

WORLD



The quarterly magazine for Pirelli's management throughout the world - May 2002 - No.31



Heading Towards
a Strategic Reorientation



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This issue of Pirelli World opens with the presentation of the Group's newly released three year industrial plan (page 2). After the undertaking of a re-launch and development process, together with strategic investments made in recent years, the Group will now focus on the application of new guidelines. The 2002-2004 years will therefore be dedicated to: an ongoing commitment to product range innovation; to an aggressive approach to the more profitable market segments; to a more organizational structure and to a strong focus on the needs of customers.

As for Pirelli Labs, defined as the Group's "innovation engine", new partnerships with world wide renowned institutions have been signed (page 6) in order to research and develop together innovative technologies and materials.

The Energy Cables and Systems Sector has been awarded a contract in Holland, where it will provide high voltage cables to the Dutch utility NUON (page 9), while the Telecom sector is announcing world production of a new range of dielectric fibre optic cables developed by *The Architects of Light* (page 21).

The Tyre sector has launched the new P Zero Nero in Rome after the South African world debut (page 5), and on page 12 we present the plant of Izmit three years after the earthquake that destroyed a considerable part of the production area. As for the business unit Moto unit, the www.pirellimoto.com website has been revisited and reinterpreted through a new customer-centric approach (page 8).

Finally, the new Pirelli Cal for the year 2003 will feature an Italian beauty (page 20) elected through The Cal Contest, a competition promoted by Pirelli together with Telecom Italia and MTV.

Presenting the Group's three year plan

Pirelli's Industrial Plan

The Group's strategy envisages the strengthening of its competitive position in all sectors by leveraging on product and process innovation and greater efficiency



On 9 May the Board of Directors of Pirelli S.p.A. examined and approved the Group's Industrial Plan for the 2002-2004 three-year period and the report on performance at 31 March 2002. Below are reported the main focus points announced during the press conference at Milan's Stock Exchange.

1-The Group's new strategic course

In recent years the Pirelli Group has undertaken a massive re-launch and development process, based on impro-

ving efficiency, increasing profitability and focusing on technology investments in order to strengthen its competitive positioning and presence in its various markets.

In 2001 the Group took a highly significant strategic step by investing a total of 3.170 million euro in Olimpia – the Company established together with Edizione (Benetton Group), Intesa-BCI and Unicredito – to launch the wide-ranging Olivetti-Telecom Italia business project. The operation followed the timely disposal of Terrestrial Optical

systems to Cisco and Optical Components to Corning; two minor activities sold at record multiples, with net proceeds of around 4 billion euros which, in addition to the above investment in Olimpia, were used to distribute a higher dividend as well as for other acquisitions and restructuring.

The investment in the Olivetti-Telecom Italia Group, which did not call for new funds from the shareholders, is in keeping with a long term industrial logic based on: the presence in a primary and profitable telecommunications operator, a strategic, anti-cyclical sector, with good profitability prospects; a strong focus on advanced technology in the field of fixed and mobile telephony, Internet access and web services, in optical fiber access networks (fiber to the home) and in other niche technologies; the possibility of developing significant industrial synergies between the two Groups; the possibility of leveraging on the Group's professional competencies.

The Pirelli Group consequently intends to go ahead with the plans, initiated in all sectors, directed at value growth and enhancement, thereby setting aside the previously announced disposal Plan, in view of the fact that: Pirelli is capable of best managing and developing its assets, as witnessed by its better performance versus major competitors in the different sectors; there is no need for disposals, given the Group's ability to self-finance its own growth; the acceleration of restructuring initiated in the Pirelli Group and the new three-year Plan provide favorable prospects, in terms of profitability and cash flow.

2-The 2002-2004 Industrial Plan

The guide-lines of the Pirelli Group's three-year Industrial Plan are: ongoing commitment to product range innovation; aggressive approach to the more profitable market segments; a more efficient organisational structure; strong focus on the needs of customers.

On the basis of the above guide-lines

the targets of the 2002-2004 Plan are high tech activities to account for over 40% of total sales at the end of the period, compared to the current 35%; an average annual sales revenues growth of 3%; a sharp increase in ebit, equal to 25% average per year; an ebit/sales return of 7% at the end of the period.

The Pirelli Group's net debt, which amounted to 1.089 million euro at the end of 2001, will rise at the end of 2002 - primarily due to the residual tax effect from the Corning operation amounting to almost 300 million euros and to the effect of restructuring provisions (150 million euros) in the 2001 financial statements - but will then fall again. At the end of 2004 a net debt of around 1.300 million euros is envisaged.

• *Energy Cables and Systems*

During the next three years the Plan, underpinned by technological and market leadership, follows the development guide-lines set out below: completion of production optimisation action plans and manufacturing plant rationalisation; introduction of innovative products and solutions leveraging on the synergies with Pirelli Labs; increasing presence in high value added market segments.

On the basis of the guide-lines described above, the Plan targets are: sales revenues to rise an average annual rate of 3% ; a marked rise in ebit, at an average rate of 65% per year and a return on sector sales of 6% at the end of the period.

Furthermore the 2002-2004 Plan envisages for the sector an important production capacity optimisation plan ,to be implemented also by reducing the number of plants worldwide; as a result, there will be a 40% increase in output by plants at the end of the period. Charges in respect of this plan will be limited because they were largely accounted for in the year 2001.

The Energy Cables and Systems Sector will continue to pursue its significant efficiency recovery and cost containment targets which, in the three-year

period, envisage: a 28% increase in productivity; a 7% reduction in variable cost per sales unit; an 8% cut in fixed costs. The plan also envisages that in 2004 the contribution from new products will rise above 50% in comparison with the present level of around 30%

• *Telecom Cables and Systems*

After the 2001 year that ended with an exceptionally negative market situation, which Pirelli faced better than its competitors managing to maintain profitability, the new scenario before the Sector is a radically different one compared to the outlook of a few months ago; expectations of recovery by end 2002 – beginning 2003 are now limited.

Pirelli will face this new market context by leveraging on its traditional strengths, i.e. technological leadership, a comprehensive product portfolio, a competitive cost structure, a broad customer base and global market presence.

Thanks to these strengths Pirelli aims to strengthen its share of major customers' business and in areas with greater growth potential; innovate products and processes, such as high performance cables, new optical fibers and new generation optical and opto-electronic components in particular; develop a strong presence in access network markets through advanced

optical solutions and an extensive connectivity supply capability; further increase profitability through a more extensive use of Pirelli optical fibres.

On the above basis, the three-year Industrial Plan targets are: an average annual increase in ebit of 16%; a strong increase in ebit/sales revenues, which will rise to 10% from the current 6.2%.

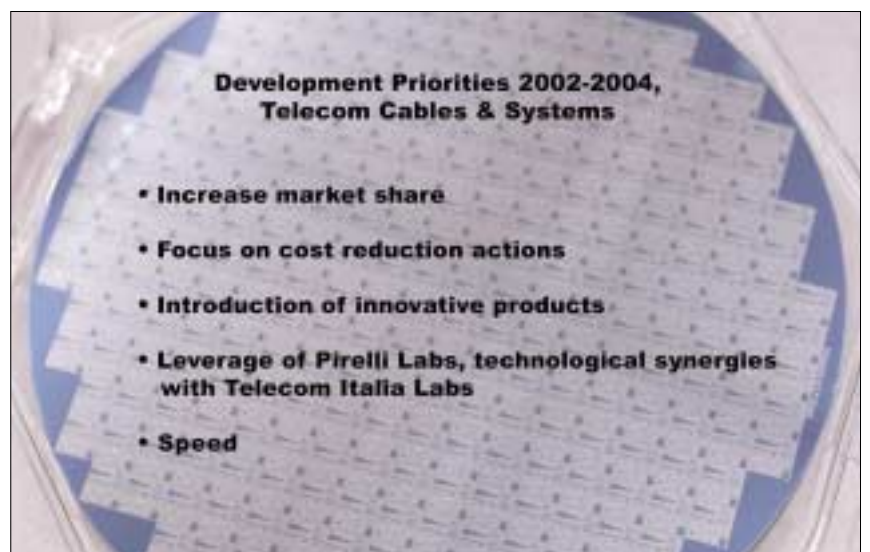
In particular, Pirelli expects to increase sales of new products based on advanced technologies (e.g. microcables, very high density fiber optic cables, "AirBag" protection cables, special fiber to the home cables and new generation optical and opto-electronic components) from the present 20% of total sales to 35-40%.

