

Europe Italy
Autos Tyres

Deutsche Bank



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Pirelli & C

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Results and guidance better; real estate spin-off soon

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Results/guidance better than expected, real estate spin-off by YE; Buy

Pirelli reported results that are even better than we expected; and our estimates were higher than consensus. Company guidance was topped, although it increased during the year. The company announced Real Estate – worth c. E4/Pirelli share or 9.5% of the market cap at current depressed prices – will be spun off to shareholders in a few months, reducing the holding discount. After stripping out all non-Tyres businesses, PECE trades at 4x 2010E EBITDA (vs. 6.2x for MICP). The dividend provides 3.3% yield. We maintain Buy with ~17% upside.

Better results, Q4 Tyres volumes +15.6%, price mix -1.7%, FX +2%

Results: E4,462m consolidated sales (-3.3% l.f.l.), +1% vs. our est. and +1.9% vs. cons.; E297m org. EBIT, +4% vs. our est. and +8.8% vs. cons.; E23m profit (our est. E9m, cons. E16m); and E529m net debt, better than E0.7bn target but lower than our E592m est. and cons. E656m. Dividend is higher at E0.0145 vs. our E0.01 est. Tyres were strong as expected: E3,993m (vs. E3.9bn guidance), +1.8% vs. our est. EBIT was E308m, +9% vs. our est. (7.7% margin vs. >7% guidance). The 14% price hike in Q408 affected the price mix, and OE weight rose to 25% (21% in 2009).

Guidance also better and well supported; estimates change immaterial

2010 guidance (E4.7-4.8bn sales) is in line with our E4,762m est. and cons. E4,668m. EBIT margin was 6.5-7% (our est. 6.6%, cons. 6.8%), in line with 2009, implying E326-332m EBIT (our est. E316m, cons. E329m). Tyres guidance is better than cons.: +6-8% sales yoy (E4,232-4,312m vs. our E4,229m est. and cons. E4,120m). Tyre volumes should grow c. 5%, in line with our est., and price increases offset raw material price hikes – 10% hike in the Middle East and 4% in the US and EU. We assume flat USD3,000/ton vs. the current inflated level for natural rubber as an average for the year (E200m headwind), close to the worst case scenario in light of the recent production capacity increase. Management guidance will be supported by additional cost savings of E60m (E200m in 2009).

SOTP-based target price remains E0.50; risk: raw material price hike

We are confident that management will address the holding discount issue by mid-2010. Instead of applying the 20% holding discount on NAV, we applied it to the stub (left over after the Real Estate and Tyres spin-off). For Tyres, we apply the average of 6x 2011E EV/EBITDA and 12x 2011E P/E. BB Solutions and Environment are valued at 1x 2008E sales. Downside risks: a longer-than-expected recession and raw material price hikes.

Forecasts and ratios

Year End Dec 31	2008A	2009A	2010E	2011E
Revenue (EURm)	4,660	4,462	4,764	4,897
EBITDA (EURm)	396	508	545	610
P/E (DB EPS) (x)	–	72.4	22.9	14.6
EV/EBITDA (x)	12.3	7.3	8.3	7.3
Yield (%)	0.0	4.8	3.4	3.4

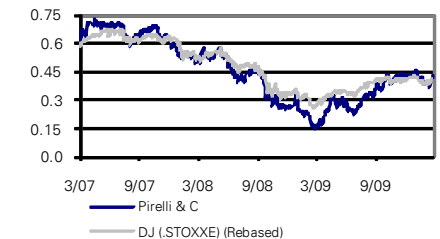
Source: Deutsche Bank estimates, company data

Results

Buy

Price at 10 Mar 2010 (EUR)	0.43
Price Target (EUR)	0.50
52-week range (EUR)	0.46 - 0.15

Price/price relative

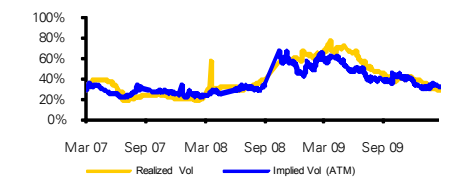


Performance (%)	1m	3m	12m
Absolute	8.2	1.9	189.3
DJ (.STOXXE)	7.5	3.2	53.2

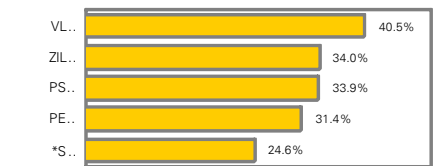
Stock & option liquidity data

Market cap (EUR)(m)	2,331.0
Shares outstanding (m)	5,459
Free float (%)	51
Option volume (und. shrs., 1M avg.)	869,048

