



**Capital increase
Control chain simplification
Pirelli FY 2002 results**

Milan, March 12th, 2003

Presentation Agenda

- **Capital Increase
and Control chain simplification**
 - **Strategic Rationale of the Transaction**
 - **New Pirelli Group Structure**
 - **Transaction details**
 - **Expected timetable**
- **Group Overview**
- **Questions and Answers**

Strategic Rationale

The transaction is structured in a capital increase of **Pirelli & C.** followed by the incorporation of **Pirelli S.p.A.** and **Pirelli & C. Luxembourg** into **Pirelli & C.**

Main purposes:

- 1) strengthening the Group Financial Structure through a capital increase of roughly € 1,250 mln
- 2) adopting a more advanced corporate governance model for **Pirelli & C.**
- 3) shortening the control chain by the incorporation of **Pirelli S.p.A.** into **Pirelli & C.**



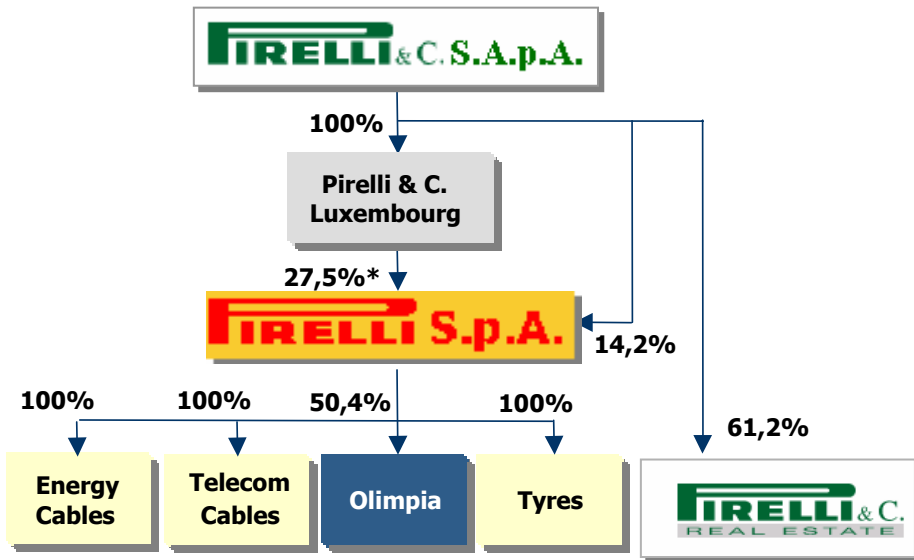
As a result all the operating activities (Energy Cables, Telecom Cables, Tyres, the stake in the Telecom Business and Pirelli & C. Real Estate) will refer to a single listed company

Main Advantages

- **Maximize market capitalization and liquidity**
- **Simplify the investment approach offering to shareholders one listed company with a wider activity portfolio**
- **Allow a better focus on value creation for every shareholder**
- **Optimise the economic and financial flows among the group and towards the shareholders**
- **Simplify administrative activities by eliminating those related to a non operating floated sub-holding**

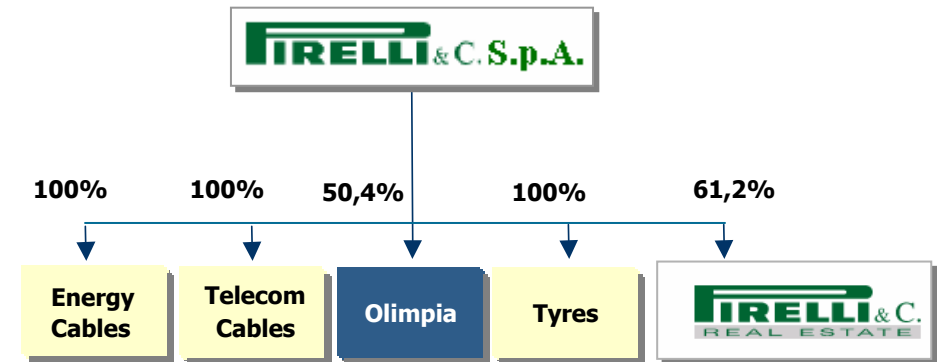
New Pirelli Group Structure

Current Structure



(*) After exercise of put option by BZ Bank

Envisaged Structure



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

Transaction details: Main steps

Transformation of Pirelli & C. to Limited Company

Capital Increase

Incorporation of Pirelli S.p.A. into Pirelli & C.

