TLC Cables & Systems

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TECHNOLOGY DAY

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- **Q 1 Results and Outlook**
- Cables & Fibers
- TLC Systems

TLC Cables & Systems, Results: Q1 2004

€ Mln

	Q1 2004	Q1 2003	Variation	FY 2003
Net Revenues	**96**	89	+7.9%	427
EBITDA	**2**	(4)		(1)
EBIT	**(7)***	(13)		(39)

* Of which -4 submarine activities

TLC Cables & Systems, Results: ADVANCED TELECOM SOLUTIONS

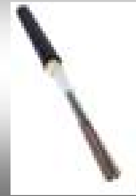
Fibre

- SM Light
- Finelight™
- Magnilight™
- Freelight™
- Widelight™

Long haul

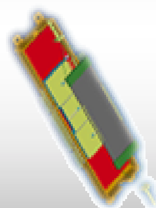
Metro & Access

Optical & Copper cables



- MLTMinicables
- ADSS
- Dry Ribbon
- OPGW
- Mini-CLT
- CampusLink™
- DSL cables

New Photonics

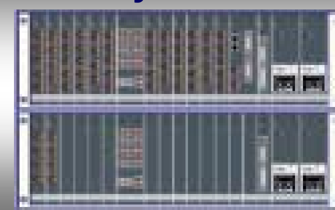


- Tunable Laser
- OADM
- Triplexer
- CWDM

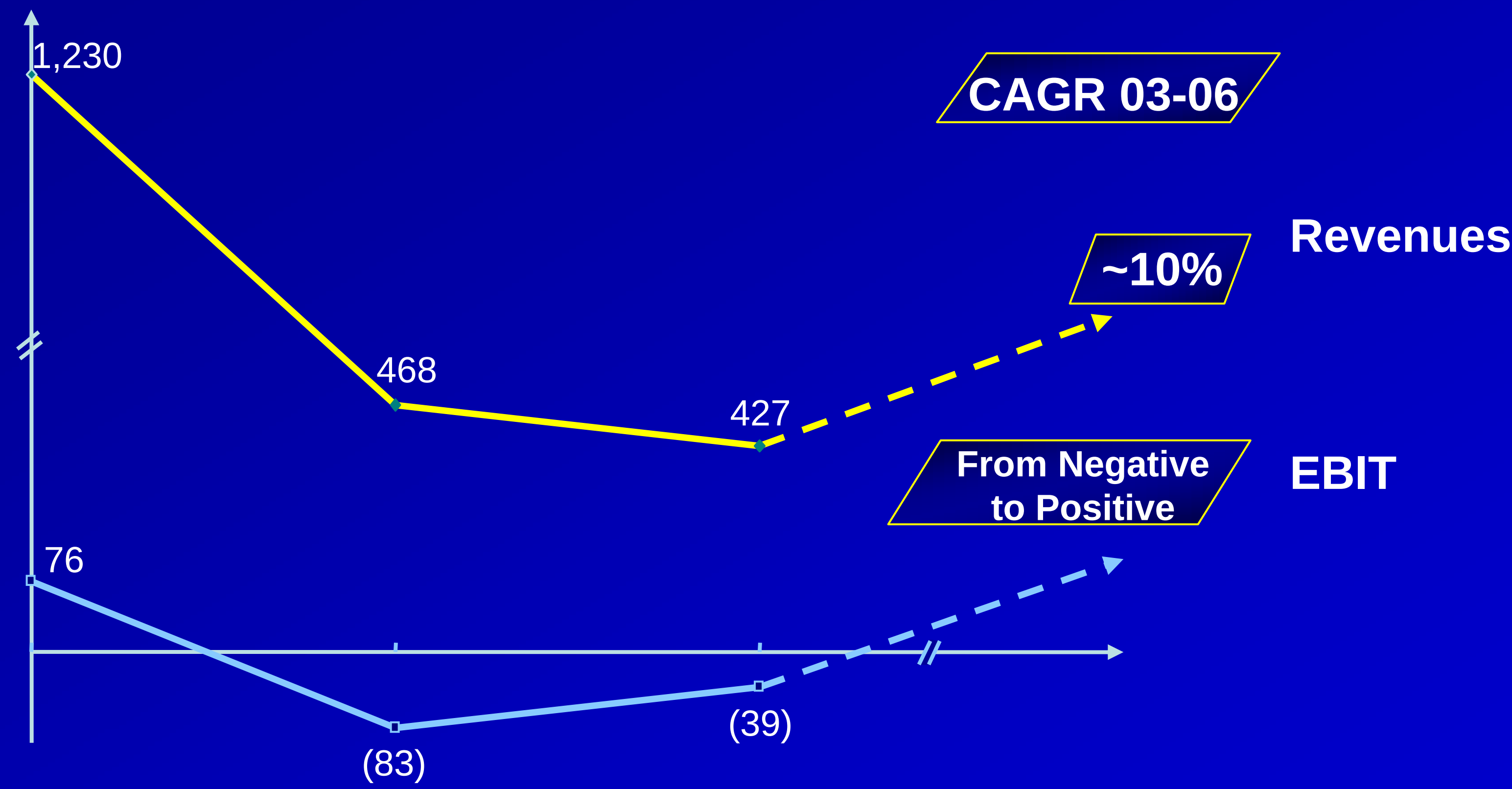
Broadband Access (BBA)

