

Ladies and gentlemen, welcome to Pirelli's conference call, in which our Chairman, Mister Marco Tronchetti Provera, will present the consolidated results for the first quarter 2006. I remind you that the Q&A session will follow after the presentation, and that you can find the presentation slides in the investor relation section of the Pirelli web site. Now, I would like to introduce you to Mister Marco Tronchetti Provera. Thank you.

Thank you. Good evening, ladies and gentlemen, thank you for joining us in this conference call. Today we are disclosing Pirelli group first quarter 06 results. I'll give you an overview on Pirelli group's results, then Mr. Puri will highlight some Pirelli Real Estate and Pirelli Ambiente results. After the presentation, a Q&A session will be held.

Slide number 2: illustrates first quarter 06 Pirelli group results. In brief, group sales grew, 17.2% year-on-year, to 1.2 billion from 1 billion in first quarter 05; the organic growth, net of the exchange rate effects, stands at 10.4%, thanks to an improvement of the turnover of all the group's businesses; group EBIT 120 million, an increase of 29.2% year-on-year, thanks to the contribution of four activities, and we will give you more details on single businesses later on. Group return on sales 9.9%, versus 9% on first quarter 05; EBIT, including results from equity on participation are at 69 million, an increase of 18.6% year-on-year; Olimpia contribution is equal to 35 million, and group net income increased to 92 million, an increase of 22.4%, versus 05 before discontinued operations, 10.9%, considering contribution of discontinued operations; attributable net income stands at 75 million, and you can find further details in the breakup section.

Slide number 3: illustrates group's net financial position, reached at the end of March 06, it was equal to 1.5 billion; the main effects have been the negative impact of 79 million of net cash flow from ordinary activities, essentially due to the typical tire business seasonality, in the net working capital, and also by the growth of sales; the purchase of TI ordinary shares for 201 million euro, 85.9 million TI ordinary shares of which 75 million to the exercise of derivatives, and 38 million from the purchase of 7.8 million shares at 4.93 euro each of Capitalia shares, after the sale made by Toro Assicurazioni within the impact of Capitalia. The present stake is 1.92%, 49.7 million shares, and the book value is 2.36 euro each.

I'd like now to go through the group's results by segments, starting from Pirelli tires. As regards Pirelli Ambiente, 'Pirelli Environment', and Pirelli Real Estate, Mr. Puri will show you later some insights on first quarter results. Pirelli tires net sales increased to 1 billion euro, from 862 million in first quarter 05, an increase of 16% year-on-year; organic growth stood at 8.1%, thanks to increased sales in both consumers and industrial segments. Overall volume increase was 3.8%, with the new operation in China contributing for 1.6%; further price and mix improvement an increase of 4.8%, in all segments, partially offset raw materials and energy cost increase; EBITDA increased 12.1% year-on-year, EBIT grew to 99 million euro, an increase of 13.1% year-on-year, with a 9.9 return on sales, as I mentioned before.

Slide number 5: illustrates Pirelli tire figures by segments; as you are probably aware of consumer segment includes... our consumer segment includes both car and motorcycle tires: one for industrial, which means truck tires, plus steel core. As you can see, the consumer segment accounts for the major part of tire, first quarter 06 results, which stands at 699 million, an increase of 14.4% year-on-year, and EBIT at 72 million, an increase of 21.2%; operating margin grew to 10.3%, it was 9.7% in first quarter 05. Coming to the industrial segment, sales stand at 301 million, an increase of 20.2% year-on-year; EBIT at 28 million with 9.1 return on sales; it was 11.4% in first quarter 05. A slight derivation of the industrial segment operating results is attributable to China operations and to raw materials' price increase.

Slide number 6 is about Pirelli broadband solution results: sales of first quarter 06 at 38.5 million, 24% increase year-on-year, mainly driven by broadband access segment. A positive contribution in terms of sales is also given by photonics, with the CWDM reaching 4.2 million sales. The total EBIT is the result of the positive contribution of the broadband access business by 2.3 million, posting a 7% return on sales and a loss of 3 million in photonics given by the startup sales and qualification test.

Next slide points out the main achievements of Pirelli broadband solution by segments: as regards broadband access revenue growth has come from domestic market, and for the future we foresee an increase of foreign markets' contribution. We are starting European Telecom market, to enlarge the client's portfolio and provide the carriers with customer and value added broadband access solution. New market initiatives are in our portfolio, in order to increase our offer and reach further potential customers: for instance Dual Form, PLC etc.

Coming to photonics, in the next slide: thanks to our technological and commercial partners, we reached strong results in terms of CWDM, also outside Italy, the results of the CWDM sales must be a good example for all the other products of photonic, of second generation that we have in our pipeline: for instance the DTL, the transponder, and other products. DTL has reached the final test stage with the most important customers of the telecommunications market, both in Europe, North

America and Far East; as far as transponder is concerned, we are still following our strategy in moving from components to (...), reaching hometime our ordinary targets. So, now I leave the flow to Mr. Puri who will highlight **Pirelli Ambiente** and **Pirelli Real Estate** results. Thank you Carlo.

