

Good evening, ladies and gentlemen. Welcome to Pirelli's conference call, in which our chairman, Marco Tronchetti Provera, will debate about the capital increases of Pirelli & C. and Olimpia. I remind you that a Q&A session will follow the presentation, and that you can find the presentation slides in the "Investor Relations" section of the Pirelli website. Now, let me introduce to you Mr. Marco Tronchetti Provera. Thank you.

**Good afternoon, ladies and gentlemen. Thank you for joining us in this conference call, after which a Q&A session will follow. In today's presentation we will present to you the capital increases of Pirelli & Co. and Olimpia. As you see, there is a strategic rationale, transaction details, TI/TIM [...] summary evolution of Pirelli Group's structure, expected timetable and, at the end, a Q&A [...].**

**The rationale of the transaction in subject, shown in slide #2, is to strengthen Pirelli's financial structure and [...] its presence in the telecommunications services area to a share capital increase up to 1.1 billion. The main steps and pillars of the share capital increase are [...] of Olimpia's financial structure through a share capital increase up to 2 billion and consequently, with such proceeds, the increase of investments in Telecom Italia.**

**In the event of a merger between TI and TIM, this step will allow us to neutralize the deriving dilution effect. These transactions will also allow us to maintain the necessary bargaining power in the cable sales proceeds. As a result, Pirelli shareholders will directly take advantage, through Olimpia, of the new TI Group structure exploiting the expected value creation from the investment. The rationalization of TI/TIM's structure could also give shareholders benefits in terms of financial [...].**

**Slide #3 shows the details of the transaction related to Pirelli & Co.; the amount of the share capital issued is up to 1.1 billion, the issue is extended to all current Pirelli & Co. shareholders, both ordinary and savings. We underline the willingness of syndicate pact shareholders to exercise their pro-quota subscription rights, and the willingness of the banks' consortium, composed by [...], J.P. Morgan, [...] Mediobanca, to grant the capital increase. I remind you that two new shareholders, Capitalia and Banca Intesa, will join the company in the syndicate pact, each one with a stake of 1% of the share capital considered before the capital increase. This stake of the syndicate will be acquired from [...]. The issue price is €0.7 per share, corresponding to a premium of around 25% in the [...] market price. The shares issued, amounting up to 1.5 billion ordinary shares, in particular, 2 new ordinary shares each, 5 [...] savings shares [...]. Existing listed warrants could be exercised within Dec. 23, 2004, [...] rights. The expected closing of the offer is expected to be in the end of March 2005.**

**Slide #4 shows the details of the share capital increase in Olimpia, issue up to 2 billion shares at [...] value, proceeds up to 2 billion, Pirelli will subscribe.**

**Slide #5 summarizes the Telecom Italia-TIM deal announced today, which consists in a public tender offer by Telecom Italia on the two thirds of TIM's ordinary shares, pre-float, 28.9 of TIM ordinary share capital, and 100% of TIM's savings shares. The offer is subject to an acceptance level of two thirds of the total TIM ordinary shares under offer. TI has estimated a maximum cash outflow of up to 14.5 billion, of which 12 billion "committed facility", provided by major domestic and international banks, and 2.5 from existing facilities. TIM will transfer its Italian activities under [...], TIM Italia's [...] that will be owned by TI. The exchange ratio for the merger between TI and TIM will be in line with the last market price and equal to 1.72 for the ordinary shares and 2.36 for the savings shares.**

**Slide #6 shows the changes in the Pirelli Group's structure after the above said transaction. The [...] Olimpia, according to the agreements with the banks, will be 57.66 if the banks will not subscribe their rights.**

**Finally, in slide #7, we can end the presentation with the expected timetable. Ending warrant exercise period on Dec. 31, 2004; general meeting per-share capital increase approval by Jan. 31, 2005; start of the offer period by Feb. 7 of next year; end of the offer period by Feb. 25, 2005; underwriting and payment for issued shares by March 15, 2005. And now, I think we can start with the Q&A session, so I thank you again for joining us.**

1. Mr. **Massimo Vecchio** of **Intermonte**:

*Good afternoon to everybody, I have three quick questions. The first one: can you say if Pirelli or Olimpia already bought some Telecom Italia shares?*

*Second one: can you say if Edizione Holding will take part in the rights issue and, in case, who will take his part if someone will?*

*The third question is: I've just seen from the presentation that the need for a rights issue in Pirelli is down to the bargaining power of the cable sales division, but was it strictly necessary? Because at the end of the day after the cable sales, you will then come back to a debt close to zero. Was it really necessary, or was it also done to take into account potential cash-out from the put option of UniCredito and Intesa in 2006?*

