

Audioconferenza Pirelli 11 11 04

Good evening Ladies and Gentlemen, welcome to our conference call in which our chairman, Mr. Marco Tronchetti Provera, will present the consolidated results for the nine months 2004. I remind you that a Q&A session will follow after the presentation and that you can find the presentation slides in the investor relations section of the Pirelli website. Now, let me introduce you to Mr. Marco Tronchetti Provera. Thank you.

Mr. Tronchetti Provera: Good afternoon Ladies and Gentlemen, thank you for joining our conference. I'll give you an overview of the nine months 2004 group results, then Mr. Ferrario will present the nine months results 2004 of the industrial businesses, and finally Mr. Puri Negri will give you a quick overview of the real estate nine month 2004 results. The presentation will be followed by a Q&A session.

As you see on the slide, in the first nine months of 2004, Pirelli group recorded an interesting improvement in all economic ratios, confirming the trend of the first half of the year. Group sales 5.3 billion up 7.7%, compared with 4.9 billions first nine months of 2003, plus 4% on a like-for-like basis with no effect of exchange rate and metals. Group operation result: 279 million euro, +41.6% compared with 197 million in the same period of 2003, the ROS is up from 4% to 5.3%. Industrial aggregate operating result equals to 289 million, an increase of 48.9%, and return on sales from 4.3 to 5.8%. Pirelli Re EBIT which includes equity participation increased 5.3%. Result from Olimpia: positive 29 million. Group net result: 229 million, September 2003 was negative for 33 million. Net financial position 1,915 million, reduced from June 2004 and on track with 2004-2006 targets. As a result, we can confirm group expectations for 2004, we've had a considerable improvement for both operating and net results in all sectors, and the net financial position will be on track with our three-year plan for 2004-2006. Besides, thanks to the good results of this year, the group is now ready to for further developments of the strategic roadmap we have announced in 2001. The three main steps of such strategy will be the following: we have started the project for the valorisation of energy cables and systems and telecom cables, we have established a new company, Pirelli Broadband Solutions, to develop the broadband access business and 2G Photonics. Regarding the tyre sector, we are making new investments for new highly technological production sites in growing markets areas. I'll return to this later on. Now, let me explain every point in more detail.

Regarding the energy cables and systems and telecom cables, the group result of the business is following the inducted turnaround and the target presented during the three year plan, we have attracted some institutional investors, which were interested to enter the business as main shareholders. In our opinion, for selected institutional investors we provide business with additional financial means of liability, for the further valorisation and development in the future. Therefore, we are now screening different offers and opportunities. We're always considering to maintain a minority stake in the business. However, the current management who made possible the present achievements, will grant continuity and value creation, as well as for reaching the three year plan economic and financial targets, which remains substantially confirmed. Pirelli group will be focussed on other and value added segments, structured programs, access solutions, sites, real estate and environment, maintaining the traditional focus on technological excellence, and tyres is the most feasible example. In fact, a new company called Pirelli Broadband Solutions has been established in order to implement our 2G Photonics and grow in access activities. 2G Photonics is a start-up, which is expected to reach significant revenues and positive EBIT in 2006. Broadband access have already recorded very good performances. Sales have doubled year on year reaching 39 million from 20 million, and it's more and more committed in increasing its current customers revenues, as well as in reaching its customers portfolio, in order to achieve the three year plan target of internal revenues around 50%, average growth rate of revenues around 50%. Considering investment driven by focus on technology for a total amount of around 500 million in nine months 2004-2006 three year plan have also been planned for the entire sector. So we consider this sector physically the one where we can have interesting returns and where we are investing in technology and in geographical areas. We have signed an M.O.U. for a joined venture in China, Henan region, with an increase of 33% of Pirelli worldwide truck tyre production capacity, 50% of the radial truck tyre production. So this is the main investment that Pirelli has made since ever in the truck tyre business. We have also planned two new production facilities in China, one for car tyres and a second one for steel-cords. The preferred deployment of a majority joint venture for steel-cord production and of a new production platform of high performance car tyres in Romania. We are increasing car tyre production in Bahia and truck tyre production in Gravatay in Brazil. And finally, let me mention the three new MIRS facilities in Germany, USA and UK. This interesting investment plan confirms Pirelli tyres' commitment to maintain its leadership in high performance segment, it's in line with the three year plan investment that we did show to the market last year. Regarding Pirelli real estate, the main guidelines for 2004-2006 will be the following: balancing short term opportunities with long term activities; fund management: we are expecting to launch three new funds within the first half of 2005 for a total of 6-7 funds by 2006. Another main issue is

