordinary items and taxes, at 287 million Euro is basically in line with the first nine months of 2000 (291 million Euro), and this is so after having adjusted the value of the participation in F.C. Internazionale Milano S.p.A. by 12 million Euro and after having accounted for the effects of the Olimpia operation to an extent of 6 million Euro. Net income for the period, equal to 215 million Euro (after extraordinary items of 76 million Euro and taxes of 148 million) is obviously lower in comparison with the 1,024 million Euro for the first nine months of 2000 (which, as is known, were impacted by the extraordinary gain resulting from the sale to Cisco of the Optical Terrestrial Systems business) after extraordinary income for 1,158 million Euro and 425 million Euro in tax.

In line with expectations announced in the Report for the first six months of the year, the Group's activities in third quarter 2001 have been affected by the sharp economic slow-down in the USA, Japan and Europe, as well as by the intensification of the crisis in the reference market of the Telecom Cables and Systems Sector.

The Group's consolidated sales revenues at 30 September 2001, equal to 5,695 million Euro, show an increase of 4.9% compared to the same period previous year, while sales revenues for third quarter 2001 alone amount to 1,749 million Euro versus 1,832 million Euro for third quarter 2000.

The sales revenues of the Cables and Systems Sector at 30 September 2001 have risen 9%, moving from 3,276 million Euro to 3,571 million Euro, primarily thanks to the contribution of the energy cables activities acquired in 2000, as well as to larger optical cables sales volumes. This increase in revenues is due to the favorable trend in volumes (+8.2%) and prices (+2.6%), partly eroded by exchange rate (-1%), mix and other (-0,8%) effects. Sales revenues for third quarter 2001 amount to 1,093 million Euro versus 1,105 million same quarter 2000. In more detail, the Energy Cables and Systems Sector shows higher sales revenues versus same period previous year (+9.7%) largely due to the increase in volumes following the acquisition of former BICC and NKF activities. The positive sales trend of the General Market, High Voltage, Special Cables and Accessories businesses is neutralized in part by the negative trend of the Power Distribution, Installations and Submarine Systems businesses. Geographically speaking, Europe and South America denote an increase in sales, while North America shows a reduction in volumes as a result of the unfavorable economic climate. The sales revenues of the Telecom Cables and Systems Sector have risen 10% compared to the same period previous year. After the good performance of the first six months (+24% versus previous year) the third quarter instead shows a 14% drop, when compared to previous year, due to the start of the North American recession and the repercussion of the Argentinian economic crisis on the other South American countries. The sales trend on European and Asian markets on the other hand continues to be positive and shows an increase of 28% versus same period previous year.

Tyre Sector sales revenues at 30 September 2001, equal to 2,133 million Euro, show a 1% slide compared to the first nine months of 2000, despite an increase in volumes (+1.6%) mix and other effects (+1.3%), on account of the exchange rate effect (-

3.4%) and to a lesser extent prices (-0.5%). Sales revenues for the third quarter amount to 656 million Euro versus 730 million Euro third quarter 2000. Car /Light Truck tyre sales volumes for the nine month period have recorded a 2% drop compared to September 2000 primarily as a result of a fall in Original Equipment sales. Performance of the Replacement sales channel on the other hand was positive above all thanks to the strong growth (+16% versus 2000) of Pirelli brand "high performance" passenger car tyre volumes, particularly in Europe and South America. Truck Tyre sales volumes have dropped 2% compared to 2000 and here too the Replacement channel shows an increase (+3%). The good performance of Europe, Egypt, African and Asian markets was not enough to bridge the gap left by laggards Turkey and South America. To round up, Motorcycle tyre volumes show an increase of 14% due to both Replacement and Original Equipment, particularly in South America.

The Group's gross operating profit for the period amounts to 569 million Euro (10% of sales) compared to 626 million Euro (11.5% of sales) for the first nine months of 2000.

As regards operating profit at 30 September 2001, to the extent known, the Pirelli Group's business Sectors have performed better than major competitors; it in fact stands at 290 million Euro (5.1% of sales) versus 339 million Euro (6.2% of sales) same period previous year; for third quarter 2001 it is equal to 47 million Euro versus 126 million Euro (28 million Euro of which in respect of the supply agreement with Cisco Systems) same period 2000. In comparison with July-September 2000, the quarter sees Tyre Sector holding its ground, the Energy Cables and Systems Sector moving forward and the Telecom Cables and Systems Sector falling back. As regards this latter in particular, actions directed at recovering efficiency in the manufacturing structure have allowed the Sector to maintain overall profitability for the period at a level which is still satisfactory. These actions have also compensated for the reduced contribution of Submarine Cables and Systems, whose many projects are finding it difficult to take off due to the cloud of uncertainty hanging over the international economy and, in some cases, to the difficulty in procuring the financial resources. Meanwhile the strengthening of new business activities (Fiber to the home - Access Networks) continues, through internal growth as well as by forming important technological and strategic alliances such as those with Alloptic (USA) and with e-Biscom.

