



FY 2004 Group Results  
22 March 2005

# 2004 PIRELLI ACHIEVEMENTS

## Main Actions

## Results

### Group

- **Pirelli & C. and Olimpia Capital Increases proposal**
- **New By-laws with the introduction of slate vote and one fifth of the members appointed by minorities**

- **Pirelli capital increase fully subscribed: 1,062 mn Euros**
- **Olimpia will maintain approximately 18% stake on TI/TIM group after the merger**
- **Net debt at 1,469 mn Euros**
- **Immediate application of the slate vote so that minorities will be able to appoint directors**

### Industrial Aggregate

- **Release of the Three Year Plan targets:**
  - **Sales CAGR:+3/4%**
  - **EBIT CAGR:+23%**
- **Focus on technology and value added segments**

- **2004 Results up-beating Three Year Plan:**
  - **Sales: +5.1% (organic)**
  - **EBIT:+43.9%**
- **Started project of valorization of the Energy and Telecom Cables**
- **Established Pirelli Broadband Solutions**
- **Creation of a nucleus dedicated to Environmental technologies in Pirelli Ambiente**
- **Tyre sector ahead of targets thanks to focus on premium products and accelerated growth on profitable segments and markets**

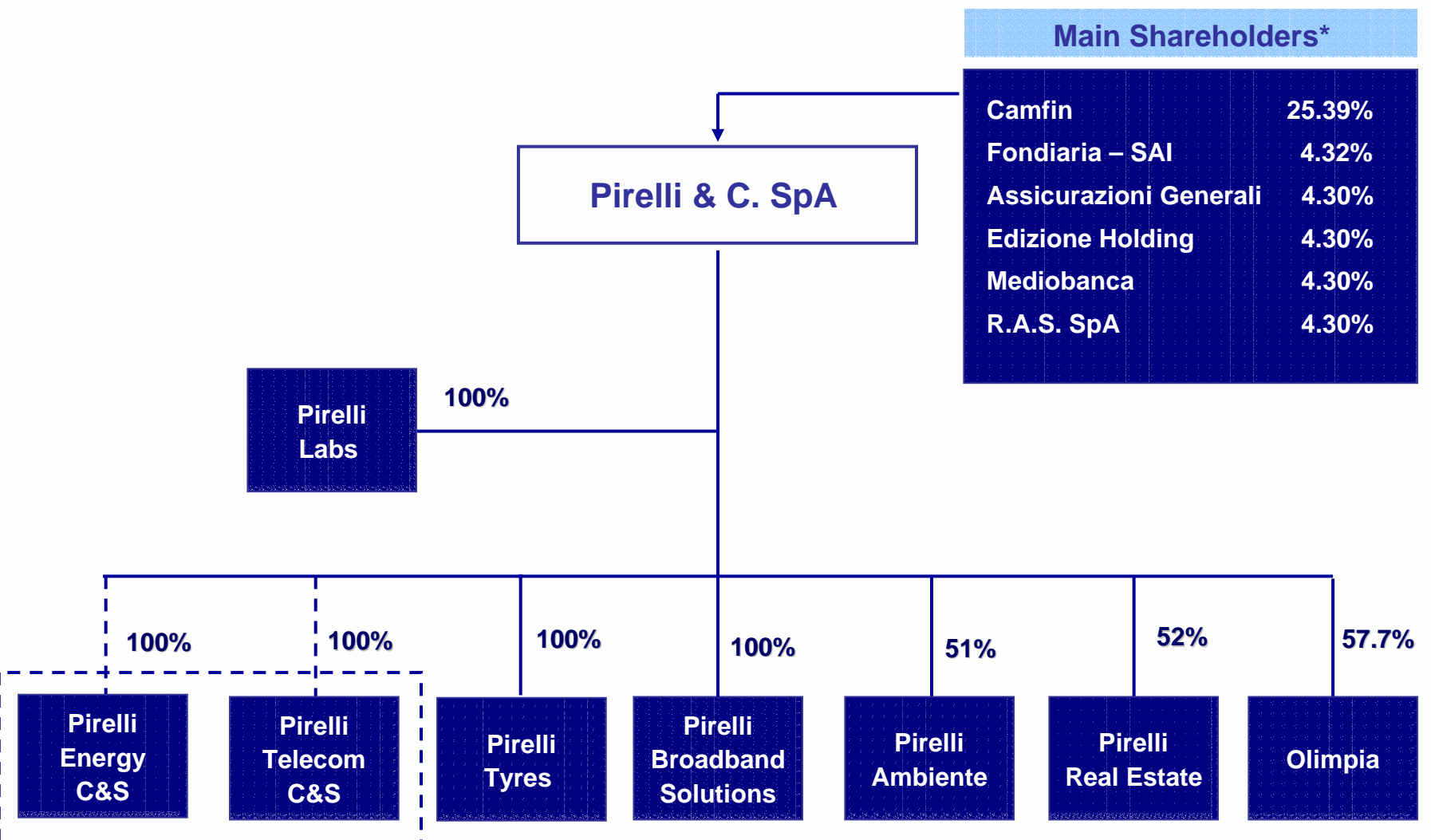
### Pirelli RE

- **Confirmed growth trend of operating and net profit results. Successful development of the new businesses such as**
  - **Funds**
  - **NPLs**
  - **Distribution network**

- **Placement of four specialized seeded funds and co-management of a part of FIP (Treasury fund)**
- **Acquisition of a portfolio of around Euro 1bn (NBV)**
- **Reached 525 contract signed**

- Resignation of the entire Board of Directors before the expiration term (scheduled in April 2006)
- Immediate application of the list voting for the appointment of a new Board, in the next General Shareholders' Meeting (April 27, 28 2005)
- Minorities will be able to appoint **one fifth** of the members of the Board

# PIRELLI GROUP STRUCTURE



\* As of 18 March 2005 – An overall 46.68% of share capital is regrouped in a Syndacate Pact

- Selected a short list of private equity funds
- Final binding offers by the end of April
- Closing date envisaged to happen 45/60 days after the signature of the purchase agreement, upon the approval of the anti-trust authorities

## PIRELLI & C. and OLIMPIA CAPITAL INCREASES RESULTS

- Pirelli & C. capital increase overall amount: **1,062 million Euros**
- Offered in option **1,517,672,178** Pirelli & C. ordinary shares
- **Shares fully subscribed**

