PIRELLI CONFERENCE CALL - 2.9.2003

Presentation

[SPEAKER] : Ladies and gentlemen, welcome to the Pirelli conference call. The president and CEO, Mr Marco Tronchetti Provera, will present the consolidated results for the first half 2003. I remind you that the Q&A session will follow up the presentation and you can find the presentation slides in the Investor Relations section of Pirelli's website. Now I'd like to introduce you to Mr Marco Tronchetti Provera. Thank you.

[Mr TRONCHETTI PROVERA] : Good afternoon. I will introduce the presentation, then my colleagues, Mr Ferrario, Mr Puri and Mr Buora, will go into details about the industrial business, the Pirelli & C. Real Estate business, will provide some information about Olimpia and the new vision and outlook of the company resulting from the merger between Pirelli & C. and Pirelli SpA, the new Pirelli & C. SpA company. As a preliminary note, I want to underline that the first-half results in 2003 include the effects of Pirelli & C. capital increase and *recesso*, along with the incorporation of Pirelli SpA and Pirelli & C. Luxembourg. Financial and fiscal effects of the merger are retroactive to January 1, 2003. Moving on to page 3, I want to point out the key milestones of the Pirelli Group. We passed through a successful merger and capital increase and we strengthened our financial position. The industrial business is recovering after an impressive turnaround, taking into account a difficult environment, which is still difficult today, and the outlook for the industrial business is positive. Real estate activities are growing in size and profitability. Olimpia is ready to take direct advantage from TI Group results, thanks to the fact that it is directly holding shares of TI instead of those of Olivetti, the heavily indebted company that was owned 28.5% by Olimpia before the merger. As you know, Olimpia after the merger has 12.5% of TI on a fully diluted basis. All the key milestones can provide us with the future of growth, supported by a solid structure.
Let's look at the group results in the first half of 2003, compared to first-half 2002 and also with the pro-forma pre-merger of 2003. In terms of revenues, we see a reduction from €3.5bn in first-half 2002 to €3.3bn in first-half 2003. In fact this reduction is fully due to the exchange rate and metal cost. So the industrial part of the group has improved even in terms of turnover if you don't take into account the effects of the exchange ratio (mainly Brazil, Turkey and Egypt). EBIT is up from €101m to €142m. Before the merger it would have been €129m, because thanks to the merger we have €13m of lower depreciation for the allocation of the surplus coming from the merger. The equity participation results is coming from the equity participation in Pirelli & C. Real Estate. Pirelli & C. Real Estate owns minority stakes in different vehicles, so to fully understand the results

of Pirelli & Co. real estate it is important to take into account the results of the participations. These results are €23m and they were €11m last year. So there has been a strong improvement. All these vehicles are handled by Pirelli & C. Real Estate, and this €23m represents the pro quota results from Pirelli & C. Real Estate.

Olimpia's result is slightly better, even if negative compared to last year. Last year it was negative by €54m, this year is negative by €45m. During 2003 Olimpia will not have any effects from dividends coming from TI. These effects will start next year because Olimpia will profit from the next year's dividend payment from TI.

The operating result, including equity participation, has gone up from €58m to €120m. Pre-merger it would have been €107m for the same reason I explained before about the EBIT level. Financial charges are down to €87m to €74m. The profit before extraordinary items and taxes is up to €46m compared to -€29m last year and €33m before the merger. The extraordinary items, which last year were €199m – €50m due to the ex-UNIM shares portfolio in Pirelli & C. Real Estate with a plus value of €50m and the rest, €140m, were linked to the placement in the market of approximately 38% of Pirelli & C. Real Estate shares. So this year the items are not positive, we have a negative €2m.

Fiscal charges are down from €77m to €65m. The net result, which was positive, last year – €93m thanks to €199m extraordinary items – is negative by €21m after Olimpia.

So the net debt is down – compared to last year – from €2,234m to €1,598m. Before the capital increase this would have been €2,247m.

