



Group results for Q1 2003

Pirelli SpA - Q1 2003 Group Results



	Q1 03	Q1 02	Var.
Sales	1,449	1,688	- 14.2%
EBITDA	141	137	2.9%
EBITDA Margin	9.7%	8.1%	
EBIT (*)	59	42	40.5%
EBIT Margin	4.1%	2.5%	
Net debt	1,646	1,406	

Total variation	- 14.2%
Exchange	- 8.6%
Metal prices	- 1.6%
Deconsolidation	- 1.5%
Actual variation	- 2.5%
Volume	- 2.6%
Price/Mix	+ 0.1%

60% (**)

Olimpia

PIRELLI
Energy Cables
& Systems

Sales %

43%

PIRELLI
Telecom Cables
& Systems

6%

PIRELLI
Tyres

51%

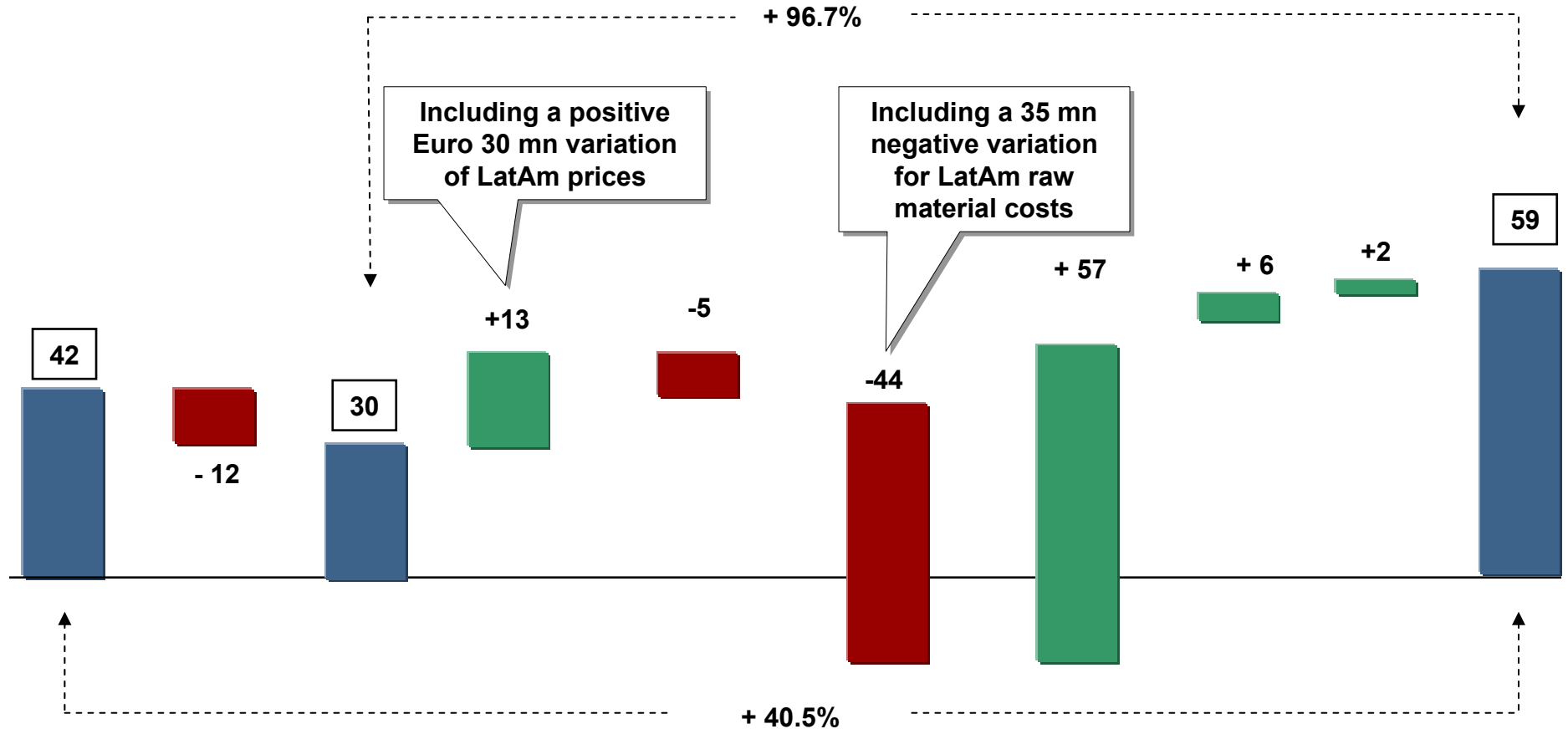
(*) Q1 '03 EBIT includes Euro 10 ml related to the Ciena settlement, while Q1 '02 included a Euro 6 ml indemnity for business interruption

