

Pirelli Group 1H 2004 Results

PIRELLI

13.09.04

I N V E S T O R S ' DAY

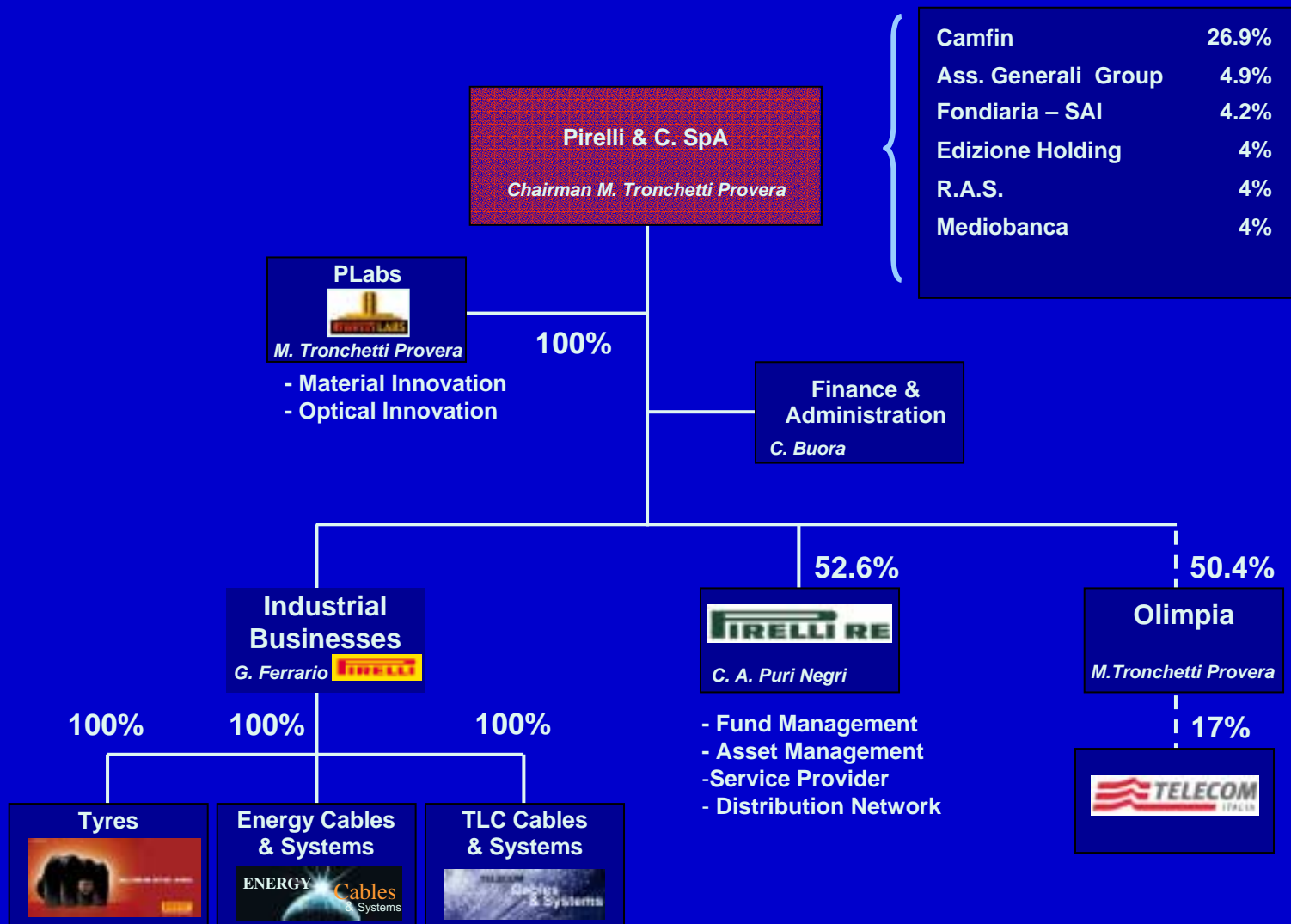
Marco Tronchetti Provera - Chairman
Giovanni Ferrario - Managing Director
Carlo Puri Negri - Chairman Pirelli RE