Implied & Realized Volatility (3M)



Implied Volatility (3M, ATM) vs. Peers



*Weighted-avg. of index components
Data as of 18-Aug-09

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Estimate changes

Figure 1: Changes in estimates

	2005	2006	2007	2008	2009	2010E	2011E
Sales-old estimates	4,546	4,833	5,200	4,660	4,420	4,762	4,896
Sales-new estimates	4,546	4,833	5,200	4,660	4,462	4,764	4,897
change (%)	0%	0%	0%	0%	1%	0%	0%
EBITDA-old estimates	571	617	581	396	500	545	610
EBITDA-new estimates	571	617	581	396	508	545	610
change (%)	0%	0%	0%	0%	2%	0%	0%
EBITDA margin-old estimates	12.6%	12.8%	11.2%	8.5%	11.3%	11.4%	12.5%
EBITDA margin-new estimates	12.6%	12.8%	11.2%	8.5%	11.4%	11.4%	12.5%
Net income-old estimates	327	-1,337	158	-347	9	101	158
Net income-new estimates	327	-1,337	158	-347	23	102	159
change (%)	0%	0%	0%	0%	153%	1%	0%
Adjusted net income-old estimates	290	171	135	-8	71	122	173
Adjusted net income-new estimates	290	171	135	-8	81	124	174
change (%)	0%	0%	0%	0%	13%	1%	0%
Capex-old estimates	234	239	287	297	237	319	322
Capex-new estimates	234	239	287	297	225	308	311
change (%)	0%	0%	0%	0%	-5%	-3%	-3%
Net Debt-old estimates	1,177	1,980	-296	1,028	592	686	657
Net Debt-new estimates	1,177	1,980	-296	1,028	529	651	635
change (%)	0%	0%	0%	0%	-11%	-5%	-3%
FCF-old estimates	179	264	212	-61	42	70	140
FCF-new estimates	179	264	212	-61	56	79	148
change (%)	0%	0%	0%	0%	35%	14%	6%

Source: Deutsche Bank, Company data

Figure 2: Changes in estimates by division

	2008			2009			2010E			2011E		
	New	Old	change %	New	Old	change %	New	Old	change %	New	Old	change %
Revenues	4,100	4,100	0.0%	3,993	3,923	1.8%	4,264	4,229	0.8%	4,388	4,352	0.8%
Pirelli tyre	4,100	4,100	0.0%	3,993	3,923	1.8%	4,264	4,229	0.8%	4,388	4,352	0.8%
Pirelli RE	365	365	0.0%	272	270	0.6%	302	300	0.6%	305	303	0.6%
Pirelli Broadband	124	124	0.0%	132	134	-1.1%	135	137	-1.1%	139	141	-1.1%
Others	71	71	0.0%	66	93	-29.6%	63	97	-34.9%	65	100	-35.0%
Group revenues	4,660	4,660	0.0%	4,462	4,420	1.0%	4,764	4,762	0.0%	4,897	4,896	0.0%
EBITDA pre restructuring costs	396	396	0.0%	508	500	1.7%	545	545	0.0%	610	610	-0.1%
Pirelli tyre	441	441	0.0%	538	512	5.1%	536	536	0.1%	561	561	0.1%
Pirelli RE	-18	-18	0.0%	-5	-3	92.3%	9	9	-4.3%	47	47	-0.8%
Pirelli Broadband	5	5	0.0%	5	5	-3.4%	6	6	-3.3%	7	7	-3.0%
Others	-32	-32	0.0%	-30	-15	101.3%	-6	-6	0.0%	-5	-5	0.0%
Group revenues	396	396	0.0%	508	500	1.7%	545	545	0.0%	610	610	-0.1%
Restructuring costs	144	144	0.0%	61	86	-29.2%	30	30	0.0%	20	20	0.0%
Pirelli tyre	100	100	0.0%	37	40	-7.5%	30	30	0.0%	20	20	0.0%
Pirelli RE	44	44	0.0%	24	46	-48.0%	0	0	0.0%	0	0	0.0%
Group restructuring costs	144	144	0.0%	61	86	-29.2%	30	30	0.0%	20	20	0.0%
EBITDA margin pre restruct. costs	8.5%	8.5%	0.0%	11.4%	11.3%	0.1%	11.4%	11.4%	0.0%	12.5%	12.5%	0.0%
Pirelli tyre	10.8%	10.8%	0.0%	13.5%	13.0%	0.4%	12.6%	12.7%	-0.1%	12.8%	12.9%	-0.1%
Pirelli RE	-4.8%	-4.8%	0.0%	-1.8%	-1.0%	-0.9%	3.0%	3.1%	-0.2%	15.4%	15.7%	-0.2%
Pirelli Broadband	3.9%	3.9%	0.0%	4.0%	4.1%	-0.1%	4.2%	4.3%	-0.1%	4.8%	4.9%	-0.1%
Others	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Group revenues	8.5%	8.5%	0.0%	11.4%	11.3%	0.1%	11.4%	11.4%	0.0%	12.5%	12.5%	0.0%