(**) The stake will be reduced to 50.4% once the merger between Olimpia and Holy is completed

Pirelli SpA - Q1 2003 details (Euro ml)

	Q1 2003	Q1 2002	Var. %	Q4 2002	Var. %	FY 2002
Net Sales	1,449	1,688	-14.2%	1,501	-3.5%	6,311
EBITDA	141	137	+2.9%	112	+25.9 %	480
<i>Ebitda Margin</i>	9.7%	8.1%		7.5%		7.6%
EBIT	59	42	+ 40.5 %	22	+ 168.2%	117
<i>Ebit Margin</i>	4.1 %	2.5 %		1.5%		1.9%
Financial expenses	(37)	(35)		(52)		(173)
Olimpia/other equity part.	(25)	(27)		(130)		(230)
Extraordinary items	8	0		(24)		(262)
Fiscal charges	(27)	(19)		(19)		(62)
Net Result	(22)	(39)		(203)		(610)
Net Result before Olimpia	3	(12)		(135)		(460)
Net Debt	1,646	1,406		1,469		1,469
Equity attributable	4,347	5,422		4,394		4,394

Pirelli SpA Group Profit and Loss - Ebit variations (Euro ml)



Including a positive Euro 30 mn variation of LatAm prices

Including a 35 mn negative variation for LatAm raw material costs

EBIT Q1 02	Exchange rate	EBIT Q1 02 adjusted	Prices and Mix (excl. Metals)	Volumes	Unitary cost of Production factors	Efficiencies	Depreciation	Other	EBIT Q1 03
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Restructuring plan substantially achieved without endangering business prospects ...

Rationale

- Efficiency recovery from synergies across Sectors
- Unchanged commitment to R&D and products innovation programme
- **Focus on Energy and Telecom**

Total headcount reduction

	M+S	Lab	Tot
Jan – Sept 2002	900	995	1,895
Oct – Dec 2002	389	764	1,153
Total 2002	1,289	1,759	3,048
Jan – Mar 2003	471	1,000	1,471

Var. since end 2001: - 15.8% - 9.8% - 11.5%
Expected gross savings on 2003: ~ 135 ml Euro

Energy Sector

- Rationalisation of excess production capacity
- Increase **factory specialization**
- Focus on **high value added businesses** (High Voltage, Special Cable)

Telecom Sector

- Streamlining of production structures
- Resizing of organization to match market demand (-50% from June '01)
- Introduction of **new products**

... improving the Economic Results

Quarter results

Energy Cables:

- **Q1 '03 outperforms Q1 '02** in terms of profitability
- EBIT margin and sales **decrease vs Q4 '02** due to different business mix (lower contribution of Utilities)

Telecom Cables:

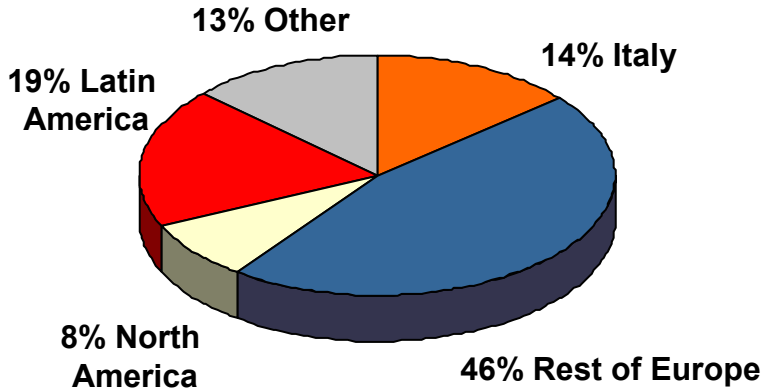
- Tough conditions continue but **sales at the same level than Q4 '02**
- **Limited operating losses** compared to Q3 '02 and Q4 '02