**Thank you. Now, we didn't buy any shares before this transaction, not Pirelli and not Olimpia. In case Edizioni Holding will not subscribe both Pirelli and OPA, we have already made the decision to subscribe pro-quota the shares, the capital increase and this capital increase strengthens our financial position, which will not go to zero in case there will remain some debt in any case. But anyhow, we expect that the flexibility, the cash flexibility of the company could provide us the opportunity to make other investments in the future. I think this is a good opportunity to raise cash, to invest in Olimpia, while we can invest from 1.3 to 1.6 billion, and to trade the sale of the cable in a very [...] way, which is useful to obtain the best conditions. And, so that's all.**

*Thank you very much for your clarity.*

**Thank you.**

2. Mr. **Luca Orsini** of **One Investment**:

*Good afternoon. Three quick questions: The first question is on Olimpia. Olimpia will presumably increase its stake in Telecom Italia. Is Olimpia planning to buy savings shares along with ordinary shares of Telecom Italia, or is it planning to buy only the ordinary shares? The second question, I'm afraid, is on Telecom Italia, which is the deal of the day. With this transaction, the dividend power of Telecom Italia should increase. Is there any reason why in the conference call of Telecom Italia you said they have no plans to increase the dividend of Telecom Italia, or did we misunderstand that? Thank you.*

**Thank you. The aim of Olimpia is to buy ordinary shares, so this is what we are going to do. And on the dividend policy, TI already confirms that we are going to keep the same dividend policy for both TI and TIM in 2005. So, I think we can confirm the dividend policy of TI.**

*Sorry to interrupt: can you restate the dividend policy of Telecom Italia? Is that the same dividend?*

**The same as 2003.**

*OK, thank you.*

**Thank you.**

3. Mr. **Martino De Ambrogi** of **Euromobiliare SIM**:

*Good evening. My first question is on the answer you gave on Telecom Italia shares, if you already bought some shares on the market; you said no, but have you any new call options or something similar that you can allow, to buy shares at a fixed price?*

*The second one is on Olimpia. Can we say that the 2 billion of the rights issue will be entirely used to buy Telecom Italia shares, or could they be also used to reduce debt? And a follow-up on how you will use the cash: by February-March, if it's all confirmed, you will have a cash-in in the region of 1 billion, that's my estimate. You already have call options or derivatives at Pirelli level which are deeply in the money, so will this cash be used for these kinds of investments, or which kinds of investments are you thinking of?*

**Thank you. I told you we don't have a TI call option both in the last months. Olimpia will use entirely the 2 billion to buy shares, and we could use an excess of cash, in case we will have it, to profit of the derivatives we have [...] money.**

*OK, if I may ask two more questions: the first one is on the fact that Mr. Ferrario is leaving the company. Can we link this fact to the possibility of a management buyout for the divesting of the cable division?*

*The last one is if there are not enough TIM shares tendered to you offer and, we can say it's a very strange situation, but there is no merger; would you collect money at Olimpia level in any case? Thank you.*

**Mr. Ferrario, leaving the company, is going to become chairman of Olivetti. He will not be involved in any management buyout, so the information in the newspapers concerning both Mr. Ferrario and Mr. Morchio was wrong. There is already in place that will run the cable business, and this is the management that will follow the transaction and then run the company also after the transaction. In case there will be not enough shares, so the two thirds of the PTO will not be collected, the shares linked to the PTO will not be collected after this [...], then there will be the decision that has to be taken by the board.**

*OK, not decided then. Thank you.*

**4. Mr. Gianluca Beliconi of Banca Leonardo:**

*Good evening, gentlemen. Am I correct to assume that Olimpia, after the capital increase, will buy Telecom Italia ordinary shares in the market?*

*And, also related to this question, do you have any deadline for Olimpia to come back to the current 70% stake in Telecom Italia before the merger dilution? Thank you.*

**No, we are going to buy the shares. There is no date, no limit, no decision to buy in a month, in a week, in six months; we will try to do the best interests of the company.**

*Thank you.*

**Thank you.**

**5. Mr. Nick Lyall of Morgan Stanley:**

*OK, just a couple of quick questions. Firstly, has there been any decision yet on what the cable proceeds will be used for? Will they also be used to purchase Telecom Italia ordinary shares?*

*And the second question: could you confirm your Olimpia stake in TI? Is it 19%, or is there something wrong with our arithmetic? Thank you.*

**No, we have 17% in Olimpia, and we can go up to 19% in case there will be 100% acceptance of the PTO, and in case of a 77% acceptance we'd be around 17% in Olimpia. We are in a very preliminary stage in the cable transaction, so we have no new information for the market.**

