

PIRELLI SPA PRESS RELEASE

Board of Directors meets

QUARTERLY REPORT APPROVED:

- **PROFITABILITY GROWS DESPITE PERSISTENT NEGATIVE TREND IN THE TLC COMPONENTS AND ENERGY SECTORS: ROS GOES UP TO 4.1% FROM 2.5% IN FIRST QUARTER 2002**
- **CONSOLIDATED SALES REVENUES TOTAL 1,449 MILLION EUROS: DOWN BY 2.5%, NET OF VARIATION FOR EXCHANGE RATES, METAL PRICES AND CONSOLIDATION AREA, AND BY 14.2% OVERALL**
 - **GROUP EBIT: 59 MILLION EUROS (4.1% OF SALES) AGAINST 42 MILLION FOR THE FIRST QUARTER OF 2002 (2.5% OF SALES); OPERATION SUCCEEDS IN BETTERING LAST QUARTER OF 2002**
- **CONSOLIDATED NET RESULT: 3 MILLION EUROS PROFIT PRE-OLIMPIA; 22 MILLION EUROS LOSS POST-OLIMPIA, AGAINST A 39 MILLION EUROS LOSS AT 31ST MARCH 2002**
- **NET FINANCIAL POSITION AT 31ST MARCH: NEGATIVE BY 1,646 MILLION EUROS (1,469 MILLION AT 31ST DECEMBER 2002)**
- **FORECASTS OF INCREASED OPERATING INCOME IN THE TYRE AND ENERGY CABLES AND SYSTEMS SECTORS ARE CONFIRMED FOR 2003, AS ARE PREDICTIONS THAT THE TELECOM CABLES AND SYSTEMS SECTOR WILL BREAK EVEN BY THE YEAR END**

Milan, 5th May 2003 - Pirelli S.p.A.'s Board of Directors met today and approved the Group's consolidated figures at 31st March 2003.

The **Group's trend** in the first quarter of 2003 has been marked by a **considerable upturn in EBIT**. This rose by **40.5 per cent**, with a **return on sales** rising from 2.5 per cent in the first quarter of 2002 to **4.1 per cent** - albeit in a context still negatively influenced by the demand trend in telecommunications infrastructures (where a considerable volume reduction

persists and further price reduction drives loom) as well as by stagnation in energy utilities investments, particularly in the European Low and Medium Voltage segments.

The **improved EBIT** reflects the continuing growth in profitability occurring in the **Tyre Sector (profitability surged by 20.4%** against the first quarter in 2002) and the first **positive results of the timely efficiency measures** launched by the Group's management in both the **Energy Cables and Systems Sector** and the **Telecom Cables and Systems Sector**.

The Pirelli S.p.A. Group

The **Group's consolidated sales revenues** amounted to **1,449 million** euros at 31st March 2003, showing a fall of 14.2% in comparison with the same period for the preceding year and one of **2.5%**, when taking account of the effects of variation for exchange rates (- 8.6%), metal prices in the Energy business (- 1.6%) and the consolidation area difference caused by the sale of the Enamelled wires business. The real variation has been caused mainly by lower volumes in the Energy and Telecom Cables Sectors, whereas the Tyre Sector is showing increased value.

EBITDA amounted to **141 million** euros and equalled **9.7%** of turnover, against 137 million euros in the 1st quarter of 2001 (equalling 8.1% of turnover).

Operating income amounts to **59 million** euros during the first quarter of 2003 - equal to **4.1%** of sales - compared with 42 million euros during the same period in 2002 (2.5% of sales). The negative impact of the market and exchange rate trend has been more than compensated by the restructuring the Group has got under way, resulting in a gross efficiency of 57 million euros (33 million euros of which relate to gross labour cost reductions). Further compensation comes from growth in the Tyre Sector (up 20.4%), thanks to commercial results that confirm its leadership in the higher value-added segments and with wider margins.

The Group's **financial charges and income** presented a net deficit of **37 million** at 31st March 2003, against a net deficit of 35 million euros for the corresponding period last year; the variation has been caused by the greater net indebtedness for the period.

The results from investment holdings, negative to the tune of 25 million euros, relates to the shareholders' equity method of assessing the equity holding in Olimpia (negative to the tune of 27 million euros in the first quarter of 2002).

Extraordinary charges and income showed a **positive net balance** equal to **8 million** euros at the quarter's end. This mainly comprises the capital gain deriving from the sale of properties belonging to the Energy Cables and Systems Sector to companies within the Pirelli & C. Real Estate Group.