Conference Call with the Financial Community

1H 2004 GROUP ACHIEVEMENTS

- Group Operating Result +34%
- R&D : 106m€ expenditures (3.2% of industrial sales)
- Energy Cables & Systems: YoY EBIT doubled
- Telecom Cables & Systems: 1H 2004 BBA revenues 28m€ (27m€ FY 03 revenues)
- Tyres: ROS 9.4%
- Positive Result from Olimpia
- Pirelli RE results in line with 3 Year Plan: EBIT including income from equity participations +24%

THE STRUCTURE*



* As of September 9th 2004

1H 2004 RESULTS

	Industrial Businesses		Pirelli Real Estate		Others		Total		
	1H 04	1H 03	1H 04	1H 03	1H 04	1H 03	1H 04	1H 03	Δ
Net Sales	3,299	3,049	291	281	(17)	(32)	3,573	3,298	+ 8.3%
EBITDA	338	287	37	37	(11)	(2)	364	322	
<i>EBITDA margin</i>	10.2%	9.4%	-	-	-	-	10.2%	9.8%	
EBIT	193	135	26	29	(29)	(22)	190	142	+34%
<i>EBIT margin</i>	5.9%	4.4%	-	-	-	-	5.3%	4.3%	
Results from Equity Part.	-	(1)	40	24	(15)	-	25	23	
<i>Olimpia</i>	-	-	-	-	52	(45)	52	(45)	
Op. Result incl. Equity Part.	193	134	66	53	8	(67)	267	120	
Financial Expenses	(40)	(49)	2	0	(17)	(25)	(55)	(74)	
Extraordinary Items	(2)	18	(5)	0	0	(20)	(7)	(2)	
EBT	151	103	63	53	(9)	(112)	205	44	
Income Taxes	(66)	(48)	(13)	(13)	5	(4)	(74)	(65)	
Net Income (loss)	85	55	50	40	(4)	(116)	131	(21)	
Attributable	-	-	-	-	-	-	112	(36)	
NFP							2,047	1,598	

1H 2004 RESULTS

Olimpia Results

1H 2004

Revenues from TI Dividends

182

Financial Expenses

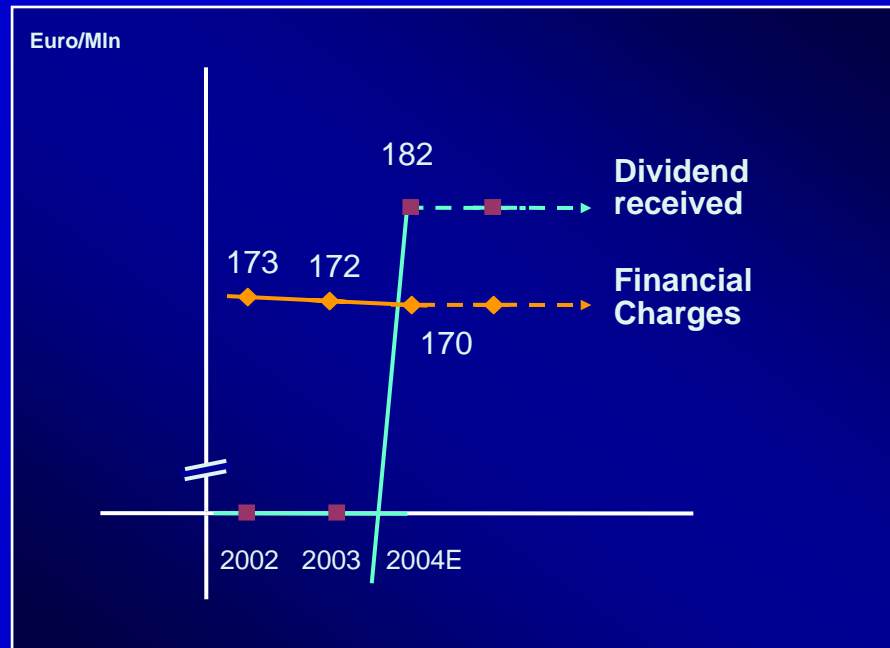
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Net Results

