

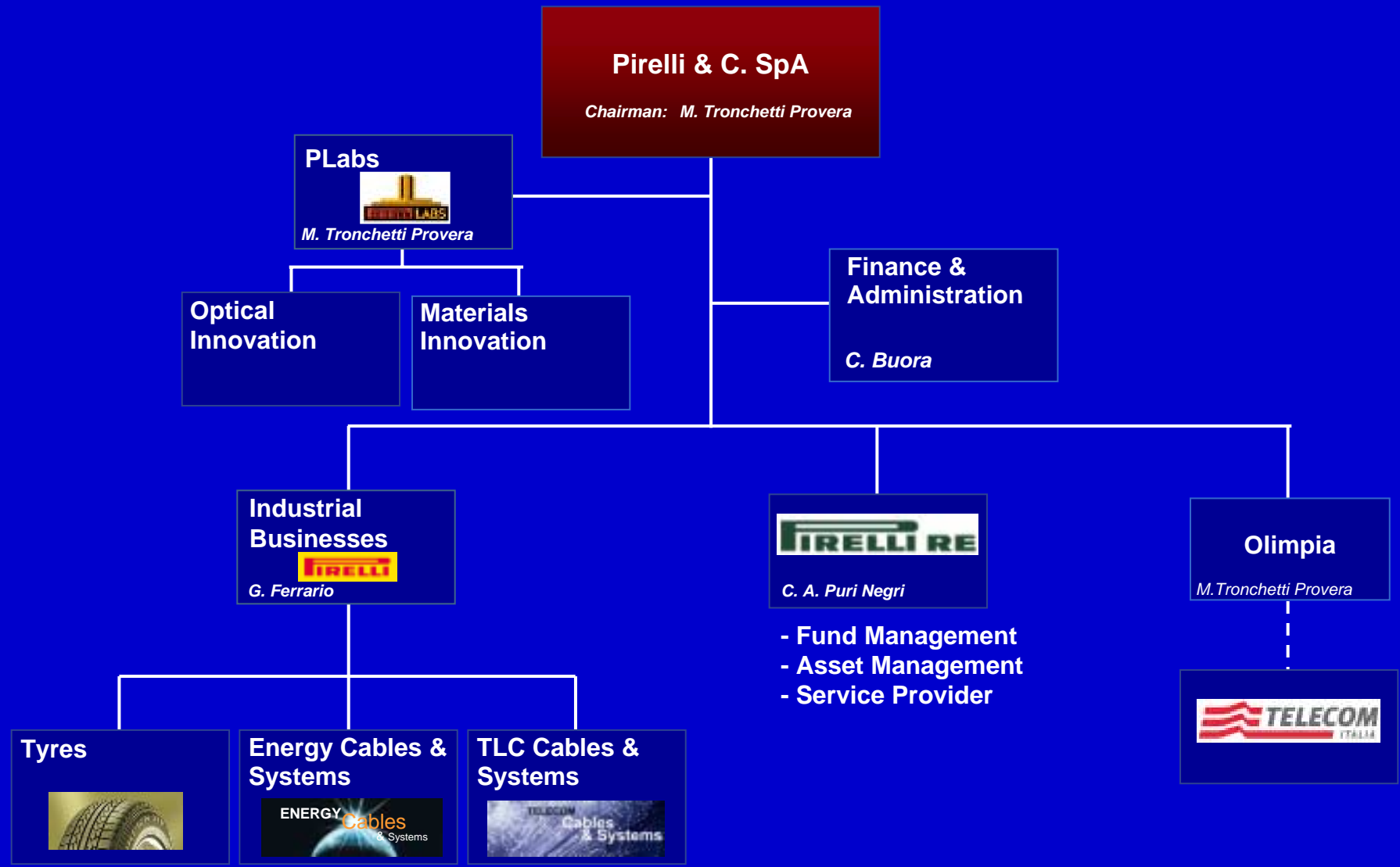
Pirelli Group Technology Day

Marco Tronchetti Provera
Chairman
Milan, May 2004



- **Group results**
- **The role of innovation**
- **Outlook 04-06**

Group Results: THE STRUCTURE



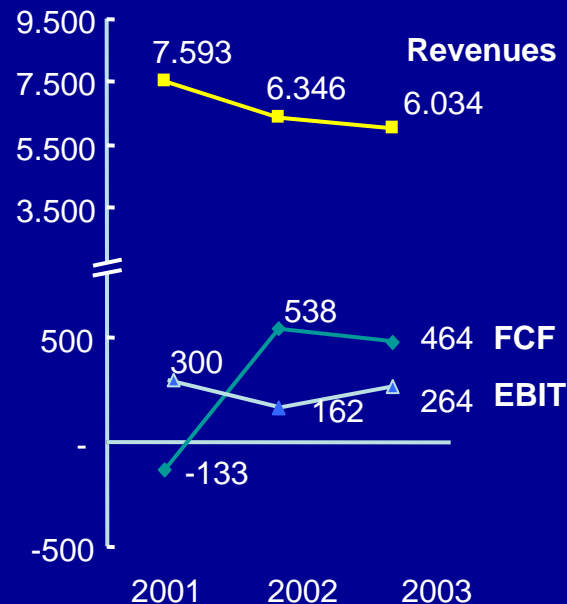
Group Results: 2003 HIGHLIGHTS

- **Improved profitability** (4.0% ROS)
- **Breakeven achieved at net income level**
- **>500 Mln € operating free cash flow**
- **Maintained R&D commitment** (3.4% of sales)