Withdrawal right

- The transformation of Pirelli & C. from Limited Partnership (“Società in Accomandita”) to Limited Company (“Società per Azioni”) and the alignment of the Pirelli & C. bylaws to the one of Pirelli S.p.A.
- A capital increase of roughly € 1.000 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 € 250 mln. 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

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

Transaction details: Capital Increase

Total amount:

€ 1,014 million, subject to reduction for the withdrawal right

Subscription right:

- Intended to all the current Pirelli & C. shareholders (ordinary and saving), excluding those shareholders which declared the intention to withdraw
- Commitment of the Syndicate Pact shareholders to fully exercise the pro-quota subscription right

Issued price

Par value (€ 0.52 per share)

Share issued

Share issued: n. 1,950,355,809 ordinary shares, i.e. 3 new ordinary shares each ordinary/saving shares currently outstanding

Warrant issued

Free warrant issue linked to the capital increase at the following conditions:

- one warrant for each new share
- exercise rate: 1 new share each 4 warrant
- exercise price: (each 4 warrant): € 0,52 (par value), for a total amount up to € 254 million
- exercise period: 3 years (continuously) from the issue date

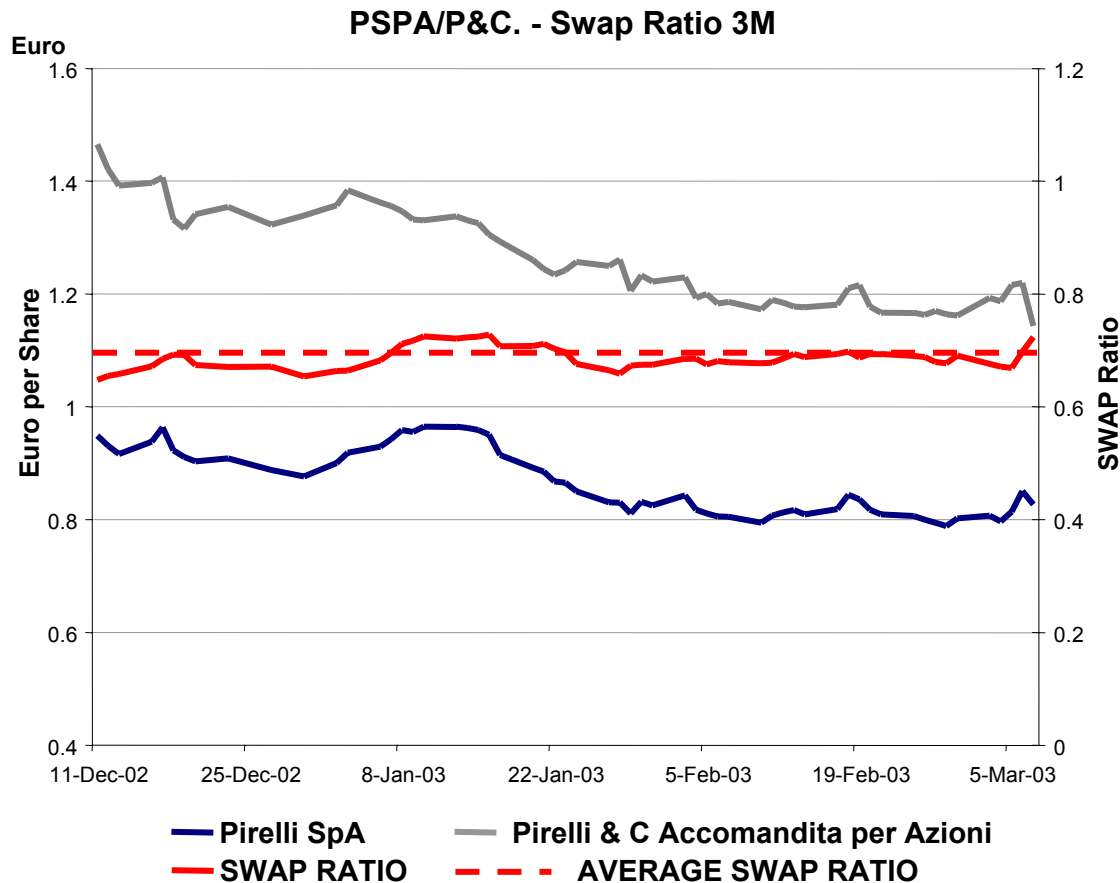
Net proceeds from the capital increase aimed at reinforcing the new Pirelli group financial structure