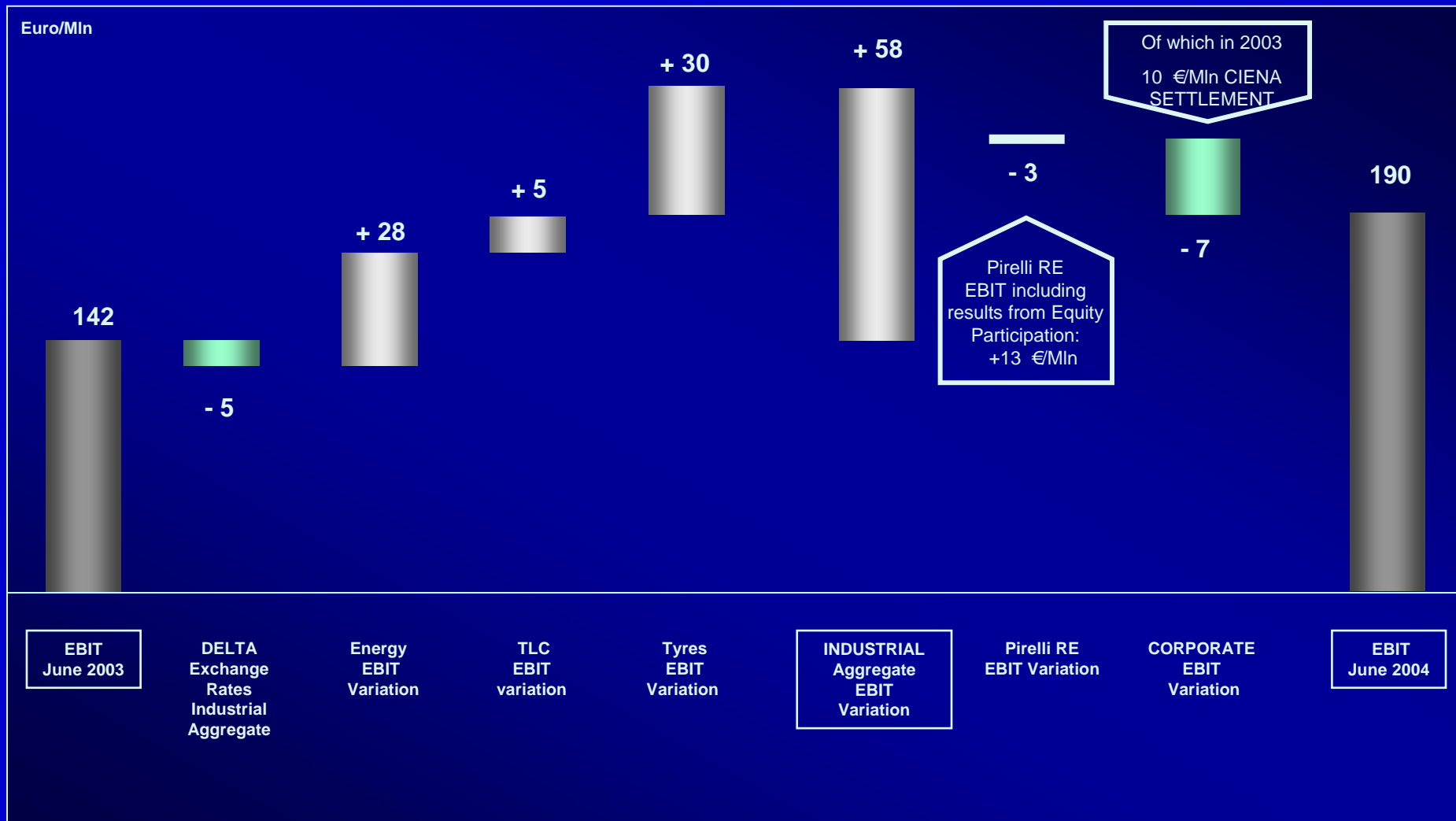
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Euro/Mln

