

PRESS RELEASE

RESULTS FOR NINE MONTHS TO 30 SEPTEMBER 2002 APPROVED

- MANAGEMENT ACCELERATES RATIONALISATION OF TELECOMS AND ENERGY BUSINESSES: EUROS 260 MILLION SET ASIDE FOR RESTRUCTURING; FURTHER REDUCTION OF 2,400 JOBS ACROSS THE GROUP OF WHICH 90% OUTSIDE ITALY**
- THE UNPRECEDENTED CRISIS IN THE TELECOMS EQUIPMENT MARKET CONTINUES NEGATIVE TO IMPACT RESULTS**
- ENERGY CABLES AND SYSTEMS BUSINESS DELIVERS RESULTS IN LINE WITH PREVIOUS YEAR, IN SPITE OF THE ECONOMIC SLOWDOWN, WITH AN IMPROVEMENT FORESEEN IN THE FINAL QUARTER**
- TYRES: CONTINUED PROGRESS**
- CONSOLIDATED REVENUES OF EUROS 4,810 MILLION, -11% NET OF EXCHANGE RATE EFFECTS**
- TYRE BUSINESS EBITDA IMPROVES (+ EUROS 7 MILLION), ENERGY BUSINESS EBITDA UNCHANGED, STRONG DECREASE IN TELECOM CABLES BUSINESS EBITDA (- EUROS 207 MILLION INCLUDING THE EFFECT OF TERMINATION OF CISCO SUPPLY AGREEMENT)**
- OPERATING INCOME OF EUROS 95 MILLION AGAINST EUROS 290 MILLION AT 30 SEPTEMBER 2001, DUE ENTIRELY TO TELECOM CABLES AND TERMINATION OF CISCO SUPPLY AGREEMENT**
- NET LOSS BEFORE OLIMPIA INVESTMENT EFFECT: - EUROS 325 MILLION; REFLECTS RESTRUCTURING COSTS (EUROS 260 MILLION), EXTRAORDINARY ITEMS AND NON-RECURRING FINANCIAL COSTS (EUROS 14 MILLION)**
- NET LOSS POST OLIMPIA INVESTMENT EFFECT (BEFORE ANY BENEFIT FROM DIVIDENDS FOR THE FINANCIAL YEAR): - 407 MILLION**
- IMPROVED FREE CASH FLOW AND FINANCIAL POSITION SINCE JUNE**
- OPERATING INCOME EXPECTED TO IMPROVE IN THE FINAL QUARTER**

Milan, 11 November 2002 - The Board of Directors of Pirelli SpA met today and approved the company's third quarter results to 30 September 30 2002.

The unprecedented crisis that has for over a year impacted the market for telecommunications equipment and infrastructure continues to impact the performance of the sector in the principal developed world markets. This has seen a contraction of world demand of approximately 70% in value terms added to which has been a slowing international economic environment that has impacted the energy sector, which has suffered as a result of the non-resumption of investments.

Both phenomena have more than offset the extraordinary and timely actions of the Group's management aimed at countering the falling markets through improved efficiency. This commitment - which in only nine months has produced saving of Euros 137 million - has proven to be insufficient.

Against this backdrop the Group has still produced revenues for the nine months to September 30 2002 of Euros 4,810 million (down 11% on the same period last year net of exchange rate effects). At the EBITDA level, results show an improvement in the Tyre sector (rising from Euros 277 million to Euros 284 million); the Energy business holding up, notwithstanding the investment crisis (moving from Euros 110 million to Euros 109 million); a fall in the Telecom Cables business, due to the continuing deterioration of the market and the foreseen termination of the supply agreement with Cisco Systems (for a total of Euros 207 million). EBITDA for the first nine months of 2002 was Euros 368 million against Euros 569 million in 2001. Operating income was Euros 95 million (Euros 290 million at 30 September 2001), the reduction entirely due to the Telecom Cables business and the foreseen termination of the supply agreement with Cisco Systems.

The fourth quarter of the year, however, is showing some signs of improvement compared to the previous quarter and with that of the same period in 2001.

Acceleration of Restructuring and Efficiency Measures

The Group's management has therefore decided to accelerate and intensify the efficiency measures already under way, in order to put it in the best possible position for any upturn in the market.

Further, new steps will be taken to rationalise the Energy Cables and Systems sector, aimed at increasing efficiency and to drive further the restructuring of the Telecom Cables and Systems sector. Initiatives across the business areas in a range of countries will entail the closure of six factories and the reduction of 2,400 jobs, of which 200 will come from Italy.