Connectivity Solutions

Metro access Systems (MAS)



TLC Cables & Systems, Results: 04-06 TARGETS



	2001	2002	2003	2006
ROS	6%	-18%	-9%	5%
ROI	11.1%	n.s.	n.s.	~11%

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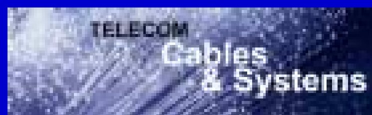


Cables & Fibres Guidelines: MARKET SCENARIO

	Fibres & Optical Cables	Copper Cables
Market volumes	**Slight volume recovery** beginning in **'04** - **Demand shifting to metro** - **Premium fibre** down to **<5%** of **total volumes**	**Modest volume growth** (+2% per year) - **Growing interest** in **ADSL** Cables
Competition	- **Overcapacity remains** - **Price level** close to **sustainability threshold** **Price decrease slowing down**. Slight **rebound** expected in **2005**	- **Highly fragmented supply** - **Local competitors** Continuing **pressure** on **prices** and margins

Cables & Fibre Guidelines: FIBRES, OPTICAL AND COPPER CABLES

Actions

Fibres and optical cables

- **Entry** in new **emerging countries**
- **Differentiation** through continuous **product innovation**
- **Strengthen the position in PTT** customers and **growth in other market segments**
- Increasing weight of **proprietary fibres**
- **Connectivity**
- **OPGW Innovation**

Copper cables

- Push on **new products for xDSL**
- **Focused volume growth**, avoiding price wars

New targets

- **Revenue CAGR 03-06:**

Fibres and Opt. cables	8-10%
Copper Cables	~2%
Connectivity	>20%

- Maintain **leadership in OPGW**
- **Defend** contribution **margins**
- Guarantee **cash generation**

Cables & Fibre Guidelines: IDENTIFYING PROFITABLE OPPORTUNITIES

Innovative fibres

- Low water peak
- Low PMD fibres
- OPGLight
- New NZD generation

Careful segmentation

Incumbents

Water/Gas Utilites

Other Telcos

Transpor-tation

- Service excellence
- Tailored solutions

Distinctive Cable Solutions

Miniaturized OPGW

Life installation OPGW

Fire performing premises cables

Enhanced Lashed Cables

Blown Cables

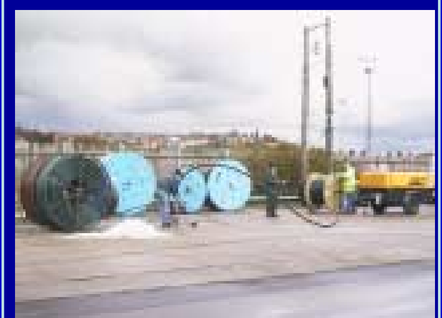
- Reduction of total life cost

Cables & Fibres Guidelines: THE BLOWN CABLES' CASE

Creating value for our customers

Business idea

Cable installation system through **compressed air blowing**



Emerging needs	Blown cables
Network **design flexibility**	**Just in time** fibre deployment **Network on demand**
Reduction/ control **of capital** expenditures	- **Deferral of capital** expenditure - Fibre **deployment related to revenues**
Speed of customer connection	**Faster** subsequent **installations**

Cables & Fibre Guidelines: COST EFFICIENCY

- **Concentration of production**
- **Optimization** of process technology
- Insisting on **delocalization**

Total savings '04-'06 >30 Mln €

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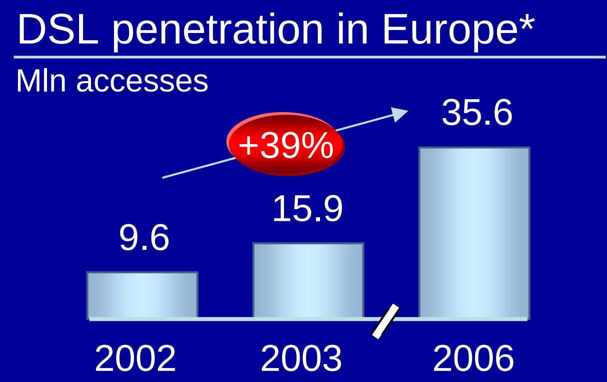
TLC Systems Guidelines: ACCESS MARKET SCENARIO

