



1Q 2005 Group Results
12th May 2005

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IAS/IFRS TRANSITION - DISCLAIMER

- From fiscal year beginning on 1st January 2005 Pirelli is required to prepare consolidated accounts in accordance with IAS/IFRS, as endorsed by the European Commission. The information contained in this document has been prepared on the basis of the IAS/IFRS currently endorsed by the European Commission.
- The IAS/IFRS in force at 31st December 2005 may differ from those used for the preparation of this report as a result of future endorsement by the European Commission or future standards, new interpretation, guidance issued by the International Accounting Standard Board or the International Financial Reporting Interpretations Committee. Therefore, the consolidated balance sheet position and results of operations may be affected by such changes.
- The independent auditor PricewaterhouseCoopers is completing its audit of the reconciliation tables prepared in accordance with IFRS 1. The audited report of the IAS/IFRS reconciliations will be disclosed as soon as available and, in any case, within the date of the presentation of the half year report at 30th June 2005.

IAS/IFRS IMPACTS on ATTRIBUTABLE SHAREHOLDERS' EQUITY

€mn (unaudited figures)	Sh. EQUITY (attributable)
GAAP 31.12.04	3,736
Opening 01.01.04	(219)
2004 Result IAS-restated	39
IAS 32/39 at 01.01.05	133
Other Items	7
Total	(40)
IAS/IFRS 01.01.05	3,696

IAS/IFRS IMPACTS on NFP

€mn (unaudited figures)		NFP
GAAP 31.12.04		1,469
Olimpia - Banks' 2 nd put option	130	
Pirelli RE/Other	2	
Total	132	
IAS/IFRS 31.12.04		1,601
Stocks "held for trading"*	(15)	
IAS/IFRS 01.01.05		1,586

* IAS 32/39 impact at the opening of 01.01.05

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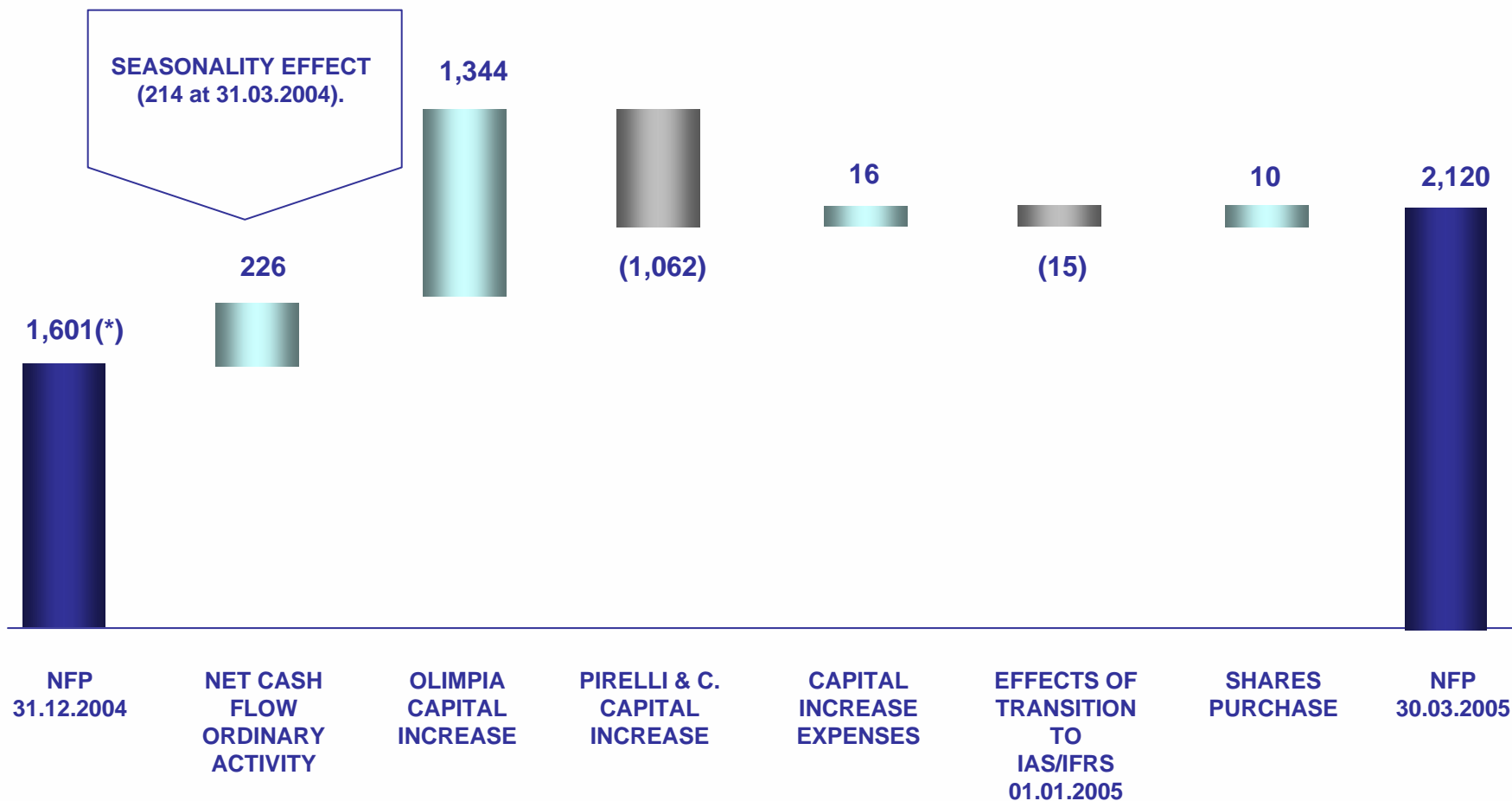
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1Q 2005 GROUP RESULTS

