
Pirelli Group
9 Months 2004 Results

PIRELLI

11.11.04

I N V E S T O R S ' DAY

Marco Tronchetti Provera - Chairman

Giovanni Ferrario - Managing Director Industrial Businesses

Carlo Puri Negri - Vice Chairman and Managing Director Pirelli RE

Conference Call with the Financial Community

AGENDA

- **9 MONTHS GROUP RESULTS**
- **OLIMPIA**
- **9 MONTHS INDUSTRIAL RESULTS**
- **9 MONTHS PIRELLI RE RESULTS**

9M 2004 PIRELLI AT A GLANCE ...

- Group Sales: €5.3 bn, (+7.7%) compared with €4.9 bn of first 9M 2003 (+4.0% on a like-for-like basis)
- Group Operating Result: €279 mn (+41.6%), compared with €197 mn in the same period of 2003; ROS from 4.0% to 5.3%
- Industrial Aggregate Operating Result: €289 mn (+48.9%); ROS from 4.3% to 5.8%
- Pirelli RE EBIT including equity participation increased by 23%
- Positive Result from Olimpia: €29 mn
- Strong improvement of Group Net Result: €229 mn from €-33 mn in September 2003
- NFP €1,915 mn (reduced from June '04), on track with 2004 -2006 targets

**...AS A RESULT, PIRELLI CONFIRMS A CONSIDERABLE
IMPROVEMENT OF BOTH OPERATING AND NET RESULT
FOR 2004...**

... AND IS READY FOR FURTHER DEVELOPMENTS OF THE STRATEGIC ROADMAP ANNOUNCED IN 2001

- Energy Cables and Systems & Telecom Cables:
 - Started the project for the business valorization
- Broadband Solutions:
 - Established Pirelli Broadband Solutions SpA
- Tyres:
 - New production sites in growing markets areas with a focus on technology

DEVELOPING THE 2001 STRATEGIC ROADMAP...

Energy Cables & Systems and TLC Cables

- Project of valorization aimed at their further development through the entry of selected institutional investors
- Pirelli is considering to maintain a minority stake in the business
- Current management will grant continuity and value creation
- 2004-2006 Economic and Financial Targets substantially confirmed

... WITH A FOCUS ON TECHNOLOGY AND VALUE ADDED SEGMENTS

DEVELOPING THE 2001 STRATEGIC ROADMAP...

BROADBAND SOLUTIONS

- Established Pirelli Broadband Solutions SpA
- Pushing 2G Photonics start-up (confirmed significant revenues with a positive EBIT in 2006)
- Increasing BBA current customers' revenues and enriching customers' portfolio (confirmed CAGR Revenues around 50% in 2006)

... WITH A FOCUS ON TECHNOLOGY AND VALUE ADDED SEGMENTS

DEVELOPING THE 2001 STRATEGIC ROADMAP...

TYRES

- Signed M.O.U. for a joint venture in China (Henan region) with an increase of 33% of Pirelli world-wide truck tyre production capacity, 50% of the radial truck tyres production
- Planned two new production facilities in China: one for car tyres and a second one for steel-cords
- Deployment of a majority joint-venture for steel-cord production in Slatina and of a new production platform of high-performance car tyres (Romania)
- Increasing car tyre production in Bahia and truck tyres production in Gravatay (Brazil)
- Three new MIRS™ facilities in Germany, USA and UK
- Total investment around € 400 mn, in line with 2004-2006 three year plan

... WITH A FOCUS ON TECHNOLOGY AND VALUE ADDED SEGMENTS

DEVELOPING THE 2001 STRATEGIC ROADMAP...