These measures will have a Euros 260 million impact in the 2002 financial year. Financial payback is expected in 12 months, economic payback in 18 months.

In particular the new measures, which will capitalise on synergies across sectors and territories and on the acceleration of research and innovation programmes, foresee:

Energy Cables and Systems

- The redirection of volumes towards lower cost production facilities and greater specialisation in these facilities, entailing the closure of three factories;
- Focus on higher added value sectors;

Telecom Cables and Systems

- Re-sizing of production facilities to reflect the new market conditions, with the closure of three plants;
- The acceleration of time to market for new generation opto-electronic components from Pirelli Labs

Group management and staff numbers fell by 900 at the end of September 2002 compared to a year earlier.

The **new efficiency measures** will entail a reduction of a further 900 jobs, representing in total a 16% reduction compared to the end of 2002. This represents a reduction of **management** grades of 32% and at staff level of 15%.

The new efficiency initiatives will also impact the industrial employees of cables and systems businesses of the Group. To the **1,000 job reductions already achieved** by the end of September 2002 compared to the year end 2001 **will be added a further 1,500 job cuts**, representing an overall reduction of about **9%** compared to the level at year end 2001. **Outlook for the full year 2002 and for 2002-2004**

Industrial Plan

It is expected that the **fourth quarter** should show an **improvement** compared to the previous quarter and compared to the same quarter the year before. This is based on a further improvement in the results of the Tyre Sector and in a marked improvement in the Energy Cables and Systems Sector. It is expected that the Telecom Cables and Systems will continue to feel the impact of the current negative market environment.

In view of the above, it is foreseen that operating income for the full year will be positively effected by an improved fourth quarter performance. However, this is foreseen falling below expectations as a result of the serious deterioration in the market for telecommunications equipment and by the delayed revival in investments in the energy sector.

In this context, in the absence of any further deterioration of the economic environment, the Group confirms its profitability targets set out in the 2002-2004 Industrial Plan for the Tyre and Energy Cables and Systems Sectors. The Telecom Cable and Systems Sector, which is expected to reach break-even by the end of 2003, should benefit from the accelerated introduction to the market of new products under development by Pirelli Labs and its technological partners. With regards to financial position, this is expected to improve compared to 30 September 2002.

The Group's Results at 30 September 2002

As already noted, the market for telecom equipment is undergoing an unprecedented crisis while the energy sector is itself **undergoing a worsening of the macroeconomic environment**.

The **Tyre** Sector, although also operating in a negative economic context, has **continued to deliver growth** although this in itself has not been sufficient to compensate for the performance of the other businesses.

Notwithstanding the above, in the third quarter Pirelli SpA Group produced markedly **improved free cash flow** - from Euros 59 million at the end of June 2002 to **Euros 168 million** at 30 September 2002 - **increased efficiencies** and a slightly improved financial position compared to 30 June this year.

Net profit before taking account of the Olimpia investment was **negative** by **Euros 325 million** (against a positive figure of Euros 215 million for the first nine months of 2001). This includes Euros 274 million related to restructuring costs, extraordinary items and non-recurring financial costs; including the effect of the Olimpia investment, the net loss at 30 September amounted to Euros 407 million. It is to be noted that the net result could benefit in the fourth quarter from any dividend payments made by Olivetti and received by Olimpia SpA.

Looking in more detail at the Group's results, in the first nine months of 2002 Group sales amounted to Euros 4,810 million, down 11.1% on the same period last year net of exchange rate effects (-4.4%). This decrease was split by decreased volumes (-9.1%) and by a change of prices and mix (-2%).

Sales for the third quarter 2002 amounted to Euros 1,458 million against Euros 1,749 million for the same period last year.

EBITDA at 30 September 2002 amounted to Euros 368 million, equal to 7.7% of sales against 10% for the first nine months of 2001. It should be noted that in the same period in 2001 results included Euros 59 million arising from the supply agreement with Cisco Systems.

EBITDA for the third quarter 2002 was Euros 90 million against Euros 137 million in the same period last year.

Operating income at 30 September 2002 was Euros 95 million, representing 2% of sales against Euros 290 million for the same period last year (5.1% of sales). The result for the third quarter 2002 was positive by Euros 2 million against Euros 47 million for the same period in 2001.

The variation during these nine months is entirely due to reduced inflows from the Telecom Cables and Systems (equivalent to Euros 150 million) and from the ending of the supply agreement with Cisco Systems.