2003 Expectations

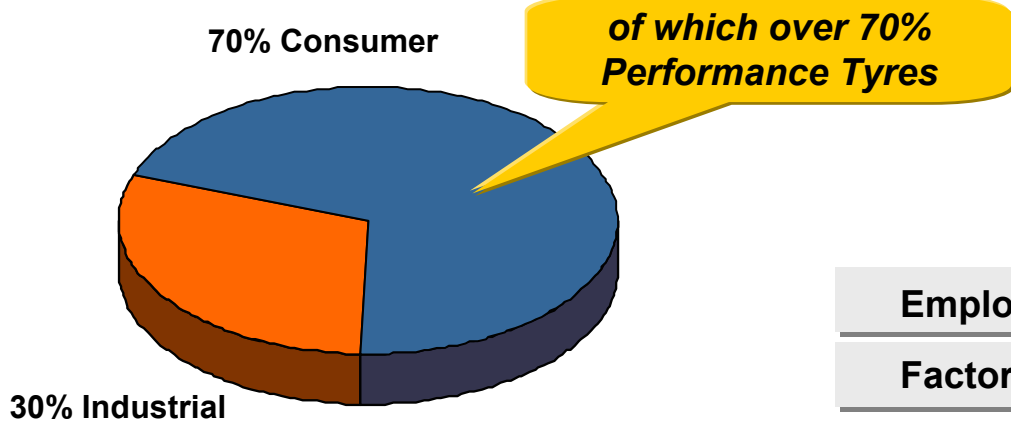
- Profitability continues **recovery** in all business divisions
- Energy Cables expected to **improve 2002 operating results**
- Telecom division to **reach break-even by year end-2003**
- **Cash Flow generation** improvement (thanks to strong efficiencies in NWC management)

Tyres: business structure

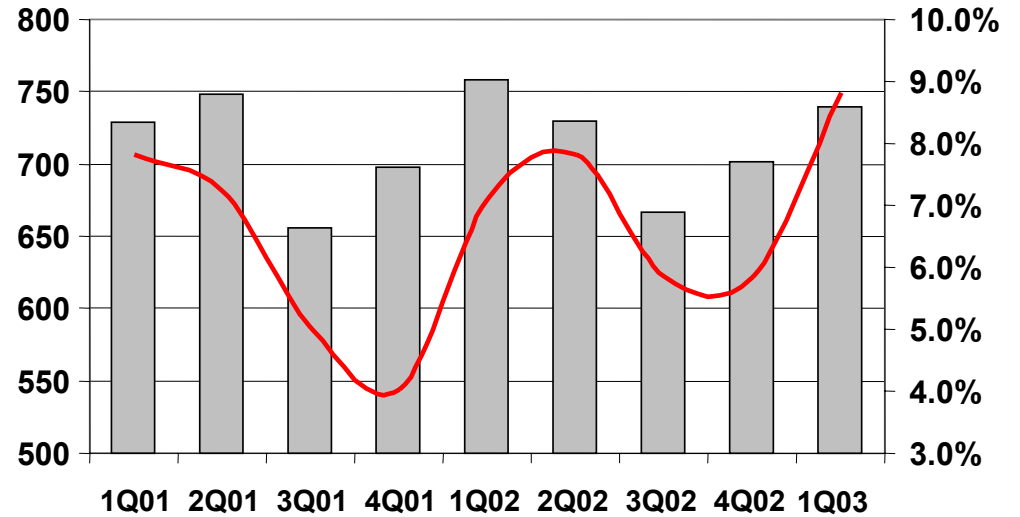
Geographical breakdown (FY2002)



Products breakdown (FY2002)



Sales and ROS (Q-o-Q)



31/03/2003 31/12/2002 31/12/2001

Employees	20,144	20,222	19,994
Factories	22	22	21

Pirelli Tyres: Profit And Loss (Euro ml)

	Q1 2003	Q1 2002	Var. %	Q4 2002	Var. %	FY 2002
Net Sales	741	758	-2.2%	702	+5.6%	2,857
EBITDA	108	101	+6.9%	81	+33.3%	365
<i>Ebitda margin</i>	14.6%	13.3%		11.5%		12.8%
EBIT	65	54	+20.4%	41	+58.5%	191
<i>Ebit margin</i>	8.8%	7.1%		5.8%		6.7%

Total variation	- 2.2%
Exchange	- 13.0%
Actual variation	+ 10.8%
Volume	+ 5.9%
Price/Mix	+ 4.9%

Commercial variances and cost efficiencies more than offset negative impact of currencies and higher costs of raw materials and energy

Currency	-11
Volume	+ 29
Prices/Mix	+ 40
Unit. cost prod. factors	- 49
Efficiencies	+ 7
Depreciation and other	- 5
TOTAL	+ 11