The equity is down to €3,799m but the parent company interest is up to €3,499m. Last year it was €2,150m, that was the Pirelli & C. consolidated business, and it would have been €1,912m on a pro-forma basis pre-merger.

The gearing is more or less the same as last year, 0.42. The equity includes the merger surplus allocation of €1.3bn also related to Olimpia, so we allocated €700m directly to ??? of Olimpia. The value in portfolio today is €4.93, before it was €5.90.

The new Pirelli structure as coming from the merger, effective as of September 1, 2003 is, as you can see from the chart. 100% of Pirelli Energy Cables & Systems, 100% of Pirelli Telecom Cables & Systems, 100% of Pirelli Tyre Holding, 61% of Pirelli & C. Real Estate, 50.4% of Olimpia. On the left-hand side you see the main shareholders of Pirelli & C.: Camfin, Assicurazioni Generali, RCS MediaGroup, etc. An overall 42.2% stake of the ordinary capital is regrouped in a Shareholders' Syndicate Pact.

After we announced the merger on March 12, the market reaction was positive and the capital increase was fully subscribed with no intervention of the underwriting syndicate. There was a limited *recesso* from retail shareholders. The timetable presented in March was fully respected and the transaction was appreciated from the financial analysts covering the Stocks. As you see in the chart, from the beginning to the end of the merger process, Pirelli & C. SApA was up 31%, including the dividend effect, and Pirelli SpA was up 24%.

Let me now show you the main figures of the new Pirelli Group financial structure. The EBITDA is up from €305m to €322m on a consolidated basis. Last year's results included €16m of positive non-recurring items in Energy and Telecom and this year's result – €322m – includes €10m of positive non-recurring items linked to the Ciena settlement, which are included into "other", where you see -2, compared to -18, on a corporate level. Pirelli & C. Real Estate is up from €33m to €37m. The EBITDA is down on the industrial business from €290m to €287, but €290m of last year included the €16m I mentioned before of positive non-recurring items, so there has been an improvement if you don't take the non-recurring items into account.

At the EBIT level on a consolidated basis the result is up from €101m to €142m. Pirelli & C. Real Estate result is comparable to last year's – €29m versus €29m. At the corporate level there is an improvement from -€45m to -€22. I remind you again that the latter figure includes €10m of positive non-recurring items. The industrial business is up from €117m to €135m, and again €117m includes €16m of non-recurring items, so the improvement would be higher if we don't take the non-recurring items into account.

The result from equity participation, which is important to take into account on the real estate business, is up from €13m to €24m in the real estate. At the group level it is up from €11m to €24m. Olimpia's has been already mentioned. The operating result, including the equity participation, on a consolidated basis goes up from €58m to €120m and for Pirelli & C. Real Estate is up from €42m to €53m. In the industrial business it is up from €117m to €134m.

Financial expenses have been already mentioned. The profit before extraordinary items and taxes is up from -€29m to €46m at the consolidated level. In the industrial business it improves from €48m to €85m, in Pirelli & C. Real Estate from €40m to €53m, at a corporate level, including Olimpia, from -€107m -€92m. Extraordinary items have been already mentioned and income taxes have been mentioned. Net income is improving, in the industrial business, from €21m to €55m. Pirelli & C. Real Estate goes down from €71m to €40m, but I remind you, to compare apple with apple, that the result of real estate activities was €32m last year, so it is up to €40m. All the rest of the result came from the disposal of UNIM securities portfolio.

A total post-merger result is a negative €21m compared to €93m. Here again the extraordinary items are influencing last year's result.

Going into more detail on the industrial side, I give the floor to Mr Ferrario, the managing director of Pirelli's industrial business, who is going to illustrate to you the business of Energy Cables & Systems, Telecom Cables & Systems and Tyres. The Q&A session will be opened at the end of the presentation by Mr Ferrario and Mr Puri and the conclusions I will provide at the end of the presentation. Thank you.