Further:

- The gross efficiencies achieved by the actions already in progress had a positive impact of some Euros 137 million;
- Effects of commercial variations saw a fall of Euros 208 million (of which the Telecom and Energy Cables Sectors accounted for Euros 269 million);
- The unitary cost of production factors, the impact of reduced volumes, the exchange rate impact and other variations had a negative effect of Euros 65 million;
- The ending of the supply agreement with Cisco Systems resulted in Euros 59 million less in revenues.

The financial charges and proceeds line at 30 September 2002 was negative by Euros 121 million against receipts of Euros 12 million in the same point last year. Euros 18 million of this figure related to the adjustment of portfolio securities to market prices, while the remaining Euros 103 million relates to the balance between charges and receipts relating to net debt.

The result from investment holdings, negative by Euros 100 million, relates to the valuation by the net asset method of the investment in Olimpia (Euros 82 million) and to the write-down of the holding in F.C. Internazionale Milano S.p.A. (Euros 18 million).

The extraordinary costs/receipts balance at 30 September 2002 was negative by Euros 238 million. This includes restructuring costs related to the new rationalisation measures targeted on the Telecom and Energy Cables and Systems Sectors (Euros 260 million) and capital gains realised by Pirelli SpA (Euros 17 million) related to a broad process of reallocation of property. It should be noted in this context the sale by Pirelli & C. of its headquarters in Rome and the historic Bicocca degli Arcimboldi building. The same period last year included the capital gain, gross of tax, for the sale in the market of its own shares by Pirelli SpA (Euros 30 million) and Euros 36 million from Cisco Systems in the context of the sale in 2000 of Terrestrial Optical Systems.

Net profit at the end of September 2002 was negative by Euros 407 million (after tax charges of Euros 43 million) against a positive result of Euros 215 million in the first nine months of 2001 (after tax charges of Euros 148 million). Excluding the effect of the Olimpia investment, net profit at 30 September 2002 was negative by Euros 235 million. Consolidated net equity was Euros 4,800 million at 30 September 2002 (Euros 5,660 million at year-end 2001). This was as a result of loss for the nine months (Euros 407 million), the payment of dividends (Euros 149 million) and the negative exchange rate effect (Euros 296 million).

The net equity after minorities of Pirelli SpA at 30 September 2002 was Euros 4,613 million against Euros 5,462 million at 31 December 2001.

Net debt was Euros 1,594 million against Euros 1,089 million at 31 December 2001 (an improvement over the Euros 1,618 million at 30 June 2002). The change over the end 2001 relates principally to the costs of restructuring provided for in previous periods, to the payment of the final taxes relating to the sale of Optical Technologies to Corning, to the payment of dividends. This was balanced in part by the sale of tax credits to Unicredit Factoring S.p.A. and Mediofactoring S.p.A.

The Group's priority commitment to research and innovation is confirmed, notwithstanding the economic backdrop, with investment in this context increased during the period from Euros 168 million (2.9% of sales) to Euros 175 million (3.6%).

At 30 September 2002 the Group had 37,232 employees against 39,127 at 31 December 2001.

Significant Events Subsequent to the end of the Third Quarter

On 29 October 2002 the first phase of the Tiglio Project was completed with the formalisation of the transfer process of the activities and assets relating to the project. Pirelli Group assets transferred to Tiglio 1 amount to a value of approximately Euros 15 million (of which approximately Euros 10 million relate to Pirelli SpA and Euros 5 million relate to Pirelli Cavi e Sistemi Energia SpA). The operation produced a gross capital gain at the consolidated level of approximately Euros 8 million.

Business Unit Results for the First Nine Months 2002

Energy Cables and Systems

Sales at 30 September 2002 **were Euros 2,306 million**, down 7.3% on the same period last year.

Sales in the third quarter of 2002 were Euros 692 million against Euros 796 million in the same period last year.

Operating income at 30 September 2002 **was Euros 33 million** against Euros 37 million in the first nine months last year. This was equal to 1.4% of sales (1.5% 2001).

Third quarter operating income was Euros 7 million against Euros 17 million in the same period last year.

Net profit at 30 September 2002 was negative by Euros 131 million post financial costs of Euros 35 million, extraordinary costs of Euros 116 million (of which Euros 125 million related to restructuring) and fiscal charges of Euros 13 million.

The net financial position at 30 September 2002 was Euros 502 million, an improvement with respect to the Euros 526 million figure at 31 December 2001.

Employee numbers at 30 September 2002 stood at 12,889, down 1,246 on the 14,135 figure at the end of 2001.

Telecom Cables and Systems

Sales at 30 September 2002 were Euros 380 million 66.2% down on the same period last year.