The positive **net income** of **3 million** euros for the first quarter of 2003 before the Olimpia effect becomes a **deficit of 22 million** euros after such effect, against a deficit of 12 million euros and 39 million euros respectively for the first quarter of 2002.

Shareholders' equity goes from 4,576 million euros at 31st December 2002 to 4,526 million euros at 31st March 2003.

The **net financial position** at 31st March 2003 showed a deficit of **1,646 million** euros against one of 1,469 million euros at 31st December 2002. As expected, such a variation is to be attributed mainly to seasonal factors (that have, as usual, caused an increase in circulating capital) and outlays relating to provision made during 2002 for re-organization programmes.

Despite the unfavourable conditions, the Group has re-confirmed its priority commitment to research and technological innovation in the first quarter of 2003, sustaining **research and development costs** vouching for 50 million euros, reflecting an unchanged 3.5% of sales.

The Group's **personnel** numbered **34,608 employees** (2,225 of whom are temporary), against 36,079 individuals at 31st December 2002 (2,257 of whom were temporary).

Tyre Sector

Sales amounted to **741 million** euros, falling by 2.2% and showing an increase of 10.8% (net of the exchange effect) against the first quarter of 2002. Increases in volume (up 5.9%) and price/mix (up 4.9%) contributed to the result. The positive trend in prices and mix is common to all the main geographical areas and confirms the growth in the high value-added Performance segments, as well as the success enjoyed by new technology and new products. Sales in the Consumer market (Cars and Motorbikes) are up by 1% at the old exchange rates and by 11% net of the exchange effect. This both for the Replacement distribution channel (which has seen a general growth in all the main markets) and for the Original Equipment Market channel, where the first supplies have begun in North America. Sales in the Industrial market have fallen by 9% at the old exchange rates but have increased by 12% net of the exchange effect thanks to general growth in all the main markets including the Latin American ones, where the depreciation of the local currencies in comparison with the first quarter of 2002 is particularly significant.

The first quarter ended with an **operating income** equal to **65 million** euros (8.8% of sales) compared with **54 million** euros (**7.1%** of sales) at 31st March 2002. The **ROS** has made **significant progress**, rising to **8.8 per cent** from 7.1 per cent in the first quarter of 2002 (and from 5.8% in the last quarter of last year).

Net profit at 31st March 2003 equalled **32 million** euros (after financial charges equalling 14 million euros and fiscal charges of 19 million euros) against 23 million euros in the first three months of 2002 (after financial charges equalling 19 million euros and fiscal charges equalling 12 million euros).

The **net financial position** showed a deficit of 595 million euros compared with 492 million euros at 31st December 2002 and against a position of 806 million euros at 31st March 2002. The increase since 31 December 2002 is attributable to operating requirements typical of the period's seasonality.

Personnel comprised **20,144 employees** at 31st March 2003, including 1,532 temporary workers. In comparison with the figures at 31st December 2002, both the number of permanent staff and people in management and the number of permanent workers are lower as a consequence of personnel rationalisation.

Four important targets achieved by Pirelli Tyres during the course of the quarter must be remembered:

- The inauguration of the **first plant to produce motorbike tyres** took place in Milan in March. Fruit of Pirelli's advanced research, the plant is based on the revolutionary MIRS™ (Modular Integrated Robotized System) process. Realised via an overall investment of more than 10 million euros, today MIRS™ Moto is also active in the German factory at Breuberg, in the Land of Hesse. At Breuberg, the first MIRS™ Moto module produces **125,000 high performance Diablo Corsa motorbike radial tyres** a year: a product with totally innovative characteristics as far as performance, reliability and structural integrity are concerned, being produced by machines boasting an unprecedented degree of precision;
- Contemporaneously with MIRS™ Moto, the **MIRS™ mini-factory in Rome, Georgia** began working at full capacity in the United States. This specialises in the production of Pirelli Scorpion Zero Asymmetric and P Black Zero M+ S tyres destined to the **Sport Utility Vehicles** segment and to **American sports cars**;
- Also in the SUV segment, Pirelli has launched the new line of **Scorpion STR** tyres on the international markets. This is an "all-purpose" product dedicated to the new generation all-terrain four-wheel drives. The Ford F-250/F350 pick-up line and the Ford Excursion SUV are amongst the first outfits to be conquered by Scorpion STR;
- The first three months of 2003 have further seen the development of **Original Equipment Market** activities, as much in relation to the European car manufacturers as to the American producers. Some of the most recent ratifications include the Ferrari Road Challenge with high performance **P Zero Corsa** radials, Porsche's Cayenne and Volkswagen's Touareg with Scorpion A/T and **Scorpion Zero**, Volvo's XC90 with Scorpion STR, the new Audi A3 with P7, Jaguar's X350 and Lamborghini Gallardo with PZERO

ROSSO, whilst **Pirelli P6 Four Seasons'** transatlantic conquest of top Mercury, Lincoln and Ford models must also be remembered.