[Mr FERRARIO] : Thank you, Mr Tronchetti. During the past 18 months we have experiencing, as a company, a very strong and deep restructuring that has affected mainly the Cables, Energy and Telecom sectors. The overall efficiency has been more than €300m and we have been resizing the capacity to match the market demand and the market constraint. In fact we have closed down 12 plants, of which 7 in the energy sector and 4 in the telecom sector. We have also recovered the efficiency acting on our structure and in the number of employees. The headcount in two years has been reduced by almost 17%, of which, if we consider just the management and staff, the reduction is even deeper, -26%. We have exploited all the cross-sector synergies in terms of organization. We have also increased the specialization of the plants, in some cases restructuring totally as we did in submarine and in energy, reducing the number of plants from 3 to just one in Arcofelice. All those actions have been done in this period without affecting our capacity to compete. In fact we think that after the period our company is even stronger than before in terms of process technology already applied across the sectors, the new products we have already launched, or are ready to launch, and our market position. Now we think that after this period we are ready to catch the new opportunities in terms of market and we feel that we are even more flexible and proactive than before. If you look at the index and you can see the sales pro capita has increased significantly after the reduction, mainly due to the Telecom Cables & Systems loop, and also the return on sales has a good rebound without affecting – it has been already said, and I will go into more detail later – the investment in research and development, which remains quite high at 3.4%.

Going now into more detail in the Energy Cables sector, the environment, as you know, has been tough for the investment contraction in the utilities and the high-voltage applications, while in the general market we've got overcapacity and a very strong price pressure both in Europe, USA and Latin America, while the only market that has been growing has been the Asia & Pacific. In this scenario our action – as already said – has focussed on the efficiencies recovery. Seven factories have closed down since 2001. Headcount reduction by 25%, management and staff by 30%. On top of that our break-even point has been lowered by 14% and we have produced free cash flow for more than €200m. This is very important because going through the restructuring period we have been able to create cash, as it was in our objective. The margins improvement is in a certain sense against the market trend, because our competitors don't follow this trend, as I said.

As for R&D products, as I said we have been investing in our new product portfolio. I've just mentioned some of the new products in our hand. The extension of airbag technology to submarine industrial and general market and, even more importantly, a new system component that can be applied to the net in order to monitor the performance in temperature, power and mechanical airforce(???) and prevent defects. Now we are also working in order to produce the cable and we want to apply our new technology to the process.

If you go on the profit and loss, the actual variation on sales is 4.3%, mainly due to the difference in volumes (-3.2%) and price and mix (-1.1%), while the exchange rate metal price and perimeter account for the remaining difference that in total has been -18.7%. The EBIT is moving from 26 to 27, in terms of percentage from 1.6% up to 2.1%. We have to mention that in the first half of 2002 we had a positive contribution of €10m related to a settlement with a major customer. So in real terms the improvement has been better than what is shown over there.

Let's move on to Pirelli's Telecom Cables sector. Well, in this case the market continues to remain very weak. The cable demand is low and flat and the price pressure is still very strong, accounting up to now, from the beginning of the year, for a 13% reduction that is increasing the reduction we had last year (almost 25%).

Only the copper cables have improved in terms of sales but the competition is very tough in this domain as well. What have we done in this scenario? The first action has been to reorganize our internal structure in terms of businesses. Now we are organized in 5 broad lines: fiber, cables, submarine systems, second generation optical components and access systems. In the meantime we have been acting on the organization, reducing the headcount by 47% and the management team and staff down by 42%. New business: also in this case we have been acting very strongly on new products, and I've just mentioned the new access gateway, the broadband access gateway. We have already deployed two lines: one is the router ADSL and the other is the gateway with voice over IP, either in DSL or in fiber. We are now defining the new modular access gateway that will be based on three new models: base, switch and WI-FI??? We also have in development a new access gateway and we think that the turnover we did in 2003 will increase even more in the next year with a positive break-even. Also in the fiber sector we have some new products: a new multimode fibre, a new free light, and new SM light, all fibers on the top-end of production and performance.