2002 third quarter sales were Euros 96 million against Euros 312 million for the same period 2001.

Operating income at 30 September 2002 was negative by Euros 56 million against a positive Euros 94 million for the same period last year. Structural and process efficiencies (down 30% like for like on September 2001) were not sufficient to compensate for the negative effect of the market which shows no significant signs of improving in the short term. The result includes the Euros 6 million insurance indemnity (already included in the first half 2002) relating to the 2001 fire at the Battipaglia factory of Fibre Ottiche Sud.

Third quarter operating profit was negative by Euros 36 million against a positive Euros 12 million or the same period in 2001.

Net profit at 30 September 2002 was negative by Euros 179 million post financial costs of Euros 14 million, extraordinary costs of Euros 116 million (of which Euros 114 million were for restructuring).

The net financial position at 30 September 2002 was negative to the extent of Euros 425 million against Euros 367 million at the end of September 2001. The change relates principally to operating requirements for the period accentuated by the continued fall in results, the effect of which has been partially offset by the containment of working capital.

Employee numbers at 30 September 2002 stood at 3,065 down 1,012 on the 4,077 figure at the end of 2001.

Tyres

As already noted, this business continues to grow, notwithstanding the unfavourable market conditions.

Sales at 30 September 2002 were Euros 2,155 million, up 1% on the same period last year.

Car/Light Truck volumes were 2% ahead of the same period last year thanks to a general increase in share in the major Replacements and Original Equipment markets. Performance products were particularly strong.

Truck volumes were 6% ahead of the same period in 2001, bucking the market trend. A strong performance in South America and in other non-European markets more than compensated for the weakness in the European region.

Moto delivered a positive performance with volumes 9% ahead on last year, with growth ahead of the median in Replacements in Europe and North America.

Third quarter 2002 sales were 667 Euros million (up 1.7%) were ahead of the Euros 656 million recorded in the same period last year.

Operating income at 30 September 2002 was Euros 150 million against Euros 144 million for the same period last year. This represents 7% of sales against 6.8% in the same period in 2001.

Third quarter 2002 operating income was Euros 39 million up on the Euros 33 million of the same period in 2001.

Net profit at 30 September 2002 was positive by Euros 62 million (post financial

charges of Euros 42 million, extraordinary charges of Euros 9 million and fiscal charges of Euros 37 million). This compares to Euros 54 million in the first nine months of 2001 (after financial charges of Euros 52 million and tax charges of Euros 38 million). The net financial position at 30 September was negative to the extent of Euros 562 million against Euros 684 million at 31 December 2001. The reduction was attributable to the Euros 80 million capital increase by the parent company Pirelli SpA balanced by the payment of Euros 30 million in dividends received by the parent company. Further reduction is attributable principally to actions to contain working capital.

Employee numbers at 30 September 2002 stood at 20,403 an increase of 409 over the end of 2001 exclusively as a result of higher numbers of temporary staff.

Parent Company Pirelli SpA

The **net profit** of the parent company Pirelli SpA at 30 September 2002 was **positive** to the tune of **Euros 230 million**, essentially as a result of the dividend distributed by the OTNL NV subsidiary, compared to a net profit of Euros 492 million at 30 September 2001.

Code of Behaviour adopted with regard to insider dealing.

The Board of Directors has also adopted a Company Code of Behaviour with regard to insider dealing.

The Code of Behaviour has been prepared in compliance with regulations introduced recently by the Italian Stock Exchange, which, as is commonly known, include the obligation for listed companies to make periodical disclosure regarding operations undertaken on listed securities belonging to the issuer and to its subsidiaries by parties who may have access to price sensitive information, with effect from 1 January 2003.

The document responds to the framework regulations published by the Italian Stock Exchange in the following ways:

- A flexible approach to identifying the pool of persons who are subject to disclosure obligations, in order to be able to take into account contingent situations requiring access to confidential information.
- Extension of the obligation to provide notification to include operations carried out on listed financial instruments issued by parent companies (in addition to subsidiary companies).
- A significant reduction in the quantitative threshold regarding the size of operations subject to market notification on a quarterly basis (from 50,000 to 30,000 euros) or immediately at the time of execution (from 250,000 to 80,000 euros).
- Extension of the obligation for transparency to include dealings regarding the exercise of stock options or pre-emption rights, in addition to all operations regarding financial instruments issued by Group companies, even when realized within the framework of management relations on an individual basis regarding investment portfolios for which the client has foregone the right to issue instructions.
- "*Black-out periods*", that is to say predetermined periods during which persons who are subject to the provisions of the Code may not undertake dealings.