€/mn	Industrial Aggregate			Pirelli RE			Others			Total			
	1Q 05	1Q 04	1Q 04	1Q 05	1Q 04	1Q 04	1Q 05	1Q 04	1Q 04	1Q 05	1Q 04	Δ	1Q 04
	IAS/IFRS	IAS/IFRS	GAAP	IAS/IFRS	IAS/IFRS	GAAP	IAS/IFRS	IAS/IFRS	GAAP	IAS/IFRS	IAS/IFRS	04/05	GAAP
Net Sales (as reported)	1,745	1,606	1,586	113	107	103	12	(13)	(12)	1,870	1,700	+10.0%	1,677
Net Sales (organic)	1,745	1,631	1,611	113	107	103	12	(12)	(11)	1,870	1,726	+8.3%	1,703
EBITDA	183	162	162	16	10	15	(7)	(5)	(5)	192	167	15.0%	172
EBITDA margin	10.5%	10.1%	10.2%							10.3%	9.8%		10.3%
EBIT	115	89	88	14	8	10	(11)	(10)	(15)	118	87	+35.6%	83
EBIT margin	6.6%	5.5%	5.5%							6.3%	5.1%		4.9%
Results from Eq.Part. <i>Olimpia</i>	-	-	-	20	21	21	30	10	(24)	20	21		21
										30	10		(24)
EBIT incl. Result from Equity Participat.	115	89	88	34	29	31	19	0	(39)	168	118		80
Net Income (loss) Attributable	61	35	34	27	24	25	(5)	(19)	(49)	83	40		10
										70	32		2
NFP										2,120	2,089		1,959

1Q 2005 GROUP NET FINANCIAL POSITION



(*) Including 130 mn Euros deriving from IAS/IFRS transition

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1Q 05 ENERGY SECTOR RESULTS

€/mn	1Q 05 IAS/IFRS	1Q 04 IAS/IFRS	Variation	1Q 04 GAAP	
Net Sales	759	686	+10.6%	671	ΔPrice/mix: +4.4% ΔVolumes: +1.7% ΔActual Variation: +6.1% ΔExch. Rates: -0.7% ΔMetal Price: +7.9% ΔPerimeter (Brazil): -2.7% ΔTotal: +10.6%
EBITDA	47	40	+17.5%	40	
EBITDA margin	6.2%	5.8%		6.0%	
EBIT	30	21	+42.9%	20	ΔCommercial Variations: €18mn ΔEfficiencies: €1mn ΔUnit Costs/Other: €(10)mn ΔTotal: €9mn
EBIT margin	4.0%	3.1%		3.0%	
Net Income	14	8	+75.0%	7	