Source: Deutsche Bank, company data

Q4 results review

Consolidated P&L

Figure 3: Q409 consolidated P&L – Euro m

Consolidated	Q4-08A	Q1-09A	Q2-09A	Q3-09A	Q4-09A	Q4-09E	Act/Est (%)
Sales	992.2	1,043.0	1,094.6	1,169.8	1,154.8	1,112.4	3.8%
YoY growth (%)	-20.5%	-13.0%	-12.8%	-3.6%	16.4%	12.2%	
EBITDA organic	5.1	100.4	125.7	135.1	146.9	138.4	6.1%
YoY growth (%)	-96.2%	-30.6%	-10.5%	64.0%	2780.4%	382.6%	
EBITDA margin	0.5%	9.6%	11.5%	11.5%	12.7%	12.4%	
EBIT organic	-44.9	49.5	72.8	82.8	91.9	80.4	14.3%
YoY growth (%)	-155.0%	-56.1%	-18.5%	174.2%	-304.9%	-279.2%	
EBIT margin	-4.5%	4.7%	6.7%	7.1%	8.0%	7.2%	
Restructuring costs	94.9	3.5	17.7	20.1	38.3	44.7	
EBIT reported	-139.8	46.0	55.1	62.7	53.6	35.7	50.2%
income from equity participation (PRE)	-42.5	0.8	-29.4	-9.3	-19.4	2.9	nm
YoY growth (%)	-188.1%	60.0%	-252.3%	-195.9%	-54.4%	-106.8%	
Net financial income/charges	-43.8	-21.2	-19.2	-13.6	-30.6	-40.4	-24.3%
YoY growth (%)	52.5%	393.0%	2642.9%	9.7%	-30.1%	42.2%	
Profit pre tax and extraordinary	-226.1	25.6	6.5	39.8	3.6	-1.8	-297.0%
YoY growth (%)	-323.5%	-76.0%	-92.7%	-6733.3%	-101.6%	-99.1%	
Extraordinaries	-168.5	0.0	0.0	0.0	0.0	0.0	
YoY growth (%)	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	
Taxes	18.3	-26.3	-19.2	-36.1	-16.3	-15.1	7.6%
YoY growth (%)	-176.5%	-18.1%	-47.5%	38.3%	-189.1%	-168.1%	
Minorities	-80.1	-10.5	-9.5	-8.2	-17.2	-15.2	13.0%
YoY growth (%)	-275.6%	-136.7%	400.0%	-29.9%	-78.5%	-81.0%	
Net profit	-296.2	9.8	-3.2	11.9	4.5	-1.8	-357.0%
YoY growth (%)	-1139.3%	-67.0%	-95.8%	-179.3%	-101.5%	-99.4%	