Pirelli Tyres Sector: outlook

ENVIRONMENT

- Consumer market (Car/LT and Moto) showing growth in EU (particularly AM) and LatAm (particularly OE); North American demand essentially negative
- Performance segment still growing “double digit”
- Industrial market growing in all geographic areas
- Increase of raw material and energy prices partially offset by the dollar dynamics
- LatAm currencies showing remarkable devaluation

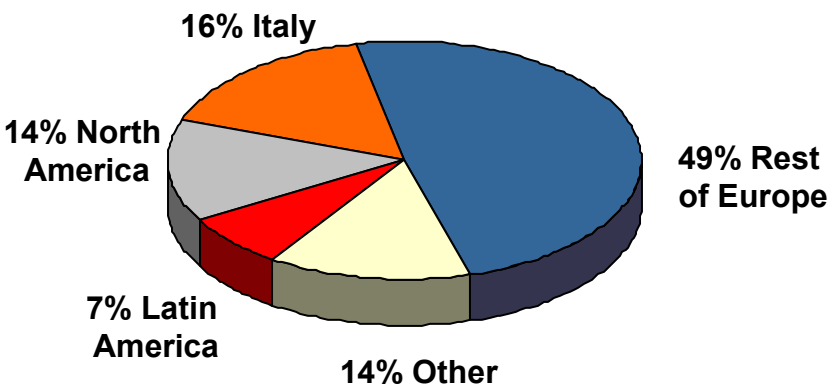
PIRELLI ACTIONS

- Higher saturation of plants, maximising output of “higher value added” products; increase of production capacity in low cost countries
- Launch of new products (Diablo Corsa; Scorpion STR, Scorpion Zero Asimmetrico, PZERO System Corsa) and start-up of MIRS production in Georgia
- Strengthening the “homologation” portfolio in OE and start-up of OE supplies in North America
- Confirmation of R&D expenditure levels and investments in new processes/technologies

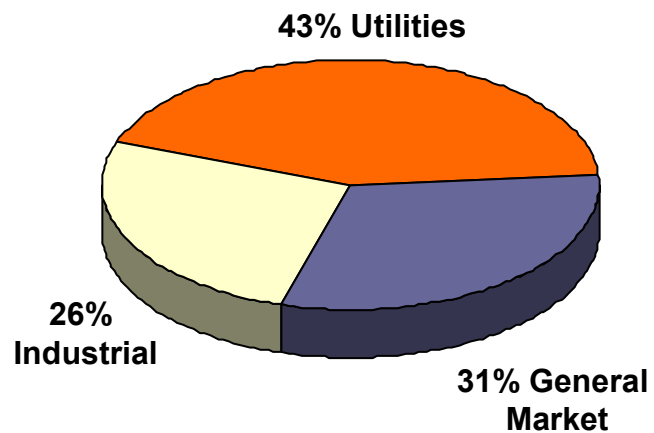
**Deeper penetration in HP/UHP markets
for a further increase in profitability**

Energy cables and systems: business structure

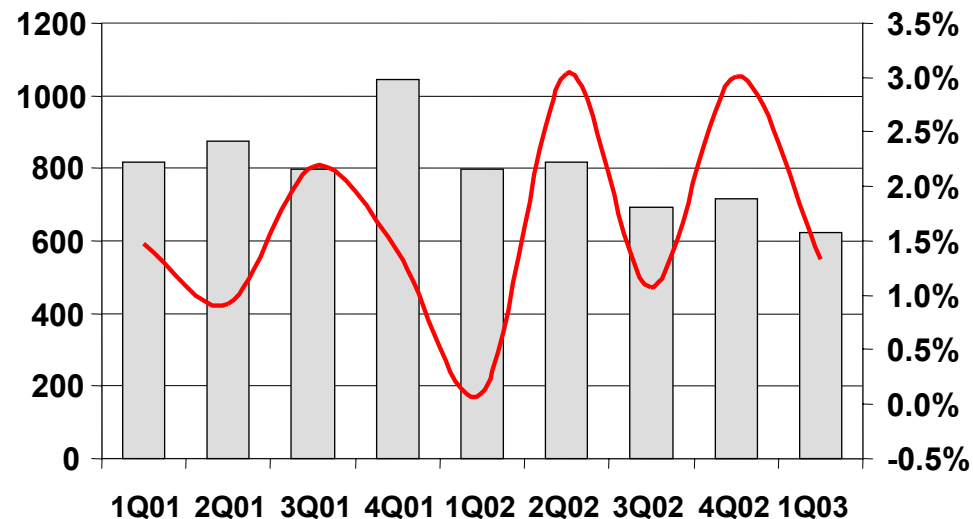
Geographical breakdown (FY2002)