REAL ESTATE

- Balancing short term opportunities with long- term activities
- Fund Management: expected launch of 3 new funds within 1H 2005 for a total of 6-7 funds by 2006
- Growing in non-performing loans business

PIRELLI AMBIENTE

- Building a fully integrated knowledge centre for the development of advanced environment technologies
- Enhancing IDEA GRANDA project

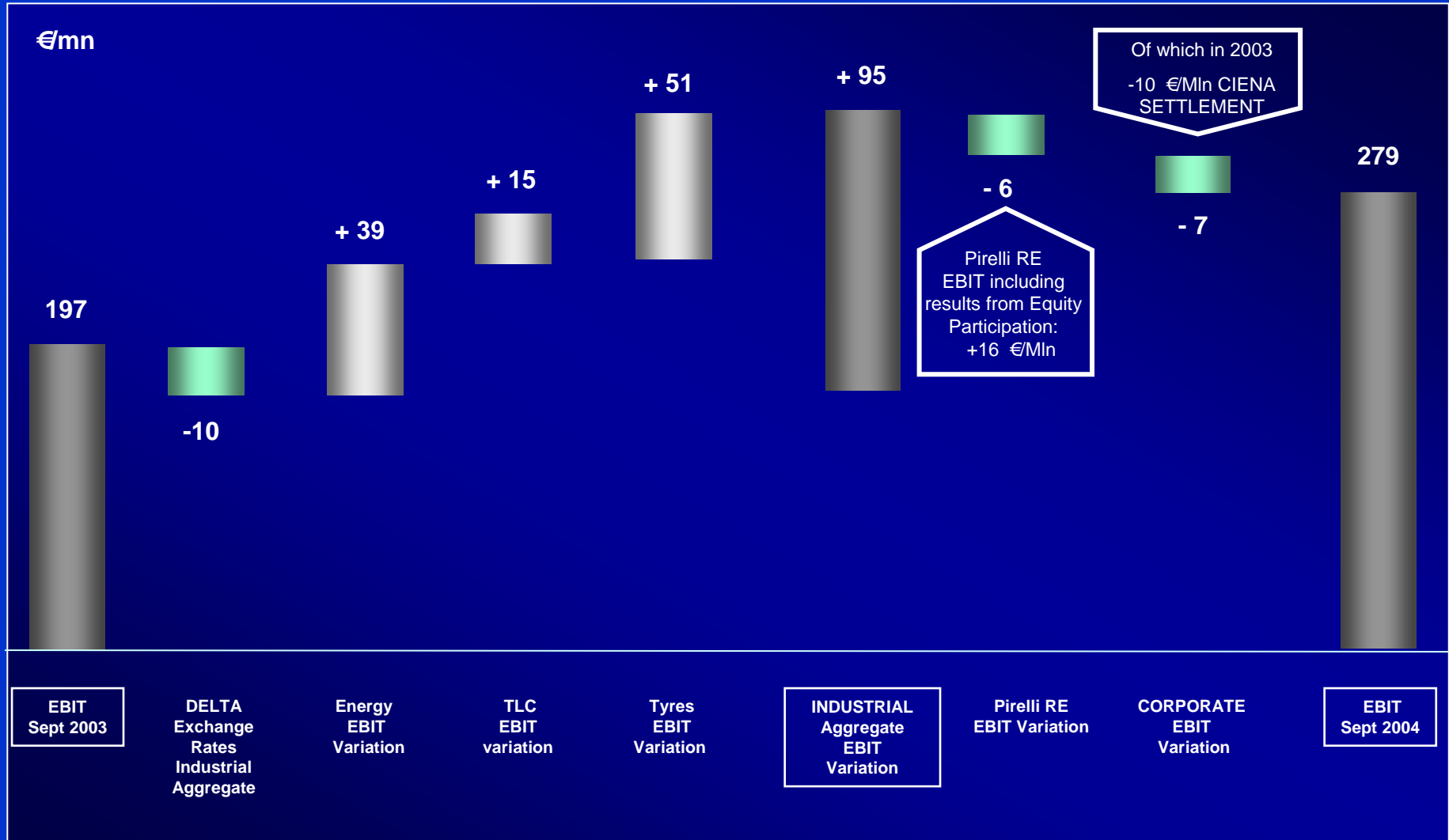
... WITH A FOCUS ON TECHNOLOGY AND VALUE ADDED SEGMENTS

9M 2004 GROUP RESULTS

€mn

	Industrial Businesses		Pirelli Real Estate		Others		Total		
	9M 04	9M 03	9M 04	9M 03	9M 04	9M 03	9M 04	9M 03	Variation %
Net Sales	4,943	4,538	383	413	(21)	(23)	5,305	4,928	+7.7%
EBITDA	502	424	52	54	(16)	(10)	538	468	
EBITDA margin	10.2%	9.3%	-	-	-	-	10.1%	9.5%	
EBIT	289	194	36	42	(46)	(39)	279	197	+41.6%
EBIT margin	5.8%	4.3%	-	-	-	-	5.3%	4.0%	
Results from Equity Part.	(3)	(1)	52	30	(15)	(5)	34	24	
Olimpia	-	-	-	-	29	(65)	29	(65)	
Op. Result incl. Equity Part.	286	193	88	72	(32)	(109)	342	156	