Transaction details: Valuation and Swap Ratios

The exchange ratio has been determined based on:

- Evaluation of the two companies' economic value
- Average market prices in the last 3 months (including the Pirelli & C. capital increase effect)

It was also confirmed by Primary Investment Banks fairness opinion



Swap Ratios	
Ordinary Shares	Saving Shares
4 new Pirelli & C. SpA Shares	10 new Pirelli & C. SpA Saving Shares
each	each
3 old Pirelli SpA Shares	7 old Pirelli SpA Saving Shares

Transaction details: Saving Shares Rights

The existing rights of the Pirelli & C. and Pirelli S.p.A. saving shares are as follows:

Pirelli & C. S.A.p.A.

- **Minimum dividend yield: 5% of par value (€ 0.52)**
- **Preference dividend yield over ordinary shares dividend: 2% of par value**

Pirelli S.p.A.

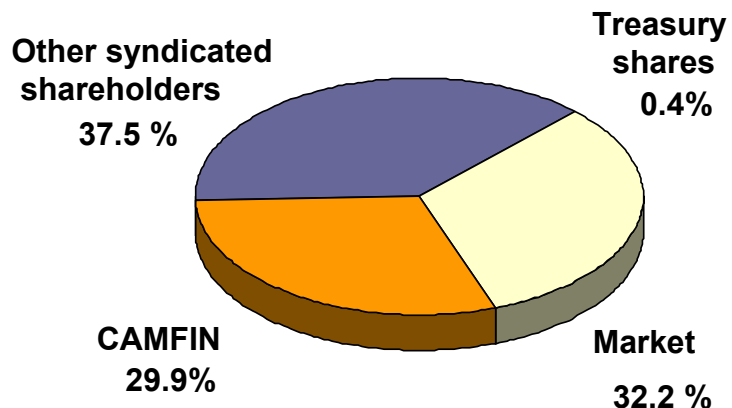
- **Minimum dividend yield: 7% of par value (€ 0.52)**
- **Preference dividend yield over ordinary shares dividend: 2% of par value**

In order to preserve the patrimonial rights of the former Pirelli S.p.A. saving shares, the minimum dividend yield for the new Pirelli & C. S.p.A. saving shares will be increased from 5% to 7% of the par value

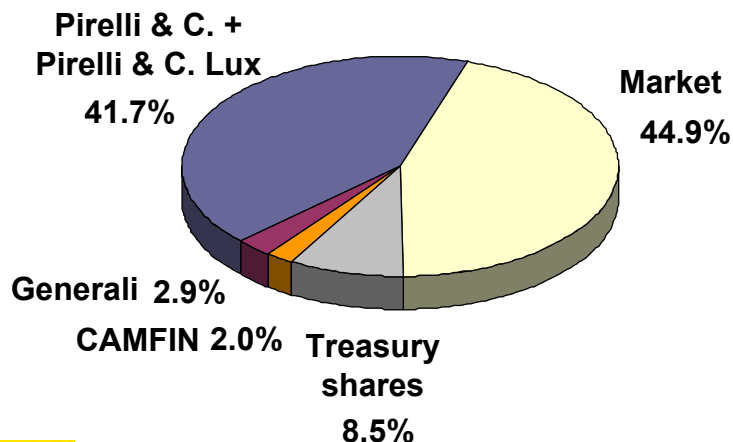
Transaction details: New Shareholders structure

Current Shareholders Structure

PIRELLI & C. S.A.p.A.