The Group's overall extraordinary income and charges for the period show a positive balance of 76 million Euro versus 1,158 million Euro previous year. This primarily includes the gain, before tax, realized from the sale on the market of Pirelli S.p.A. treasury shares (30 million Euro); 36 million Euro received from Cisco Systems within the framework of the sale of the Optical Terrestrial Systems business which took place last year; the gain resulting from real estate divestments during the third quarter equal to 39 million Euro; restructuring charges of 22 million Euro. This item same period previous year comprised the gain, before tax, derived from the sale of the Optical Terrestrial Systems business and manufacturing restructuring and rationalisation charges.

The net financial position is passive to an extent of 58 million Euro compared to a positive position of 2,225 million Euro at 30 June 2001 and 3,495 million Euro at 31 December 2000. The variation with respect to 30 June 2001 is mainly to be attributed to the investment in Olimpia S.p.A. (2,100 million Euro).

Research and Development expenditure amounts to 168 million Euro, with an increase of 8% compared to 156 million Euro for the first nine months of 2000; wholly posted in the profit and loss account, it represents 3% of sales (2.9% in 2000). This increase stands witness to the Group's intent to maintain and strengthen its technical product and process leadership in the Tyre Sector - where the new MIRS (Modular Integrated Robotized System) technology is quickly gaining acceptance in the marketplace with the first homologation secured from BMW - in Energy Cables and Systems -- where the new high voltage power cables based on the Air-Bag Cable SystemTM- technology are currently being introduced in the market - and also Telecom Cables and Systems, where construction of the new buildings which will house Pirelli Labs is nearing completion in the Milan-Bicocca area.

At 30 September 2001 employees were 39,767 in number, with a reduction of 907 in the third quarter and of 2,147 when compared to the end of 2000. Re-organisation and efficiency recovery activities will continue also in forthcoming months.

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Among the events of significance which have occurred after 30 September 2001, the Company highlights that, in accordance with the agreement with Bell S.A., on 5 October 2001 the remaining 1,000,662,120 Olivetti ordinary shares and 68,409,125 Warrants were transferred from Bell to Olimpia. The agreement dated 19 September 2001 envisaged, moreover, the undertaking on the part of the majority shareholders of Bell to ensure the underwriting by the latter of a bonded loan issued by Olimpia, on payment by Olimpia of the purchase price of the participation in Olivetti. The bonded loan was underwritten on 5 October 2001. The features of the loan are: amount equal to approximately 1,033 million Euro, 6 years duration, wholly reimbursable on expiry, unless reimbursed in advance at the request of the bond holder, in Olivetti shares, at a ratio of 1 share per bond at a nominal value of 3.92 Euro each; remuneration through an annual gross fixed rate of 1.5%, payable in cash on expiry or at the date of the advance reimbursement. On 31 October 2001, Olimpia SpA, in execution of article 16 of the agreement concluded on 30 July 2001 between Pirelli SpA, Edizione Holding SpA and Bell S.A. regarding the sale of the participation in Olivetti SpA held by Bell S.A., has exercised the call option towards Bell S.A. for n° 54,000,000 ordinary Olivetti SpA shares, at a unit price of 4.175 Euro per share. These shares had been bought by Bell on 15 October 2001 from Banca di Roma SpA/Mediocredito Centrale SpA on the basis of a previous co-selling agreement. At present, therefore, Olimpia S.p.A. holds 27.7% of the share capital of Olivetti S.p.A.

As regards the business outlook for the rest of the year, the previously mentioned deterioration of the overall macro-economic scenario, worsened by recent international events, will impact the last quarter too. Despite this and the lower operating profit, income before extraordinary items, tax and the effects of the Olimpia operation (estimated at approximately 60 million Euro) will suffer only a slight reduction compared to the year 2000.

The Board of Directors appointed Giovanni Ferrario Managing Director, who also keeps the position of General Manager. Responsibilities for all Operating activities are delegated to Giovanni Ferrario. Finally, Francesco Gori was appointed General Manager Tyre Sector.

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Highlights of the Pirelli Group's consolidated figures at 30/09/2001

	(million euro)				
	3rd quarter 2001	3rd quarter 2000	actual at 30/09/2001	actual at 30/09/2000	actual at 30/09/2000
.Sales revenues	1,749	1,832	5,695	5,430	7,477
.Gross operating profit	137	224	569	626	820
% of sales	7.8%	12.2%	10.0%	11.5%	11.0%
.Operating profit	47	126	290	339	437
% of sales	2.7%	6.9%	5.1%	6.2%	5.9%
.Financial income and expenses	(36)	(16)	(3)	(48)	(75)
.Net income before extraordinary items and taxes	11	110	287	291	362
% of sales	0,6%	6,0%	5,0%	5,4%	4,8%
.Extraordinary income/expenses	24	(8)	76	1,158	4,277
.Taxes	(20)	(39)	(148)	(425)	(1,013)
.Net income	15	63	215	1,024	3,626
% of sales	0.9%	3.4%	3.8%	n.s.	n.s.
.Net income attributable to Pirelli S.p.A.			211	1,020	3,632
.Net income attributable per share (in Euro)			0.11	0.51	1.82
.Net financial position (positive)/negative	2,283*	185*	58	(111)	(3,495)
.Research and Development Expenditure	59*	51*	168	156	213
.N° employees (at end of period)	(907)*	(1,281)*	39,767	40,528	41,914
.N° factories	0*	0*	86	86	87

(*) Data correspond to variation with respect to end of previous quarter