Pirelli Results from Olimpia Equity Participation 52 Euro/Mln in 1H 2004 (-45 Euro/Mln in 1H 2003)

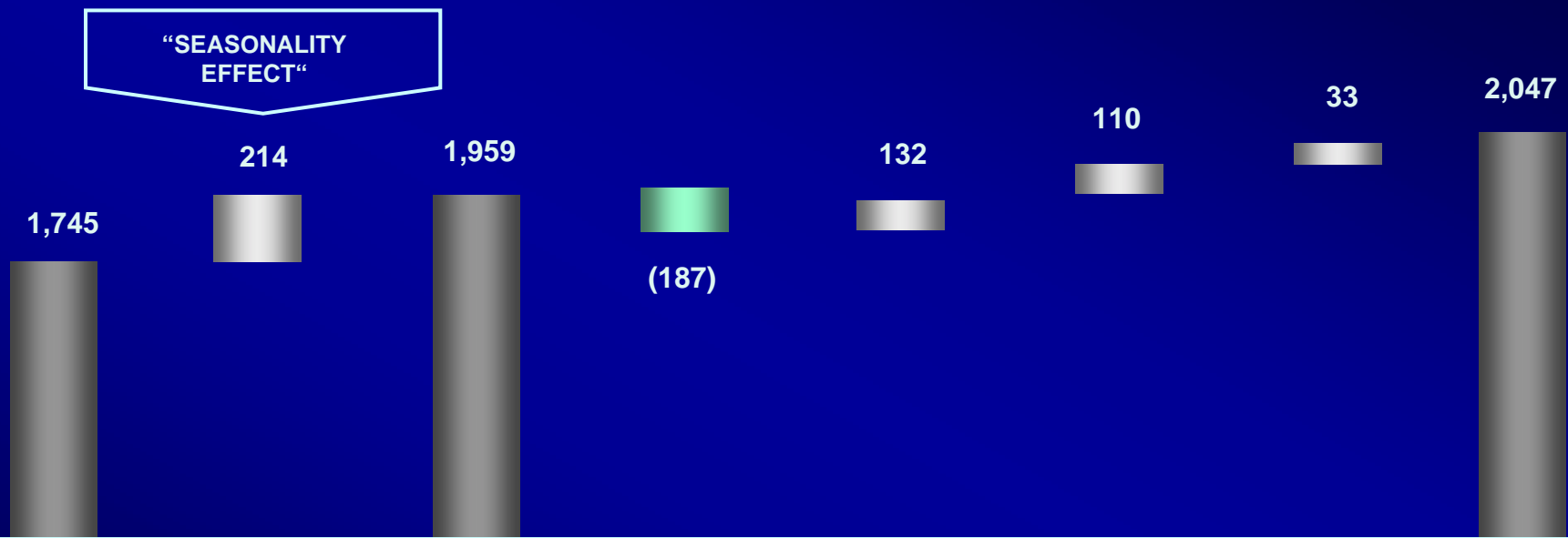


1H 2003 - 1H 2004 GROUP EBIT VARIATION



1H 2003 - 1H 2004: GROUP NFP VARIATION

Euro/Mln



NFP
@
31.12.2003

NET CASH FLOW
from
OPERATING
ACTIVITIES
1st QUARTER

NFP
@
31.03.2004

NET CASH FLOW
from
OPERATING ACTIVITIES
2nd QUARTER

DIVIDENDS

TELECOM
ITALIA
CALL

EUROSTAZIONI

NFP
@
30.06.04

GROUP INDUSTRIAL COMMITMENTS

Industrial businesses

- Growing in high-end segments
- Moving from products to systems
- Developing new markets
- Continuing the global reshaping of business models
- Focus on R&D