Action plans under way, directed at improving efficiency, allow the Sector to expect the incidence of fixed costs on sales to fall from the current 24% to 19%.

• *Tyre Sector*

After a period characterized by major investments in process innovation and a better performance in comparison with competitors, the three-year plan is concentrated around a strategy focused on the high performance range, where Pirelli is among the leading players.

The principal guide-lines which will be followed by the Sector are: a major innovation drive, thanks to the focus on new products based on distinctive tech-



nologies (MIRS, Run flat, PAX); greater focus on the consumer market, leveraging on high performance products with specialties in Motorcycle tyres and runflat; growth in the European market and focus on NAFTA markets, with sales rising significantly in the period; more competitive cost structures.

On the basis of the above, guide-lines Plan targets are: an average annual growth in sales revenues of 4.5%; an average increase of 19% per annum in gross operating profit a return on sales rising from 6.1% to 9.1%;

In this Sector too Pirelli intends to confirm its technological leadership capabilities, placing particular emphasis on MIRS (Modular Integrated

sources; electronic automotive integration sensors. The main research projects will be capable of generating a significant proportion of additional value for the Group in the three-year period.

3-Report on performance at 31 March 2002

The new Industrial Plan launches in a phase of unprecedented difficulty as far as the reference markets of the Energy and Telecom Cables and Systems Sectors are concerned; a phase which heavily impacted first quarter 2002 performance. The recession, which started to be felt in mid 2001, practically halved worldwide demand; the collapse in

ted to show further improvement, thanks to efficiencies. The Energy Cables and Systems Sector is, in turn, suffering from a decidedly negative international market environment, while Tyre Sector is continuing to hold up well, with further growth in the “high performance” segments.

In the last two years the Group has shown, in its different sectors, levels of efficiency and profitability consistently above those of its main competitors which leads it to view expected near term developments positively.

4- Outlook for the rest of the year

Despite the continuing difficulties in the telecom market, where the first signs of an upturn are expected towards the end of the year, the maintenance of a satisfactory level of activity in the Tyre Sector, combined with the effect of reorganization and restructuring actions initiated primarily in the Telecom and Energy Cables and Systems Sectors, lead the Group to expect a further improvement in operating income in the second quarter and to envisage for the year as a whole a performance, net of non recurring items, at least in line with the previous year.

Pirelli Chairman and CEO Marco Tronchetti Provera ended his presentation and introduction to the plan with the following speech: “The new industrial plan is based on a strong platform for future profitability and it is connected to product innovation as well as to cost reduction. (...) Pirelli still keeps its industrial role, and has developed an increasingly important focus on technology, more strength in R&D, more solidity in the productive organization. Seen the results obtained, we have then applied a rebalancing of assets that offers medium term prospects and that has been achieved without asking a contribution from shareholders and without touching the Group’s invested capital. There has been an opportunity and we have used it, keeping the Group’s traditional structure and strengthening it”.



Robotized System) through the opening of the four operating units started up in the time span of three years in Italy, Germany, UK and USA; the improvement in quality, flexibility and productivity with a positive impact on value creation; the extension of the application to the SUV and radial motorcycle tyre segments.

• Pirelli Labs

Pirelli Labs, the Group’s center of technological excellence, has launched numerous research projects, also by cooperating with leading specialist international partners, that focus on the following fields of activity in particular: new generation optical components and chips; new materials; alternative energy

volumes was accompanied by a marked drop in prices. This market phenomenon was of such proportions as to distort the comparison between first half 2001 and current year performances, particularly as regards the first months of 2001 when the Group reported record figures.

These phenomena resulted in a considerable erosion of the operating result for first quarter 2002 – equal to 92 million euros, 83 million euros of which was attributable to Telecom Cables and Systems activities – which, however, showing an improvement over last quarter 2001, demonstrates the Group’s strong capacity to react to such conditions. The second quarter too is expect-

Previews across the world

The PZero Nero Roadshow

Pirelli's top tyre tours the world: after its launch in South Africa, it has now been presented in Rome and its web site has been translated into Japanese

Daniele Pirola reports from Rome, Italy

After its South African launch in Johannesburg during the first half of February, Pirelli gave the P Zero Nero a Roman debut. From 17 to 22 March the 'imperial' city received the new product and the company's guests by way of a unique presentation location and a show of high technology. The five-day launch of the new tyre to dealers and the press comprised two key segments: the presentation and conference for the P Zero Nero at Rome's Cinecittà (the city's famous film studios), plus high speed track and road testing.

After a technical presentation of the new tyre by Pirelli management at Cinecittà, guests were taken on a guided tour of the set on which two soon-to-be-released films were made: the backdrop



was a reproduction of Broadway, on which award-winning director Martin Scorsese shot 'Gangs of New York', starring Leonardo De Caprio, and where Italian heartthrob Raul Bova was the leading man in the re-make of the film 'San Francisco'.

The Palastudio, a tensile structure of 200 square metres at Rome's Cinecittà, was transformed into a Pirelli set, this time one on which the Pirelli P Zero

Nero gala dinner took place: during the evening, clips of all-time classic films were projected on two huge maxi-screens, interspersed with sequences from the advertising campaign that will support the launch of P Zero Nero as well as behind-the-scenes clips from the photographic session for the 2002 Pirelli calendar.

On the morning of 19 March, guests took part in a spectacular cavalcade of high-powered cars with police escort through the streets of ancient and imperial Rome, from Piazza Venezia to the Coliseum, Circo Massimo to the Terme di Caracalla and on to the Trinità dei

Monti and the Piazza del Popolo. For five days, the capital was criss-crossed by a phalanx of cars and their police outriders, all fitted with the new Pirelli P Zero Nero. Then it was on to the Anagni Autodrome in the province of Frosinone, where the

technical and high speed tests took place.

The final evening of the operation was given over to the press, for whom an exclusive dinner was held at Cinecittà and attended by both Giovanni Ferrario, managing director of the Group, and Walter Veltroni, Mayor of Rome. A debut worthy of its *debutante*, a tyre which symbolises the maximum in Pirelli car tyre production.

Surfing on www.pzeronero.co.jp

The P Zero Nero world road show moves on in virtual mode to Japan, with the inauguration of a new Internet site for the product in the Japanese language. Japan is a strategic market in the Asian context for the Tyre Sector, both as far as the typology of its local motoring sector is concerned and because of its nearness to other major markets, like China, Malaysia, Singapore and Taiwan. With a population of over 126 million of whom about 20 million are linked to the 'Net, the Rising Sun's navigators will appreciate not only the fact that, to improve local communications, the Pirelli P Zero Nero web site is in their language, but also that a commercial point of reference exists at which they can get to know the product. Navigation on the site is rapid and intuitive: visitors can use a home page with an innovative menu for horizontal browsing; attractive graphics; explanations and useful information. Considered among the most technologically oriented in the world, many Japanese motorists drive cars with onboard computers and integrated systems, e-mail and satellite navigation. They will be able to link up to the new Pirelli tyre's www.pzeronero.co.jp site where they will get to know and appreciate the characteristics of the latest addition to the P Zero Collection. The site is enriched by films and photographs of extremely high definition, and product information to which tools are linked, such as: a fitment chart, a dealer locator, and a continually updated size range, in line with the sales criteria of the country.

Pirelli Labs' new partnerships

Together for the Advancement of Science

With an overall investment of three million euros, the Group aims to become an advanced competence centre for “clean power”

It is renowned that joining forces is always something which speeds up progress. In particular, in the field of science, striking research relationships with other colleagues is extremely important in the name of working together to achieve the same goals. This is why Pirelli Labs, the Group's advanced research and development centre, recently signed two agreements with Italian and international institutes, aimed at studying new

materials and components for fuel and photovoltaic cells, two of the most important new technologies for “clean power” generation.