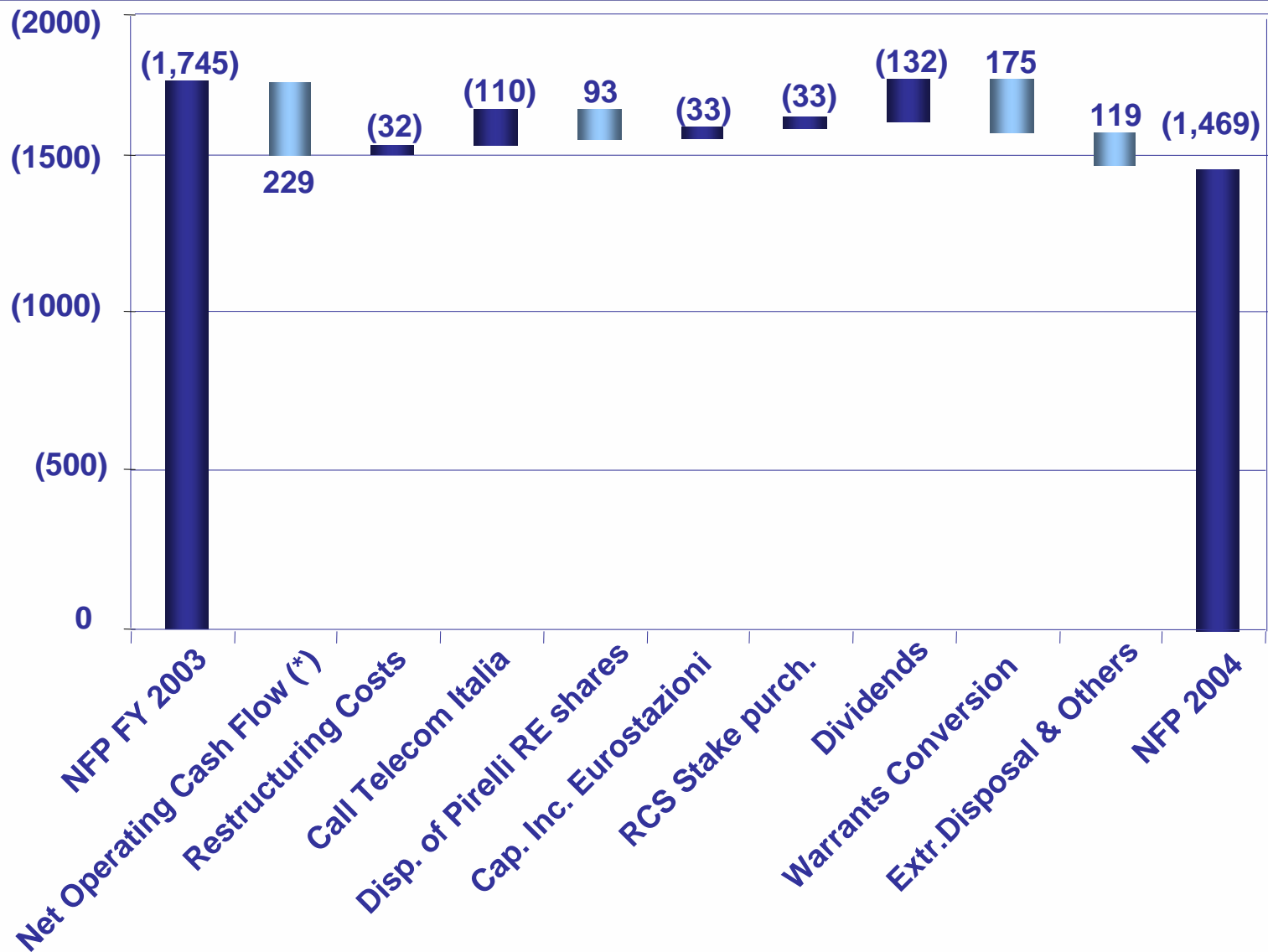
- Olimpia capital increase overall amount: **2 billion Euros**
- **Shares fully subscribed**
- Proceeds used for the purchasing of **655,579,536 TI ordinary shares** at an average price of **3.05 Euros**
- The average price of TI shares owned by Olimpia (**2,407,345,359 TI shares**) has been reduced to approximately **4.6 Euros**
- Olimpia holds **21.8 % of TI ordinary share capital** and, after the TI-TIM merger, the direct stake will remain approximately **18%\***
- In transparency, TI book-value in Pirelli is around **4.0 Euros** per share

\* Considering the current TI ord. shares outstanding and the maximum amount issuable for TIM shares swap

# 2004 GROUP RESULTS

€mn	Industrial Aggregate		Pirelli RE		Others		Total		
	2004	2003	2004	2003	2004	2003	2004	2003	Var. %
Net Sales (as reported)	6,573	6,034	570	645	(29)	(8)	7,114	6,671	6.6%
Net Sales (organic)	6,573	6,255	570	645	(29)	(8)	7,114	6,892	3.2%
EBITDA	662	567	83	79	(21)	(18)	725	628	
EBITDA margin	10.1%	9.4%					10.2%	9.4%	
EBIT	380	264	61	61	(61)	(57)	380	268	41.8%
EBIT margin	5.8%	4.4%					5.3%	4.0%	
Results from Equity Part. Olimpia	(5)	(2)	97	67	(21)	(16)	71	49	
					5	(100)	5	(100)	
EBIT incl. Result from Equity Participations	375	262	158	128	(77)	(173)	456	217	
Net Income (loss) Attributable	229	112	128	102	(83)	(210)	274	4	
							217	(39)	
NFP	699	973	35	9	735	763	1,469	1,745	-15.9%

## 2004 GROUP NET FINANCIAL POSITION



\* Net Operating Cash Flow: Net Cash Flow generated by ordinary activities, including interests and taxes

## 2004 OLIMPIA MAIN FIGURES

€mn

Assets	2004	2003
TI Shares & Bonds	9,135	9,135
20% Holinvest	311	311
Other	145	156
<b>Total</b>	<b>9,591</b>	<b>9,602</b>
Liabilities	2004	2003
Equity	6,340	6,324
NFP	3,251	3,278
<b>Total</b>	<b>9,591</b>	<b>9,602</b>
P&L	2004	2003
Net Result	16	(330)