- Strong profitability improvement versus last year due to:
 - Higher volume in Specialties , particularly in Submarine
 - Better channel and country mix in the Trade & Installers and Power Distribution
- For the rest of the year, expected positive outcome from good order backlog in the Specialties business (OEM, HV and Submarine)

1Q 05 TELECOM CABLES & FIBERS SECTOR RESULTS

€/mn	1Q 05 IAS/IFRS	1Q 04 IAS/IFRS	Variation	1Q 04 GAAP	
Net Sales	93	86	+8.1%	86	ΔPrice/mix: -24.2% ΔVolumes: +37.6% ΔActual Variation: +13.4% ΔExch. Rates: -6.7% ΔMetal Price: +1.4% ΔTotal: +8.1%
EBITDA	4	5	n.m.	5	
EBITDA margin	4.3%	5.8%		5.8%	
EBIT	(2)	(4)	n.m.	(4)	Δ Commercial Variations: €(2)mn ΔEfficiencies: €4mn ΔTotal: €2mn
EBIT margin	n.m.	n.m.		n.m.	
Net Income	(4)	(8)	n.m.	(8)	

- Optical Cables: slight volumes growth offset by pressure on prices
- Copper Cables: volume growth with price stability

1Q 05 PIRELLI BROADBAND SOLUTIONS RESULTS

€/mn	1Q 05 IAS/IFRS	1Q 04 IAS/IFRS	Variation	1Q 04 GAAP
Net Sales	31	10	n.m.	10
EBITDA	(1)	(3)	n.m.	(3)
EBITDA margin	<i>n.m.</i>	<i>n.m.</i>		<i>n.m.</i>
EBIT	(1)	(3)	n.m.	(3)
EBIT margin	<i>n.m.</i>	<i>n.m.</i>		<i>n.m.</i>
Net Income	(2)	(3)	n.m.	(3)

Δ Commercial Variations: €3mn
 Δ Efficiencies: €(2)mn
 Δ Unitary Cost/Other: €1mn
 Δ Total: €2mn

- Incremented sales in Broadband Access business related to the deployment of the CPE model started in the past years
- Positive EBIT of Broadband Access due to higher volumes and strong cost reduction offset by a negative impact of new photonic products still in a R&D phase

1Q 05 TYRES SECTOR RESULTS

€mn	1Q 05 IAS/IFRS	1Q 04 IAS/IFRS	Variation	1Q 04 GAAP	
Net Sales	862	824	+4.6%	819	ΔPrice/mix: +4.5% ΔVolumes: +0.1% ΔActual Variation: +4.6% ΔExch. Rates: - ΔTotal: +4.6%
EBITDA	133	120	+10.8%	120	
EBITDA margin	15.4%	14.6%		14.7%	
EBIT	88	75	+17.3%	75	Δ Commercial Variations: €39mn ΔEfficiencies: €2mn ΔUnit Costs/Other: €(28)mn ΔTotal: €13mn
EBIT margin	10.2%	9.1%		9.2%	
Net Income	53	38	+39.5%	38	

- Further raw material cost increases vs 2004 (Steel, SBR, chemicals) offset by price/mix improvements across the board
- Positive performances in North and South American markets offset negative market growth in Replacement Europe and lower light vehicle OE production in North America and Europe
- Additional price increases to be implemented in North America (full range) and Europe (Winter) by mid-year
- New Romanian operations on schedule
- Joint Venture finalization in China on the way

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1Q 05 PIRELLI RE ACHIEVEMENTS AT A GLANCE

- EBIT including Income from Equity Participations grew by 17% at 33.8 mn Euros while Net Profit reached 26.9 mn Euros, a 12% increase over same period of 2004
- Aggregate Production Value from Fund and Asset Management grew by 30% to 609.1mn Euros mainly to increased volume of sales during the period (463mn Euros from 235.9 mn Euro in Q1-04)
- Acquisitions were completed for 384.8 mn Euros while as of today PRE signed acquisition agreements for approx. 1.7 mn Euros (average PRE stake is around 27%)
- Services posted 83.2 mn Euros or Revenues (+4% over last year) while EBIT grew by 54% over the same period last year, thanks to good performance of the agency and property divisions . Total ROS moved to 15% from 10% in Q1-04
- Franchising Network reached 601 contracts vs 525 at the end of last year. Break- even is expected by year end