to grow in the non-performing loans business. We're also very committed in the development of Pirelli Ambiente, building a fully integrated knowledge centre for the implementation of advanced environment technologies and enhancing IDEA GRANDA project, a project of the Pirelli environmental products that can be used inside a cement or energy plant. And IDEA GRANDA is a plant where since two years we are producing energy thanks to our technology. On the next two slides, you can find the main figures of Pirelli group nine months and EBIT valuation which are self explanatory. So now let me focus on Olimpia financial structure, I will be ready, together with Mr. Ferrario, to comment on the slides. Going through Olimpia, you'll see that we have strengthened further the financial structure by a new revolving credit line of 2.4 billion, refinancing the existing facilities with longer maturity and better conditions. The new revolving credit line is expected to be closed in January 2005, its maturity date will be January 2010, it will have a variable interest rate: Euribor plus 100 basis points, reduced from the previous 125 basis points. It will be granted by a pledge over a certain number of TI shares, lower than the current number of shares under pledge for the 1.8 billion syndicated facility. Now let me hand over to Mr. Ferrario for the nine months results of the industrial businesses. Thank you.

Mr. Ferrario: Thank you Mr. Tronchetti, good afternoon Ladies and Gentlemen. I'll talk about the industrial businesses, page number 13. As anticipated by Mr. Tronchetti, the nine months results of industrial businesses recorded an impressive improvement in all economic ratios. Sales in the first nine months were 4,943 million, +8.9% compared with the same period in 2003, and +5% on a like-for-like basis. EBITDA was 500 million, +10.2 of sales, from 424 million in September 2003, equal to 9.3% of sales. EBIT was 289 million from 194 million, +49% in the same period of 2003. ROS grows to 5.3% from 4.3%. The net result doubled from 74 million in 2003 to 153 in 2004. But now I would like to focus on EBIT variation, page number 14. As you can see in the chart, the operative results grew considerably, mostly thanks to energy, cable and system and tyre sector, while, as we will see later, in telecom cable and system, it was still negative due to price pressure on cable and tyres. Set volumes, efficiencies and price/mix of set production cost in the exchange rate. Now we will see the sector results more in detail. Page number 15: we start from energy, cable and system. Energy, cable and system sales in the first nine months were 2,187 million, growing 11.2% from 1,966 million in nine months 2003. The selling price increase to recover higher cost of material became effective for the third quarter. EBITDA 148 million, 6.8% of sales, +27% compared with 116 million in the same period of 2003, 5.9% of sales. The operative result was 88 million, growing by 73% from 51 million in nine months 2003. ROS grew to 4% from 2.6, notwithstanding metal value increase. The business has a different slow growth of market volume in the utility market,

while the order portfolio industrial/OEM is at historical high. Telecom cable and system, page number 16: telecom cable and system sales were 308 million, decreasing 4.3% from 322 million in 2003, minus 4% on a like-for-like basis, but we remind you in any case that the sales of nine months 2003 have been supported from about 45 million sales in summer in systems. EBITDA was 3 million, while in September 2003 it was negative for 3 million. The operative result was negative for 16 million, although improving from a loss of 31 million in the same period of 2003. The operative result has being benefited from a 3 million depreciation reduction due to a variation in the technical life of the plants for the final production, the FOS plant, the variation has been from five years to eight years in the life of the equipment. As Mr. Tronchetti said before, broadband solutions continue with an excellent performance, 39 million versus 20 million in nine months 2003. We have been also registering the positive trend in optical cable volume growths demand, mainly generated in North America, and in copper cable demand, thanks to ADSL cable demand. Regarding tyre business, page 17, the sales were 2,448 million from 2,250 in 2003, with a growth of 8.8%, on a like-for-like basis. It was mainly thanks to volumes increase, 8.4%, and price/mix improvement, 2.6%. The EBITDA was 351 million, equal to 14.3% of sales, growing 13% compared with 311 million in nine months 2003, 13.2% of sales. Operative results was 217 million, +25% from 174 in September 2003. ROS grew to 8.9% from 7.7%. Price/mix was positively affected by the production of new products. Volumes, price/mix and efficiencies more than compensated raw material and energy cost. Regarding market trend, North and South America's positive trends continue, as we have registered a strong winter segment sell in. Thank you very much, I leave the floor to Mr. Puri for the Pirelli real estate results.