Source: Deutsche Bank, company data

P&L by division**Figure 4: Q409 by division – Euro m**

	Q4-08A	Q1-09A	Q2-09A	Q3-09A	Q4-09A	Q4-09E	Act/Est (%)
Tyres division							
Sales	870.3	926.9	989.0	1,042.7	1,034.3	964.6	7.2%
YoY growth (%)	-10.2%	-13.9%	-9.2%	-1.9%	18.8%	10.8%	
EBITDA organic	62.9	107.8	133.0	142.0	155.1	129.0	20.3%
YoY growth (%)	-46.7%	-27.4%	-3.6%	54.7%	146.7%	105.1%	
EBITDA margin	7.2%	11.6%	13.4%	13.6%	15.0%	13.4%	
EBIT organic	19.2	61.0	85.5	94.3	104.7	80.8	29.7%
YoY growth (%)	-73.3%	-39.2%	-5.7%	131.1%	445.9%	320.9%	
EBIT margin	2.2%	6.6%	8.6%	9.0%	10.1%	8.4%	
Broadband solutions	Q4-08A	Q1-09A	Q2-09A	Q3-09A	Q4-09A	Q4-09E	Act/Est (%)
Sales	31.7	44.0	28.8	30.3	29.0	30.4	-4.8%
YoY growth (%)	25.9%	48.1%	-14.5%	4.8%	-8.5%	-3.9%	
EBITDA organic	1.1	2.7	0.5	0.4	1.7	1.9	-9.8%
YoY growth (%)	-140.6%	-193.1%	-92.3%	100.0%	55.3%	72.2%	
EBITDA margin	3%	6%	2%	1%	6%	6%	
EBIT organic	0.8	2.5	0.2	0.2	1.6	1.6	-1.5%
YoY growth (%)	-122.0%	-171.4%	-97.0%	n.m.	112.6%	115.8%	
EBIT margin	2%	6%	1%	1%	6%	5%	
Real Estate	Q4-08A	Q1-09A	Q2-09A	Q3-09A	Q4-09A	Q4-09E	Act/Est (%)
Sales	68.6	53.8	62.0	83.4	72.5	70.8	2.4%
YoY growth (%)	-71.5%	-28.0%	-47.5%	-19.6%	5.7%	3.2%	
EBITDA organic	-21.4	-0.5	-2.1	2.6	-5.0	-2.6	92.3%
YoY growth (%)	-175.0%	-112.8%	600.0%	1200.0%	-76.6%	-87.9%	
EBITDA margin	-31.2%	-0.9%	-3.4%	3.1%	-6.9%	-3.7%	
EBIT organic	-47.7	-2.2	-4.0	0.8	-7.0	-6.6	6.1%
YoY growth (%)	-296.5%	-109.7%	48.1%	14.3%	-85.3%	-86.2%	
EBIT margin	-69.5%	-4.1%	-6.5%	1.0%	-9.7%	-9.3%	

Source: Deutsche Bank, company data

Net debt**Figure 5: Q409 net debt evolution – Euro m**

	Q4-09A
Net debt - beginning of period	691
Quarter	
EBITDA organic	147
Income from equity participations	-19
CAPEX	112
Increase in NWC	-205
Net financial charges net of dividends cashed in	46
Taxes	51
other	-40
Net Debt - End of period	529

Source: Deutsche Bank, company data

FY results review

FY results

Figure 6: FY09 consolidated P&L – Euro m

Consolidated	FY 2008A	FY 2009A	FY 2009E	Act/Est %
Sales	4,660	4,462	4,420	1.0%
<i>YoY growth (%)</i>	-10.4%	-4.2%	-5.1%	
EBITDA organic	373	508	500	1.7%
<i>YoY growth (%)</i>	-35.8%	36.4%	26.1%	
EBITDA margin	8.0%	11.4%	11.3%	
EBIT organic	187	297	285	4.0%
<i>YoY growth (%)</i>	-48.9%	58.4%	52.3%	
EBIT margin	4.0%	6.7%	6.5%	
Restructuring costs	144	80	86	-7.4%
EBIT reported	43	217	199	9.0%
income from equity participation (PRE)	- 13	- 57	- 35	61.4%
<i>YoY growth (%)</i>	-107.0%	334.6%	169.2%	
Net financial income/charges	- 61	- 85	- 99	-13.8%
<i>YoY growth (%)</i>	-54.7%	39.5%	116.2%	
Profit pre tax and extraordinary	- 31	75.5	65	15.4%
<i>YoY growth (%)</i>	-107.4%	-343.9%	-519.5%	
Extraordinaries	- 314	-	-	
<i>YoY growth (%)</i>	-1049.8%	-100.0%	-100.0%	
Taxes	- 77	- 97.9	- 98	-0.6%
<i>YoY growth (%)</i>	-42.7%	28.0%	35.7%	
Minorities	- 65	- 46	- 42	8.3%
<i>YoY growth (%)</i>	-140.9%	-30.1%	-35.4%	
Net profit	- 357	23	9	157.8%
<i>YoY growth (%)</i>	-325.4%	-106.5%	-102.6%	