Profit and loss: sales down by 19.7% mainly due to the price, 13.3% has been based on the price reduction and the remaining is due to the exchange rate (6.6%). The EBIT went from -20 to -21 but here as well – as we mentioned for the energy sector – in 2002 we had included a positive contribution of almost €6m related to an insurance compensation. What is important is that the third consecutive quarter is in progress and we confirm the break-even for the fourth quarter 2003.

With regard to the Tires sector, first of all the achievements: we have been able to reach good performance in the motorcycle business, still maintaining a two-digit EBIT, a high volume increase in HP, UHP and SUV and price/mix improvement across the markets. In South America we have been able to offset, thanks to the price applied on the market and the export growth, the raw material cost increase. For the future we will launch new products, as we have already done. We have just mentioned Diablo. Diablo is the motorcycle tire made with the MIRS technology. Then the P Zero Corsa and Scorpion STR launched recently in the USA. We continued to increase our homologation portfolio. P Zero Rosso, P7 and the Scorpion 0, all the three lines, are increasing the homologation process on all the future models of the major European car manufacturers. The OE in the USA is in line with our expectations, so it's continuing to grow. MIRS production deployment is on the way in Germany. In the UK and the USA it is progressing in terms of increasing capacity and products already on the market. CCM is the new mixing that has already been applied in racing and we expect to be very close to launch the same application also in the consumer product and, as I underlined, the truck has had a very good performance in 2003 so far. We expect then to continue having a very good margin also in the second half.
Profit and loss, the sales: actual variation, +14.4. Price and mix, positive. Volume, positive. Exchange rate has been negative for 13%. Total variation, +1.4%. EBIT is up to 8.5% from 7.5%.

[Mr TRONCHETTI PROVERA] : Thank you, Mr Ferrario. And now I give the floor to Mr Puri for the real estate business.

[Mr PURI] : Good morning to everybody. Let's start looking at the environment of real estate. The market is still very good, the result of the last two months' in the US surprised all the specialists and the market there, which is at least two years ahead of what happens here, is still strong in all sectors with the exception of office. In Italy – which is, compared to North Europe, even one more year ahead of the rest – it is still a very good market. Going through the two main activities of our company, asset management and service provider, we start with asset management of residential. In Italy we have a very high propensity for the family to save money and to buy a home. What have we done in this period? We have done very strong rotation, we have sold nearly 7,000 units – for €322m and we have acquired €153m. In the meantime we are under negotiations and we think we'll end with over €500m for the end of this year and the beginning of the next.
On the commercial asset management we still have a very high liquidity in the market for investments alternative to the stock market and there is a great appetite in investors for MPLs. What our company has done and is still doing is very strong rotation. We have sold buildings for more than €400m and we have done acquisitions, if we include the Fonsai transaction that we did in July,

for €850m. With regard to two joint ventures especially, the one with Morgan Stanley and the other one with Peabody, we have extended the former for three more years and not only for the office portfolio and we have done the same with Peabody for the commercial center and entertainment. In addition we have started two new developments, one in Milan and one in Turin, for over €200m.

In the office especially, but more or less for all the sectors of the commercial we have created a new division between short-term and long-term investment. So far the company has worked more on the short-term period – 2-3 years' time – and now we have more than half nearly 56% of our portfolio on the long-term basis, i.e., 7-10 years, which gives more stability to the company. We are in the process of launching the first two funds with the new law. They will be specialized in office. One more for retail investors, which will be listed, and the second one more as a deal for institutional investors. Both of them will have a size of between €750m and €850m of assets. They will have a senior debt of 60% and 40% of equity. We have got the all the approval from Banca d'Italia for the SGR we have acquired and are on the process to receive the authorization for the regulation of the firms.

Talking about the second main activity of the company, services, there is a huge potential in all Europe, but especially in Italy, to upgrade services to US and UK levels. We did a lot of acquisitions in the last 6 months of the previous year and the first six months of this year, more or less in all lines, and we are to double our results, as you will see in a while.