- Olimpia posted 16 mn Euros of Net Result in 2004 (following dividends received)
- New revolving credit line of 2.4 bn Euros to re-finance the existing facilities with longer maturity and better conditions
- Maturity date on January 2010 and variable interest rate: Euribor +100bp (reduced from the previous 125 bp)
- Pledge over 920 mn of TI shares (lower than the previous number of shares under pledge for the 1.8 bn Euros syndacated facility)

**Pirelli & C. S.p.A. Net Profit**

**150 m €**

**Dividend Proposed**

**Ordinary Shares**

**0.0210 €**

**Savings Shares**

**0.0314 €**

- **Pirelli confirms its policy of dividend distribution with 113 mn Euros (109 mn Euros in 2003)**

## 2004 INDUSTRIAL AGGREGATE RESULTS

€mn	INDUSTRIAL AGGREGATE		
	2004	2003	Variation%
Net Sales (as reported)	6,573	6,034	+8.9%
Net Sales (organic)	6,573	6,255	+5.1%
EBITDA	662	567	+16.8%
<i>EBITDA margin</i>	10.1%	9.4%	
EBIT	380	264	+43.9%
<i>EBIT margin</i>	5.8%	4.4%	
Net Result	229	112	
Operating Free Cash Flow	508	538	

# PIRELLI COST CONTROL AND PROFITABILITY PATH

	Efficiencies (€mn)	B.E.P.	Operating F.C.F (€mn)	ROI %		Sales per Employee (€000)	
	2002-2004*	Δ %Vs 2001	2002-2004*	2002	2004	2004	Δ % vs 2002
Energy	229	-25%	569	4.3%	12.9%	268	+21.3%
Telecom	148	-40%	29	-11.1%	-5.1%	205	+56.5%
Tyre	65	20%	912	10.5%	17.9%	154	+9.2%
Industrial Aggregate	442	-11%	1510	3.9%	13.7%	193	+14.2%

\*Cumulative figures

# 2004 ENERGY SECTOR RESULTS

€mn

	2004	2003	Variation
Net Sales	2,888	2,637	+9.5%
EBITDA	199	169	18%
EBITDA margin	6.9%	6.4%	
EBIT	119	83	+43%
EBIT margin	4.1%	3.1%	

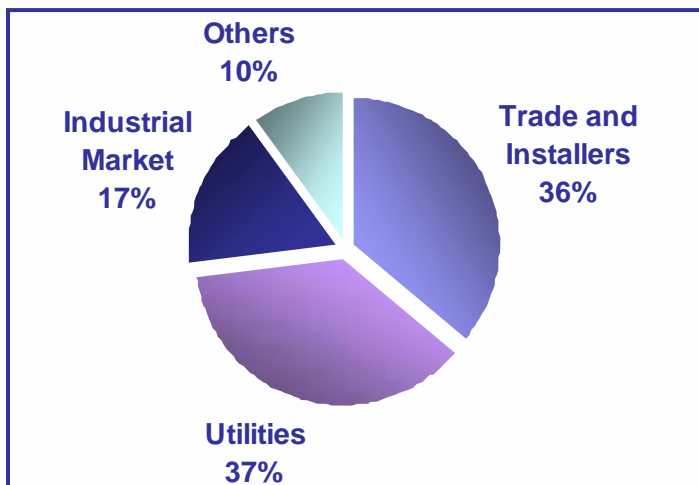
ΔPrice/mix:	-0.1%
ΔVolumes:	-0.5%
<b>ΔActual Variation:</b>	<b>-0.6%</b>
ΔExch. Rates:	-1.2%
ΔMetal Price:	+11.8%
ΔPerimeter (Brazil):	-0.5%
<b>ΔTotal:</b>	<b>+9.5%</b>

Δ Commercial Variations:	€29mn
ΔEfficiencies:	€24mn
ΔUnit Costs/Other:	€-17mn
<b>ΔTotal:</b>	<b>€36mn</b>