1Q 05 PIRELLI RE CONSOLIDATED P&L

€mn	1Q 05 IAS/IFRS	1Q 04 IAS/IFRS	Δ 04/05 %	1Q 04 GAAP	Δ%
Aggregate Production Value Net of Acquisitions	727.2	560.2	+30%	418.8	+74%
Consolidated Production Value	121.8	104.6		104.4	
EBIT Incl. Income from Equity Participations	33.8	28.8	+17%	30.6	+10%
Profit before Extraordinary Items	34.1	29.0		31.0	
Net Attributable Income	26.9	24.1	+12%	25.0	+8%

1Q 05 PIRELLI RE CONSOLIDATED BALANCE SHEET

	1Q 05 IAS/IFRS	31.12.04 IAS/IFRS	31.12.04 GAAP
Fixed Assets <i>(of which Investments in Participated Company and Funds)</i>	343.9 241.6	375.7 241.5	372.1 225.1
Net Working Capital	211.6	204.6	231.6
Net Invested Capital	555.5	580.3	603.6
Shareholders' Equity <i>(of which Minority Interests)</i>	496.5 6.5	491.9 6.3	520.0 9.6
Funds	46.6	48.2	48.2
Net Financial Position	12.4	40.2	35.4
Total	555.5	580.3	603.6
NFP not including Shareholders' Loans	200.1	250.0	245.2
Gearing Financial Position not including Shareholders' Loans	0.40	0.51	0.47

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- **Continuous growth in profitability in a tough European environment**
- **Group 04/06 targets confirmed**

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IAS/IFRS IMPACTS ON PIRELLI GROUP

€mn	01.01.04	FY 2004 Results	Dividends	Other Movements	31.12.2004	IAS 32/39 Changes	01.01.05
Total EQUITY GAAP	3678	274	(132)	268	4088		4088
1 Goodwill		39			39		39
2 Other Intangible Assets	(25)	1			(24)		(24)
3 Impairments	(21)	4			(17)		(17)
4 Spare Parts	(27)	(3)			(30)		(30)
5 Employees Benefits	(157)	10			(147)		(147)
6 Real Estate Sales	(9)	(2)			(11)		(11)
7 Stock Options		(6)		1	(5)		(5)
8 Others	(11)	(7)		6	(12)		(12)
9 Treasury Shares						(5)	(5)
10 Fair Value Financial Assets						238	238
11 Financial Instruments						(100)	(100)
Fiscal Effects	23	(1)			22		22
Δ GAAP - IAS/IFRS on Total Equity	(227)	35		7	(185)	133	(52)
Total EQUITY IAS/IFRS	3451	309	(132)	275	3903	133	4036
MINORITY INTERESTS GAAP	249	57	(23)	69	352		352
Δ GAAP - IAS/IFRS on MINORITY INTERESTS	(8)	(4)			(12)		(12)
MINORITY INTERESTS IAS/IFRS	241	53	(23)	69	340		340
ATTRIBUTABLE EQUITY GAAP	3429	217	(109)	199	3736		3736
Δ GAAP - IAS/IFRS on ATTRIBUTABLE EQUITY	(219)	39		7	(173)	133	(40)
ATTRIBUTABLE EQUITY IAS/IFRS	3210	256	(109)	206	3563	133	3696

IAS/IFRS IMPACTS on GROUP EBIT

€mn	GROUP EBIT
GAAP 31.12.04	380
Deletion of Amortization of Goodwill	39
Lower Labour Costs (due to Initial Recognition of Actuarial Losses)	10
Expenses Restatement (from Extraordinary to Operating Items)	(18)
Other	(12)
Total	19
IAS/IFRS 31.12.04	399

- According to the IAS/IFRS 31 and to the Italian GAAP, Olimpia is a jointly controlled entity
- IAS 31 requires the consolidation of such entities either with the proportionate consolidation method or with the Equity method
- Pirelli Group has chosen the Equity method
- Olimpia Attributable Shareholders' Equity must be restated according to IAS/IFRS
- According to IAS 28, Olimpia's investment in Telecom Italia, previously booked at cost, is qualified as associate and therefore has to be evaluated with the Equity method