We are also in the process to launch the franchise network. We have chosen the name of the network, which will be Pirelli Re Franchising. We have employed the general manager of Tecnocasa and we have signed a binding letter of intent with Abbey National Bank for mortgage, with Generali for insurance and with Selma BPM Leasing for leasing to be able to distribute on the network not only sale and agency services but also financial products.

Moving very rapidly on to the next page, page 16, on profit and loss. The aggregate value of our production went up from €480m to more than €690m, with a 44% increase. The EBIT result, including results from equity participations: 100% was more the €270m, on which the pro-quota of our company is €53m compared to €42m, so we had a 27% increase. The net income from real estate activity has moved up from 32 to 40. Mr Tronchetti has already said that last year we had an extraordinary revenue from selling the blue chips that were in the UNIM Company that we acquired in 2000.

Two numbers that were significant for our activities are assets under management, that is comprehensive of the Fonsai acquisition of around €10.2bn. To these assets we provide the asset management, so the strategic activity, and all the real estate services that are needed to manage the asset. Instead, the assets on the services are more around €30bn. To these assets we provide at least one real estate service. On the right-hand side of the page you can see that our equity decreased from €368m to €360m, only €8m. That is exactly the difference between the dividend we distributed, €48m and the profit of the period, €40m. The net financial position is not very significant. What is important is the net financial position including the shareholders' loans, which moved up from €167m to €249m. Gearing is 0.7. It was 0.5 in December and 0.8 in June last year. We think that in our real estate activity the optimal point is to stay between 0.5 and 1, in order to optimize our profit and loss accounts from a fiscal point of view.

One more piece of information: if we see the NAV of the company the implicit capital gain is €690m on the estimate of CB Richard Ellis. On top of it, if we use our equity of €350m we reach at an NIV of €1,062m and we don't consider in this number the profit before tax of services and asset management that on the basis of the half-year is €26m. If you want more information, this is available on the IR section of our website. Thank you.

[Mr TRONCHETTI PROVERA] : Thank you, Carlo. We're moving now to Olimpia, which is for us our industrial core investment. The participation in TI is an investment in a reliable and efficient financial structure. TI first-half 2003 net result after merger – it has been already declared to the market – was close to €1.6bn, taking into account the goodwill which accounts for more than €500m. Thanks to the merger between Olivetti and TI, Olimpia has reduced the dividend leakage, so it is closer to the cash produced by TI. Olimpia is the main shareholder in TI with 11.6% ordinary stake and 12.5% on a fully diluted basis, taking into account only the "in the money" securities, the ex-convertibles in Olivetti. The business targets for the new TI in 2003-2005 were fully confirmed as well as the TI dividend policy, so we expect that next year Olimpia will profit from the dividend from TI, reminding you that since it was founded two years ago Olimpia has never had any dividend from Olivetti. The industrial culture of the new management contributed to the achievement of the above strategic targets of Telecom Italia. In the bottom part of the slide you see the Olimpia stake in TI as of August 4, 2003. Olimpia has 1,190.7m shares and the 2001-2010 convertible bonds in TI account for €504m and equal to 238m shares, so the total shares are 1,428m. As I mentioned before, the new acquisition cost is €4.9 and the put option has been taken accordingly in consideration allocating the surplus coming from the merger. The Olimpia balance sheet on the net assets side compared to year-end is up to €9bn from €8.6bn. On the equity side, from €4.9bn to €5.8bn, the net debt is down from €3.7bn to €3.2bn.