Building
international
leadership in
innovative
products and
services

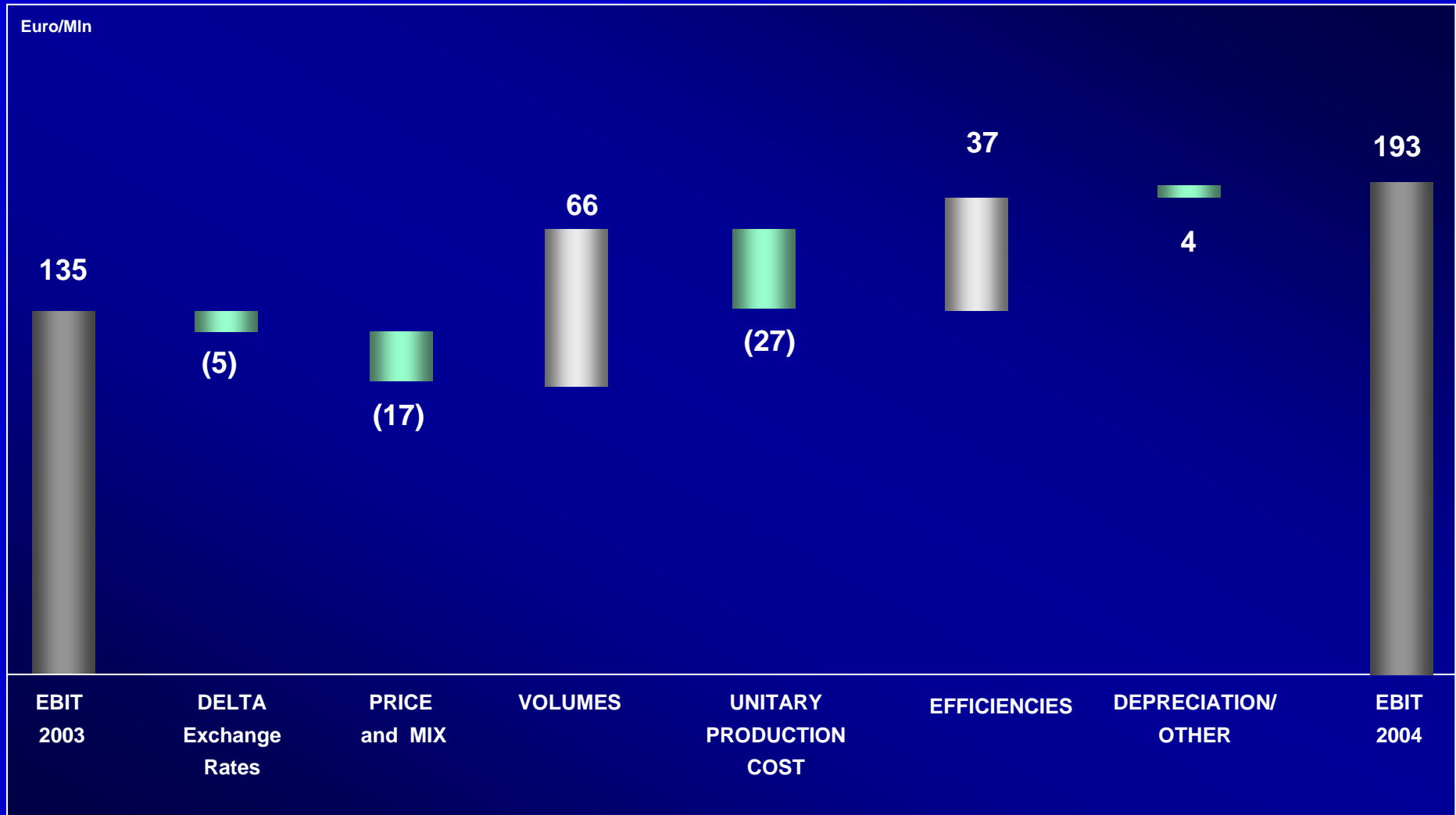
INDUSTRIAL AGGREGATE: 1H 2004 RESULTS

Euro/Mln

	INDUSTRIAL AGGREGATE	
	1H 2004	1H 2003
Sales	3,299	3,049
Δ		8.2%
Organic Sales (*)	3,299	3,152
Δ		4.7%
EBITDA	338	287
EBITDA Margin	10.2%	9.4%
EBIT	193	135
EBIT Margin	5.9%	4.4%
Free Cash Flow	89	75