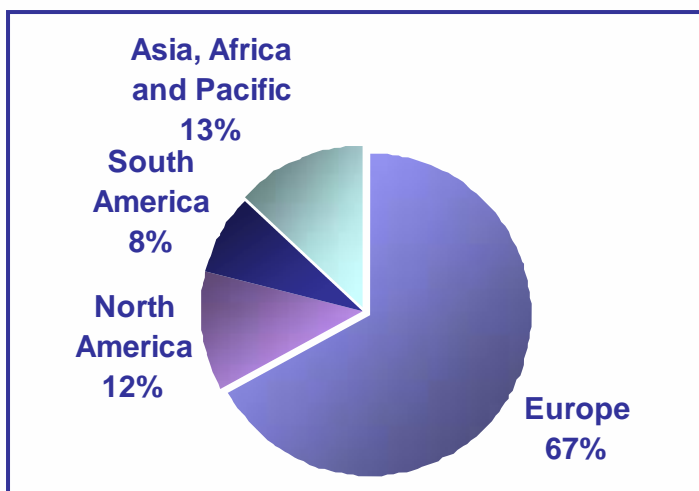
- Strong profitability increase, led by a strategy of product mix improvement and customer channel selection, as opposed to a strategy based on volume growth
- Strong improvement of Net Financial Position (from 354 mn Euros in 2003 to 183 mn Euros in 2004), thanks to Profitability increase and Working Capital management that offset copper price increase
- Carrying out important projects such as Bass Link (173 mn Euros), Spain-Marocco (60mn Euros) and signed a 50 mn Euros contract in Singapore

# 2004 ENERGY SECTOR SALES AND MARKET OUTLOOK

## Sales Breakdown by BU – FY 2004



## Sales Geo. Breakdown – FY 2004



## Market Outlook 2005

- **Pirelli awarded a further 25 mn Euros contract for high voltage energy cables and systems in Singapore by power utility SP PowerAssets Ltd.**
- **Pirelli awarded a 21 mn Euros contract Terna to provide high-voltage cable to develop the “Turbigo-Rho” interconnection**
- **Wide portfolio of projects in the specialty segment**
- **Continuing product-mix and customer-channel selection strategies in a stable copper price environment**

# 2004 TELECOM SECTOR RESULTS

€mn

	2004	2003	Variation
Net Sales	430	427	+0.7%
EBITDA	9	(1)	n.m.
EBITDA margin	2.1%	n.m.	
EBIT	(15)	(39)	n.m.
EBIT margin	n.m.	n.m.	

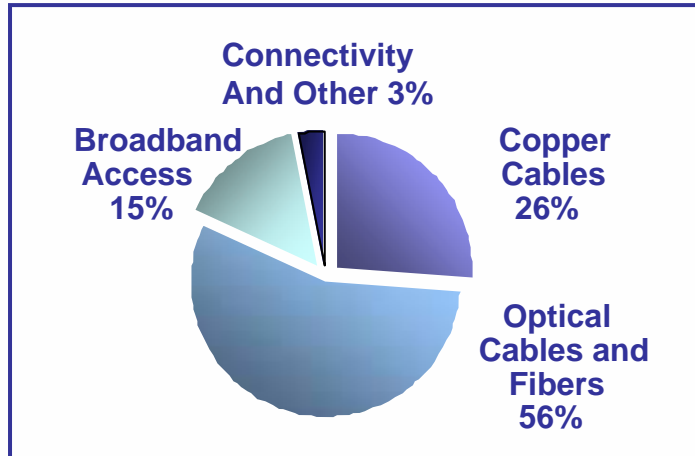
ΔPrice/mix:	-16.7%
ΔVolumes:	+16.4%
<b>ΔActual Variation:</b>	<b>-0.3%</b>
ΔExch. Rates:	-1.6%
ΔMetal Price:	+2.6%
<b>ΔTotal:</b>	<b>+0.7%</b>

Δ Commercial Variations:	€-34mn
ΔEfficiencies:	€26mn
ΔUnit Costs/Other:	€32mn
<b>ΔTotal:</b>	<b>€24mn</b>