All that said, what we presented you is a stronger group, simplified and strengthened after the merger, thanks to the merger and thanks to the capital increase. There is a balance of assets: industrial, real estate and telecommunications, all strongly placed in all the businesses where they are. All these businesses are leveraging on a strong and integrated management team, so in each area of the business we have a group of professionals handling different businesses and that's why in the different areas of businesses, compared to our peers, in the difficult last two years we have performed better than them. So it is a strong group of management with a culture focussed on value creation and we share the group know-how thanks to the so-called "professional family". So all areas of business are covered by professionals creating outstanding teams. We have now a solid and reliable post-merger financial structure, there is a continuous emphasis on technology and innovation, allied to a rigorous cost management and return on investment focus. In tires, as you have seen the results, the results are coming thanks to technology, thanks to new products. If in the energy and telecom businesses we have been affected by the cycle less strongly than most of our competitors, this is due to our management and technology. Also the results of TI and TIM are linked to the professional quality of our management and to the technologies we have been able to develop. So all businesses are well positioned to catch the benefits for any rebound of the economy. We have new products and processes. We have competitive cost structures thanks to the efforts that have been made during the last few years and on the industrial side we are positioned on markets where there is a high potential for growth. In Latin America we are having good results in any business we are involved in, both industrial and telecoms. So, as I mentioned before, thanks to the merger we have set a stronger group, which is focussed on profitable business. We have a clear outlook and perspective. I underline again that we have a cost structure that is competitive. The energy cables and system looking on the short-term has a good order book for the second half of 2003. The black-outs should stimulate new round of capex to take into account that in the last few years the utilities have drastically reduced investments and, as Mr Ferrario was saying to you, we have innovative services to utilities (maintenance and network control). In the telecom cables and system there is an effective collaboration between Pirelli labs, Telecom Italia labs and external partners like ST Microelectronics, Cisco and others. We are providing new access and metro solutions for the only growing market in the telecom business and we have also some opportunities that should come from the fact that the main incumbents are reconsidering the capex policy.

Tires: in the short-term they have in front of them a strong winter season if we look at the portfolio that Pirelli has today. Tires are focussed on segments with a two-digit growth and the new plant we are going to open next week in Brazil, in Bahia, should provide us with an opportunity to grow in the USA producing in a country at low cost, which adds capacity to the one we have in Georgia, which provides products for the original equipment.

Real estate: Mr Puri underlined the continued short-term portfolio rotation, and also the management of long-term investment lines. There is the opportunity to place funds, thanks also to a

new law, and Pirelli Real Estate is launching a franchise network. They expect an increase in service provider revenues by 40-50%.
Telecommunications: I mentioned some figures of Telecom Italia. There are improvements is all areas and Olimpia is more directly connected to the TI performance. For all these reasons we expect to have a further recovery in the second half of 2003. Thank you for your attention and now we are ready to answer your questions.

Q & A session

[SPEAKER] : The first question comes from Mr De Ambrogi from Euromobiliare SIM. Mr De Ambrogi, you may proceed with your question. Thank you.

[Mr DE AMBROGI] : Good afternoon to everybody. My first question regards the energy cables. I know it is too early, but could you give us an idea of what could be your future opinion about the potential additional capex due to the black-outs? The second question is: could it be possible an investment in Capitalia? My third question is a technical question. I see a difference between the industrial performance you have presented on today's slides, but there is a difference concerning the €118m EBIT of Pirelli SpA. Could you explain the reason for the difference? Probably I lost it. Thank you.

[Mr TRONCHETTI PROVERA] : Starting from your last question, the difference is in the corporate lines, you see, where "other" is written. As for the energy investment, I think it is not serious to say a figure that nobody knows, because the utilities are not providing any figures about it, so they are just saying they will restart investing, but we don't know anything and they didn't provide any figures. We are starting in Capitalia. That could be an investment that will not affect anyhow process of reducing debt, which is our priority. So we did it in bad times, when the business was going badly, but we were able to produce cash. In case we invest in Capitalia we will divest in other minor non-strategic investments that are still in our portfolio. So there will be no difference in our financial position.

[Mr DE AMBROGI] : OK, thank you. If I may, one more question on Olimpia. I'm sure, or it is likely that the next step will be a recap for Olimpia. I can imagine that it is reasonable an increase of your stake in Telecom Italia as a following step.

[Mr TRONCHETTI PROVERA] : I think that what could be possible – and I already mentioned it during the press conference for TI – is that the shareholders are ready to recapitalize if they make this decision. There is no problem financially for the shareholders to recapitalize. If it is convenient for the group to do it they will do it. There is no plan to use this increase in capital to buy other shares. The increase in capital would be only to reduce the debt level.