With an overall investment of € 3 million in the next three years, both agreements were signed by Pirelli



Deposition of liquid photo resists

Labs - Materials Innovation, the division dedicated to researching and developing innovative technologies and materials for the entire Group; its objective is to become an advanced R&D competence centre in a market which is expected to be worth Euro 60

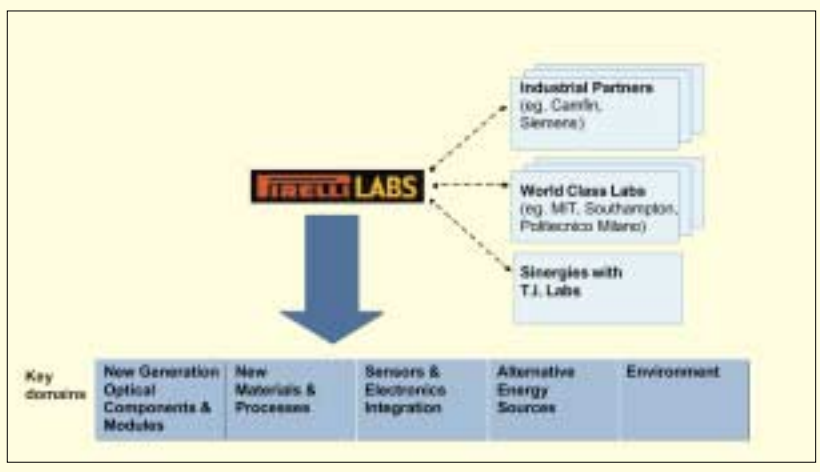
billion in 10 years' time.

The first partnership, with an investment of about € 1 million, was signed between Pirelli Labs, the Institute for the Study of Nanostructured Materials (ISMN) of CNR in Bologna, the Inter-University Consortium for Materials' Science and Technology (INSTM) – UdR in Padua and the Ioffe Institute in St. Petersburg. The Ioffe Institute is one of Russia's largest institutions for research in physics and technology with a wide variety of

operating projects. It was founded in 1918 and run for several decades by Abram F. Ioffe. The Institute is affiliated with the Russian Academy of Sciences. Every year a multi-stage scientific competition is held in the Institute: the works awarded the Insti-

Pirelli Labs: the Group's Innovation Engine

The Pirelli Labs have been recently defined as the Group's innovation engine. During the presentation of the three year plan, Marco Tronchetti Provera commented: "The strategically strong element for Pirelli is that of having rationalised and also introduced within the Group a single body – the Pirelli Labs – putting together all possible better competencies and making them increasingly strong. This puts us in a very strong competitive situation". So far, Pirelli Labs have developed many partnerships with other companies as far as recyclable energy is concerned. For example, agreements have been reached with Camfin, Siemens and some of the major university laboratories across the world.



tute Prizes are presented at a meeting of the Scientific Council of the Institute, and the best of these are awarded the Prize of the Scientific Council. The 2000 Nobel Prize for Physics was awarded to Zhores Alferov, the current director of the Ioffe Institute, jointly with Herbert Kroemer (USA) for developing semiconductor heterostructures used in high-speed and opto-electronics.

Under the terms of the agreement, the partners will jointly develop photovoltaic solid-state cells, based on decorated nanostructured materials which are destined to become the technology of the future, due to their characteristics of dramatically reducing costs while increasing efficiency. Photovoltaic cells are a smart solution to small-scale distributed generation, bringing energy closer to the end-user.

"These partnerships further confirm Pirelli Labs' commitment in environment-compatible technologies, as also

witnessed by the recent agreement with Cam Technologie and Enel Green Power, the first results of which will be marketed during 2003", commented Enrico Albizzati, CEO of Pirelli Labs – Materials Innovation. "Thanks to these agreements we aim to exploit all the opportunities that arise from sharing knowledge and scientific intuitions, which often occur in Italy".

"The partnership with Pirelli Labs acknowledges the importance of the R&D activities carried out by our Institute", added Carlo Taliani, Director of ISMN/CNR. "At the same time, it allows for advanced scientific research and it contributes to the industrial development of our country. We have set ourselves a very ambitious goal, but revolutionary photovoltaic cells could eventually make the generation of low cost and clean energy possible".

The second agreement involves, along with Pirelli Labs, the Institute of

Advanced Technologies for Energy (ITAE) of CNR in Messina and the Institute of High Temperature Electrochemistry (IHTE) of the Russian Academy of Sciences in Ekaterinburg. The Institute of Electrophysics was established in 1986 by a group of scientists that began the work on pulsed power science, a new field in physical research in the Urals. Later on, a number of leading scientists that had been with other research institutions in Moscow and Sverdlovsk were invited to work at the Institute. The institute staff is now around 200, 80 researchers included. Working at the Institute are one full member of the Russian Academy of Sciences, 4 correspondent members of the RAS, 12 doctors of science and more than 40 candidates of science. They constitute a well-organised body of scientists whose works have gained recognition among the physics community in their country and abroad

With an investment of € 2 million, the partnership aims to develop new technologies for fuel cells, which are efficient and environment friendly power generation systems. In particular, Pirelli Labs will study the materials' design; IHTE will build components and prototypes that will be tested by ITAE. In this field, Pirelli is already patenting a number of innovations for PEM - Proton Exchange Membrane and SOFC - Solid Oxide Fuel Cells.

"This partnership is a very stimulating and important stage for ITAE, whose experience in fuel cells dates back to the '80s", added Gaetano Cacciola, Director of ITAE. "Pirelli's effectiveness in studying and innovating technologies for fuel cells is a vital complement to public research and will contribute to bringing it to success".

The new partnerships will allow a tremendously precious exchange of information and knowledge between the partners, helping research to proceed at full speed.

by Ivan Dompé, Milan

Renewed graphics, content and customer dedicated areas

A Bigger, Better Bike Site

Pirellimoto.com: the first implementation of a new customer-centric integrated approach



Renewed graphics and content, new “areas” such as Paddock, E-shop and Pirelli Moto Club: the ‘pirellimoto’ web site has been given a major facelift that now makes it the spokesman for a concrete customer-centric approach, bringing it in line with the strategic vision of the Tyre Sector.

The technology used for the site permits communication through four macro areas in a flexible and dynamic manner and information and functional content can be adapted to meet the needs of different end-users in the various markets.

The new, lively and colourful graphic appearance of www.pirellimoto.com reflects the three values that unite Pirelli motorcycle products, performance, power and passion.

From the content point of view, the big news is the Paddock area. That is where it is possible to enter the motorcycle racing world and gather up-to-date information on all Pirelli riders, their teams and race results, as

well as to access pictures from the Superbike, Supersport and Cross world championships. The language used is the informal and appealing jargon of the ‘cyber centaurs’, and the pictures that animate the pages transmit the atmosphere of the paddock and racing, taking visitors behind the scenes.

But the most complex innovation is the new E-shop, integrated with the B2B system, which is currently only available to the Italian market. In the E-shop area, the visitor can navigate within the catalogue and order products straight from the selected dealer to whom he will make payment.

The kind of integration that has been used also means every order placed on the pirellimoto site automatically produces a dealer acquisition order on the Pirelli B2B systems. That is how the first complete experience of B2B2C has been created, one in which the whole purchasing process is automated, producing notable benefits in operating efficiency. The type of technology adopted for the site permits to

offer different discounts to different groups of users, right up to managing relations on a one-to-one basis and also comes under the customer-centric heading, proposing products and discounts in line with the attributes of the registered motorcyclist. So the business model used by ‘pirellimoto’ addresses itself directly to the end-user - but with the total involvement of the dealer - and allows the creation of new strategies of integrated offers.

The implementation of a complete customer relationship management strategy presupposes the creation of an area for end-users to whom services and content are offered ad hoc, therefore integrating off line and on line activity.

It is from the ambition to do this that the Pirelli MotoClub was born: a real community inside which all bike enthusiasts become protagonists in all the different and highly diverse interpretations of the motorcycle, and that means being able to reach its members with targeted communications, managing relationships through an interactive channel and at the low cost of the Internet.

Participating in the Pirelli MotoClub community gives enthusiasts the chance of being able to take part in interactive specials, created by Pirelli, with the racing world and with the most prestigious manufacturers, as well as being present at gatherings and technical meetings of tremendous interest to all those who have bikes in their blood.

by Gianluca Renato, Milan

Further world leadership consolidation

Maximum Power, Maximum Safety

The Dutch utility NUON will operate its electricity distribution network with high voltage cables provided by Pirelli, which has been awarded a € 23 million contract



Testing of a pre-fabricated cable end at NUON.

NUON, one of the largest utilities in the Netherlands, has awarded Pirelli Cables and Systems N.V. a contract for the supply and installation of high voltage cables in its network. The contract, a framework agreement, is worth about € 23 million and will be executed over the next two and a half years.