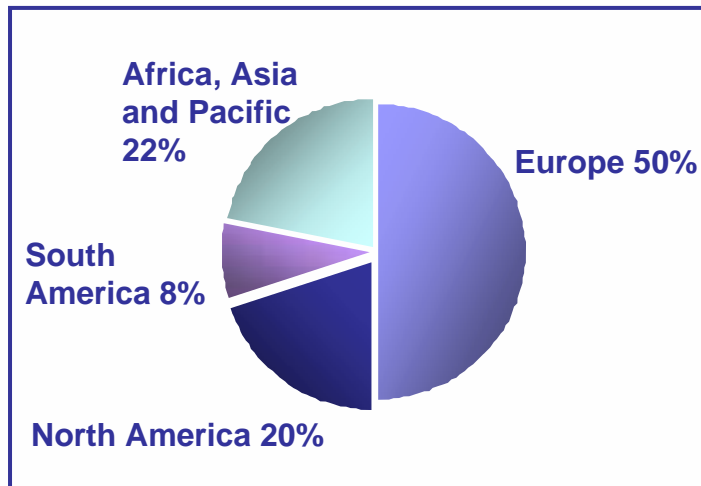
- EBIT of Cables and Fibers business unit at break-even
- Broadband Solutions sales over 60 mn €(+133% growth from 2003)

# 2004 TELECOM SECTOR SALES AND MARKET OUTLOOK

## Sales Breakdown by BU – FY 2004



## Sales Geo. Breakdown – FY 2004



## Market Outlook 2005

### Optical Cables:

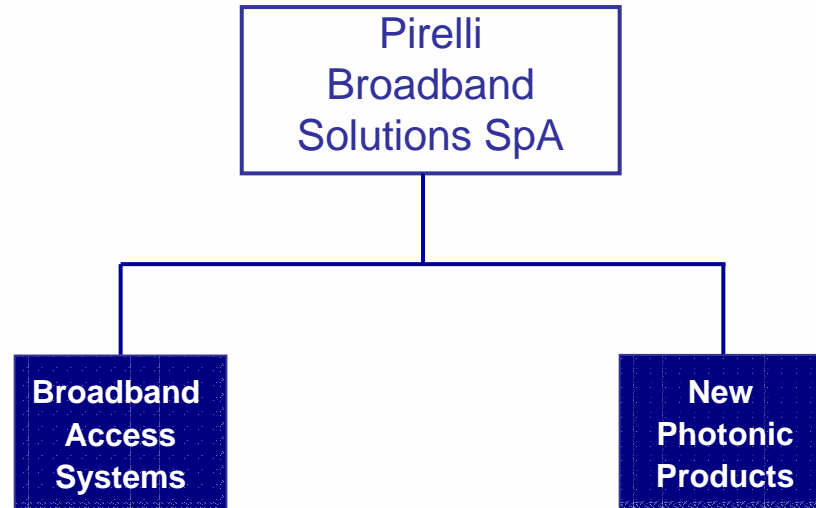
- Volume growth mainly due to Verizon expansion strategy
- Slight decrease in price pressure

### Copper Cables:

- ADSL growth
- Market stability

### Broadband Solutions:

- Confirmed CAGR Revenues around 67% in 2005



## **Broadband Access Systems:**

- **Deployment of new products (STB, ADSL 2+)**
- **New PMP technology (Pirelli Management Platform)**
- **Focus on new customers**

## **New Photonic Products:**

- **Start-up of production in Arnad**
- **Technical deployment of new products DTL and MAS**

# 2004 TYRES SECTOR RESULTS

€mn

	2004	2003	Variation
Net Sales	3,255	2,970	+9.6%
EBITDA	454	399	+14%
EBITDA margin	13.9%	13.4%	
EBIT	276	220	+25%
EBIT margin	8.5%	7.4%	

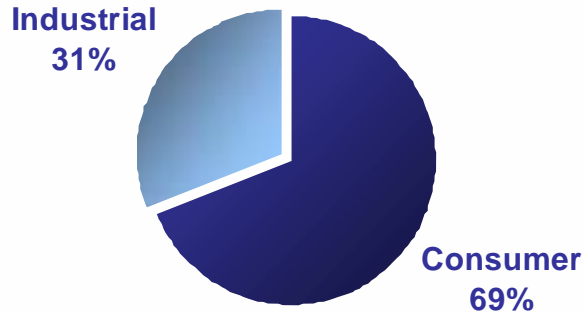
ΔPrice/mix:	+3.4%
ΔVolumes:	+8.1%
<b>ΔActual Variation:</b>	<b>+11.5%</b>
ΔExch. Rates:	-1.9%
<b>ΔTotal:</b>	<b>+9.6%</b>

Δ Commercial Variations:	€146mn
ΔEfficiencies:	€21mn
ΔUnit Costs/Other:	€111mn
<b>ΔTotal:</b>	<b>€66mn</b>