Market volumes

- **BB Access**: fast growing volumes pushed by the spread of DSL technology



- **MAS**: diffusion of optics in metro networks to comply with growing bandwidth requirements
- **ROF**: demand driven by the deployment of UMTS/EDGE mobile networks

Competition

- **Price pressure**, but growing **margins** thanks to **scale economies**
- **BBA**: most **competitors** (esp. in USA and Far East) **focusing on the retail market**

* Source: EITO

TLC Systems Guidelines: ACCESS

Actions

BBA:

- **Product strategy**
  . Integrating **leading edge elements (PLabs)** into **"custom made" solutions**
  . Modularity
  . Complete offering **(Products + services)**

- **Market focus**
  . **TLC operators** (customization and full services), not retail market
  . **Consolidating** presence **in Europe**
  . Entering **N.A.** and **LATAM** in **2005/2006**

- Development of **innovative features** (VOiP, Wi-Fi, …)

- **Business model**
  . Outsourced manufacturing
  . Minimized CAPEX

ROF, MAS:

- **Increase penetration** of existing customer base
- Aggressive pursuit of **new accounts**

New targets

- **Revenues** CAGR '03-'06: **~50%**
- **EBIT positive by 2006**
- **Low invested capital**

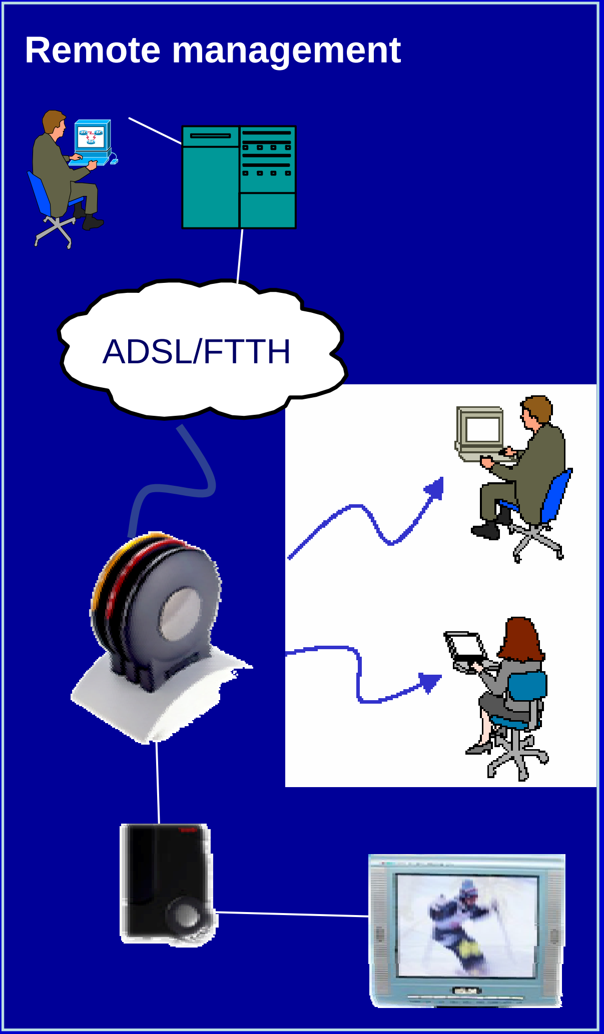
TLC Systems, Guidelines: THE “SMARTGATE” CASE

- **Product idea:** modular gateway for broadband access
  - Pirelli: definition of marketing requirements
  - TI LAB: Technology scouting
  - Pirelli: design, industrialization, organization of low cost production