NUON is the owner of a so-called "old" cable network, which means its first cables were installed around 1900. A characteristic of such a system is that it consists of cables of different types, such as oil filled, mass impregnated, gas pressurised and XLPE, which may vary

considerably in age. The Dutch company operates in a liberalised energy market and one that is on the verge of privatisation and considers the management and ownership of its cable network as essential to carrying out its strategy of becoming an excellent and competitive player in the European energy market. This has resulted in the Full Power Project. NUON and Pirelli Cables and Systems have been working as true partners over many years to achieve the Dutch utility's goals with respect to its cable network: optimal availability against minimal total cost of ownership. This resulted in a range of products and

services that played an important role for Pirelli in winning the new contract.

The agreement includes the supply of around 370 km of extruded 150 kV and 50 kV HV cables and over 400 prefabricated Click Fit accessories. Pirelli is also responsible for the project's system engineering and will provide a number of diagnostic skills, among them after-laying AC testing, temperature monitoring and emergency services.

The high voltage cables have an integrated optical fibre to monitor their temperature, which allows NUON to operate its cable circuit with maximum load in a safe way (hot spot management). The assets of the Click Fit accessories offer a high level of engineering flexibility, leading to a tailor-made solution at minimal cost for NUON. This, combined with Pirelli's ability to manufacture and install cable of considerable length, clearly shows the advantages of extruded cable systems, which will be more and more competitive against traditional overhead lines in the near future.

NUON has chosen Pirelli as its single source supplier for 150kV cable systems. Part of the agreement is that both parties will focus on improving the total cost of ownership. This will lead, for example, to easier installation techniques, such as prefabricated cable ends and dry type outdoor terminations. NUON and Pirelli will also begin discussions aimed at achieving a new high voltage cable construction without a lead sheath, giving Pirelli the opportunity of introducing its Air Bag system.

In addition to the high voltage agreement, Pirelli was awarded a 50% share of a three year contract for medium and low voltage cables in 2001, part of which calls for the development of logistics services for NUON.

The award of these contracts recognises the Group's technological excellence in undergrounding and its expertise in high voltage systems. By completing these projects, Pirelli will further consolidate its world market leadership in the energy cables and systems sector.

by H.M.J. Willems, Delft, Netherlands

The Pirelli *Internationl* Awards 2002

The Winner: a Mission to Mars

Over 1,000 works were selected for Pirelli's sixth international multi-media awards competition

Ivan Dompé reports from Rome, Italy

The sixth presentation of Pirelli *Internationl* Awards, the world's first international multi-media competition that was instituted in 1996, took place in Rome on 16 May at an event in which the participants included Carlo Buora, Managing Director of the Pirelli Group, Umberto Colombo, President of the scheme's panel of judges and Carlo Massarini,

sion – the entomopter – powered by a new concept chemical energy, called reciprocating chemical muscle.

“The Pirelli *Internationl* Award”, said Carlo Buora, “wishes to be a concrete contribution by the Group to the ‘on line’ diffusion of scientific and technological culture. Through this awards scheme, which constitutes a complement to the activities of the Pirelli Labs, the Group's hub of technological excellence, Pirelli renews its

Palestinian, in the sub-category for the best multi-media product for the description and safeguard of the environment for his Three Dimensional Models for the Web (www.mappe.fabaris.it); the second was the FAO Agency of the United Nations in the sub-category of scientific publishing with an environmental theme, for WAICENT (www.fao.org/waicent), the informative portal against world famine.



television presenter and journalist specialist in new technology.

After having evaluated over 1,000 works selected for entry, the international jury sub-divided this year's awards into two categories, multi-media didactics and the environment. The top prize, worth a total of € 25,000, went to Professor Robert Michelson of the Georgia Tech Institute of Technology.

His entry (avdil.gtri.gatech.edu/RCM/RCM/Entomopter/Entomopter-Project.html) was selected as the best product in the multi-media didactics category. The project was the simulation of a mission to Mars, which NASA expects to carry out between 2013 and 2017, with one of the revolutionary transport vehicle candidates for the mis-

commitment to stimulating the activity of advanced research, confirming itself as a ‘knowledge company’, one that evolves and creates value through the development of new knowledge and technology”.

Within the same multi-media didactics category, the web site KidsHealth (www.kidshealth.org) won € 15,000 as the best multi-media product destined for schools, universities or research centres. The project, by America's Nemours Foundation, describes the human body and its pathology in a language and with graphics for the young, parents and medical practitioners.

The environment category and € 15,000 each went to two winners: they were George Mu'ammam, an Italo-

The junior award of € 10,000, open to entrants of under 21-years-old, was given to Massimiliano Picone, a 16-years-old Italian, for the multi-media presentation of his site for new scientists, Newton's Apple (www.apple-newton.it).

Open to all of the world's Internet users, the Pirelli *Internationl* Award scheme assigns prizes worth over € 80,000 a year to the best works of scientific and technological diffusion through the Internet. All projects are examined by an international jury headed by Professor Colombo, which includes, among others, Nobel Prize winner Ilya Prigogine and the director of the Media Lab of the Massachusetts Institute of Technology, Walter Bender.

Real Estate innovation

Pirelli's Real Estate News Programme

Presenting the first client oriented, internet based television news programme in the property business

Over the last 50 years, television has literally conquered our lives. It has also specialised considerably by creating programmes on specific subjects and themes, all aimed at carefully targeted audiences. Today, just about all kinds of television programmes are available, offering an almost infinite choice that satisfies demand from the greater part of the viewing public. Lately, the so-called 'theme channels' have also multiplied their output dedicated entirely to a single area of interest, dealing exclusively with individual subjects like finance, fashion, sport and a thousand others.

Until recently there was no television news programme to update the real estate industry on new developments in the property world. Knowing of this

lack of coverage and in an attempt to meet the demanding requirements of operators in the sector, Pirelli & C. Real Estate has launched its own TV news programme. Aimed at an exceptionally busy segment of its clientele, the Pirelli & C. Real Estate programme provides accurate and concise newscasts on the progress of the sector's business.

Carrying interviews with opinion leaders and by keeping its own sharp eye on new developments and foreign market trends, Pirelli & C. Real Estate News presents what is currently an occasional television bulletin - with ambitions of becoming more regular - on the most interesting developments and facts in the real estate industry. Attention is directed to the dynamics of prices in the various sectors, (leasing, sales, rentals, commercial, private), the

sale of houses by the utilities, the listing of public buildings, agreements reached between major companies, the progress of real estate funds and many more subjects of vital interest to its viewers.

The first programme, for example, dealt mainly with the 13th MIPIM, the most important international convention on the real estate market, which took place at Cannes from 12 - 15 March.

The innovative thinking on which the programme is based was developed jointly by Motorazione, which deals with the technological achievement of each transmission, and Mieconomia, the company that belongs to respected journalist and author Alan Freedman, which is responsible for gathering news and shaping the programme's editorial content.

The newscasts are distributed by e-mail, so a maximum duration of six minutes for each TV bulletin was carefully researched and confirmed, both so as not to transmit vast files that cannot be sent over the 'Net, and not to lose viewer attention.

At the moment, Pirelli & C. Real Estate News, the next edition of which will be transmitted in June, is still going through an experimental phase and is sent free-of-cost by e-mail to a list of selected recipients. The company's objective is to be able to transmit a new programme of international coverage each week, as well as to transform the newscasts into instruments of client loyalty, provided free on a 12 monthly renewable basis to regular customers, and on subscription to those not on the company's free distribution list.

The Pirelli & C. Real Estate news programme aspires to becoming a useful means by which those who wish to stay constantly in touch with the progress of the industry can do so quickly and efficiently, and an indispensable instrument with which to closely follow the happenings to, and strategies of, real estate market leaders.

by Mario Rozza, Milan



Izmit three years after

A Turkish Rose

Although hit hard by the crippling 1999 earthquake, today our Turkish plant at Izmit is a model of productivity



*Livia Armellini reports
from Izmit, Turkey*

It is early morning. The sky is not yet clear, still heavy with the humidity of a night that tinged the outline of all it encountered with a gentle haze. Crossing the Istanbul bridge that connects Europe with Asia is always fascinating, particularly at this hour. A bridge between two cultures, two histories, two profoundly different populations. And yet in Istanbul that cosmopolitanism blends into one, so that diversity spawns a marvellous teeming 'cauldron' of life and colour.