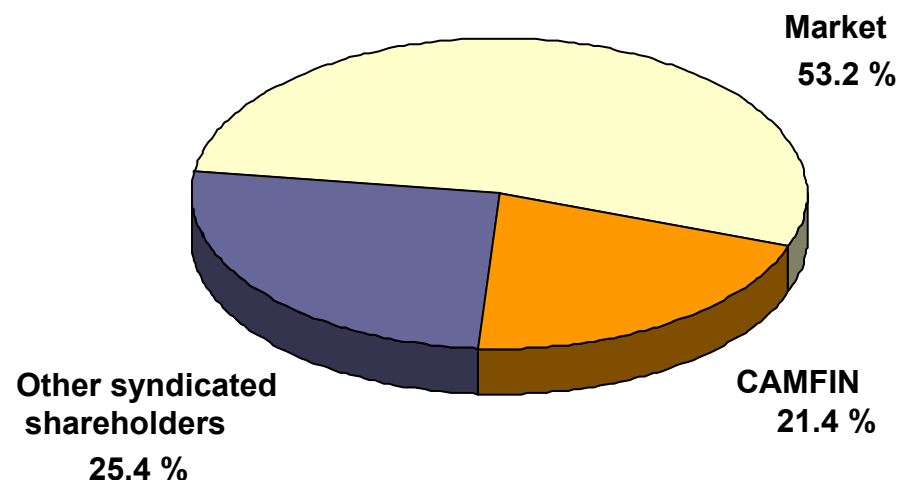


PIRELLI S.p.A.



Envisaged Shareholders Structure (*)

PIRELLI & C. S.p.A.



(*) Assuming full conversion of newly issued warrants

As a merger consequence Pirelli S.p.A. shares currently owned (directly and indirectly) by Pirelli & C. S.A.p.A. (41.7% of ordinary shares and 9.7% of saving shares) as well as the Pirelli S.p.A. treasury shares (8.5%) will be cancelled

Expected Timetable

Date		Event
11-mar-03	X	BoD Pirelli & C., Pirelli & C. Luxembourg and Pirelli S.p.A.
7-may-03	X+57	Ordinary and Extr. General Meeting of P&C, P&C Lux and Pirelli S.p.A.
6-jun-03	X+87	Withdrawal right Payment
9-jun-03	X+90	Dividend Payment and offer's beginning
27-jun-03	X+108	End of the offer period
30-jul-03	X+141	Deed of incorporation

Presentation Agenda

- **Capital Increase
and Control chain simplification**

- **Group Overview**

- FY 2002 at a Glance
- Olimpia new Shareholders Structure
- Pirelli FY 2002 Group Results

- **Questions and Answers**

The Year 2002 at a Glance

MARKET CONDITIONS

- Economic slowdown sharpened abruptly in second half

MAIN EVENTS

- Olimpia shareholders structure opened to a new Strategic Partner
- Pirelli Real Estate IPO

HIGHLIGHTS

- Pirelli Real Estate strong upwards trend in results, confirming plans and commitment
- Flexibility and speed in adapting to changed market conditions, with continued strong focus on R&D in all sectors

PIRELLI RESULTS

- Restructuring efforts helped maintain 2002 profitability above peers average in all sectors
- Q4 figures show first positive effects of restructuring actions in Cables and Systems
- Tyres and Real Estate at the top of historical results

Pirelli Tyres: Profit And Loss (Euro mln)

	FY 2002	FY 2001	Var. %	Q4 2002	Q3 2002	Var. %	Q4 2001	Var. %
Net Sales	2,857	2,831	+0.9%	702	667	+5.2%	698	+0.6%
EBITDA	365	347	+5.2%	81	82	-1.2%	70	+15.7%
<i>Ebitda margin</i>	12.8%	12.3%		11.5%	12.3%		10.0%	
EBIT	191	172	+11.0%	41	39	+5.1%	28	+46.4%
<i>Ebit margin</i>	6.7%	6.1%		5.8%	5.8%		4%	

Currency	- 8.6%
Volume	+ 5.9%
Prices/Mix	+ 3.6%
TOTAL	+ 0.9%

Improvements in price/mix, volume and efficiencies offset increase in unitary labour costs currency effects, and raw material mainly in Latam

Pirelli Tyres Sector

ENVIRONMENT

- **Market of High Performance products still increasing at double digit growth**
- **Light vehicle production down 1.7% in Western Europe. Latam progressive recovery by year end**
- **Market of replacement tyres in slight decrease both in EU (-0.9%) and in North America (-1.5%)**
- **Devaluation effect in Argentina, Brazil, Turkey and Egypt: for Pirelli an opportunity more than a risk**

PIRELLI ACTIONS

- **Mirs plants increasing output in Germany, UK and USA; CCM (innovative mixing room) pilot plant launched in Milan**
- **Normalisation of Capex/Depreciation ratio (from 1.6x to 1.1x) after the MIRS industrial deployment; R&D expenditure focused in High Performance segments**
- **Full capacity utilisation in low production cost countries to take benefit from devaluation**
- **Reduction of costs through industrial efficiency plans and Headcount rightsizing**