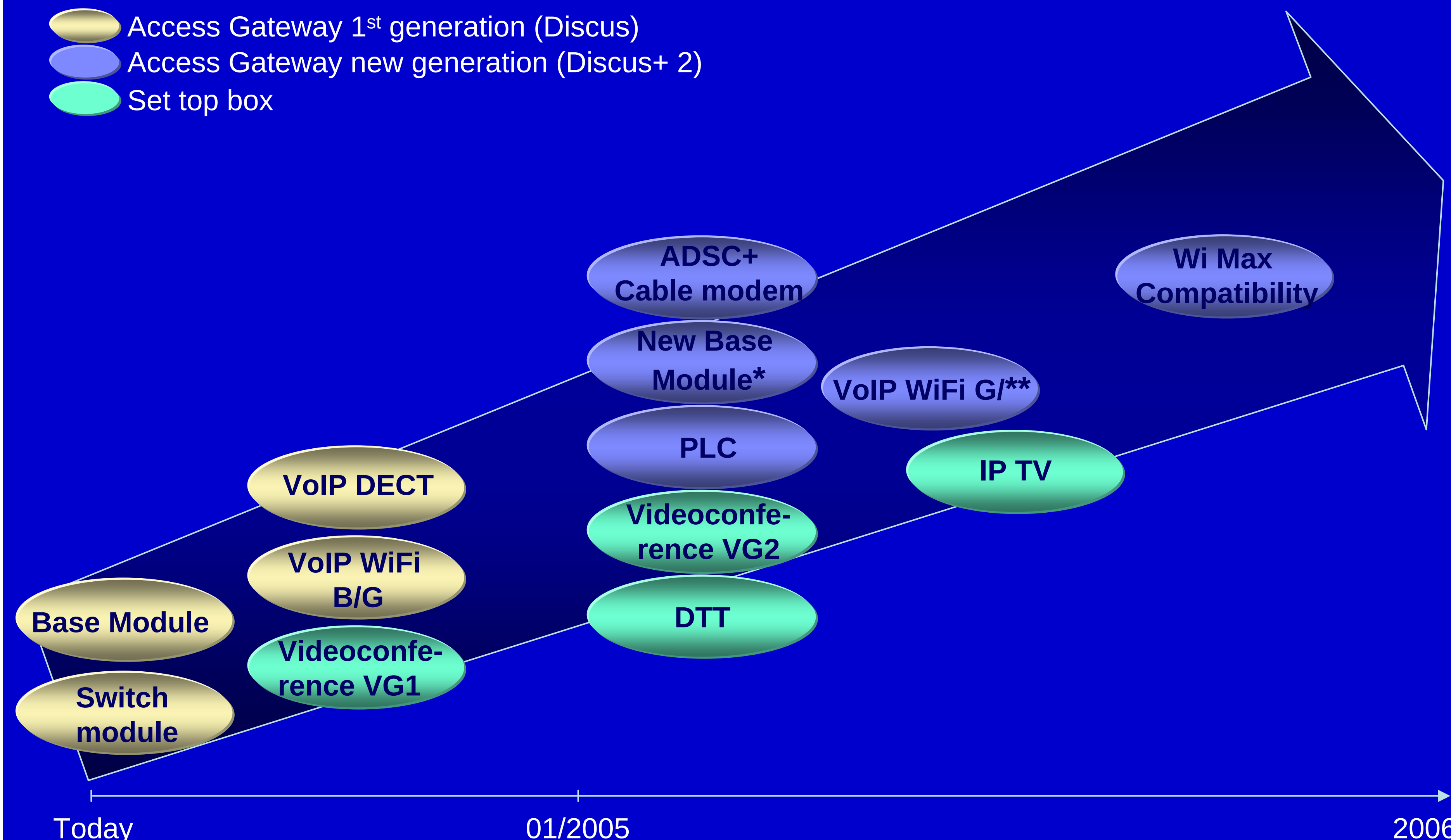
- **Commercial targets for Y2004**
  - TI: > 400,000 units installed
  - Fastweb: main equipment supplier
  - BT: main suppliers HUB 3

- **Planned evolution:** from BB access equipment to multiplatform communication hub (BB services, STB, digital TV)

Pirelli Home Networking model



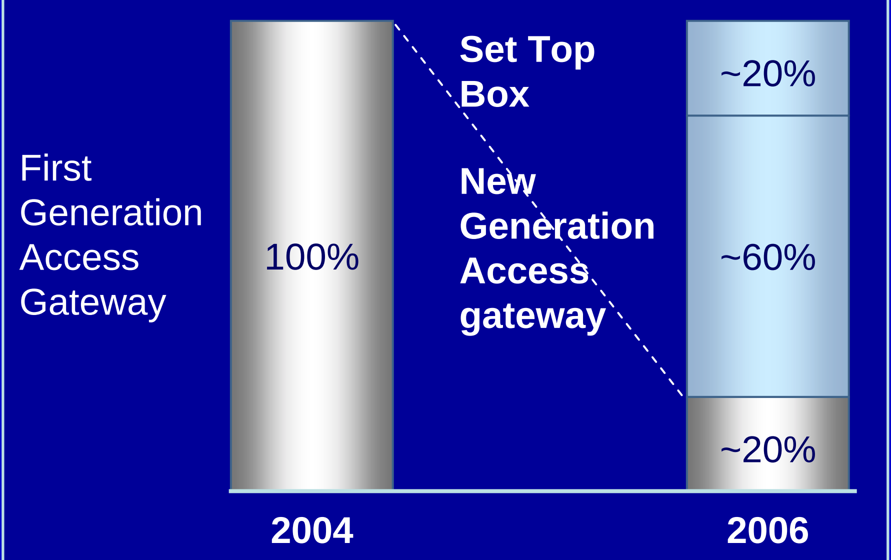
TLC Systems, Guidelines: NEW PRODUCTS ROADMAP