Crossing the bridge is necessary to reach our destination, Izmit. A town on the Asian coast, flanked by the Sea of Marmara, making for the Dardanelles strait.

Izmit itself looks industrial: the number of factories that surround it make it the primary industrial area of Turkey. On the hills nearby, the scenery is made of tall residential buildings, constructed quickly to accommodate those who lost their homes in the 1999 earthquake. A 'quake that also hit the Pirelli factory there, causing severe damage: 50% of the car tyre building department was in ruins, as was 15% of vulcanising.

The factory at Izmit, which was fully operational again just two months after the earthquake, is 40 years old this year. Founded in 1960 it began production back in 1962 to become Pirelli's first Turkish plant. With a total area of over 211,000 square metres, the complex is the biggest tyre production unit in the Pirelli Group.

Erkut Sendil, the plant director, explained that Izmit is, in reality, internally made up of three different mini factories/areas: the first contains six banburies and supplies compounds and rubberised textile material to the other two, one of which makes car and the other truck

tyres: apart from that common supply situation, the two production units are independent of each other. The Turkish factory is also the only one in the Group that manufactures both car and truck covers: together, they make 230 tons of tyres a day and 435 different sizes a year.

Outside, the sides of the road that separates the energy centre from the factory complex is well manicured: red, yellow and pink roses all in full bloom which, together with the white rabbits nestling in the flowerbeds, create a special atmosphere of tranquillity and order. The energy centre, which took the full force of the earthquake, had to be completely rebuilt, using a system that enabled the machines inside to continue to operate while reconstruction went ahead. The centre supplies the factory with electricity and water through two pipelines, a temporary one built after the 'quake, and the main unit that was destroyed and

rebuilt; on completion, the temporary pipeline stayed on as alternative support.

The covered area of the factory spans 106,000 square metres and is impressive: it is vast, also due to new areas built after the earthquake, but is well sub-divided in line with the various work phases. The car 'zone' produces 16,000 tyres a day, mainly for overseas markets – Izmit exports 80% of its production – and is given over to standard manufacture. The time it takes to build a tyre – from banbury to store – does not exceed 10 minutes, the fastest of all the Pirelli factories. In fact, although it is true that tyre building takes place in two non-automated phases, production efficiency does not suffer at all. The machines are linked to computers, so it is possible to check on worker effectiveness, machine breakdowns

and the state of production minute by minute.

Continuing the journey through the factory, one suddenly enters a decidedly cooler area: it is the truck tyre production plant, where the ambient temperature must never exceed 22-23°C and humidity may not rise above 50%. If those values were to be exceeded, materials from which the covers are made would be ruined, because unlike car tyres giants are made with steel rather than textile cord. Material composed of no less than 700 filaments of steel, produced by the nearby Cordflex factory managed by Pirelli and of which the Group has 55%. After the truck tyres have been vulcanised, each one is X-rayed to ensure its constructional perfection and then checked manually for uniformity. Izmit makes over 640,000 tyres a year.

435
different
sizes per year





Productivity is one of the Turkish plant's strongpoints: having started out at the beginning of its career in 18th place, from the point of view of efficiency the plant is now second only to Bollate, the

Milanese plant, a completely automated unit. An example: in 1977, Izmit's workers produced seven

tyre sizes per capita, but now the figure is 41, an almost six-fold increase.

All of this in the context of an uneasy macro-economy: immediately after the earthquake, Turkey was hit by a severe economic crisis that caused considerable job loss and increased national unemployment. Inflation had already climbed to 10.5% in April from the beginning of this year, but now the country is beginning to see early signs of recovery.

The relationship between the management and the plant's personnel is grown over the years to be a particularly solid one. All the workers benefit from the completely free bus service provided by Pirelli between their homes and work. Employee satisfaction is measured through questionnaires, distributed once a year: a system which makes it possible to notably improve working conditions and to satisfy other needs inside the factory. Recently the Safety Focus programme has also been introduced to help further improve worker safety in the plant, a system that is also being installed in Pirelli plants in Carlisle (UK), Merlo, Santo André (Brazil), Settimo Vettura (Italy) and Pirelli Reifenwerke in Germany.

Izmit really is a jewel in the crown of Pirelli which, despite earthquakes and economic crises, is at the top as far as productivity is concerned: a feather – or, perhaps, a rose - in its cap...



THE CHALLENGE FOR EXCELLENCE

The Challenge for Excellence Award

The Challenge for Excellence is an awards programme designed in 1999 to reinforce the Pirelli Group's drive towards continuous improvement and the constant search for new frontiers in terms of excellence of performance. It is a system that aims to become an instrument of support and stimulation in a joint search for performance excellence, and the full application of management's chosen industrial strategies.

The Factory Team Performance Award sub-heading underlines how, with just the full commitment of all plant personnel, it is possible to achieve excellence in the management of industry in all its complexities.

The annual awards scheme is based on a comparison between the real life situation of every single factory in the Group and a standard of excellence called the Pirelli Industrial Model, established in line with Pirelli's internal culture and its corporate strategic vision.

The awards, competition for which is obligatory, are assigned to the factories that come closest to the Pirelli Industrial Model. The mechanism by which the winners are defined is fundamentally based on the logic of auto-evaluation, but the objectiveness of the appraisal is favoured by clarity and sharing the elements evaluated, as well as a site visit during which results are verified.

After all results have been confirmed, a ceremony takes place in April at which the awards are presented and the excellence of performance for which they have been won is celebrated.

The St. Gotthard project

Tunnelling Through the Alps

Pirelli cabling technology will help build a rail link through the Alps, halving travelling time between Milan and Zurich

The St. Gotthard base tunnel, which will come into operation in 2011, will be the most impressive section of a new transalpine railway line to be built through the Swiss Alps. But because of difficult accessibility and the extreme climatic conditions of the area, building a means of fast, reliable transit through the Alps for more than 300 trains a day along the two 57 km long, single-track galleries represents a considerable technical challenge.

And that is where Pirelli and the versatility of the solutions it has proposed come in. The Group will provide a Technergy Integrated Cabling Solution specially developed for application in mining and tunneling projects, to be used during the construction of the new St. Gotthard railway link. Called Alptransit, the project includes the construction of two parallel tunnels, each with a single line 57 kilometres long, which will provide a high speed railway link between Milan and Zurich. Once completed, the tunnels will cut the duration of the rail journey between the two cities from four hours and ten minutes to two hours and 40 minutes, a reduction of 64%. Worth € 1 million, Pirelli's Integrated Cabling Solution will be used to power the milling machine that

will cut its way through the Alps to create the St. Gotthard base tunnel, as well as all auxiliary services. The system comprises medium tension Airbag cables of 8.7-15 kV and 15-24 kV, connectors, relative connections, packaging and unwinding developed specifically for operations in limited spaces. The base tunnel, which directly links the northern and southern sides of the Alps, is the most complex segment of the new project. It is one thing to carve two 57 km long tunnels through a mountain under 2000 metres of rock – a major feat in itself - but quite another to

have high speed passenger and heavy goods trains run through them which is, of course, the ultimate goal of the project. The existing 15 kilometre long tunnel was originally used by steam trains, and came into operation in 1882. As soon as the three main constituents of the new St. Gotthard lines have been completed - the northern Zimmerberg tunnel, the St. Gotthard itself and the southern Ceneri tunnel - its transport capacity will increase considerably.

All Pirelli's electrical systems will be made of standardised modules to simplify their installation, keep the complexity of on-site maintenance to a minimum and permit the use of uniform operating principles. In order to ensure that all requirements are identified properly and the structure of the power supply system is appropriate, close co-ordination will be required between all the different partners contributing to the project, especially the suppliers and users of electrical power, during the design phase of those systems.

The procedure to be carried out and the resultant technical solutions represent a realistic answer to the challenge of constructing and operating a railway line through the 57 km long St. Gotthard base tunnel. And Pirelli will be there, ready for the challenge.

by Paolo Veglio, Milan



The Goodell Award 2002

High Risk, High Honour

Pirelli's director of risk management in Latin America receives the Risk and Insurance Management Society's highest honour

Jorge Luzzi, the Pirelli Group's risk manager in Latin America, has won the 2002 Risk and Insurance Management Society (RIMS) Goodell Award, which was presented to him at the 40th annual RIMS conference in April before over 5,000 delegates.

RIMS, a non-profit-making organisation dedicated to advancing the practice of risk management, is the professional society to which over 8,000 risk managers around the world belong. And this professional discipline that protects physical, financial and human resources has found its leading exponent within Pirelli management.