(*) Exchange Rates/Metal Price

INDUSTRIAL AGGREGATE: 1H 2003 – 1H 2004 EBIT VARIATION





Energy Cables & Systems: 1H 2004 Results

Scenario

- Selected limited growth of market volume
- Price reduction in power distribution businesses
- Strong reduction in European wind farms investments due to change in governmental incentives

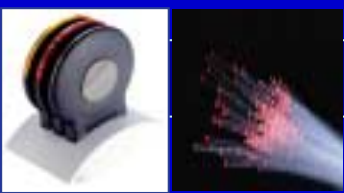
Achievements

- Strong project business with positive outlook for 2H
- Mix efficiencies recovery
- Focus on cash generation, offsetted copper price impact on working capital
- Installed first 100 km of Basslink

€ Mln	H1 2004	H1 2003	Variation
Net Sales	1,448	1,312	+10.4%
EBITDA	94	70	+34%
EBITDA margin	6.5%	5.3%	
EBIT	54	27	100%
EBIT margin	3.7%	2.1%	-

ΔPrice/mix:	-1.3%
ΔVolumes:	+1.4%
Actual Variation:	+0.1%
ΔExch. Rates :	-1.3%
Δ Metal Price:	+ 11.6%
Δ Total:	+10.4%

ΔPrice/mix (except metals):	-3m€
ΔVolumes:	+17m€
Δ Exch. Rates:	-1m€
ΔUnit Cost Production	-6m€
ΔEfficiencies:	+14m€
ΔAmmortization/Other:	+6m€



Telecom Cables & Systems: 1H 2004 Results

Scenario

- Optical cable: positive volume growth in US at the end of 1 Half
- Continuous pressure on prices
- Interesting ADSL copper demand

Achievements

- Secured increased volumes
- Strongly positioned in major bids
- Continuous cost reduction
- Sales increase in BBA products 1H 2004 = full year 2003

€/Mln	H1 2004	H1 2003	Variation
Net Sales	205	228	-10.1%
EBITDA	0	(2)	n.m.
EBITDA margin	n.m.	n.m.	
EBIT	(15)	(21)	n.m.
EBIT margin	n.m.	n.m.	

ΔPrice/mix:	-10.5%
ΔVolumes:	+2.0%
Actual Variation:	-8.5%
ΔExch. Rates :	-1.6%
Δ Total :	-10.1%

ΔPrice/mix (except metals):	-25m€
ΔVolumes:	+7m€
ΔUnit Cost Production	+5m€
ΔEfficiencies:	+13m€
ΔAmmortization/Other:	+6m€



Tyres: 1H 2004 Results

Scenario

- Volume growth in Performance and Industrial segments
- Price/Mix improvements in South and North America as well as in the Industrial segment
- Raw material cost increases higher than planned

Achievements

- Successful product launches: Sottozero, Diablo Strada, Amaranto
- Growing Run Flat OE homologations with Mirs Technology
- Strong sales growth in North America in line with plans

€ Mln	H1 2004	H1 2003	Variation
Net Sales	1,646	1,509	+9,1%
EBITDA	244	219	+11,4%
EBITDA margin	14.8%	14.5%	
EBIT	154	129	+19,4%
EBIT margin	9.4%	8.5%	

ΔPrice/mix:	+1,8%
ΔVolumes:	+9,3%
Actual Variation:	+11,1%
ΔExch. Rates :	- 2,0%
Δ Total sales:	+9,1%

ΔPrice/mix:	+11m€
ΔVolumes:	+42m€
Δ Exch. Rates:	-4m€
ΔUnit Cost Production:	-26m€
ΔEfficiencies:	+10m€
ΔAmmortization/Other:	-8m€