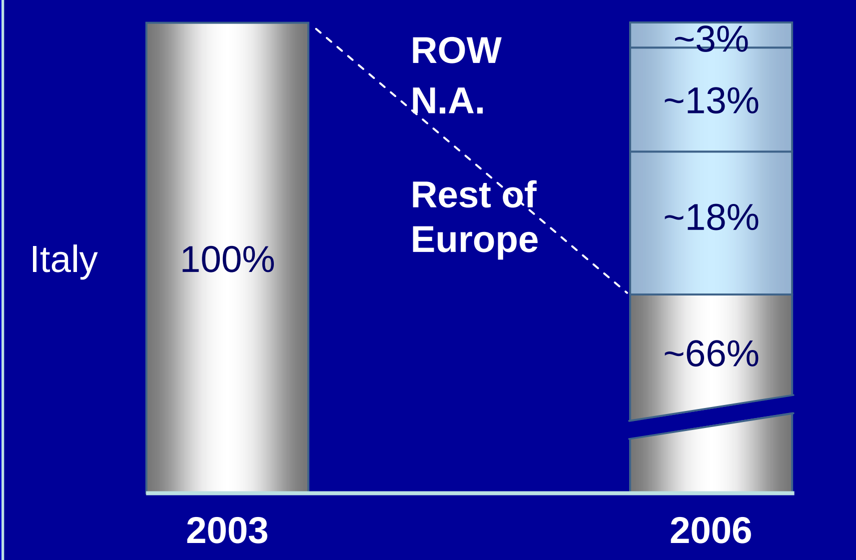
* With new chipset and platform
** Streaming compatible

TLC Systems, Guidelines: BBA SALES BREAKDOWN

By product



By geography



TLC Systems Guidelines: PHOTONICS MARKET SCENARIO

Emerging trends

- **Stabilisation of the market**
- **Slow recovery** of **carriers'** investments
- Increasing **bandwith consumption** (BB diffusion)
- Request for **"bandwith on demand"**
- From **legacy networks to new architectures**

Implications

- Search for **reductions** in **total life cost of TLC networks**
- Maximize **productivity** and flexibility of **existing installation**
- **Opportunity for new generation optical systems**
  . New materials
  . Tunable products

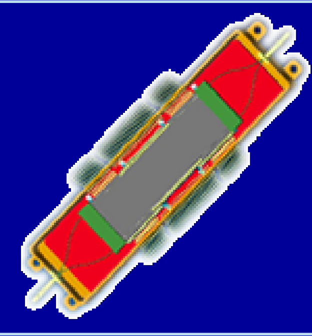
TLC Systems Guidelines: NEW PHOTONICS PRODUCT PORTFOLIO

Tunable laser

High output power laser source emitting on a broad range of selectable wavelenghts (tunability)

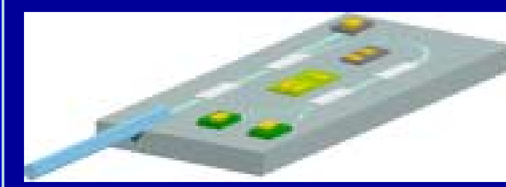
Tunable OADM

Breakthrough passive device performing an all-optical add&drop of light beams on a wide spectrum of tunable frequencies



Triplexer

Optoelectronic interface enabling the offer of video, voice and data for networks based on the innovative PON architecture



Telecom Systems, Guidelines: NEW PHOTONICS

Actions

- Product strategy: **integration** of **electronics** and **Pirelli** distinctive **know how** in **nano-optics**

- Value proposition
  - . **Lower Capex and Opex for Telco's,** tunable products and replacement of rare metals with silica
  - . Target of **>50% cost reduction** vs. existing components

- Commercial objectives
  - . Target **both new installations** and replacements in **existing networks**
  - . **Tunable laser** sales beginning **end 2004**
  - . **Triplexer and OADM** in the market **by 2005**

New targets

- Become a **technological leader**

- **Significant revenue** generation by **2006**

- **Positive EBIT in 2006**