Source: Deutsche Bank, company data

Figure 7: FY09 by division

	FY 2008A	FY 2009A	FY 2009E	Act/Est %
Tyres division				
Sales	4,100	3,993	3,923	1.8%
YoY growth (%)	-1.5%	-2.6%	-4.3%	
EBITDA organic	441	538	512	5.1%
YoY growth (%)	-19.6%	21.9%	16.0%	
EBITDA margin	10.8%	13.5%	13.0%	
EBIT organic	251	346	322	7.4%
YoY growth (%)	-29.9%	37.7%	28.1%	
EBIT margin	6.1%	8.7%	8.2%	
				Act/Est %
Broadband solutions	FY 2008A	FY 2009A	FY 2009E	
Sales	124	132	134	-1.1%
YoY growth (%)	5.9%	6.5%	7.7%	
EBITDA organic	5	5	5	-3.4%
YoY growth (%)		n.m.	n.m.	
EBITDA margin		4.0%	4.1%	
EBIT organic	4	5	5	-0.5%
YoY growth (%)		n.m.	n.m.	
EBIT margin		3.4%	3.4%	
				Act/Est %
Real Estate	FY 2008A	FY 2009A	FY 2009E	
Sales	365	272	270	0.6%
YoY growth (%)	-57.2%	-25.6%	-26.0%	
EBITDA organic	- 18	5	3	92.3%
YoY growth (%)	-128.5%	-71.6%	-85.2%	
EBITDA margin		-1.8%	-1.0%	
EBIT organic	- 27	12	12	3.3%
YoY growth (%)	-153.6%	-54.1%	-55.6%	
EBIT margin		-4.6%	-4.4%	

Source: Deutsche Bank, company data

Valuation and risks

SOTP-based target price remains E0.50

We have been confident for some time that management will address the issue of a holding discount by mid-2010. Thus, instead of applying the 20% holding discount on NAV, we applied it to the stub (left over after spinning off Real Estate and Tyres). For Tyres, we apply the average of 6x 2011E EV/EBITDA and 12x 2011E P/E. BB Solutions and Environment are both valued at 1x 2008E sales.

Figure 8: Pirelli's SOTP

	% owned	Value of Pirelli's stake	
		Euro million	% on Equity
EV Pirelli Tyres (net of brand)	100.0%	2,895	98%
Debt Pirelli Tyres 2010E		1,275	-43%
Equity value Pirelli Tyres		1,619	55%
EV Pirelli Environment	51.0%	30	1%
EV Pirelli Broadband solutions	100.0%	135	5%
Total EV industrial operations ex Tyres		165	6%
Consolidated debt ex Tyres & real estate (2010E)		-499	17%
Equity value industrial operations ex Tyres		664	23%
Equity value industrial operations		2,283	77%
Extraordinary dividend (31st March 2008)		0	0%
Value of listed assets			
GIM	7.04%	0	0%
RCS Mediagroup	5.24%	48	2%
Mediobanca	1.84%	121	4%
Avanex (Nasdaq)	12.40%	34	1%
Pirelli Real Estate	56.45%	216	7%
Telecom Italia	0.29%	42	1%
Treasury stock	0.05%	1	0%
Pirelli Real Estate capital increase		0	
Unlisted assets		149	5%
Pirelli brand value		245	8%
Pensions		67	-2%
Minorities (valued at company's P/BV)		0	0%
Capitalized holding costs (8% cost of capital)		125	-4%
Total Equity value		2,947	100%
N. of ordinary shares f.d. (mil)		5,233	
N. of savings shares (mil)		135	
Total n. of shares (mil)		5,368	
Equity value per ord share (Euro)		0.55	
Equity value per sav share (Euro)		0.62	
<i>Saving shares premium (discount) to ord</i>		<i>13.0%</i>	
Sum of the Parts per ord share (Euro)		0.55	
Sum of the Parts per sav share (Euro)		0.62	
Current price ordinary shares (Euro)		0.43	