Thank you. The environment business is still a startup in the Pirelli group, and is characterized by three main divisions: **Pirelli Ambiente Ecotechnology**, for the production of Y-diesel called JKM and of diesel particular filters for the reduction of emissions of diesel engines. **Pirelli Ambiente renewable energy** reached develop solutions for the use of renewable energy, for instance from the recovery of municipal solid waste; **Pirelli Ambiente cycle mediation** dealing with environmental reclamation and requalification of contaminated sites. In the first quarter 06, the sales reached 21 million, from around 6 million euro of the past year and the net results stand at around of 2 million, the result benefits from the license agreement signed with the British company Reenergy, for the use of the Pirelli refuse derived refuel in the United Kingdom. So, this is briefly the main data, and I will now go through the real estate company.

In the first quarter of 2006 the company grew 15% at EBIT, including equity from equity participation, achieving the top of the range announced at the time of the presentation of the financial community of the 2006-2008 business plan. Net profit reached euro 30.1 million, 12% of increase over 2005; asset and fund management with one of our important activities, have sales in line with 2005, but with a higher margin, 30% instead of 26, mainly thanks to the commercial asset management division. **Pirelli Real Estate** acquired 360 million euro of assets, and signed agreements for additional acquisition of 410 million, and the average stake increased from 35 to 39%; direct services reached 86.7 million euro, 6% over the same period of last year, while EBIT increased by 27% to 15.6 million, mainly thanks to a quite good performance of both facility and property management. ROS stood at 18% and the real number that excludes the disposal of one real assets... real estate assets owned by one of the service companies is 6.4%, and quite better than 15% of last year. Franchising network continues the growth with 536 shops opened; the breakeven at operating level was reached versus a loss of 2.1 million in the first quarter of 2005; mortgages have been mended for a total approximately of 40 million euro, and it's a very big increase compared with the first quarter of 2005, nearly 380% more.

Looking at the profit and loss account, EBIT including income from equity participation, which is the most relevant indicator, as you know, for our company performance grew, as I said before, by 15% to 38.9 million euro; the breakdown sees a significant growth from EBIT which reached 25 million euro, compared with 14.3 million over the same period of last year; such result confirmed the company trend to shift from a more stable recurring income stream as stated during the presentation of the new year... of the new three-year business plan. Net profit grew to 30.1 million euro, 12% over last year.

In the next page you can see the figure that I have already mentioned: the net financial position is temporarily lower than last year, 5 million euro, compared with 12.4, as I said, at the end of last year. The gearing is slightly higher, in the adjusted financial position, it's 0.62, versus 0.40 of 2005, mainly due to the acquisition of MTLs BLN deal, but in any case we expect to confirm this level also by the year end. Now I would like to mention some of the most important events occurred after the first quarter: at the beginning of April we have received a clearance from Proland Antitrust Authorities, and completed the acquisition of 75% of Decar Development, from Decar Bank, that is part of the Unicredit group, at a price of approximately 20 million euro. As up to date the company has 290,000 square meters and enters into preliminary discussion to acquire other 140 square meters of land; this means, approximately, a capacity of building around 3,000 units. So, with this acquisition, I think that the expansion in East Europe is starting, and I hope we'll be able to give some more news shortly. Thank you.

Thank you Carlo. Now, last but not least, let me underline that first quarter 06 is confirming that a further increase of results in 06, compared to last year, is on track. Thank you and we can start the Q&Q session.

## **Q&A session:**

1. Mr. **Giuseppe Puglisi** from **Intermonte**:

*Good afternoon to everybody. Congratulations for your results, especially in the tires; I was quite skeptical about your results in this particular division, but I have to... I appreciate your results. Just two quick questions: the first one: do you expect the trend in the tires division will continue in next quarters, given the increase in raw... raw materials? And the second question is: after the reorganization of Pirelli, with the flotation of Pirelli tires, and you said that the total debt at the end of 2006 will be roughly 1.5 billion euro, my question is: with this level, debt level at the end of 2006, do you expect to increase your stake in Telecom Italia? Thank you.*

**Thank you. First of all, I remind you that we are in the process of preparing the listing of Pirelli tires, and so tomorrow there will be a presentation only for the banks involved in the process, and so we have some constraints in providing information about the next months and so... it's the so-called blackout period, with respect to...**

*Yeah, yeah.*

**Second, the financial position should be in line with what I said during the last meeting, and so the 1.5 billion should be respected, taking into account the proceeds coming from the listing and the financial divestitures that we have planned to make and that should be finalized within the next year.**

*And so, with this net financial position do you expect to increase further your stake directly in Telecom Italia?*