Products breakdown (FY2002)



Sales and ROS (Q-o-Q)



31/03/2003 31/12/2002 31/12/2001

	31/03/2003	31/12/2002	31/12/2001
Employees	11,282	12,479	14,523
Factories	48	50	54

Pirelli Energy Cables: Profit And Loss (Euro ml)

	Q1 2003	Q1 2002	Var. %	Q4 2002	Var. %	FY 2002
Net Sales	623	796	-21.7%	715	- 12.9%	3,021
EBITDA	31	28	+10.7%	49	- 36.7%	158
<i>Ebitda margin</i>	5.0%	3.5%		6.9%		5.2%
EBIT	8	1	n.m.	22	- 63.6%	55
<i>Ebit margin</i>	1.3%	0.1%		3.1%		1.8%

Total variation - 21.7%

Exchange - 7.9%

Metal prices - 3.6%

Deconsolidation - 3.3%

Actual variation - 6.9%

Volume - 7.0%

Price/Mix + 0.1%

Efficiencies on fixed and variable costs - generated by the restructuring plan - more than offset negative trend of commercial variances (mainly in Europe)

Currency - 3

Volume - 14

Prices/Mix - 12

Unit. cost prod. factors - 1

Efficiencies + 35

Depreciation and other + 2

TOTAL + 7

Pirelli Energy Sector: outlook

ENVIRONMENT

- European demand weak in all segments
- Overcapacity still a market issue
- Price pressure still present, particularly in General Market

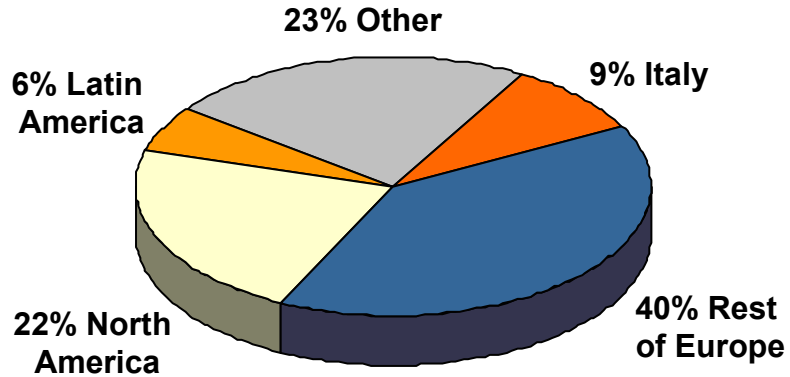
PIRELLI ACTIONS

- Major focus kept on cash generation through capex selection and working capital efficiencies
- Restructuring effort pushed forward: headcount reduced by 22% since Jan 2002
- European High Voltage and Submarine Rationalization: factories specialisation and concentration on five plants (out of eight)
- Disposal of Enamelled and Transposed Wires activities in Europe and China completed

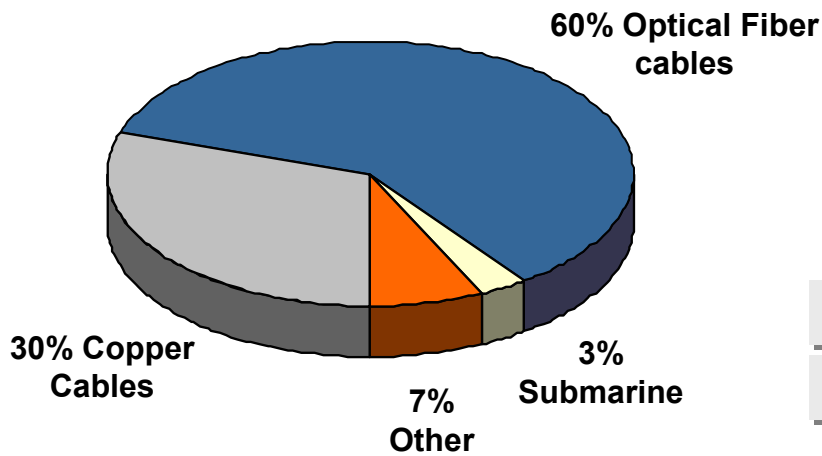
**Leaner and lighter cost structure
for 2003 operating result improvement**