- **Emphasis on PLabs and collaboration with TILabs and Universities**
- **Merger**
- **Leading edge Corporate Governance**

Group Results: ACHIEVEMENTS

Industrial business

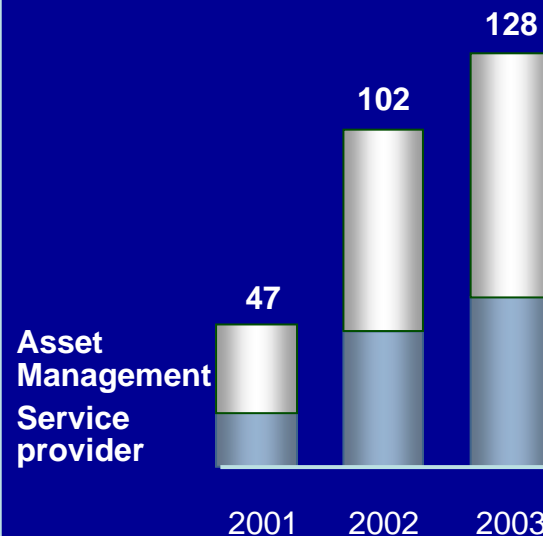
- ~1 Bln € FCF* in 2 years
- **Strengthened position** in all the key businesses
- Opening of **new markets**



Pirelli Real Estate

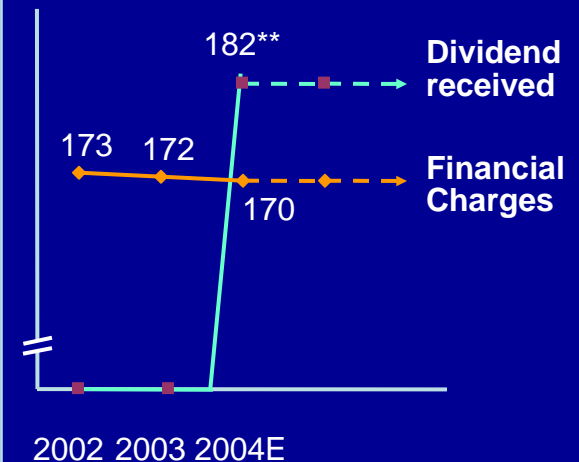
- **1.2 Bln € market capitalization**
- **Successful launch of RE Funds**
- Pirelli RE **franchise network**