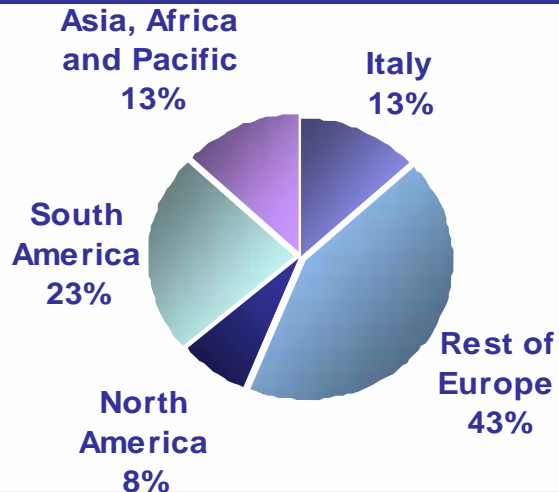
- Market share gains in most markets thanks to new premium products
- North and South America accelerated growth continue
- Raw material and energy costs offset by price-mix and efficiencies

# 2004 TYRES SECTOR SALES AND MARKET OUTLOOK

## Sales Breakdown by BU – FY 2004



## Sales Geo. Breakdown – FY 2004



## Market Outlook 2005

- Further growth coming from increasing market demand of premium products
- Further growth coming from North and South America positive sales development
- Raw material and energy additional cost increases to be offset by price/mix and efficiency improvements

## 2004 PIRELLI RE ACHIEVEMENTS AT A GLANCE

- Ebit including income from equity participations grew YoY by 23% to Euro 157.5m and Net profit to Euro 128m (+25% over 2003)
- Asset Under Management increased to Euro 10.7 bn at market value from Euro 9.7bn 2003, of which Euro 7.9bn opportunistic assets and Euro 2.8bn are long term (funds)
- PRE SGR managed a portfolio of Euro 4bn of which Euro 2.8b (Market Value) through the placement of four specialised funds and Euro 1.2bn co management of the first real estate Treasury Funds
- PRE acquired a portfolio of NPLs of approx. Euro 1bn (Net Book Value) and has started the implementation of a new platform in JV with Morgan Stanley in order to manage the future NPLs portfolio acquisitions
- PRE distribution network reached 525 contracts signed becoming the third largest network operating in Italy

## 2004 PIRELLI RE CONSOLIDATED P&L

€mn	Actual December 2004	Actual December 2003	Variation %
Aggregate Production Value Net of Acquisitions	1,973.2	1,525.5	+29
Consolidated Production Value	559.9	649.0	
EBIT Incl. Income from Equity Participations	157.5	128.1	+23
Profit before Extraordinary Items	162.4	128.9	
Net Attributable Income	128.0	102.1	+25

# 2004 PIRELLI RE CONSOLIDATED BALANCE SHEET

€mn

	Actual December 2004	Actual December 2003
Fixed Assets	372.1	313.4
<i>Of which investments in participated companies</i>	225.1	149.7
Net Working Capital	231.6	162.3
Net Invested Capital	603.6	475.7
Shareholders' Equity	520.0	424.8
<i>Of which minority interests</i>	9.6	3.2
Funds and Provisions	48.2	41.7
NFP	35.4	9.2
Total	603.6	475.7
Shareholders' Loans	209.8	214.5
Total Investments in Equity Participations	434.9	364.2
"Adjusted" NFP (not including Shareholders' Loans)	245.2	223.7
"Adjusted" Gearing	0.47	0.53