Pirelli Telecom cables and systems: business structure

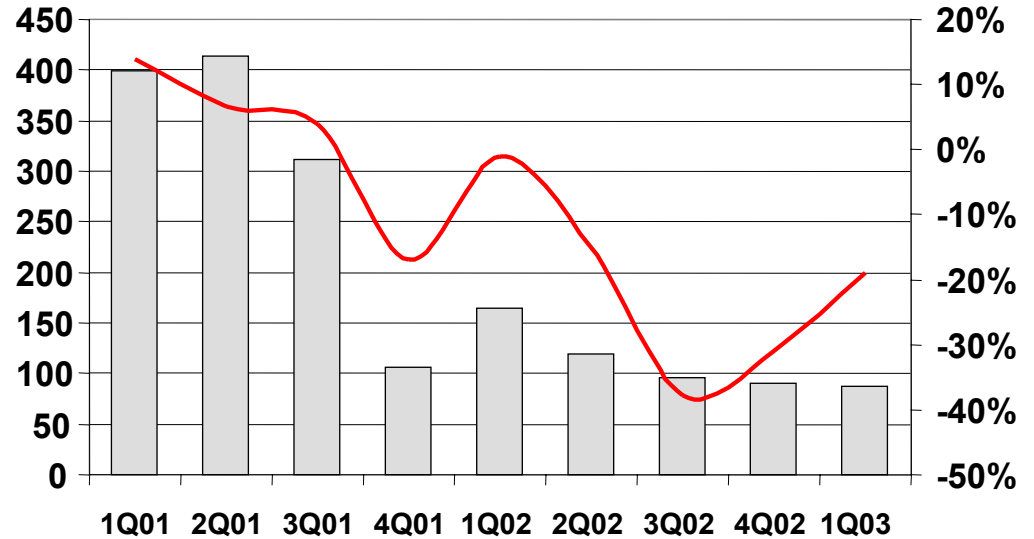
Geographical Breakdown (FY2002)



Products Breakdown (FY2002)



Sales and ROS (Q-o-Q)



31/03/2003 31/12/2002 31/12/2001

Employees	2,348	2,546	3,689
Factories	11	11	13

Pirelli Telecom Cables and Systems: Profit And Loss (Euro ml)

	Q1 2003	Q1 2002	Var. %	Q4 2002	Var. %	FY 2002
Net Sales	89	164	- 45.7%	88	+1.1%	468
EBITDA	(4)	14	n.m.	(12)	n.m.	(22)
Ebitda margin	n.m.	8.5%		n.m.		n.m.
EBIT	(17)	(2)	n.m.	(28)	n.m.	(84)
Ebit margin	n.m.	n.m.		n.m.		n.m.

Total variation	- 45.7%
Exchange	- 4.6%
Actual variation	- 41.1%
Volume	- 22.2%
Price/Mix (*)	- 26.2%

Comparison with Q4 2002 makes the cost reduction efforts evident; Q1 2002 only partially affected by market downturn

Currency	0
Volume	- 20
Prices/Mix	- 15
Unit. cost prod. factors	+ 9
Efficiencies	+ 13
Depreciation and other	- 2
TOTAL	- 15

(*) Calculated on 2002 basis net of volume effect

Pirelli Telecom Sector: outlook

ENVIRONMENT

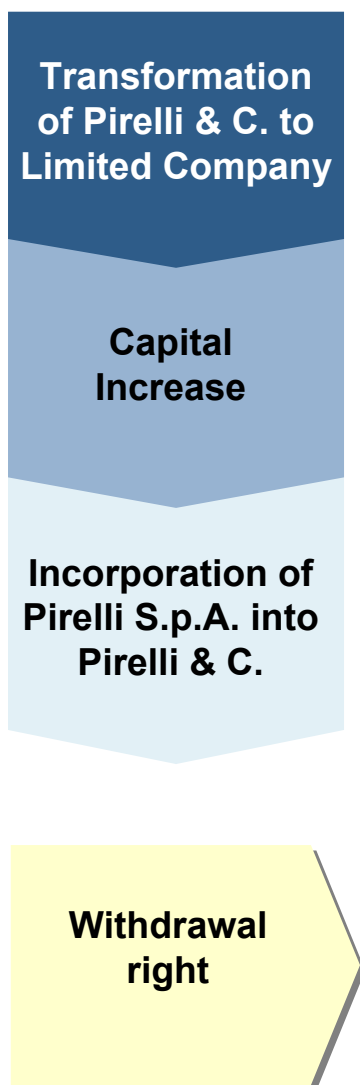
- Optical cable demand: Q1 '03 = Q4 '02, market flat
- Cable prices < 10% on previous quarter
- Visibility on FY 2003 still limited
- Japan and South Eastern Asia the only growing areas; in LatAm and Australia recovery of investments in copper cables
- Positive effect on Metro networks expected from diffusion of broadband access
- Submarine market begins to become active in short-haul networks