The Code of Behaviour also provides for a system of strict sanctions which, for Directors and Auditors, includes the option of seeking removal from office from the Shareholders' Meeting.

The Code is being brought into effect in advance of the compulsory date set out in the

Stock Market Regulations (1 December 2002 as opposed to 1 January 2003). For notification purposes, dealings undertaken in the month of December 2002 shall be presented together with those undertaken during the first quarter of 2003.

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; full version of the Code of Behaviour will be soon available on the website www.pirelli.com; calendar of main corporate events for year 2003.

Appendix I

THE GROUP

(million Euros)

	Q3 2002	Q3 2001	30/09/2002 (exc. Olimpia)	30/09/2002	30/09/2001	31/12/2001
. Sales	1,458	1,749	4,810	4,810	5,695	7,509
. EBITDA	90	137	368	368	569	666
% of sales	6.2%	7.8%	7.7%	7.7%	10.0%	8.9%
. Operating Income	2	47	95	95	290	295
% of sales	0.1%	2.7%	2.0%	2.0%	5.1%	3.9%
. Financial Charges / Income	(39)	(21)	(121) (:)	(121) (:)	12	(22)
. Result from Equity Interests	(46)	(15)	(18)	(100)	(15)	(33)
. Extraordinary Charges / Income	(262)	24	(238)	(238)	76	(16)
. Fiscal Charges	(10)	(20)	(43)	(43)	(148)	(138)
. Net Income	(355)	15	(325)	(407)	215	86
% of sales	n.s.	0.9%	n.s.	n.s.	3.8%	1.1%
. Pirelli S.p.A. Net Income after Minorities				(408)	211	82
. Net Income after Minorities per share (euros)				(0.20)	0.11	0.04
. Shareholders Equity				4,800	5,739	5,660
. Pirelli S.p.A. Shareholders Equity after Minorities				4,613	5,555	5,462
. Shareholders Equity after Minorities per share (euros)				2.30	2.77	2.72
. Net financial position	(24) *	2,283 *		1,594	58	1,089
. Research and Development expenses	60 *	59 *		175	168	237
. Employees (at the end of period)	(811) *	(907) *		37,232	39,767	39,127
. Factories n.	(1) *	0 *		80	86	84

* figures show the difference in respect to the end of previous period
(:) it includes Euros 18 million from adjusting securities' value in portfolio

	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>(million Euros)</i>						
Statement of Income summary						
Sales	4,810	-	-	-	-	4,810
Operating Income	95	-	(1)	-	(1)	94
Charges/Income Investments / Adj. value of long-term investments	(221)	80	(131)	(412)	(463)	(684)
Extraordinary (Charges)/Income	(238)	-	(1)	-	(1)	(239)
Taxes	(43)	-	-	-	-	(43)
Net income	(407)	80	(133)	(412)	(465)	(872)
Net income after minorities	(408)	80	(80)	(247)	(247)	(655)
Effect of write-downs for goodwill	2			443	443	445
Net income excluding write-downs for goodwill	(405)	80	(133)	31	(22)	(427)
Net income after minorities excluding write-downs for goodwill	(406)	80	(80)	19	19	(387)
Reclassified balance sheet						
Fixed assets	6,358	99	8,610	(3,618)	5,091	11,449
Working capital	1,085	-	63	-	63	1,148
Total net invested capital	7,443	99	8,673	(3,618)	5,154	12,597
Funded by:						
Shareholders' equity	4,800	99	5,036	(3,618)	1,517	6,317
- of which shareholders' equity after minorities	4,613	99	3,022	(3,419)	(298)	4,315
Reserves	1,049	-	-	-	-	1,049
Net financial position (assets)/liabilities	1,594	-	3,637	-	3,637	5,231

(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>(million Euros)</i>	Shareholders' equity		Net debt		Net debt/shareholders' equity		Company shareholders' equity	
	30/09/2002	31/12/2001	30/09/2002	31/12/2001	30/09/2002	31/12/2001	30/09/2002	31/12/2001
	2	1	2	1	02	01	02	01
Pirelli SpA Group: consolidated data	4,800	5,660	1,594	1,089	0.33	0.19	4,613	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.	6,317	7,739	5,231	4,598	0.83	0.59	4,315	5,469
Pirelli SpA Group: pro-forma consolidated data incl. Olimpia S.p.A. and the Olivetti group wholly consolidated	25,848	30,435	39,190	42,960	1.52	1.41	4,315	5,469