**Margins improvement and
increase of market share in top-end segments
For 2003 additional increase in profitability**

Pirelli Energy Cables: Profit And Loss (Euro mln)

	FY 2002	FY 2001	Var. %	Q4 2002	Q3 2002	Var. %	Q4 2001	Var. %
Net Sales	3,021	3,532	-14.5%	715	692	+3.3%	1,045	-31.6%
EBITDA	158	149	+6.0%	49	32	+53.1%	39	+25.6%
<i>Ebitda margin</i>	5.2%	4.2%		6.9%	4.6%		3.7%	
EBIT	55	52	+5.8%	22	7	+214%	15	+46.7%
<i>Ebit margin</i>	1.8%	1.5%		3.1%	1.0%		1.4%	

Currency	-3.9%
Volume	-7.7%
Metal prices	-1.4%
Prices/Mix	-1.5%
TOTAL	-14.5%

Net efficiencies offset the negative contribution of volume/mix effect

Pirelli Energy Sector

BUSINESS ENVIRONMENT

- Weak demand in industrial applications and contraction of Utility investments
- Overcapacity and need of restructuring
- Price pressure in General Market
- Pacific Asia positive trend partially hedged decline in Europe and LatAm

PIRELLI ACTIONS

- Major restructuring effort (4 plants closed and 2,044 headcount reduced by 14.1%YoY)
- Rationalisation focusing on higher added value segments (i.e. Dispose of the activities in enamelled and transposed wires)
- Focus on cash generation through capital investments reduction (capex/depr. to 0.84x) and efficiencies on working capital more than offset restructuring cash costs

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

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

	FY 2002	FY 2001	Var. %	Q4 2002	Q3 2002	Var. %	Q4 2001	Var. %
Net Sales	468	1,230	-62.0%	88	96	-8.3%	106	-17%
EBITDA	(22)	134	<i>n.m.</i>	(12)	(21)	<i>n.m.</i>	(4)	<i>n.m.</i>
<i>Ebitda margin</i>	<i>n.m.</i>	10.9%		<i>n.m.</i>	<i>n.m.</i>			
EBIT	(84)	76	<i>n.m.</i>	(28)	(36)	<i>n.m.</i>	(18)	<i>n.m.</i>
<i>Ebit margin</i>	<i>n.m.</i>	6.2%		<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>		

Improvement in efficiency and decrease in fixed costs (from 170 mln Euro to 120 mln Euro) could not offset the dramatic deterioration of volume/mix and prices

Currency	- 3.5%
Volume	- 48.6%
Prices/Mix	- 19.5% (*)
TOTAL	- 62.0%

(*) Calculated on 2001 basis and net of volume effect

Pirelli Telecom Sector

OVERVIEW 2002

- Optical cable demand < 50% of 2001 level
- Cable prices 30% lower than 2001
- Fiber capacity 3x's current demand
- Premium fiber demand < 5% of total market
- Industry continues to experience numerous bankruptcies
- Limited vision of 2003 due to customer spending uncertainty

MARKET EXPECTATIONS 2003

- YoY Optical volume generally flat – slight decrease on 2002
- Cable prices lower – average 10% reduction on 2002 Q4
- No recovery in the long haul market
- Re-entry to the market of “Chapter 11” Companies
- Continued industry restructuring and consolidation

**Diversify business towards Access market leveraging on Pirelli technical capabilities and focused alliances.
Target: Break-even at end 2003**

Pirelli & C. Real Estate: Profit And Loss (Euro mln)

	FY 2002	FY 2001	Var. %
Aggregate value of production (net of acquisition)	1,297.3	607.6	+113%
EBIT including pro-quota income from participations	102.2	47.2	+117%
Consolidated net income from real estate activities	82.6	33.5	+147%
Total consolidated net income	125.3	161.4	(*)

() Including other items (disposal of securities portfolio ex UNIM)*

OVERVIEW

- **The Italian real estate market is undergoing significant structural changes:**
 - **Still immature versus rest of Europe**
 - **Attractiveness of market/opportunity has led to increased transactions/improved professionalism**

- **Key development plans for the near future:**
 - **Launch of real estate funds (management of long term portfolios)**
 - **Development and expansion of commercial product lines (retail & entertainment, light industrials, hotels)**
 - **Growth in Non Performing Loans business**
 - **Growth in services, in particular expansion of facility management and establishment of a franchisee network**