Born in Buenos Aires in 1954 of Italian immigrant parents, Luzzi embodies the practices of the old world and the fresh spirit of the new. He achieved his bachelor of arts in literature and earned his degree in business administration. Luzzi holds both Argentine and Italian passports and his list of work sites reads like a geography primer: Argentina, Italy, Switzerland, Germany and now Brazil. He is currently based in San Paulo as Pirelli's director of risk management in Latin America.

Jorge says he has always worked in what could be termed the risk management department, even if his responsibilities – which have taken him to Turkey, Spain, Switzerland and Greece – were never officially labelled as such. “When the risk management department was created, I became director of it for Latin America and went back to Brazil. The thing about risk management is that there is always something interesting, always something exciting, always something that will challenge you to think in a different way”.

Throughout his globe-spanning career, Jorge Luzzi has been motivating professionals to promote

risk management. He is a founder member and current president of the Argentine Risk Management Association, chairman of the International Federation of Risk and Insurance Management Associations, and president of ALARYS, the Latin American regional confederation. Luzzi has made himself and risk management well known and respected in Latin America, earning the Goodell Award, the most prestigious accolade which the RIMS bestows on an individual.

The Harry and Dorothy Goodell Award is a lifetime achievement commendation and the RIMS' highest honour, given to a member who has made a significant contribution not only to RIMS, but to the discipline of risk management throughout his or her professional career. The recipient is recognised as understanding the purpose of the RIMS and its guiding principles, as did Harry Goodell, first president of the organisation. The award is given to the person who has furthered the goals of risk management and the RIMS through understanding achievement in this field.

Jorge is also the first non-US recipient of the award: as well as being a great personal honour for our Latin American director of risk management, the Goodell Award also reflects positively on Pirelli and its risk management department.

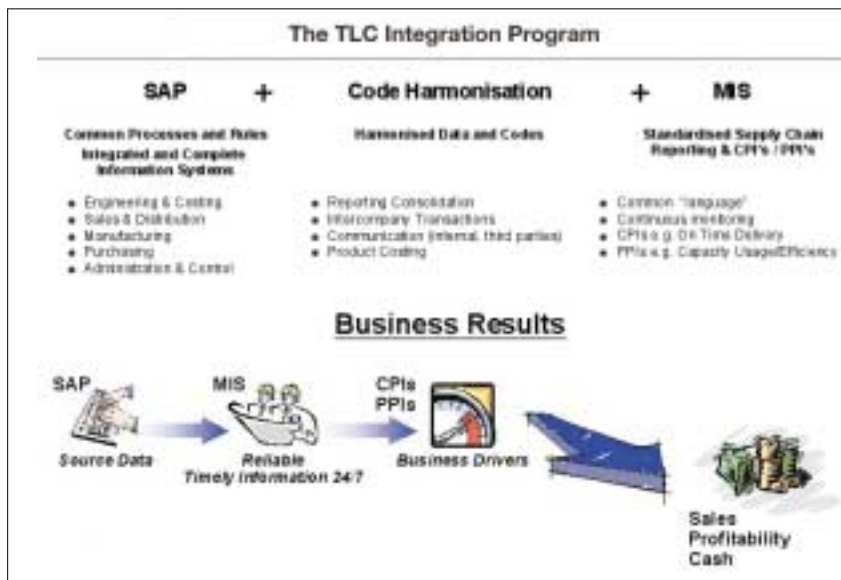
by Emanuela Ottolina, Milan



Meeting regional needs

Introducing the TLC Integration Programme

Italy, France, Spain and Britain have all implemented a new regional operating model and structure to meet a new, more localised form of business environment



The speed, complexity and competitiveness of today's business practices require direct and immediate customer access to all Pirelli Telecom Cables and Systems products and services. As an international business company, Pirelli has distributed both tangible (factories/research centres) and intangible (skills/core competen-

cies/best practices) resources that meet our customers' needs throughout Europe and around the world. However, in order to maintain its competitive edge, Pirelli must guarantee a seamless, immediate, and standardised response to individual customer requests, no matter what the customer's location, product destination or where his factory is situated.

For this reason, the Group's Business Unit Telecom Europe has implemented a new regional operating model and structure to better fit this new, more localised form of business environment. Here is an example that illustrates the reasons why Information Technology and Business Process Integration methods are necessary to meet clients' needs. Let's say a customer must attend a meeting in Paris: he asks his tour operator (supplier) to book a flight departing today and returning in the afternoon in two days time (product). He wants to fly with an airline affiliated to his frequent flyer programme (specification), wants a business class aisle seat (quality) and needs to know the price (lowest cost quality airline). He requires immediate confirmation, needs his ticket by the end of that very same day (quotation) and wants to get to the final destination by 12 am (service reliability).

Finally, he asks for a vegetarian meal and return flight alternatives (service flexibility and responsiveness). The customer then expects immediate confirmation and his ticket as requested (acknowledgement), even if the travel agency only has visibility of the domestic airline schedule from its database, and has to consult all airlines (product sources) servicing the route before responding. This would require a certain amount of time, and he would not have an immediate response.

Going back to our TLC business, many of our trading and potential customers are building networks throughout Europe and we are one of the preferred alternative supplier choices competing for their business. The new model implemented by Pirelli's Business Unit Telecom incorporates some new guiding business principles.

The regional TLC is managed as an effective "Single European Com-

pany” with centralised co-ordination of manufacturing, logistics, engineering and sales, integrated supply chain management, and a clear demarcation of commercial and operational activities.

We have built all the capabilities needed to effectively implement a redesigned organisational structure, striking the right balance between the need for central governance/visibility and local responsiveness/flexibility; standardised and common processes and rules set to establish a single standard for transactional processes in all countries; a common and complete information system, providing full process coverage and inter-operability in one single SAP environment; a common “language” based on harmonised customer, vendor, product and material codes, enabling a seamless transfer of data between operating units and customers.

These are the main attributes of the implemented integration model. Pirelli has also designed and introduced a common set of business performance indicators, contained within the Management Information System. The MIS is built on a foundation of reliable and accurate transactional source data to assure consistent and reliable measures available on a 24 hour, 7/7 basis, that drive our business performance both in terms of effectiveness and efficiency. Italy, France and Spain adopted the new model and information system as planned on the 1st January 2002, together with the UK. Assuming our most critical business drivers are carefully aligned to meet and exceed individual customer needs, we can be confident that users and management are now fully empowered with the relevant access to information and improvement targets to direct, drive and deliver supplier excellence.

by Martin Hanchard, Milan

The views of the financial experts

What the Analysts Said

Reported below are the recommendations of five key analysts after the Group announced its 2001 results



HOLD

Pirelli announced a 2001 net profit at 82 mn E, broadly in line with our expectations.

On the other hand the group’s dividend, set at 0.08 E per share, was much better than expected, which did not take into account the distribution of reserves. While confirming the Ebit 2001 preliminary figures at 295 mn E, Pirelli stressed that the group’s profit figures were hit by restructuring costs for a total amount of

151mn E. Despite the gloomy macroeconomic environment, Pirelli is relying on a possible recovery both of its Energy cables and Telecom cable areas over the second part of the year. In the submarine area the visibility on submarine revenues trend continue to be low: however, the acquisition of the contract for the terrestrial fibre-optic backbone in Sumatra, jointly with Siemens, is giving some returns.

In the Tyre segment, the expected recovery in Brazil and in Turkey and the launch of new products should counterbalance the lower car volumes in Europe. (...) On the other

hand we feel that in Europe it will be likely to have some more price pressures. On the back of the 2002 guidelines, and considering that Pirelli is expected to halve its capex in 2002, the group is now keen to match the same Ebit level achieved over the last year.

These guidelines appear more optimistic than our expectations that foresaw a 2002 consolidated Ebit in the region of 270 mn E. (...) We confirm our 2002 Ebit estimates, while we can not exclude some revisions at the bottom line in order to take in account further likely provisions (which could stand in the region of 50 mn E) and a higher fiscal burden. We stick with our Hold rating on Pirelli, whose Nav per share before holding discount stands at 1.9 E per share.