EBIT including income from equity participations



Olimpia/Telecom Italia Group

- Olimpia:
 - NAV from -0,6 to **1 Bln €** (1.3 Bln € end Q1 2004)
- Telecom Italia
 - FCF*: **>17 Bln € in 2 years**
 - EBITDA %: from 44.2% to **46.3%**
 - NFP : from 41 (09/'01) to **33 Bln €**



* Operating Free Cash Flow

** Dividend based on DPS amount of 0.1041€ as announced by TI. Olimpia stake in TI after capital increase = ~1,752 Mln shares.

Group Results: Q1 2004, POSITIVE TREND CONFIRMED

€ mln	Q1 04	Q1 03	Variation
Sales	1,677	1,572	+6.7%
EBIT	83	68	+22%
ROS	4.9%	4.3%	
EBIT Including income from equity participations	80	57	+40%
Net result	+10	(20)	

Pirelli & C. SpA



Group Results: Q1 2004, ACROSS THE BOARD IMPROVEMENT

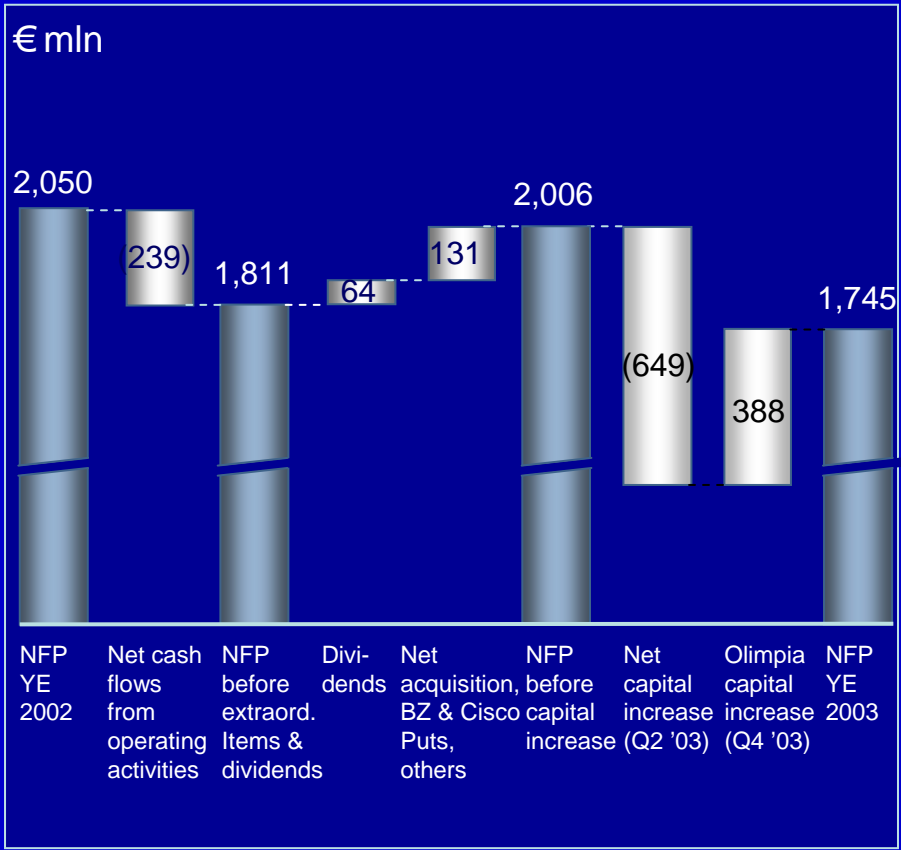
€ mln

	Industrial Business 				Others		GROUP TOTAL	
	Q1 2004	Q1 2003	Q1 2004	Q1 2003	Q1 2004	Q1 2003	Q1 2004	Q1 2003
Revenues	1,586	1,453	103	127	(12)	(8)	1,677	1,572
EBIT	88	62	10	11	(15)	(5)*	83	68
ROS	5.5%	4.3%					4.9%	4.3%
Olimpia					(24)	(25)	(24)	(25)
EBIT including equity participations	88	62	31	25	(39)	(30)	80	57