Source: Deutsche Bank

Valuation of the Tyres business implied by current market cap: 4x EBITDA

Figure 9: Pirelli – SOTP after the Pirelli Tyres holding spin-off

	Euro m	Euro/share	2010E EV/EBITDA	2010E P/E	2011E EV/EBITDA	2011E P/E
Tyres EV	2,895					
Debt	1,275					
Pirelli Tyres Equity @ t.p.	1,619	0.30	5.4	10.0	5.2	8.9
Pirelli Tyres Equity @ Michelin multiple	2,060	0.38	6.2	12.7	5.9	11.3
Real estate	216	0.04				
Environment	30					
Broadband	135					
Financial stakes	396					
Liabilities (capitalized holding costs)	-192					
Brand	245					
Net cash	499	0.09				
Pirelli stub post real estate spin off	1,112	0.21				
Grand total SOP @ t.p.		0.54				
Grand total SOP @ Michelin multiple		0.63				
Holding discount (20% of the stub)		0.04				
SOP after holding discount		0.50				
"" @ Michelin multiple		0.59				
Target price		0.50				

Source: Deutsche Bank

Figure 10: Tyres – implied valuation

Pirelli's market cap	2,297
Olimpia's value based on TI's market price	0
Value of Pirelli's peripheral assets	246
Pirelli RE - market price	216
Estimated EV of broadband solutions and Environment	165
Debt industrial operations (2010E) ex Tyres	-499
Unlisted assets	149
Pirelli brand value	245
Other Liabilities	192
Extraordinary dividend (March 2008)	0
Implied equity value of the tyres business	969
Debt Pirelli Tyres 2010	1,156
Tyres EV	2,126
Implied 2010E EV/EBITDA tyres - proportional consolidation (x)	4.0

Source: Deutsche Bank

Risks

Downside risks: a longer-than-expected recession hitting Tyres/Real Estate more than accounted for in our model and the effect of raw material price hikes.

Financials

Figure 11: Pirelli & C. consolidated P&L – Euro m

Year end 31 Dec	2004	2005	2006	2007	2008	2009	2010E	2011E
Net sales	3,967	4,546	4,833	5,200	4,660	4,462	4,764	4,897
YoY change (%)	-40.5	14.6	6.3	7.6	-10.4	-4.2	6.8	2.8
Materials and other external costs	2,521	2,945	3,141	3,466	3,231	2,908	3,135	3,181
Added value	1,446	1,601	1,692	1,733	1,428	1,555	1,630	1,716
Personnel costs	968	1,030	1,076	1,153	1,032	1,047	1,085	1,106
Organic EBITDA	477	571	617	581	396	508	545	610
YoY change (%)	-24.0	19.6	8.1	-5.8	-31.8	28.2	7.2	12.0
Depreciation and amortisation	208	216	215	214	209	211	230	225
Provisions	0	0	0	0	0	0	0	0
Organic EBIT	269	355	401	367	187	297	315	385
YoY change (%)	0	32	13	-8.6	-49	59	6	22
Restructuring costs	0	0	0	0	144	80	30	20
Reported EBIT	269	355	401	367	43	217	285	365
Net financial income/charges	-65	-129	-88	-135	-46	-85	-56	-34
Income from Equity participations (PRE & other)	100	251	104	186	-13	-57	30	45
Current pre-tax profit	304	478	417	418	-16	75	259	377
YoY change (%)	265	57	-13	0	-104	n.m.	245	46
Extraordinaries	87	50	-1,508	33	-324	0	0	0
Pre-tax profit	391	527	-1,091	451	-340	75	259	377
Taxes	87	128	128	134	73	98	131	162
Tax rate (%)	22	24	-12	30	n.m.	130	51	43
Minorities	53	72	119	159	-65	-45	26	56
Net Profit	251	327	-1,337	158	-347	23	102	159
YoY change (%)	-738	30	-508	n.m.	-319	n.m.	350	56
Cash flow	513	615	-1,003	531	-204	188	357	440
YoY change (%)	40	20	-263	-153	-138	-192	90	23
Adjusted net profit	183	290	171	135	-8	81	124	174
YoY change (%)	-8,115	58	-41	-21	-106	-1,143	54	40

Profit and loss account (as a % of sales)