Mr. Puri Negri: Good afternoon Ladies and Gentlemen, I'm Carlo Puri Negri, we'll go through the results of the real estate. The nine months result confirmed the ongoing growth trend, in line with the target set out in the three years plan. Aggregate production value, net of acquisitions, was up 25% compared to last year. EBIT, including income from equity, reached euro 88.4 million, up 23% over last year. Consolidated net income reached euro 66 million, or 26 increase over the same period of 2003. Net adjusted financial position, not including shareholders loans of companies where minorities' sake is held, was negative for euro 295 million, compared to euro 249 million, as of September 2003. The gearing ratio is 0.65, compared with 0.67 in 2003, and is in line with the target of the three year plan. In this slide, we show the main achievements reached in the first nine months, we repeat the EBIT that grew to 88 million; over 710 million euro of acquisition of real estate assets; in fund management business we have placed funds, Tecla and Cloe, for a market value of 1.8 billion, at the beginning of September, Pirelli RE SGR has been appointed as co-

manager of the Treasury Real Estate Fund, with a value approximately of 3.5-4 billion market value, we will manage a third of this fund; service provider posted a value of production of 247.5 million euro, over 16% of the same period of last year and the EBIT of service grew by 26% to 36.8 million euro, with a ROS of 15%. Distribution network, as of September, was 449 contracts we've already signed, the target of the year is to arrive to 500 contracts. I would like also to add some comments on what has been done recently: we completed acquisitions, as I've said, for 700 million euro, and we're planning other acquisitions for 500 million euro, excluding the deal with Morgan Stanley, what we call Pegaso, in the NPL business for a value of 2.5 billion worth of value. In the fund management, after the two funds that we've already talked about, we are beginning this week to marketing the third fund, called Olinda, the shop fund for retail investors, of euro 740 million at market value. The marketing period as far as for recent start, already confirms a strong interest from the retail market, and we are confident for a successful placement. Therefore, on the basis of the data currently available, our reasonable forecast suggests that in 2004 EBIT, including the equity participation, will rank for a quarter gross compared to 2003 and according to target in line with the three year business plan. Thank you.

Thank you Ladies and Gentlemen, we are now ready to answer to your questions.

Q&A Pirelli

The first question is from **Mr. Martino De Ambrogi from Euromobiliare SIM**. Mr. De Ambrogi, you may proceed with your question.

Question: Good evening to everybody. A preliminary question is on net debt, so considering your current situation, your current group structure, not taking into account eventual divestitures, which is the limit of net debt you consider reasonable for the current structure? And the second one is on divestitures, I don't understand the reason why you want to stay with a minority stake in the cable businesses. I mean, is it a request of the buyers, or just a preliminary step and you have a put option on the remaining stake, going forward? And the third question: an idea of the timing that you have in mind for these divestitures?

Answer: Thank you. So, net debt is not an issue, we believe that the act on net debt is more than sustainable, so we have, as you know, all the regarding facilities for internet being postponed until 2010 with better conditions, we have a committed line in case the banks in October 2006 will exercise their put options, we are divesting the activities in the energy and telecom cables, so I think that it's not an issue at all.

Question: Sorry, if I may, it's not an issue, neither for me, but I was only asking which is the reasonable limit of net debt that you can reach with the current structure, just to understand which is the financial flexibility you have today for Pirelli, and after we can add the cash-in from divestitures, and more, just to have an idea which is the total amount of cash you could use for what you can tell us, what you are looking for.

Answer: Ok, so we think that thanks to the divestiture, we'll be ready to make other investments in the strategic area of Pirelli, so the existing structure is ok, the cash-in will be useful to make other investments to make our business grow faster and faster. Divestiture: it's an opportunity we have to keep a stake, because we believed that business can grow, the value can grow, so we gave our availability to keep a stake in the company, because we believe in the value creation inside the company. Then, the third question was the timing of the transaction. I think that will be a few months, because we have all information set, so we will provide all the information to the investors, we have many of them that have already given to us a ... at their interest, so the process will start immediately. We believe that the process will end between February and March. Let me see, we expect the closing between February and March.

Question: Ok. If I may, on the minority stake: just to understand that you will stay with this minority stake without put option, without anything?

Answer: We have not yet negotiated anything with the possible partners, it will be part of the negotiation, we will try to maximize the value that we have in our portfolio.

Next question from **Mr. Alberto Cecchinato from Deutsche Bank**. Mr. Cecchinato, you may proceed with your question.

Question: Hello, good evening to everybody, I have two questions, the first one is: if you intend to use the potential percentage from the sales of the energy cables to be able to ... put option all by the bank in Olimpia, instead of using the committed line as you have already told, and the second one is: are you quoting any capital increase in Olimpia by the first half of next year, and if yes, would you use the capital increase to ... the debts that have not been renegotiated with the banks or would you buy any more treasures?