PIRELLI RE – 1H 2004 KEY FINANCIAL DATA

	Actual June 2004	Actual June 2003	YoY Growth %
Aggregate Production Value (net of acquisitions)	910.7	693	31%
Consolidated Production Value	257.8	282.2	
EBIT	26.2	29.5	
Income from Equity Participations	40	23.7	
EBIT incl. Income from Equity Participations	66.2	53.3	24%
Profit before Extraordinary Items	68.5	53.2	
Attributable Net Income	50.5	40.3	25%
NFP	43.6	71.4	
Adjusted NFP	278.5	249.3	
Gearing Financial Position not incl. Shareholders' Loans (NFP adj)	0.66	0.69	

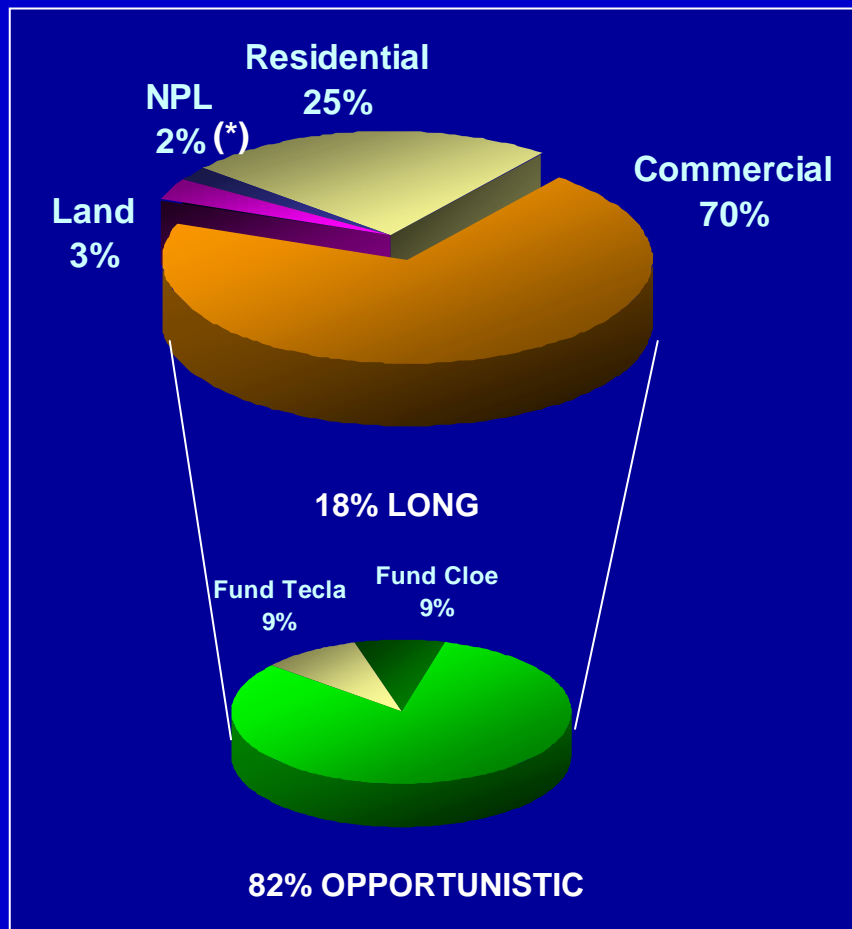
PIRELLI RE: 1H 2004 KEY ACHIEVEMENTS

- **Successful placement of 2 Funds: Tecla Fondo Uffici and Cloe Fondo Uffici for a total market value of Euro1.8bn. Another fund in pipeline before end of 2004.**
- **Signed agreement with Morgan Stanley in the NPLs business. The joint venture will take a leadership position in the Italian market.**
- **Over Euro 500m of acquisitions of real estate assets and another Euro 1bn in pipeline.**
- **On going progress of the distribution network with 390 signed contracts (targets 500 contacts by year end).**