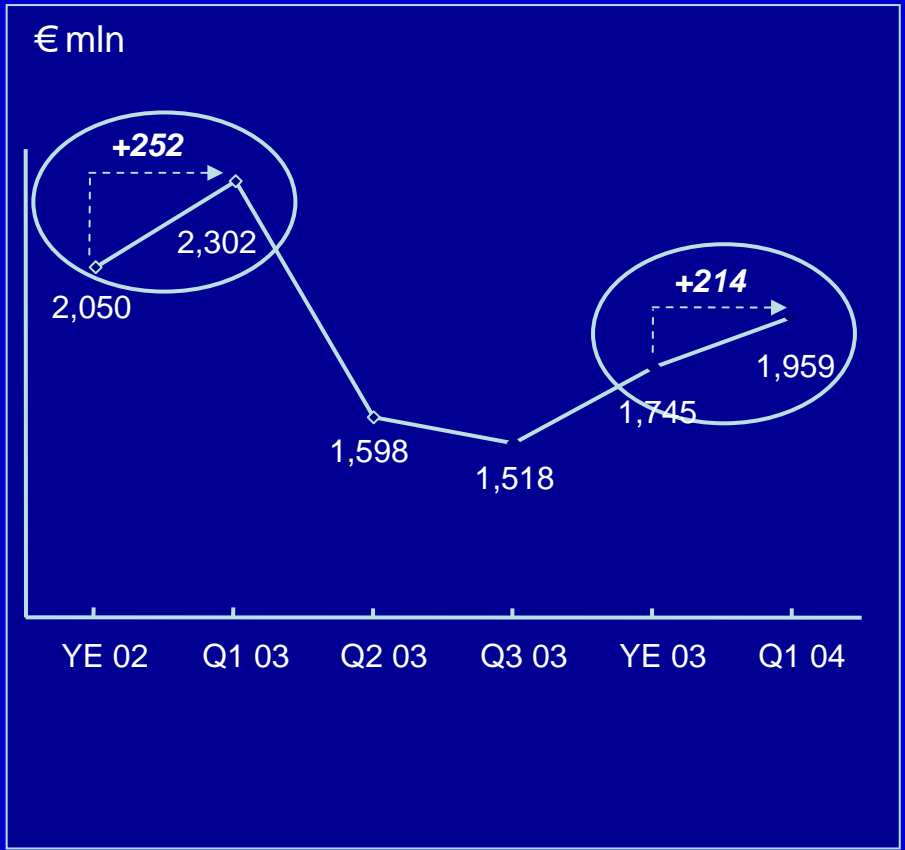
* Including CIENA settlement (+10MI €)