PIRELLI ACTIONS

- Exploiting niche opportunities in long-haul market (e.g. OPGW in Romania)
- Development on specific regional projects (e.g. Far-Ice)
- Strengthen position in the growing Residential Gateway Market
- R&D efforts kept unchanged

**Slimmed cost structure and
leverage on technical capabilities:
Break-even target for end-2003**

Merger with Pirelli & C.: main steps



- Transformation of Pirelli & C. from Limited Partnership (“Società in Accomandita”) to Limited Company (“Società per Azioni”) and alignment of the Pirelli & C. bylaws to the one of Pirelli S.p.A.
- Capital increase of roughly € 1.024 million through the offer to the current Pirelli & C. shareholders (including savings shares) of 3 new ordinary shares for each ordinary and savings share at par value (€ 0.52) and warrant for additional € 256 million roughly
- Incorporation of Pirelli S.p.A. and Pirelli & C. Luxembourg into Pirelli & C. through a reserved capital increase, by the issue of 4 new ordinary Pirelli & C. shares each 3 old ordinary Pirelli S.p.A. and the issue of 10 new saving Pirelli & C. shares each 7 old saving Pirelli S.p.A.

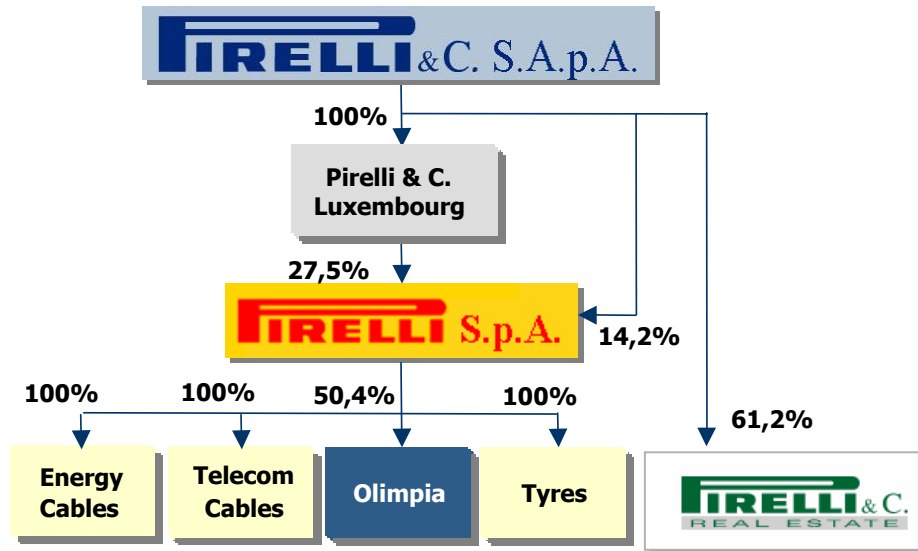
According to the Italian Civil Code (ex art. 2437), Pirelli & C. will provide all the current shareholders with the Withdrawal right (“Diritto di Recesso”) at the average market price of the previous six months calculated from the date of the General Meeting approving the transaction (7th May 2003)

Shareholders exercising the withdrawal right are not entitled to 2002 dividend (i.e. 0.08 Euro per ordinary share, 0.0904 Euro per saving share) and to the subscription of the newly issued shares and warrants