NEUTRAL

Pirelli confirmed that 1H 2002 is expected to be tough for its three main businesses (energy cables, telecom cables and tyres) but that it expects an improvement in trading conditions in 2H. It also confirmed that it expects a 2002 EBIT in-line with that produced in 2001. When pressed, Pirelli said that this meant somewhere between the EUR236m, which excludes the contribution from the now terminated Cisco supply agreement, and the reported EUR295m. We are forecasting a 2002 EBIT of EUR235m.

Pirelli also reiterated that its previously announced disposal plans for its energy cable and truck tyres businesses have been put on hold because of current low market valuations for these types of businesses. Given the lack of any new information or concrete evidence of an improvement in business conditions, we see no reason to change either our forecasts or recommendations.

**EUROMOBILIARE
S.I.M.**

HOLD

As foreseen, 4Q01 featured extraordinary provisions but they were greater than expected (€ 92 mn), thus leading to a net profit € 19 mn lower than our estimate (€ 82 mn vs. € 101 mn).

The impact on valuation is in any case limited. The dividend is substantially in line with our expectations of an amount similar to that distributed in 1999: € 8 cents per ord. (yield 4.4%) and € 9.04 cents per sav. (yield 5.1%). PSPA stated that it expects FY02E EBIT to be in line with that of 2001. During the conference call the CEO, Marco Tronchetti Provera, then specified that the result will be in the range of € 295 mn (reported 2001 result) and € 236 mn (2001 result of the Cisco supply agreement).

We confirm our € 282 mn estimate, it being in line with this guidance. [...] At present we see no reason to change our Hold recommendation.

METZLER
Equity Research

HOLD

The net profit of the group is certified at EUR 82m, more than 20% less than our estimate (EUR 105m) due to greater fiscal and extraordinary burdens. Against that, the head of the group has closed the period with a net profit of EUR 1,489m, thanks to the rich dividends of the controlled Cables and Systems, derived from the capital gain realised in 2000. The proposed dividend is of EUR 0.8 per ordinary share and 0.904 for the non-convertible saving (yield 4.4% and 4.9% respectively). As far as the

2002 outlook is concerned, management once again expects a difficult first six months, with a revival during the second. Anyway, visibility remains very low – above all in the TLC division.

The strategy of the company for the TLC division is based on a greater focalisation on high range fibre (with more use of the company's own fibre, rather than that supplied by third parties), on a more solid client base and on greater leverage on product innovation. For the Energy division, the company is relying on an increased offer of systems rather than single products (...). In a note, the management estimates a result for the current year in line with that achieved in 2001.



HOLD

Pirelli expects 2002 Ebit to be in line with 2001, with a difficult first-half 2002 followed by a recovery in the second half on the back of a better macro-economic environment and € 50 savings from the restructuring plan. (...) Pirelli plans to halve its capex to around € 350m a year, from an extraordinary € 643m in 2001, which was boosted by the new MIRS technology (tyres), renovation of the Battipaglia plant (optical fibre) and the new optical labs. 2001 capex was however lower than the € 850m originally planned, due to the sharp deterioration of the Telecom cables.

Pirelli aims to return to a capex on depreciation ratio of 1x in 2002, from 2x in 2000. (...) The stock is currently trading at a premium to our sum-of-the-parts evaluation, and we expect little positive news from its core businesses given difficult market conditions.

An economics graduate for The Cal 2003

Italian Beauty

An MTV jury brought to a close a five-week hunt for an Italian girl to appear in the 2003 Pirelli Calendar by selecting the winner from ten finalists

“Italian Beauty” is not an Italian adaptation of the Hollywood film with Kevin Spacey and Mena Suvari - who just happens to be the November girl in the 2002 Pirelli Calendar - but rather the slogan that inspired the organisers of a competition by Pirelli, MTV and TIM (Telecom Italia Mobile, the leading cell phone operator in Italy) to find an Italian girl to star in the next “Pirelli Cal”. Not a professional model or an actress like Monica Bellucci pictured by Richard Avedon for the 1997 edition; this time the challenge was to discover a new Italian beauty to represent the country abroad.

The “An Italian for the Pirelli calendar” competition took place over five weeks through the extensive use of the Internet, together with a second voting system via SMS that generated over 65.000 messages. The selection culminated in just ten Italian beauties being chosen from over 9,000 candidates, aged between 17 and 26-years-old.

An icon of world renown and a springboard able to launch new stars of fashion, the Pirelli Calendar set the trend once more by mixing young and natural beauty with the worlds of music and the Internet, to give every Italian girl a chance to dream: to be discovered, not only by the viewers of MTV but of other TV channels and by the readers of the national press - and become a model.

To every girl who dreams of joining the ranks of models and actresses



ses in the sparkling world of show business, The Cal is not only the best starting point. Being a Pirelli Calendar model is a success on itself: to be in it means “to be someone”.

So on 23 April, ten finalists paraded in front of the beauty contest jury, surrounded by photographers, fashion experts and VIPs, all of whom had gathered at “Spazio the Pelota” of Milan, a trendy-minimalist disco-bar, with good looking people sipping cocktails and

picking at sushi. Two MTV “vjs”, Giorgia Surina and Mark Maccarini - the most famous members of Italy’s MTV stable - hosted the evening, entertaining the audience and interviewing the aspirant models via satellite, surrounded by maxi-screens showing the best moments of the evening.

Who won? Who is the unknown girl who will pose for Bruce Weber, one of the world’s greatest photographers? She is Valentina Stilla, a slim, shapely 23-year-old with wavy blond hair, who is an economics graduate and is passionate about Latin American dance - particularly the tango - movies and sport, including athletics, horse riding, judo, skating and swimming.

Asked about the unavoidable comparison between her and Monica Bellucci, Valentina said, “It’s not a succession, because this time they were looking for normal girls, not models. Certainly, it’s a great responsibility and I hope the Italians will be proud of me.”

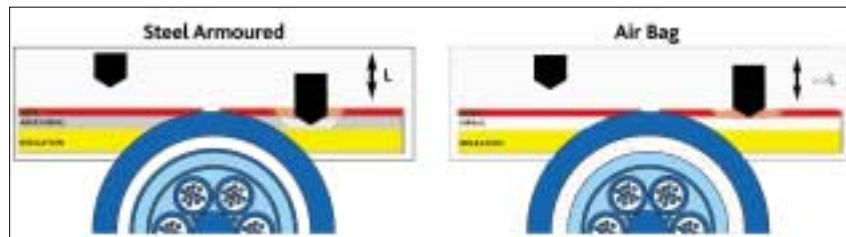
By sheer coincidence, Valentina’s dream was, indeed, to become a Pirelli Calendar model: so the ‘Italian for the Pirelli Calendar’ competition became a double victory for both her and Pirelli. After a dominance of foreign supermodels, 2003 will see the return of an Italian beauty to the Pirelli Calendar which, together with the Italian fashion and Ferraris, has always made the world turn its head in admiration.

by Alessandro Motta, Milan

Air Bag cables in full scale production

Pirelli Air Bag: a Breakthrough

A revolutionary new cable system from *The Architects of Light* cuts costs and improves reliability



Pirelli Telecom Cables and Systems has announced it is beginning world wide production of a revolutionary new range of dielectric fibre optic cables, which offer greatly improved resistance to crush and impact, due to a unique integrated protection system developed by the company's research and development team.

The Air Bag™ cable is based on a composite structure of extruded polymeric materials, each with its own specially selected mechanical properties. Designed to replace heavy, rigid, metal-armoured cables in situations where damage protection is a major concern, Air Bag™ cable is not only lighter, more flexible and easier to install than armoured alternatives, but offers much better resistance to compression and shock, which can damage or even permanently disable cable performance.

Developed by cable specialists at Pirelli Labs, Air Bag™ cable is set to go into full-scale production at all of the Group's optical cable plants around the

world, following successful trials at the company's Livorno Ferraris plant, near Milan. Initially, the most important market for the new cable will be railway-based communications networks, where the traditional practice of laying cables in open trenches or in tunnels exposes them to high risk of mechanical damage. Pirelli has completed its first pilot installation of the Air Bag™ cable in Italy and is currently working with customers in Austria and Holland. The company will be showcasing the new designs to major railways and rail network operators across the rest of Europe in the coming months.

According to Agusti Valls, Vice-President of Pirelli Telecom Cables and Systems R&D, the unique structure of these Air Bag™ cable designs, which incorporate an optical fibre core, specially-developed plastic compounds with high mechanical resistance, dielectric rodent protection and flame-retardant inner and outer layers, effectively acts as a shock absorber, allowing the

cable to resist mechanical damage and recover its shape after crushing or impact without permanent deformation.

