

Milan, March 29, 1999 - The Board of Directors of Pirelli SpA has today examined and approved the consolidated financial statements of the Group (the same companies in consolidation as in 1997) at December 31, 1998.

In a scenario marked by fierce price pressure and strong competition in all the markets in which it operates, the Group has continued to pursue the strategic and operating policy of improving efficiency, which can be seen at the level of variable and fixed costs, and development, which was realized, among other things, with the acquisition of the Power Division of Siemens A.G.

The consolidated financial statements at December 31, 1998 show net income of Lire 534 billion compared to Lire 512 billion for the year 1997. Contributing to these results are also the improvement of Lire 18 billion in net financial expenses and in the net negative balance of extraordinary income and expenses (decreased by Lire 42 billion, from - Lire 57 billion to - Lire 15 billion), whereas depreciation rose by Lire 30 billion and the tax charge went from Lire 173 billion to Lire 249 billion owing to higher net income and to having completely utilized tax loss carryforwards.

The net income attributable to Pirelli S.p.A. is Lire 482 billion (equal to Lire 243 per share) compared to Lire 460 billion (equal to Lire 263 per share) in the prior year. The reduction in earnings per share is due to the conversion of the convertible bonds 1994/1998 and the assignment of a bonus issue to employees.

Net sales revenues total Lire 10,624 billion, a reduction of 5.7 % compared to 1997, due principally to a reduction in prices (- 7.5%), which was only partly compensated by increases in volumes and the sales mix (+ 2.2%); the exchange effect is negligible (- 0.4%). The breakdown of net sales revenues is as follows: by sector, Cables and Systems 51% and Tyres 49%; by geographic area, Italy 15%, Rest of Europe 39.5%, North America 13.9%, Central and South America 22.5%, Australia, Africa and Asia 9.1%.

Gross operating profit is Lire 1,397 billion compared to Lire 1,329 billion in 1997, representing an increase as a percentage of sales revenues (13.1%) compared to the prior year (11.8%).

Operating profit is equal to Lire 798 billion, an improvement over Lire 760 billion in 1997, reaching 7.5% of sales revenues (6.7% in 1997).

Consolidated shareholders' equity rose from Lire 4,421 billion at the end of 1997 to Lire 4,836 billion. Shareholders' equity attributable to Pirelli S.p.A. is Lire 4,507 billion (equal to Lire 2,273 per share) compared to Lire 4,045 billion (equal to Lire 2,314 per share) in the preceding year.

The net financial debt position went from Lire 478 billion at the end of 1997 to Lire 513 billion, also as a result of the purchase of the Power Division of Siemens A.G. (first tranche of Lire 270 billion) and the purchase of treasury shares (Lire 276 billion), partly offset by the conversion of convertible bonds 1994/1998 for Lire 505 billion. The gearing ratio (0.11) has remained unchanged compared to 1997; excluding the purchase of the Division from Siemens A.G., it would be equal to 0.05.

Capital expenditures in 1998 show a further increase which reach Lire 699 billion (Lire 619 billion in 1997), with the capital expenditures to depreciation ratio equal to 1.27 (1.19 in 1997).

R&D expenditures further increased to Lire 379 billion compared to Lire 355 billion in 1997, representing 3.6% of sales revenues (3.2% in 1997).

Personnel of the Group number 36,226, which is in line with that of 1997.

The Economic Value Added (EVA) is positive for Lire 30 billion (Lire 24 billion in the prior year), despite having completely utilized all tax loss carryforwards and thus a higher tax charge.

As for the performance of the operating sectors, this may be analyzed as follows.

Cables and Systems Sector

The operating profit is, like the last few years, still growing. All the sectors of business have reported price drops contrasted by higher volumes, materials cost reductions and greater efficiency in conversion costs. The new businesses of the power cables Division of Siemens will generate strong synergies in the integration of the markets and will bring high technological productive capacity, advanced research laboratories and top quality products; at December 31, 1998, the acquisitions were definitively concluded for the companies located in Germany, Hungary, South Africa, Turkey and Romania, whereas during the first months of this year the acquisitions were finalized for those in Italy, Spain and Austria, and during 1999, the acquisitions of the remaining activities will be completed (China, Russia and Slovakia).

The consolidated figures of the Sector, which have the same companies in consolidation as in 1997, show a reduction in sales revenues to Lire 5,397 billion (Lire 5,843 billion in 1997), which can be ascribed to price reductions while the effect caused by volumes and mix is positive. The operating profit, up from Lire 491 to Lire 496 billion, went from 8.4% to 9.2% of sales revenues. Net income rose by 7.7% and reaches Lire 280 billion (Lire 260 billion in 1997).

Tyre Sector

The world market for motor vehicles registered a slight advance in 1998 but with differing trends depending on the various geographic areas. In this scenario, greater efficiency and greater integration among the research centers of the Sector made it possible to step up the projects aimed at renovating and expanding the range of products; the new P3000 Energy, a leading product in the standard tyre segment with low rolling resistance, which has been very successfully received by the market; in the top of the range, more sizes have been added for the P5000 Drago, the P6000 Sport Veloce and, at the high end of the product portfolio, the P7000 and the Pzero.

Sales revenues, equal to Lire 5,218 billion, reported a reduction of 3.7% compared to 1997 (Lire 5,417 billion), due to price reductions that were only partly compensated by the positive trend in volumes and mix. The operating profit shows an increase of 8.6% from Lire 313 billion to Lire 340 billion; the net income of Lire 231 billion was affected by the higher tax charge and is practically in line with that of 1997 (Lire 233 billion).

As to significant events subsequent to the end of the year, we wish to point out, not only the previously cited completion of the acquisition of Siemens A.G.'s world power cable business, but also the agreement for the purchase of the power cables and construction division of the Australian company Metal Manufacturers Ltd; in the Tyres Sector, the joint venture with U.S.' Cooper Tire &

Rubber Company to extend our competitive position in North and South America, and the cooperation agreement with Michelin to further develop the Pax System together.

The outlook for the current year will be affected by contrasting factors. On the one hand, the cost reduction and efficiency improvement programs are rapidly being implemented, together with the recent acquisitions and strategic agreements, that will begin to show the first positive results in the second half of the year. On the other hand, the weakness of the world markets, with the exception of the United States, connected above all to the turbulence of the South American, Asian and former Soviet Union markets, will constitute an element of instability. Taking into account the above, and while it is still too early to have a precise picture concerning the possible results for the current year, we do estimate, however, that operating profit, and, therefore, before financial expenses and the tax charge, can be kept in line with that of the previous year.

The Board has also examined and approved the financial statements at December 31, 1998 of Pirelli SpA, the Group holding company, which show a net income of Lire 391 billion, with an increase of 37% compared to Lire 285 billion in 1997.

At the shareholders' meeting convened for May 21 in first call and eventually for May 24 in second call, the Board of Directors of Pirelli SpA will propose a dividend of Lire 140 for each ordinary share (Lire 120 last year) and Lire 160 for each savings share (Lire 140 last year), which will be paid out starting from June 28, 1999.

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The Board also approved the plan to merge Société Internationale Pirelli SpA, Milano (S.I.P.) in Pirelli SpA, based on an exchange ratio of 83 Pirelli SpA shares for every S.I.P. share, determined in relation to the balance sheets of the two companies at December 31, 1998, and after having obtained the opinion of independent experts. The plan will be submitted for approval to the shareholders' meeting in May.