Year end 31 Dec	2004	2005	2006	2007	2008	2009	2010E	2011E
Net sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Materials and other external costs	63.6	64.8	65.0	66.7	69.3	65.2	65.8	65.0
Added value	36.4	35.2	35.0	33.3	30.7	34.8	34.2	35.0
Personnel costs	24.4	22.7	22.3	22.2	22.2	23.5	22.8	22.6
Reported EBITDA	12.0	12.6	12.8	11.2	8.5	11.4	11.4	12.5
Depreciation and amortisation	5.3	4.7	4.5	4.1	4.5	4.7	4.8	4.6
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	6.8	7.8	8.3	7.1	4.0	6.7	6.6	7.9
Net financial income/charges	-1.6	-2.8	-1.8	-2.6	-1.0	-1.9	-1.2	-0.7
Others	2.5	5.5	2.2	3.6	-0.3	-1.3	0.6	0.9
Current pre-tax profit	7.7	10.5	8.6	8.0	-0.3	1.7	5.4	7.7
Extraordinaries	2.2	1.1	-31.2	0.6	-7.0	0.0	0.0	0.0
Pre-tax profit	9.9	11.6	-22.6	8.7	-7.3	1.7	5.4	7.7
Taxes	2.2	2.8	2.6	2.6	1.6	2.2	2.7	3.3
Minorities	1.3	1.6	2.5	3.1	-1.4	-1.0	0.5	1.1
Net Profit	6.3	7.2	-27.7	3.0	-7.5	0.5	2.1	3.3

Source: Deutsche Bank, company data

Figure 12: Pirelli consolidated balance sheet – Euro m

Year end 31 Dec	2004	2005	2006	2007	2008	2009	2010E	2011E
Trade accounts receivable	1,504	943	1,000	1,102	1,298	1,155	1,196	1,192
Inventories	1,058	681	716	770	690	661	705	725
Other current assets	347	438	412	443	387	297	317	326
- Trade accounts payable	1,609	1,018	1,102	1,162	1,021	978	1,023	1,030
- Other current liabilities	1,118	1,239	704	711	718	625	631	637
Net working capital	182	-195	321	442	636	509	564	575
Prop. plants equipment	2,081	1,572	1,575	1,647	1,568	1,582	1,660	1,747
Intangibles	513	477	516	616	617	617	617	617
Financial assets	3,679	5,705	4,860	1,630	1,310	1,064	1,076	1,088
Total assets	6,273	7,754	6,951	3,894	3,495	3,263	3,354	3,453
- Allowance for severance indemn.	569	511	416	257	356	344	313	295
- Other long-term liabilities	444	258	359	367	374	381	389	397
Total invested capital	5,441	6,791	6,496	3,712	3,401	3,047	3,216	3,336
Minorities	339	409	807	966	203	330	356	412
Shareholder's equity	3,502	5,205	3,710	3,042	2,166	2,188	2,209	2,290
Equity	3,841	5,614	4,517	4,008	2,368	2,518	2,565	2,701
As a % of total invested capital (%)	71	83	70	108	70	83	80	81
Long term debt	1,933	1,551	1,377	1,405	1,433	1,462	1,491	1,521
Due to banks	804	618	1,582	2,409	1,582	1,582	1,582	1,582
- Cash and cash equivalent	1,136	992	980	4,110	1,982	2,515	2,422	2,468
Net financial debt	1,600	1,177	1,980	-296	1,033	529	651	635
As a % of total invested capital (%)	29	17	30	-8	30	17	20	19

CASH FLOW

Year end 31 Dec	2004	2005	2006	2007	2008	2009	2010E	2011E
EBIT	269	355	401	367	187	297	315	385
Taxes paid	87	128	128	134	73	98	131	162
Depreciation and amortisation	208	216	215	214	209	211	230	225
Cash flow	390	442	489	447	324	410	414	448
Capex	296	234	239	287	297	225	308	311
- Other net investments	0	0	0	215	-110	-226	12	12
- NWC increase	-436	-377	516	121	194	-127	54	11
Free cash flow	530	585	-266	-175	-58	538	39	114
- Dividends	109	132	150	0	920	0	81	79
Issue of shares	1	1,235	27	0	0	0	0	0
Other	-277	-1,266	-415	2,450	-346	-39	-80	-18
Year-end net financial debt	1,600	1,177	1,980	-296	1,028	529	651	635