*OK, that's great, thank you.*

**Thank you.**

**6. Ms. Valentina Romitelli of UBS:**

*Hi, good afternoon. May I ask if in this recapitalization process at Olimpia level, did you talk, or can we expect any changes in the shareholders' agreement in the potential way out for some of your partners as already said in previous shareholder agreements? I mean, any change or what has been public so far? Thank you.*

**No, there are no changes in the governance and no changes in major agreements, and I want to make a final statement saying that this transaction is very important because when we started being involved in Telecom Italia, we inherited a complex situation and, after all transactions had been made, from the capital increase of Olivetti in the beginning, then to the merger between Olivetti and TI, and now, with the PTO and merger between TIM and TI, we have repositioned Telecom Italia back to normality, with the cash flow close to the debt and with Olimpia able to have a dividend that can cover not only the interest but also leave final the capital or give some satisfaction to shareholders. So, I think that these investments are a final step in a process of normalization of Telecom Italia that can create high value for Pirelli, and that's why they're happy to make this decision.**

**Thanks a lot.**

**7. Mr. Fred Bulan of Morgan Stanley:**

*Can you confirm that either Olimpia, or a bank appointed by Olimpia, has started to buy TI ordinary shares in the market? Thank you very much.*

**Yes, it's going to buy all shares or any instrument that could be convenient for Olimpia.**

*Has it already started?*

**No, we didn't start; we didn't buy even one share.**

*And any bank appointed by Olimpia?*

**Any bank has been appointed until now, we will start thinking tonight, and we will ask, starting tomorrow, and we have no hurry. We are just trying to make the best in the Olimpia interests.**

*OK, thank you very much.*

**Thank you.**

**8. Mr. Ottavio Adorisio of UBS:**

*You just commented on the fact that you don't have, you [...] now, how the chain looks like between Pirelli and Telecom Italia, so does this mean that there is no further [...] in this group, going forward?*

*And the second one is on Olimpia. Is there any way for Olimpia to monetize these [...] losses [...] forward from the potential right of the TI stake? Thanks.*

I think we did much in order to reduce the chain and to rationalize the activities, so nothing is planned more than what has been done.

The second question was about Olimpia; I think that the Olimpia value, in the books of Pirelli, is 4.5 more or less. After the shares we are going to buy I think it will go down, and the average price will be around 4, depending on the price we are going to pay for the new shares we are going to buy. So, I think that we did recover a lot in the last twelve months, and that we are now, Telecom Italia, ready to exploit the real value thanks to the removal of all links and of all elements that could have been used in order to keep the value down. So the holding company is making money, Telecom Italia and TIM together will be stronger than they are today, and I think the value will come out.

*Thank you very much.*

**Thank you.**

**9. Mr. Martino De Ambrogi of Euromobiliare SIM:**

*One more question on the additional cash-in you will receive with the cable division. Just to try to get the calculation, you are spending 1.3 billion, and you have a cash-in from warrants and rights issues of 1.3 billion, more or less, that's the best-case scenario, we can say. An additional cash-in could be 800, 1 billion, it's not important, but tires are [...]. You can buy additional TI shares with the derivatives you already have, in the region of €300 million, if we consider all the derivatives you have, but we still have quite an important part of the cash that could be used for other things. Could you elaborate a little bit more on this? Thank you.*

I think all this is positive. That means that first, thanks to the capital increase, we can be very comfortable in dealing with the transaction of cables. We are not under pressure, we have cash, and so we can find the best possible offer without being under pressure. That, I think, is very important. In case there will be an extra cash we have the possibility to invest, and we will profit of any opportunities. You mentioned the derivatives we have [...] the money, that they can be an opportunity, and then we will see. I think that that flexibility creates a stronger Pirelli, able to take any opportunity in the market.

*With no further diversification?*

No further diversification. We already clearly stated the strategy. Our strategy is to strengthen the position in the tire business, which is self-financed, as you mentioned before, and is growing. Then we are in the environmental business, which is not cash-absorbing, and the realty business, which is cash-creating, and in Telecom. So we have an opportunity also in the telecom apparatus, while we started selling the access networking systems, and new products in the photonic area. So I think we have a great opportunity in this area, together with TI.

*Could you state which is your net financial position after all these events you consider as the target one?*

If I say this, I'd tell you the price of the [...] of the cables. This is a figure we never provide, to protect the value of the transaction.

*Thank you.*

**Thank you.**

**10. Ms. Delphine Luplond of Tullett:**

*I would like to know if the level of acceptance of the PTO is waivable, if Telecom Italia could change the level of acceptance for the PTO.*

**No, Telecom Italia has given a level of acceptance. In case this level will not be achieved, it is only the board of Telecom Italia that can make the decision to accept a different level. But the level we offer to the market, the limit, is the one we have already mentioned, so two thirds of the floating shares.**