Group Results: CASH GENERATION AND NET FINANCIAL POSITION

2002-2003 NFP Evolution

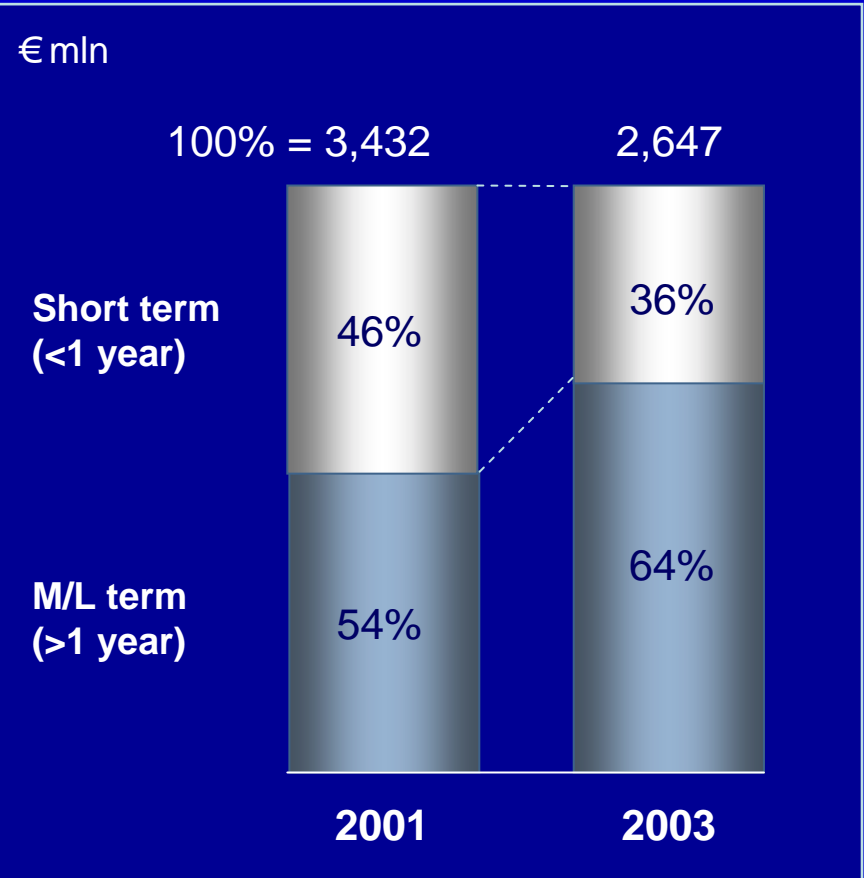


Quarter by quarter NFP Trend

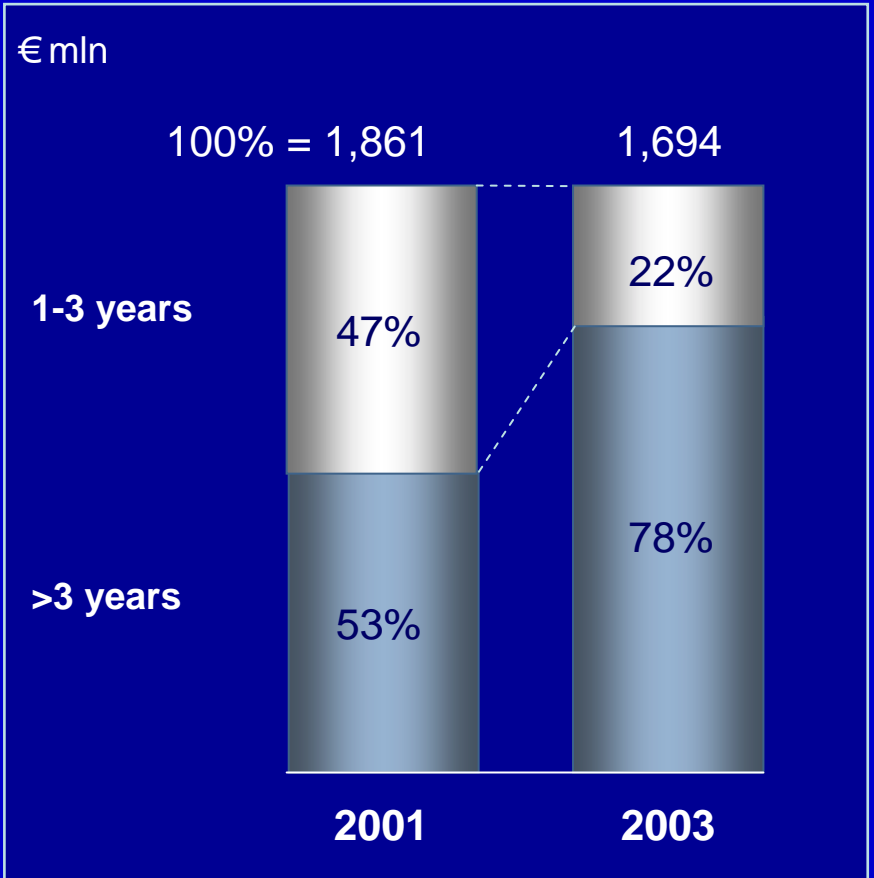


Group Results: GROSS DEBT COMPOSITION

Gross debt: shifting towards M/LT



Gross debt: M/LT debt maturity



CONTENTS

- Group results
- **The role of innovation**
- Outlook 04-06

The Role Of Innovation: TWO TIER APPROACH TO R&D

Breakthrough innovation

- Development of intellectual property
- Deployment of advanced technologies



112 people

- Optical components & modules
- Services & electronics integration
- Energy
- Materials & processes

New Businesses

- Innovative solutions
- Acceleration of product/process renewal

Sustaining innovation

- Product/ process improvements
- Offer enrichment
- Industrialization of PLabs projects