Energy Cables and Systems Sector

Sales during the first quarter amounted to **623 million** euros, falling by **21.7%** in comparison with the same period in 2002; when the exchange effects, metal prices and the consolidation area variation for the assignment of the Enamelled wires business are taken into consideration, the fall is one of **6.9%**.

Operating income at 31st March 2003 equalled **8 million** euros (**1.3% of sector sales**), showing a marked growth in comparison with 1 million euros (0.1 per cent of sales) for the first quarter of last year.

Net income at 31st March 2003 showed a profit of 2 million euros, as against a loss of 17 million euros for the same period in the previous year. This is thanks to an improved operating income, lower financial charges and the capital gain arising from the property assignment.

The **net financial position** showed a deficit of 418 million euros, in comparison with the 373 million euros at 31st December 2002.

Personnel amounted to **11,282 employees** at 31st March 2003, with a reduction of 1,197 individuals compared with 31st December 2002.

It must be remembered that during the first quarter of 2003, works began for the **longest submarine link** for power transmission in the world. This is between the Australian States of **Victoria and Tasmania**. The cable, which will transmit **500 Megawatts** at a DC voltage of **400 KiloVolts** over a distance of 295 Km, is being realised at the Arco Felice factory (Naples).

Telecom Cables and Systems Sector

Sales in the first quarter amounted to **89 million** euros, recording a sharp downturn (**equal to 46%**) on the same period last year which was still not feeling the full effects of the market crisis. This has been caused by the persisting marked volume reduction, with further price reduction drives accompanied by a deterioration in the products mix (fewer sales of cables with premium optical fibre). Net of the exchange effect, the fall is one of **41.1%**. The value is in line with the last quarter of last year.

Operating income shows a **deficit of 17 million** euros as against one of 2 million euros for the first quarter of 2002. The figure shows an improvement on the last quarter of 2002 (a deficit of 28 million euros) thanks to the restructuring carried out.

Net income at 31st March 2003 recorded a deficit of 21 million euros.

The **net financial position** is negative to an extent of 465 million euros, in comparison with 431 million euros at 31st December 2002. The variation is mainly attributable to operating requirements during the period.

Personnel numbered 2,348 employees at 31st March 2003, showing a further reduction (198 people) compared with the figures at 31st December 2002.

Attention must be drawn to the assignment of the most important European project based on Optical Ground Wire technology in Rumania to Pirelli. This project will allow the substitution of the traditional earth wire along the overhead electrical lines with a cable also containing optical fibres. The order, worth **32 million euros** overall, confirms Pirelli's technological leadership in the division of optical cables for special uses and opens up new business perspectives for bringing an advanced telecommunications system alongside already existing electrical lines.

Activity evolution for the year under way

In a market scenario still characterised by uncertainty, the results achieved during the first quarter can today confirm the objective of **increasing operating income** for the **Tyre** as well as the **Energy Cables and Systems** Sector during the current year and of **bettering** the operating income of the **Telecom Cables and Systems** Sector, which is seeing **break even in the final quarter**.

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Appendix 1 - Data summarizing the consolidated Financial Statements for the Pirelli S.p.A Group at 31st March 2003

Appendix 2 - Pro-forma data: pro-forma consolidated representation of Pirelli S.p.A.'s balance sheet and income statement at 31/03/2003 assuming full consolidation of Olimpia S.p.A. and the shareholders' equity method valuation of the Olivetti S.p.A. equity stake.

Appendix I

THE GROUP

(million Euros)

	31/03/2003 (exc. Olimpia)	31/03/2003	31/03/2002	31/12/2002
. Sales	1,449	1,449	1,688	6,311
. EBITDA	141	141	137	480
% of sales	9.7%	9.7%	8.1%	7.6%
. Operating Income	59	59	42	117
% of sales	4.1%	4.1%	2.5%	1.9%
. Financial Charges / Income	(37)	(37)	(35)	(173)
. Result from Equity Interests	0	(25)	(27)	(230)
. Extraordinary Charges / Income	8	8	0	(262)
. Fiscal Charges	(27)	(27)	(19)	(62)
. Net Income	3	(22)	(39)	(610)
% of sales		n.s.	n.s.	n.s.
. Pirelli S.p.A. Net Income after Minorities		(21)	(37)	(614)
. Net Income after Minorities per share (euros)		(0.01)	(0.02)	(0.31)
. Shareholders Equity		4,526	5,629	4,576
. Pirelli S.p.A. Shareholders Equity after Minorities		4,347	5,422	4,394
. Shareholders Equity after Minorities per share (euros)		2.17	2.70	2.19
. Net financial position		1,646	1,406	1,469
. Research and Development expenses		50	59	219
. Employees (at the end of period)		34,608	38,260	36,079
. Factories n.		77	82	79