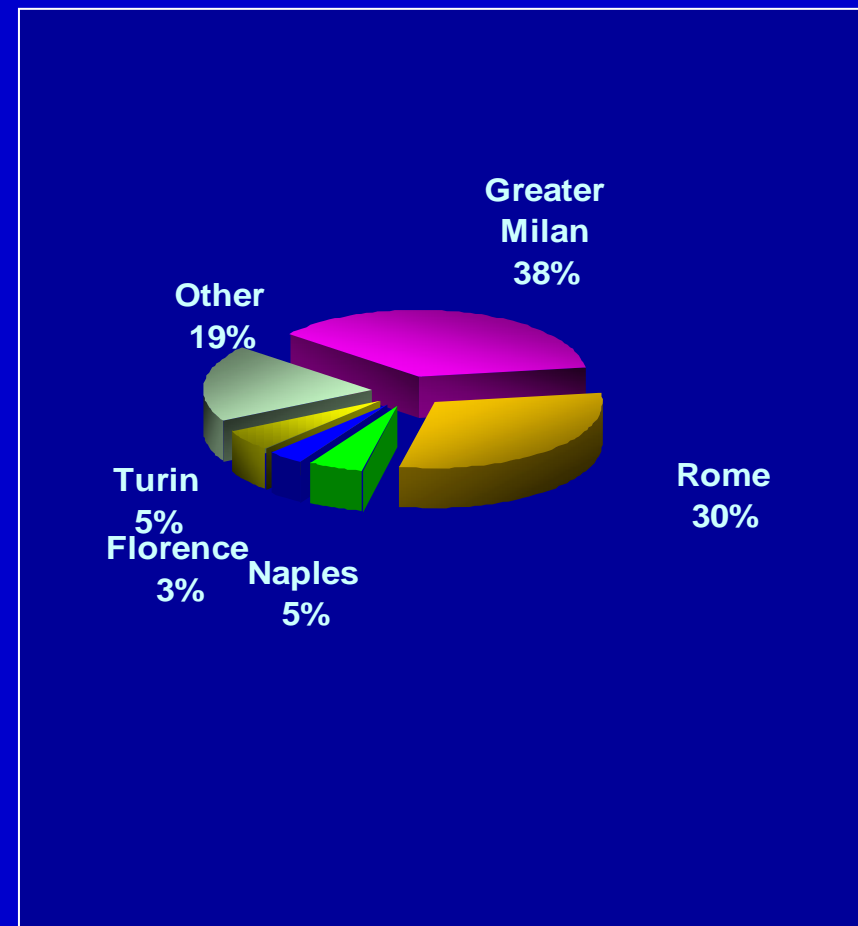
PRE - Asset Allocation as of June 2004

Asset Under Management €10.0 Bn (*)

AUM by Product



AUM by Area



(*) NPL valued at Net Book Value. The deal with Morgan Stanley is not yet included

PIRELLI RE – NET ASSET VALUE

	Book Value Value 100%	Book Value Pro- quota	Market Value 100%	Market Value Pro- quota	NAV June 2003
RESIDENTIAL	1,681.1	619.9	2,432.8	902.3	282.4
COMMERCIAL	5,261.9	958.4	6,967.2	1,311.3	352.9
LAND	270.8	106.2	337.1	123..1	16.8
NPL (GBV)	810.1(*)	311	810.1	311	-
NPL (NBV)	192	71.6	227.6	83.9	12.3
TOT. ASSET UNDER MGT. (GBV)	8,024	1995.6	10,547.3	2,647.8	-
TOT. ASSET UNDER MGT. (NVB)	7,405.9	1,756.2	9,964.8(**)	2,420.7	664,5

Attr. Shareholders' Equity June 2004

417.9

Total NAV Pirelli & C. Real Estate*

1,082.4

(*)Not Including:

- Asset Management fees;

-Fund Management (Pirelli RE SGR) with funds under management, Tecla and Cloe, of Euro 1.8bn (MV)

-Specialized Services: Pirelli RE Agency, Pirelli RE Property Management, Pirelli RE Project Management and Pirelli RE Credit Servicing;

-Pirelli RE Franchising (start up), that distribute real estate products and financial services related to the real estate (390 contracts signed at 06/30/04)

(**) Equal to Euro 9.749 million as of December 2003 on a like for like basis

CLOSING REMARKS



**Pirelli confirms group expectations for 2004:
A considerable improvement of both operating and net results in all
sectors**