Tyre R&D, E

919 people



Energy R&D, E

317 people



TLC R&D, E

149 people



The Role Of Innovation: DELIVERING RESULTS

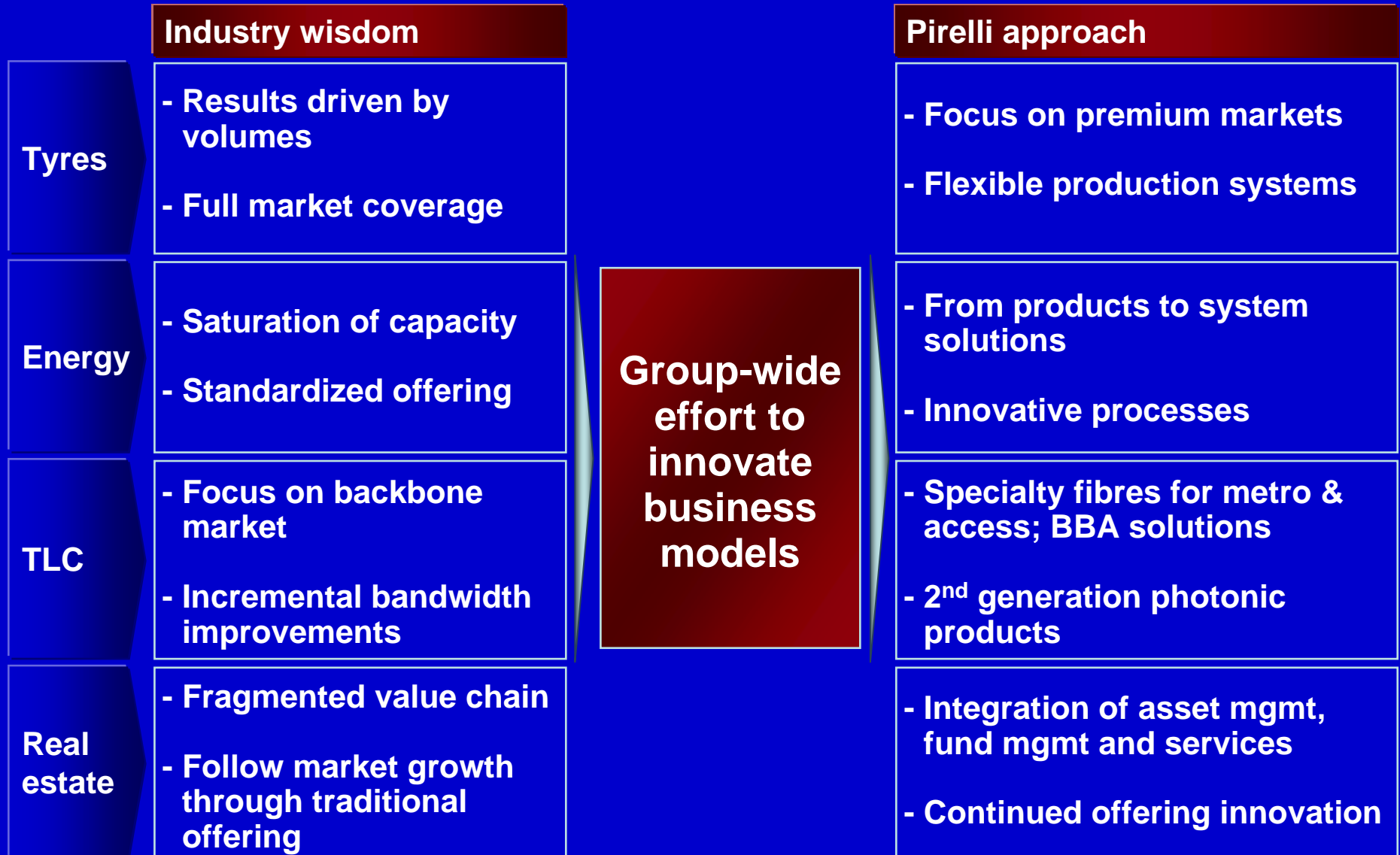
2002 commitment

The main research projects will generate significant extra revenues within the next 3 years

Achievements

- BBA/Photonics: ~ 50 Mln € revenues in 2004
- Tyre systems: market introduction in 2004
- New compounding: first successful deployment in car racing products

The Role Of Innovation: DISTINCTIVE APPROACH IN ALL BUSINESSES



CONTENTS

- Group results
- The role of innovation
- **Outlook 04-06**

Outlook 04-06: LOOKING AHEAD

Industrial businesses

- Growing in **high-end segments**
- Moving from **products to systems**
- Developing **new markets**
- Continuing the global **reshaping of business models**

Pirelli Real Estate

- Consolidating **extended offering** in Italy
- Growing in "**Non-Performing Loans**"

Olimpia/ TLC Services

- Leadership in **advanced services**
- Selective **international growth**
- Further improvement in **profitability and cash generation**