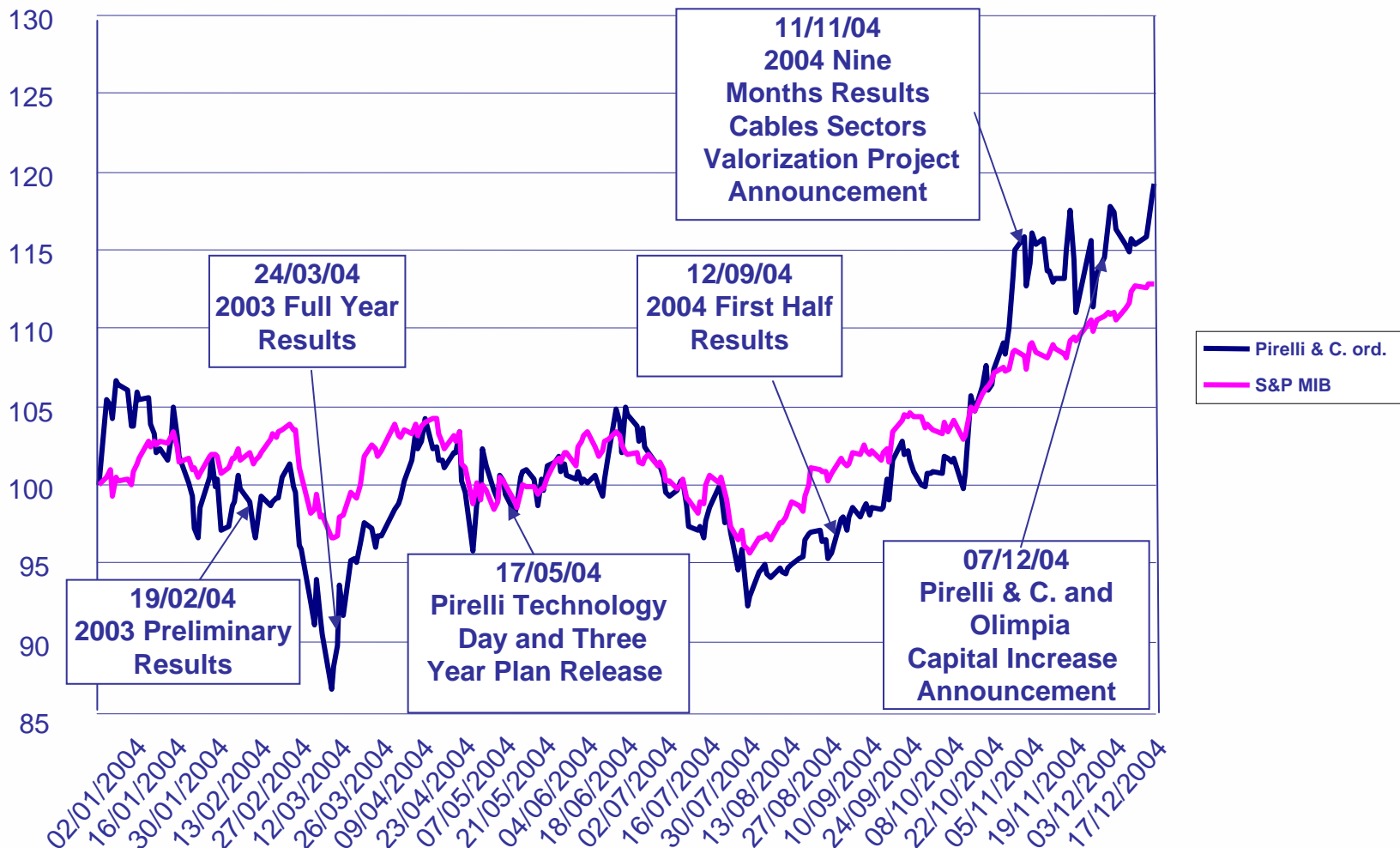
# 2004 PIRELLI RE NET ASSET VALUE

€mn	Book-Value 100%	Book-Value Pro-quota	Market Value 100%	Market Value Pro-quota	NAV December 2004
RESIDENTIAL	1499.8	580.8	2060.5	813.6	232.8
COMMERCIAL	5607.9	865.8	7036.3	1136.8	271.0
LAND	279.3	143.5	364.2	176.5	33.1
NPL	1165.8	213.8	1267.6	235.9	22.0
Total A.U.M.	8552.7	1803.9	10728.6	2362.8	558.9
Attributable Shareholders' Equity Dec. 2004					510.4
NAV Pirelli RE Not incl. Fund Management, Asset Management, Service Provider, Distribution Network					1069.3

- Further improvement in profitability
- Olimpia will continue to improve its results thanks to the actions taken (capital increase and TI stake increase) and to TI dividends
- In industrial activities the continuous focus on added value segments and high technology will drive increase of profitability

**BACKUP**

# 2004 PIRELLI & C. SHARE PERFORMANCE



- Pirelli & C. ordinary share performance in 2004: +19.25%
- S&P MIB performance in 2004: +12.85%