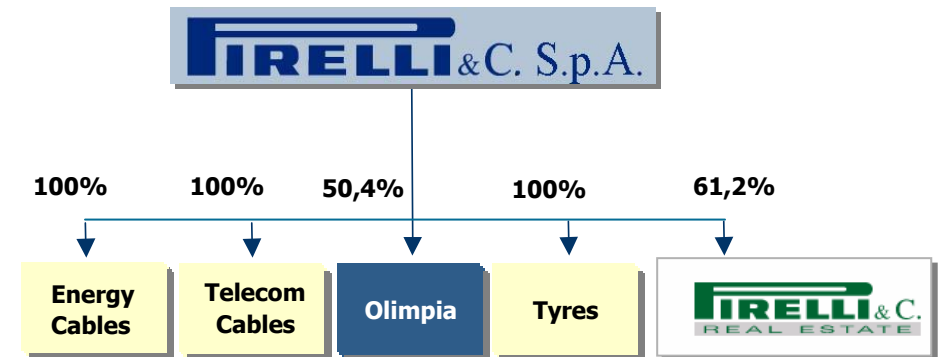
New Pirelli Group Structure

As approved by Pirelli SpA EGM on 5th May 2003

Current Structure



Envisaged Structure



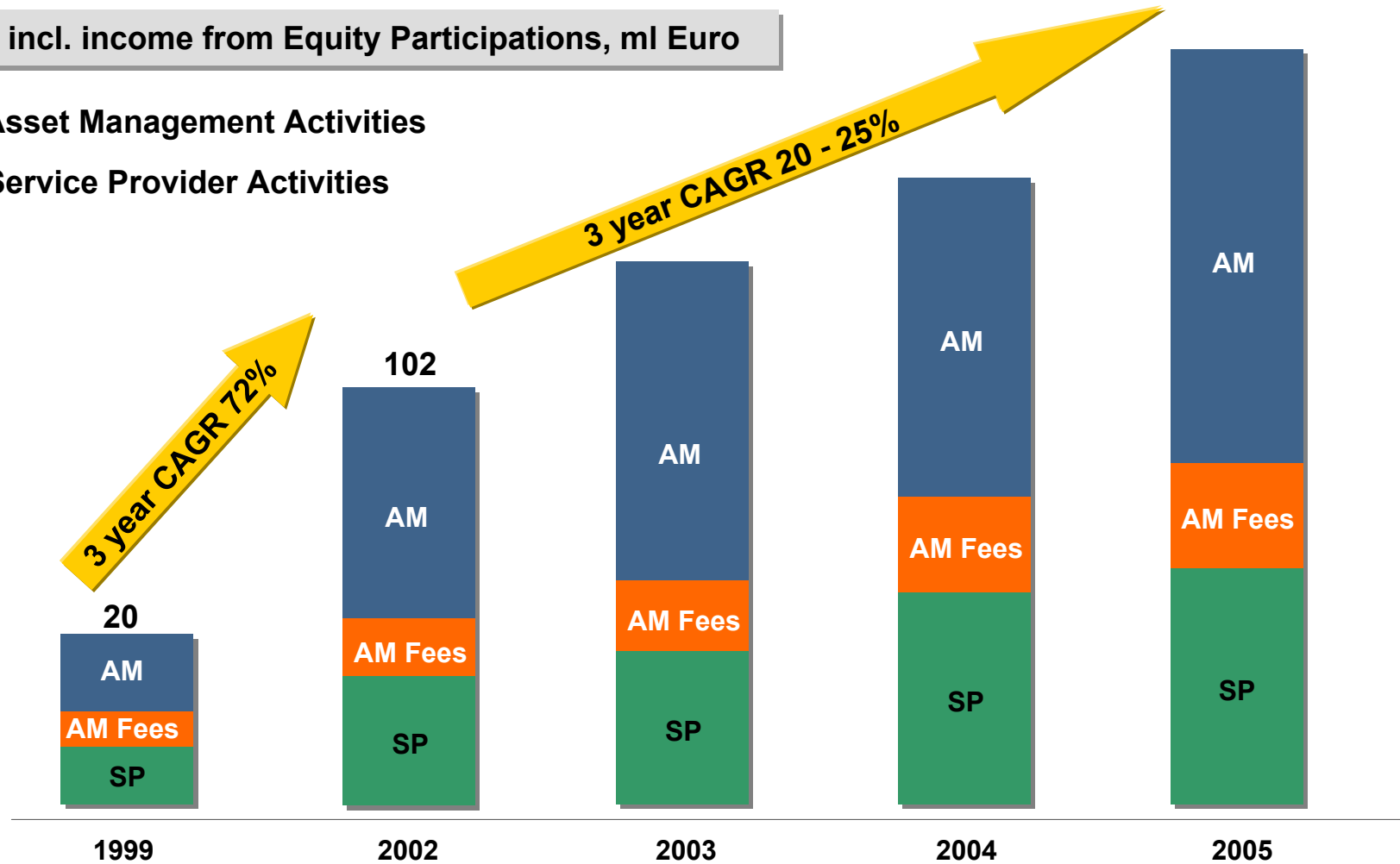
- From three to one-layer structure
- Completed Group simplification started in 1999 with the Incorporation of Société Internationale Pirelli and Pirelli Partecipazioni into Pirelli S.p.A.

Pirelli RE: consolidated 3 year targets

EBIT incl. income from Equity Participations, ml Euro

AM - Asset Management Activities

SP - Service Provider Activities



**FY 2002 net profit from Real Estate activities:
82.6 ml Euro (+ 147%)**