"When subjected to a sudden shock, metal-armoured cables often suffer non-recoverable deformation that can generate permanent stress in the optical cable core," Valls said. "Air Bag™ cable protection technology helps safeguard an organisation's costly investment in cable network infrastructure by combining state-of-the-art optical fibre with very high energy absorption capability, for unbeatable overall resistance to both crush and impact."

Totally compatible with existing cabling networks and traditional accessories, the Air Bag™ cable protection technology (which replaces the metallic moisture barrier used in armoured cable, plus its specially-designed dielectric armour of treated glass yarns, which replace standard metallic rodent protection) allows the new cable to easily match traditional metal-armoured cable for long-term reliability. However, the reduced weight of the Air Bag™ cable – up to 50% less than armoured alternatives – and its much greater physical flexibility makes installation faster, cheaper and easier.

With current trends in trunk and access network deployment driving strong demand for fully dielectric optical cables, new installation techniques like cable blowing and exploitation of existing rights of way are favouring smaller, lightweight cable solutions. At the same time, greater penetration of optical fibre transport into the local loop to support emerging broadband services will increasingly mean smaller, more flexible, lightweight, cost-effective cables. The first cable system to efficiently address these trends through a light, flexible structure incorporating exceptionally high mechanical performance, Pirelli Air Bag™ protection technology promises significantly reduced cable and installation costs, unprecedented reliability and exceedingly long service life.

by *Livia Armellini, Milan*

Press coverage on Pirelli's new tyre

World Reviews on PZero Nero

Here are some extracts from the articles published by the international motoring press on Pirelli's latest ultra-high performance road car tyre, the P Zero Nero



Echappement - March 2002 (France)

...Produced for the moment with only an asymmetric tread, the Nero will join its glorious brothers. The tyre is destined for replacement for high performance cars and for the tuner market. Pirelli has seen that, by increasing the diameter of the rim, the air inside the wheel diminishes and, as a result, so does its load index, which is made worse by cars that become faster each day. Many tyre sizes have the benefit of the XL version, meaning Extra Load, offering a fairly precise load capacity. The characteristics of the Nero are: its zero degree nylon belt is thermally stable, new components in Aramid fibre for the structure, the tread compound with the appropriate hysteresis both for the dry and wet and a polymer with high resistance to freezing and of a specific resin...

Automobilismo - April 2002 (Italy)

...Automobilismo magazine put the P Zero Nero to the test on a small fleet of high performance cars on both dry and copiously wet surfaces. The first impression was that the understeer phenomenon at the entrance to a corner comes on very gradually and is easily manageable, without sudden loss of grip. Steering precision was also maintained in the wet and driving remained precise, independent of whether the car was front, rear or all-wheel drive: cars fitted with the new P Zero Nero returned progressive handling and a very good mixture of adhesion in a corner. Braking distances are satisfactory, both in the dry and the wet: the immediate reaction of the tyre to stress permits the ABS system to be extremely efficient, right from the moment braking begins....



Redline - April 2002 (UK)

...In the case of the Pirelli P Zero Nero, high performance modern car drivers who change the standard wheels for larger rims with low profile tyres. There are 15 sizes (including 215/35 18s and 19s) in the launch range, which covers 60 percent of the aftermarket needs. By the end of the year there will be 30 different applications which will cover 90 percent of us...



N+A -April 2002 (Spain)

...Pirelli is one of the world leaders in UHP (ultra high performance) tyres, and with the P Zero Nero the company has launched onto the market a product of high level, a tyre of high performance, born to satisfy in the best possible way the desire for driving pleasure. The P Zero Nero is destined for the replacement market, offering great opportunities to those who want to give the most detailed and exclusive appearance to their cars, thanks to a footprint in the shape of a shark's fin. But the latter is not just for image purposes. The tyre's internal structure is lighter and more resistant to deformation provoked by high speed.

In addition, the tread has a reduced thermo-plastic effect, due to a new compound of silicones and carbon black. That composition, together with a steel belt of homogeneous cords, another belt in zero degree nylon and other thermally stable materials, permit the regulation of the distribution of pressure to the road...

Auto Motor Sport - April 2002 (Greece)

...PZero Nero completes a series of tyres, which started in 1987 with PZero, to be continued in 1994 and 2000 with PZero System and PZero Rosso. The main characteristics of the tread pattern is the 3 central parts of the tread which are in continuity so as to succeed. The normality of reaction and the high limits of adhesion are the main characteristics of P Zero Nero, even on the skidpan. Speeds of up to 250km/h could be achieved on the smooth surface of the oval circuit. On these circuits, many parameters of the tyre can be tested, such as its endurance under continuous stress, high speed and homoeomorphous attrition. Special instruments record forces which occur in a corner. When the tyre exceeds the limits of adhesion, mainly on a wet surface, the lateral acceleration is 0. P Zero Nero appeals to sports car drivers looking for improvement in performance. That's why the aim of its tread pattern is not only the accomplishment of high performance but to be beautiful in appearance too...



GenroQ - May 2002 (Japan)

...Low-profile tires of Pirelli created from the collaborations with Porsche and Ferrari have been continuously reigning as a synonym of high performance tires since 30 years, and it means that improvement in braking and gripping when cornering and stability at high speeds are brought from low-profilisation. (...) Having an eye to the facts, Pirelli has materialised tire structures with higher load capacity for ultra low-profile tires. Those are the "Extra Load" tires in the line-ups of P Zero Nero. Load capacity is increased without sacrificing riding comfort in spite of being identical sizes as conventional ones. We could say that know-how of Pirelli who is the originator of low-profile tires are fully displayed...

World Brief

A Black and Blue Shirt, a Dream Come True

Sometimes it takes very little to make someone happy, especially African orphans. A group of young boys from the village of Bavaku in the Congo, who are great fans of Inter, expressed a wish to play football in the strip of their idols. Their dream came true with the help of the Milan team which, spurred



on by its interest in the world of the young, gave all the boys a set of gear, complete with shirts, shorts and socks in the team's world famous black and blue colours. Bavaku is an SOS Kinderdorf reception centre for orphaned or abandoned children and is an association founded in 1949 with the aim of preparing and equipping such children for an independent future. Each child is educated and trained by SOS Kinderdorf according to its needs, so that when it is time for the youngster to leave the village it is able to stand on its own two feet and achieve the goals of self-reliance, financial independence and social integration.

Pirelli Launches New 'Cables & Tables' Guide

Pirelli Cables has launched a new version of its 'Cables & Tables' booklet, a free pocket-sized guide aimed at those involved in the electrical contracting industry. Considered by many as the bible for electrical installers and

contractors, 'Cables & Tables' is laid out in a simple format and includes an introduction to electricity in general, information on terms used in cable making and the best practices for those new to the industry. For the experienced contractor there is information on cable dimensions, current ratings, bending radii and installation data; new sections on the Afumex® and FP® ranges of cables, which are key products for installers; details on the range of Pirelli accessories available; lists of Pirelli Cables contacts and useful numbers for the electrical contracting industry as a whole. Regular updates are planned and will incorporate new products and technologies as they reach the marketplace.

PZero Nero Web Site Wins Macromedia Award

The best site of the week is www.pzeronero.com according to Macromedia, the NASDAQ-quoted company and leader in vectorial design applied to animation on the Internet. "Pirelli embraced Macromedia technology with its new P Zero Nero site" says Macromedia, "exploiting 100% all the power of Flash and XML. With Macromedia software, it gave greater graphic appeal to the product's site, increasing interactivity with the user, developing more multimedia content



(video and audio) and mixing innovation with the by now unmistakable Pirelli web design.

Pirelli & C. Real Estate and Soros: Joint Venture in Industrial Real Estate

Pirelli & C. Real Estate and Soros Real Estate Investors have signed a joint venture agreement to pursue investments in the industrial real estate sector. Soros will have a 75% stake and Pirelli & C. Real Estate a minority stake of 25% in the enterprise. The newly constructed operational platform aims to invest more than € 300 million in Italy over the three-year period 2002-2004. Investments will target existing portfolios and development initiatives in the main 'industrial' segments of logistics, transport, mixed-use industrial and technological parks and self-storage. This joint initiative aims to become a leading player in a market rich in potential, combining the expertise of Pirelli & C. Real Estate with the international know-how and competence of the Soros Group.

WORLD

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