- **Further results growth expected for 2003**

Pirelli Group Profit and Loss (Euro mln)

	PIRELLI SPA GROUP			PIRELLI & C. GROUP		
	FY 2002	FY 2001	Var. %	FY 2002	FY 2001	Var. %
Net Sales	6,311	7,509	-16%	6,718	7,762	-13%
EBITDA	480	666	-28%	523	704	-25%
<i>Ebitda Margin</i>	7.6%	8.9%		7.8%	9.1%	
EBIT	117	295	-60%	118	297	-60%
<i>Ebit Margin</i>	1.9%	3.9%		1.8%	3.8%	
Financial income (charges)	(135)	(6)		(81)	(19)	
Fiscal charges	(42)	(138)		(67)	(189)	
Ordinary Net Result	(60)	151		(30)	89	
Devaluation	(138)	(30)		(142)	(32)	
Restruct. and extraordinary	(262)	(16)		(83)	156	
Olimpia	(150)	(19)		(150)	(19)	
Net Result	(610)	86		(405)	194	
Net Attributable result	(614)	82		(58)	125	
Net financial position	1,469	1,089		2,050	1,954	

Olimpia New Shareholders Structure

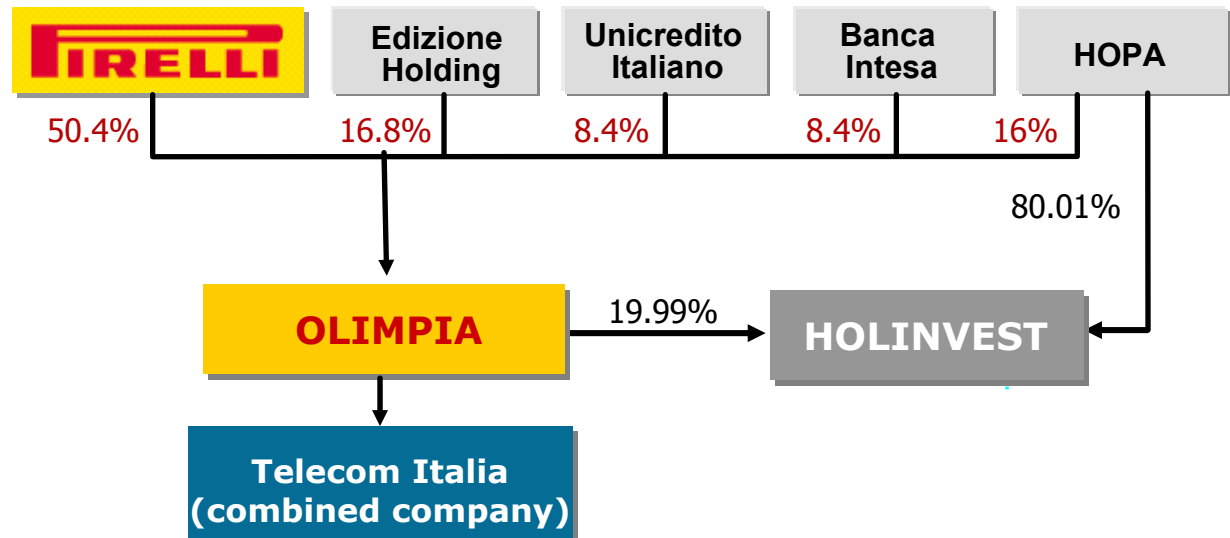
Hopa entry into Olimpia shareholder structure effective from April 2003

- Hopa becomes new shareholder in Olimpia with 16% stake
- Olimpia improves its balance sheet and its financial structure

Olimpia balance sheet

	31/12/02	Post merger
Invested capital	8,599	8,984
Equity	4,923	5,884
Net debt	3,676	3,100

The New Shareholders Structure



More attractive portfolio, balancing growth and profitability recovery

- **Tyre in constant improvement, thanks to successful “High Performance“ focus and leading-edge products (MIRS)**
- **Real Estate capturing growth opportunities with an original business model**
- **Energy and Telecom Cables and Systems with significant recovery perspectives**
- **New technologies coming on stream, with product launches ahead in 2003 (Access Gateways, Compounding)**
- **Olimpia to benefit from chain optimisation**

Overall improvement supported by sounder financial structure

Presentation Agenda

- **Capital Increase and Shareholders structure simplification (or chain of control simplification)**
- **Group Overview**
- **Questions and Answers**