[Mr DE AMBROGI] : Thank you.

[Mr TRONCHETTI PROVERA] : Thank you.

[SPEAKER] : The next question is coming from Mr Massimo Vecchio from Intermonte. Mr Vecchio, you may proceed with your question. Thank you.

[Mr VECCHIO] : Good afternoon to everybody. I have two questions. The first one is on the dividend. It looks like in my calculations that you could pay a dividend in 2004 based on 2003 earning. Of course not on a consolidated basis but on the SpA basis. Can you confirm this possibility? This was the first question. The second one is on Olimpia. It looks like that in 2004 you could be losing money in Olimpia. So why are you saying that the share issue is just a possibility? It is really advisable. What can prevent the shareholders from doing share issue? Is there something negative in the share issue?

[Mr TRONCHETTI PROVERA] : In 2004 there is a dividend possibility. It will be up to the board to make the decision whether to pay the dividend at the Pirelli SpA level. As for Olimpia, if I may say, probably you are not taking the level of the TI dividend into account. If you take that into account you can see that Olimpia, in 2004 will cover with the dividends all the needs to pay the interests. So that right stakes is not a must it is not a need. It’s a decision that the shareholders can make. But there is no need, I confirm it.

[Mr VECCHIO] : OK, so there is the dividend estimate from TI which is very low compared to-

[Mr TRONCHETTI PROVERA] : I confirm the dividend level of the last two years. As we have always stated, there won’t be any change in the dividend policy and not having changes in the dividend policy the dividends coming up to Olimpia will cover the needs of Olimpia.

[Mr VECCHIO] : OK. All right, thank you very much.

[Mr TRONCHETTI PROVERA] : Thank you.

[SPEAKER] : The last question is from Mr Federico Bruzzi from Deutsche Bank. Mr Bruzzi, you may proceed with your question. Thank you.

[Mr BRUZZI] : Yes, good afternoon. The question is on the debt-EBITDA ratio. You mentioned that your intention is to reduce debt. Well, could you give us some guidance on which is the optimal level of debt you imagine for your portfolio business. And also, another question on Olimpia. You mentioned that you're ready to inject cash. Would that be in order to increase your stake eventually or to substitute one of your shareholders? And also if you could give us a closer idea of what you mean when you say "if it is convenient for the shareholders". Thank you.

[Mr TRONCHETTI PROVERA] : Thank you. So, firstly: to decrease debt is an issue for all businesses. So at the operational level all actions will be taken in order to reduce debt and we have proven, in difficult years such as the last year when the cash flow was positive. So we expect to have a positive cash flow from the businesses for the years to come. The capital increase for Olimpia would be an opportunistic decision taking into account that the shareholders could consider convenient to increase the capital just to show to the market, which sometimes speculates on it, depressing value of TI as it links in an improper way the Olimpia balance sheet with the TI balance sheet. We want to avoid any speculation and that could be the reason why, one day or another, the decision could be made of increasing the capital. It is something we can do because the financial structure of the company is such that Pirelli can cover the capital increase without any problem.

[Mr BRUZZI] : OK, thank you. Maybe just a follow-up on the fiscal implication. Could you elaborate a little bit on the surplus allocation of the write-down of Olimpia? And what can we expect going forward in terms of fiscal optimization?

[Mr TRONCHETTI PROVERA] : But there is no fiscal effect on this, because at the Pirelli & C. SpA level we have already optimized the fiscal structure. So even if we allocated a capital increase in Olimpia we wouldn't have any effect. We would have only more interest in one part and less in the other. Moreover, if you take into account the new fiscal law, the new fiscal law will consider taxation on a consolidated basis. So even if it is neutral today there will be in the future more reason to have a neutral effect if we allocate the capital from one company to another.

[Mr BRUZZI] : Thank you.

[Mr TRONCHETTI PROVERA] : Thank you. Thank you very much for your attention and goodbye to everybody.