KEY RATIOS

Net Working Capital/Sales	5%	-4%	7%	8%	14%	11%	12%	12%
Net Capital Employed/Sales	148%	155%	142%	78%	81%	77%	76%	76%
Capex/Sales	7%	5%	5%	6%	6%	5%	6%	6%
ROCE	4%	5%	6%	7%	5%	8%	9%	10%
ROE	7%	8%	-30%	5%	-13%	1%	5%	7%
Net Debt/Equity	-42%	-21%	-44%	7%	-43%	-21%	-25%	-23%

Source: Deutsche Bank, company data

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Pirelli & C	PECI.MI	0.43 (EUR) 10 Mar 10	7,8

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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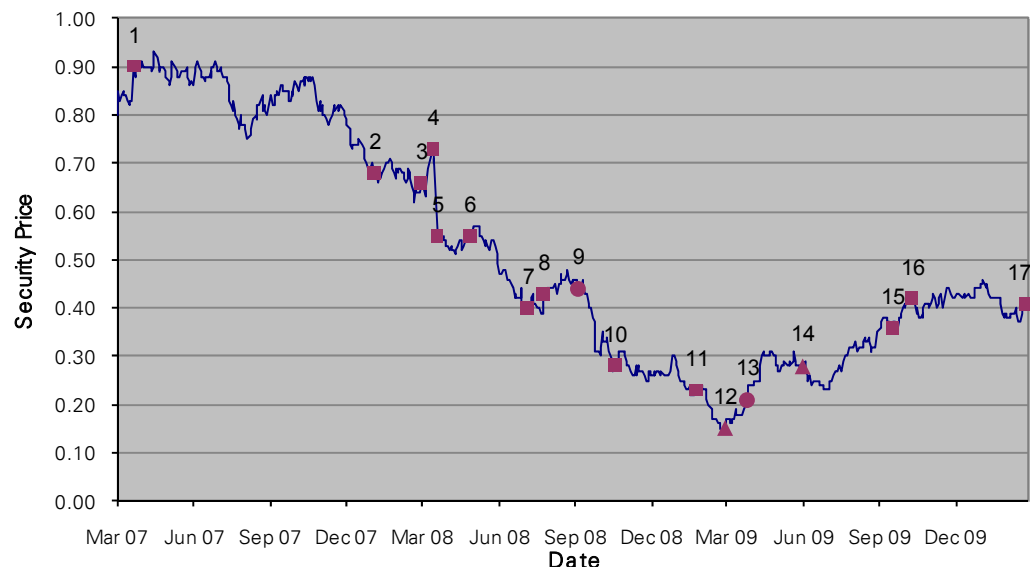
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Historical recommendations and target price: Pirelli & C (PECI.MI)

(as of 3/10/2010)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

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1.	2/4/2007:	Buy, Target Price Change EUR1.00	10.	30/10/2008:	Hold, Target Price Change EUR0.40
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7.	18/7/2008:	Buy, Target Price Change EUR0.56	16.	22/10/2009:	Buy, Target Price Change EUR0.47
8.	6/8/2008:	Buy, Target Price Change EUR0.54	17.	8/3/2010:	Buy, Target Price Change EUR0.50
9.	16/9/2008:	Downgrade to Hold, Target Price Change EUR0.51			

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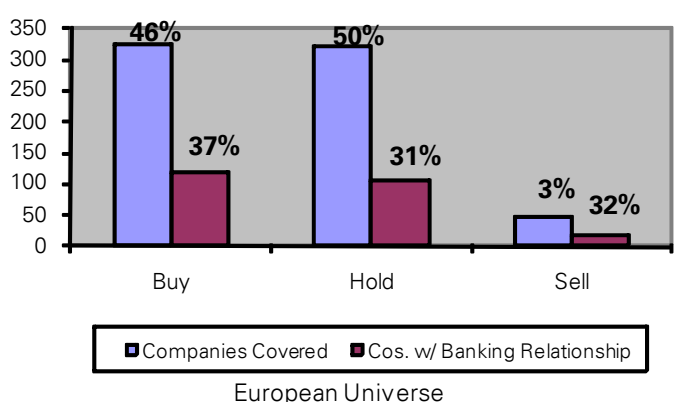
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