**Building
international
leadership in
innovative
products and
services**

Outlook 04-06: GROUP TARGETS

€ Mln, Percent



*Assuming dividends in line with 2004, with warrant conversion, without extraordinary transactions

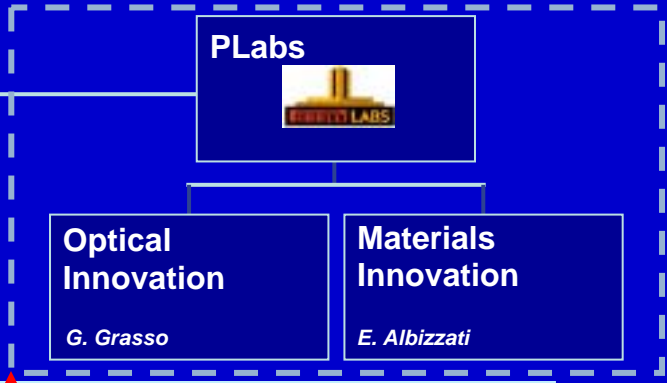
Outlook 04-06: REAL ESTATE HIGHLIGHTS

- **Targets fully achieved** in 2002 and 2003
- **2003-2005 three years plan confirmed** (EBIT incl. income from Equity Participations +20-25%)
- **New business plan (2004-2006) to be presented at the beginning of June**
 - . **2004-2006 around 20% CAGR at EBIT level** (incl. income from Equity Participations)
 - . **Further strengthen the leadership in the Italian market**

AGENDA

Pirelli & C. SpA

Mr. Ferrario and the General Managers of the BU will present the strategy and outlook for the industrial businesses



Industrial Businesses
G. Ferrario



Olimpia

Following the presentations, Mr. Albizzati and Mr. Grasso will guide you through a demonstration of the main research projects and results