Financial Expenses	(59)	(71)	3	-	(36)	(34)	(92)	(105)	
Extraordinary Items	14	21	(6)	-	69	(20)	77	1	
EBT	241	143	85	72	1	(163)	327	52	
Income Taxes	(88)	(69)	(20)	(20)	10	4	(98)	(85)	
Net Income (loss)	153	74	65	52	11	(159)	229	(33)	
Attributable	-	-	-	-	-	-	201	(53)	
NFP							1,915	1,518	

9M 2003 – 9M 2004: GROUP EBIT VARIATION



AGENDA

- 9 MONTHS GROUP RESULTS

- OLIMPIA

- 9 MONTHS INDUSTRIAL RESULTS

- 9 MONTHS PIRELLI RE RESULTS

FURTHER STRENGTHENING OF FINANCIAL STRUCTURE

- New revolving credit line of € 2.4 bn to re-finance the existing facilities with longer maturity and better conditions
- Expected closing in January 2005
- Maturity date January 2010
- Variable Interest rate: Euribor +100 bp (reduced from the previous 125 bp)
- Pledge over a certain number of TI shares (lower than the current number of shares under pledge for the € 1.8 bn syndacated facility)

AGENDA

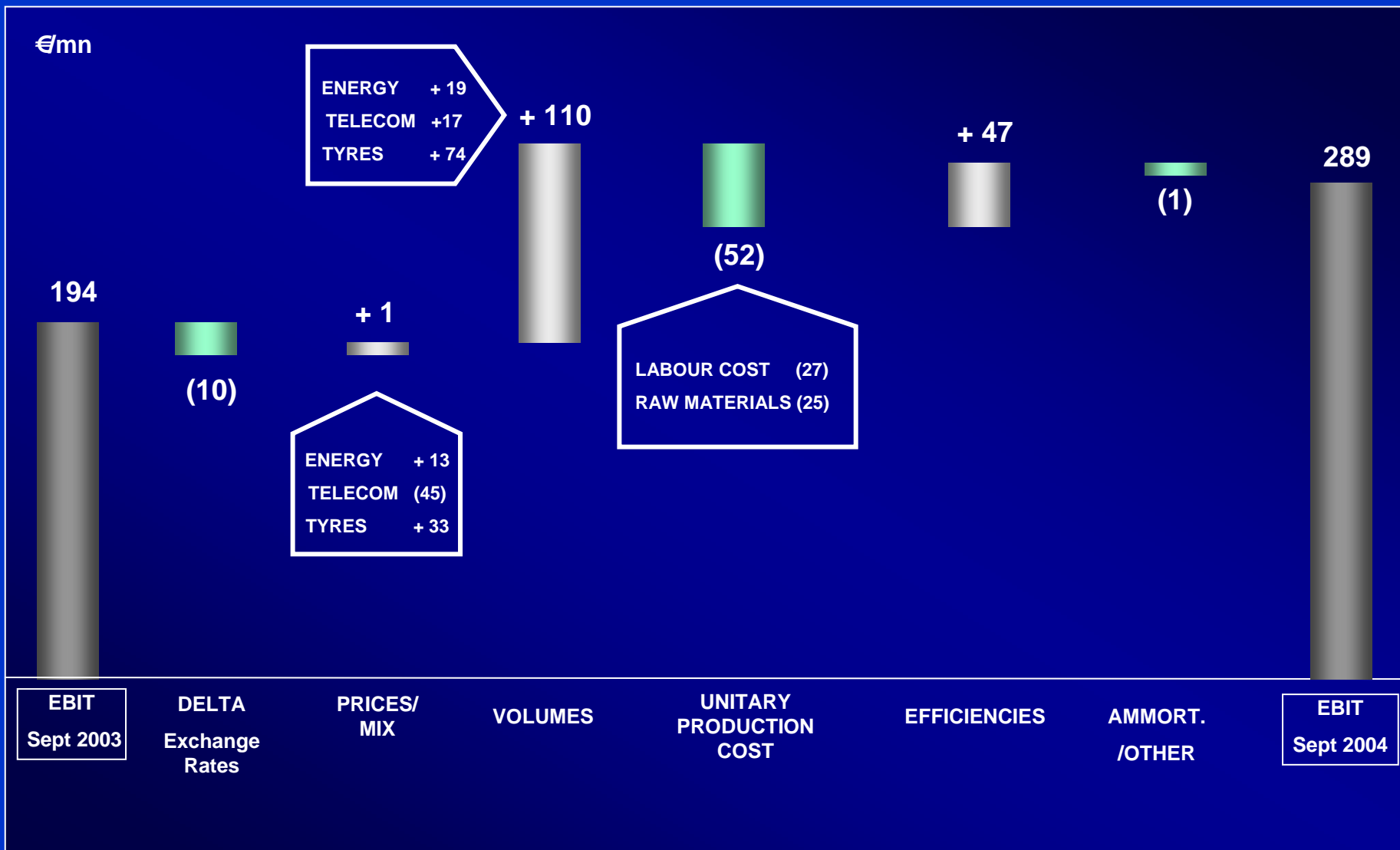
- 9 MONTHS GROUP RESULTS
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9M 2004 INDUSTRIAL AGGREGATE RESULTS