**We have nothing in mind for the time being, so we feel comfortable as we are.**

*Okay. Thank you.*

**Thank you.**

*Thank you.*

2. Mr. **Martino De Ambrogio** from **Euromobiliare SIM**:

*Good afternoon to everybody. My first question is on net debt in Q1: could you quantify the effect of net working capital and capex expenditure in Q1? And the second question is on tires: I'd like to know a couple of figures: the startup cost for China in Q1? And what do you expect on a full year basis? And if the 700 million of net debt is something that can be considered as definitive, as I presume? And the third question on tires is on the price effect: we saw a positive price mix effect in Q1, and I'd like to know the implementation of the last increase that you announced a few months ago, if it's already implemented without any problem, and what do you see for raw materials' cost? Thank you.*

**Starting from the last question that is not within the blackout period because it's normal, you can see it in the roiter everyday, every player in the tire business is announcing a price increase, to face the raw materials price increase. This is a fact and it will affect the second part of the... and then on working capital: here again the rotation is the same, so the indexes are the same, the effect is due to the increase of sales, and so the increase of the working capital; there is no increase in capex, compared year-on-year, except the investment we are making in China, because we have a larger and broader presence thanks to China and Romania.**

*Could you roughly quantify net working capital effect in absolute terms? Roughly?*

**Sorry, I didn't understand your question.**

*If you could quantify in absolute terms what was the net working capital effect in absolute terms in Q1? A roughly figure.*

120 million.

120. Perfect.

**So, and then, there was the last question...**

*Yeah. It was on the tires cost..*

**The startup for the time being is not producing losses or... so, it's even.**

*Okay. Okay. And the 700 million of debt can be considered the IPO debt, we can say?*

**In life, never is for ever...**

*Okay.*

**But... it depends on volumes, on revenue growth...**

*I asked...*

**...so if the seasonality will remain the same, we don't expect to have any extraordinary reason that will effect the working capital. So, it's business as usual in terms of working capital, no new factors.**

*Okay. No, I was wondering if the starting net debt of tires can be considered the 700 million that we saw at the end of Q1 or if there is other restructuring inside the group increase in this net debt level? For the tires division.*

**That is the figure; it includes the seasonality, you start from March 06, you compare to March 05, and then you will see that the trend will be more or less the same of 05.**

*Okay. And just a follow up on Hopa negotiations: we didn't see anything despite the expiry date, that was two days ago, if I'm not wrong.*

**The date was the 9<sup>th</sup> of May, the relevant date to decide the price is the 31<sup>st</sup> of May; we have from now to the 31<sup>st</sup> to give our decision, to Hopa; the decision is if we're going to buy, or if we're going not to sell, but to de-merge the Hopa shares; the decision we have in mind is to buy the shares, the contract is very, very clear; there is the so-called relevant date, the last day of May, and the price will be the price of the last day of the month. So.. that's the...**

*Perfect.*

**That's the contract.**

*Thank you.*

**Thank you.**

**3. Mr. Damien Maltarp from Cazenove:**

*Thanks very much. Just a couple of following questions with regard to Hopa; you can't answer most of my questions, actually, but one outstanding one I had was: in terms of...you know, if you just saw it together it had quite a Hope stake, would you envisage financing this at the Olimpia level are you effectively allowing Olimpia to take more debt to buy a Hopa stake or would it be financed at Pirelli level effectively? That was the first question and the second question is: going forward, do you envisage at some point Olimpia beginning to pay a dividend? Thanks very much.*

First of all, the contract is between Pirelli and Edizione Holding and Hopa, so who's going to finance and to buy the shares is Pirelli and Benetton, and are financing the (...) it's not Olimpia who is going to finance the buyback of the shares of Olimpia. Second: but... I think not distributing dividends is reducing the debt; this is what has happened this year to Olimpia, then for the future we will see. So we don't have any decision that has been already taken, so we... we don't need to reduce the debt anyhow, so we are a very profitable company with no need to debt refinance until 2011, so we feel comfortable and so...

*And can I just say a follow up on that? Just a clarification then: the obligation that regards the Hopa stake that any rest with Pirelli and Edizione it doesn't rest with the banks, is that correct?*

**Correct.**

*Okay. Thank you.*

**Thank you.**

No more questions at the moment.

4. Mr. **James Brittain** from **Lehmann Brothers**:

*Thank you very much. I just ask why Pirelli has been focusing its buy interest on the TI shares rather than the savers when back in March at the Telecom investor, Telecom Italia investor day, I think Mr. Tronchetti answered that if the company's buyback should happen it would focus on the savers for sure, that was the quote... is that an inconsistent approach to how the two companies look at evaluating the value of TI shares? Thank you.*

**No, it's totally in line with what my statements in March.. We had some derivatives that were non and in the balance sheet they were in the money, and we did exercise the hedge of derivatives. Because they were in the money.**

*Okay, thank you very much.*

**Thank you.**

There are no more questions at the moment.

**So, thank you very much to everybody, and good evening.**

Ladies and Gentlemen, the conference call is over. Thank you for calling Pirelli.