	<i>Pro-forma adjustments</i>					Pirelli S.p.A. consolidated financial statements pro-forma at 31/03/2003(2)
	Pirelli S.p.A. consolidated financial statements at 31/03/2003 (1)	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	Total pro-forma adjustments	
<i>(million Euros)</i>						
Statement of Income summary						
Sales	1,449	-	-	-	-	1,449
Operating Income	59	-	0	-	-	59
Charges/Income Investments / Adj. value of long-term investments	(62)	24	(37)	(164)	(177)	(239)
Extraordinary (Charges)/Income	8	-	(3)	-	(3)	5
Taxes	(27)	-	-	-	-	(27)
Net income	(22)	24	(40)	(164)	(180)	(202)
Net income after minorities	(21)	24	(24)	(98)	(98)	(119)
Effect of write-downs for goodwill	1			145	145	146
Net income excluding write-downs for goodwill	(21)	24	(40)	(19)	(35)	(56)
Net income after minorities excluding write-downs for goodwill	(20)	24	(24)	(12)	(12)	(32)
Reclassified balance sheet						
Fixed assets	6,009	191	8,231	(3,581)	4,841	10,850
Working capital	924	-	51	-	51	975
Total net invested capital	6,933	191	8,282	(3,581)	4,892	11,825
Funded by:						
Shareholders' equity	4,526	191	4,883	(3,581)	1,493	6,019
- of which shareholders' equity after minorities	4,347	191	2,930	(3,396)	(275)	4,072
Reserves	761	-	-	-	-	761
Net financial position (assets)/liabilities	1,646	-	3,399	-	3,399	5,045

(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)

N.B. The pro-forma consolidated balance-sheet/income statement situation has been drawn up using Olimpia S.p.A.'s financial statements at 31/03/2002 and the consolidated financial statement of the Olivetti S.p.A. group. The main pro-forma adjustments included in the table set out above are described as follows:

* in the column entitled "Reversal of Olimpia S.p.A. result owing to Pirelli S.p.A. 60%", the financial and balance sheet effects deriving from the shareholders' equity method valuation of the Olimpia equity stake have been reversed in the consolidated financial statement for Pirelli S.p.A. at 31/03/2002;

* in the column entitled "Olimpia S.p.A. full", the assets, liabilities, costs and revenues resulting from Olimpia S.p.A.'s financial statement to 31/03/2002 have been included, attributing to minority shareholders their quota of shareholders' equity and the share income/dividends owing to them.

* in the column entitled "Consolidation adjustments and valuation of the Olivetti S.p.A. equity stake using the shareholders' equity method", the effect of the shareholders' equity method valuation of the Olivetti equity stake has been added. This translates into a value adjustment equal to 109 million euros, of which 55 million euros relate to the write-down for the implied three-month start-up on a total period of twenty years and 54 million euros relate to Olivetti group income for the first quarter of 2002 owing to Olimpia S.p.A.

Furthermore, attention is drawn to the "Effect of write-downs for goodwill" on net income, detailed as follows:

* in the column entitled "Pirelli S.p.A. consolidated financial statements at 31/03/2003" the sum of 1 million Euros refers to the quota for the three months relating to the start-up recorded by Pirelli S.p.A. on Olimpia S.p.A.;

* in the column entitled "Consolidation adjustments and valuation of the Olivetti S.p.A. equity stake using the shareholders' equity method" the sum of 145 million Euros refers to 1) the sum of 55 million Euros for Olimpia S.p.A.'s start-up on Olivetti S.p.A. and 2) the sum of 90 million Euros for Olivetti S.p.A.'s start-up on Telecom Italia S.p.A..

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	
	31/03/2003	31/12/2002	31/03/2003	31/12/2002	31/03/2003	31/12/2002	31/03/2003	31/12/2002
Pirelli SpA Group: consolidated data	4,526	4,576	1,646	1,469	0.36	0.32	4,347	4,394
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.	6,019	6,071	5,045	5,145	0.84	0.85	4,072	4,111
Pirelli SpA Group: pro-forma consolidated data incl. Olimpia S.p.A. and the Olivetti group wholly consolidated	23,600	23,378	36,936	38,544	1.57	1.65	4,072	4,111