€mn	INDUSTRIAL AGGREGATE		
	9M 2004	9M 2003	Variation %
Sales	4,943	4,538	+8.9%
Organic Sales (*)	4,943	4,709	+5.0%
EBITDA	502	424	+18.4%
EBITDA Margin	10.2%	9.3%	
EBIT	289	194	+48.9%
EBIT Margin	5.8%	4.3%	
Net Result	153	74	

(*) Exchange Rates/Metal Price

9M 2003 – 9M 2004: INDUSTRIAL AGGREGATE EBIT VARIATION



ENERGY C&S: 9M 2004 RESULTS

€/mn	9M 2004	9M 2003	Variation
Net Sales	2,187	1,966	+11.2%
EBITDA	148	116	+27%
EBITDA margin	6.8%	5.9%	
EBIT	88	51	+73%
EBIT margin	4.0%	2.6%	

ΔPrice/mix:	-1.5%
ΔVolumes:	+1.7%
ΔActual Variation:	+0.2%
ΔExch. Rates:	-1.1%
ΔMetal Price:	+12.1%
ΔTotal:	+11.2%

ΔPrice/mix (except metals):	€+13mn
ΔVolumes:	€+19mn
ΔExch. Rates:	€-2mn
ΔUnit Cost Production	€-7mn
ΔEfficiencies:	€+17mn
ΔAmmortization/Other:	€-3mn

- Slow growth of market volume in the utility market
- Improvement of EBIT by 73% (ROS from 2.6% to 4.0% notwithstanding metal value increase)
- Selling price increase to recover higher cost of materials becomes effective in Q3
- Order portfolio industrial/OEM at historical high

TELECOM C&S: 9M 2004 RESULTS

€/mn	9M 2004	9M 2003	Variation
Net Sales	308	322	-4.3%
EBITDA	3	(3)	n.m.
EBITDA margin	1%	n.m.	
EBIT	(16)	(31)	n.m.
EBIT margin	n.m.	n.m.	

ΔPrice/mix:	-18.2%
ΔVolumes:	+14.2%
ΔActual Variation:	-4.0%
ΔMetal Price	+2.3%
ΔExch. Rates :	-2.6%
ΔTotal :	-4.3%

ΔPrice/mix (except metals):	€ -45mn
ΔVolumes:	€+17mn
ΔUnit Cost Production:	€+7mn
ΔEfficiencies:	€+17mn
ΔAmmort./Other:	€+19mn

- Volume growth mainly generated by higher demand of optical cables in North America
- Optical cable prices still under pressure mainly because of the offer/demand ratio not yet stabilized
- Copper cable demand lively and mainly supported by ADSL cables demand
- Excellent performance of BBA Solutions with continuous sales growth (€39 mn vs €20 mn 9M 2003)

TYRES: 9M 2004 RESULTS

€/mn	9M 2004	9M 2003	Variation													
Net Sales	2,448	2,250	+8.8%	<table border="1"> <tr> <td>ΔPrice/mix:</td> <td>+2.6%</td> </tr> <tr> <td>ΔVolumes:</td> <td>+8.4%</td> </tr> <tr> <td>ΔActual Variation:</td> <td>+11.0%</td> </tr> <tr> <td>ΔExch. Rates :</td> <td>-2.2%</td> </tr> <tr> <td>ΔTotal sales:</td> <td>+8.8%</td> </tr> </table>	ΔPrice/mix:	+2.6%	ΔVolumes:	+8.4%	ΔActual Variation:	+11.0%	ΔExch. Rates :	-2.2%	ΔTotal sales:	+8.8%		
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EBITDA	351	311	+13%													
EBITDA margin	14.3%	13.2%		<table border="1"> <tr> <td>ΔPrice/mix:</td> <td>€+33mn</td> </tr> <tr> <td>ΔVolumes:</td> <td>€+74mn</td> </tr> <tr> <td>ΔExch. Rates:</td> <td>€-8mn</td> </tr> <tr> <td>ΔUnit Cost Production:</td> <td>€-2mn</td> </tr> <tr> <td>ΔEfficiencies:</td> <td>€+13mn</td> </tr> <tr> <td>ΔAmmort./Other:</td> <td>€-7mn</td> </tr> </table>	ΔPrice/mix:	€+33mn	ΔVolumes:	€+74mn	ΔExch. Rates:	€-8mn	ΔUnit Cost Production:	€-2mn	ΔEfficiencies:	€+13mn	ΔAmmort./Other:	€-7mn
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EBIT	217	174	+25%													
EBIT margin	8.9%	7.7%														

- Strong winter segment sell in
- New products' introduction, positively impacting price-mix
- North and South America positive trends continue
- Raw material and energy costs still increasing, but more than offset by volumes, price-mix and efficiencies

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PIRELLI RE: 9M 2004 KEY FINANCIAL DATA

€/mn	Actual Sept 2004	Actual Sept 2003	Variation %
Aggregate Production Value (net of acquisitions)	1229	982	25%
Consolidated Production Value	354	389	
EBIT	36	42	
Income from Equity Participations	52	30	
EBIT incl. Income from Equity Participations	88	72	23%
Profit before Extraordinary Items	91	72	
Attributable Net Income	66	52	26%
NFP	41	49	
Adjusted NFP	295	249	
Gearing Financial Position not incl. Shareholders' Loans (NFP adj)	0.65	0.67	

PIRELLI RE: 9M KEY ACHIEVEMENTS

- EBIT including income from equity participations grew to € 88 mn (+23% YoY)
- Over € 710 mn of acquisitions of real estate assets
- In the Fund Management business we have placed funds (Tecla and Cloe) for a market value of € 1.8 bn. At the beginning of September Pirelli RE SGR has been appointed as a co-manager of the Treasury Real Estate Fund worth approximately € 3.5-4 bn (market value)
- Service Provider posted value of production of € 247.5 mn (+16% YoY) , EBIT grew by 26% to € 36.8 mn with a ROS of 15%
- Distribution Network: as of September, 449 contracts were signed (target of 500 contracts by year end).