Answer: So, we have no problem, starting from the last question, we have no problem renegotiating anything, the minimum delay we have is three years, most of the debt now is six years to 2010, so that's not an issue. The put option is not an issue as well, because we don't know if it will be exercised from now until the end of 2006, that is a very long time frame, so we will see in the future what is going to happen. Capital increase in Olimpia: there is nothing stated about it, we will look

to different opportunities when we'll be in the position to have some cash, and we do not exclude anything, but we haven't taken our decision.

Next question from **Mr. Marco Greco from Mediobanca**. Mr. Greco, you may proceed with your question.

Question: Yes, good evening everybody, one question on the industrial side of the result, and especially on the tyre business, I wanted to understand if the current profitability, which is very high, is sustainable also in 2005-2006, considering the raw material effect that in this quarter has not been, let's say, embedded, ... that it will probably be embedded in the next few quarters, and so if there is any room to review your 2006 targets highlighted in the May industrial plan. Thank you very much.

Answer: So, tyre business, as I mentioned before, is a ... strategic business for the Pirelli group, we have a competitive advantage thanks to the technology we develop, and thanks to the products we are able to produce, the investments we are making are enlarging, keeping the same level of investments that we have in the plan, 400 million for the next three years, giving us the opportunity to enlarge to countries like China, where there is a strong growth of demand for radial tyres, and this is also a good basis for export, and we will be able to explain the one that we hope we will buy thanks to the memorandum of understanding the ... exercise, and Romania is a decision already taken, that will provide us the opportunity to produce ... tyres even for the eastern countries, that are becoming more and more demanding in terms of quality and size. So, we see for the tyre business an opportunity not only to stick to the plan that we are consistently fulfilling this year, also for next year, but we expect to be able to grow better and faster.

Question: Ok, thank you, but so, raw materials are not a worry?

Answer: I didn't mention raw materials because we are able to create a raw material situation thanks to the mix between the euro, the dollars and the other currencies, and to be in the high segment, we can also have some price increase that can cover new radial announced price increases, and the reaction of the market is ok.

Next question from **Mr. James Briton from Lehman Brothers**. Mr. Briton, you may proceed with your question. Thank you.

Question: Good evening, just a short question, can you explain whether we should be expecting the ... restructuring either for next year? Perhaps in the transparency in terms of ... government further?

Answer: We made a lot of restructuring, so it's an endless process since I started in Pirelli 1981, I rate the issue of simplifying the sector, so it's an endless process, we have started entering to the Telecom Italia group where we have the same problem, and I think that in the last 12 months we did much, so the process will continue if and when it will be convenient for our shareholders.

No other questions?

There is another a question from **Mr. Massimo Vecchio from Intermonte**. Mr. Vecchio, you may proceed with your question. Thank you.

Question: Good afternoon, I have two questions, the first one is on tyres. You are talking about new investments, and you still state that the 400 million euro capex is in line with the 2004-2006 plan. Can you clarify this statement? Second question is on the put option: can you, if possible, within the limit in which you can, of course, can you show us the drivers of the bank in deciding to exercise or not the put option, and shall we read the fact that a committed line makes the exercise of the top line ... than before? Thank you.

Answer: Starting from the second question, we have committed lines, and there is no limit for the banks to make a decision, looking to values and expectations, so I think they make their calculations. What we have done and we are doing, we are strengthening our industrial and financial position. Then, if the results of the exams will be such that those in the Telecom business the value of the shares will go up, then there will be expectation for the shares to go up, then the banks will evaluate if it's convenient to exercise or not the put option, so they will make a ... calculation. The tyre business: we mentioned in our plan 400 million investment for 2004-2006, we confirm it, what is very important from the line is that most of the investments will be investments in capacity. So, thanks to the restructuring we made, we have the great majority of investments that are no more linked to, let's say, the bulk of investments to keep quality level, but we have room to invest in new capacities, so this is the opportunity we have thanks to the actions made, that are now putting the tyre business in a position not to have a need to invest in order to keep the quality and to keep the capacity. So we can invest to increase the capacity most of the finance we have.

Question: So, it's a ... mix with respect to the plan, because...

Answer: Three quarter between 70 – 75% of the 400 million will be invested for the capacity, split between millions and new factories in China and Romania.

Question: Summing up on the put option, can we say that the banks have a kind of industrial view in looking at Olimpia, and of course at TI, sorry, if they see for the value they will act as industrial investors more than financial investors. Can we just say that?

Answer: Well, the banks act as a bank, so I think they will act as a bank if they receive room to increase the value of their portfolio, they may take the decision to stay, if they will see that there is no room in their mind to have a quick growth of value, probably they may exercise the put option, so we are not discussing with them so we don't know their opinion. It's too early, we have in front of us two years.

Next question from **Mr. Serge Escudet from UBM**. Mr. Escudet, you may proceed with your question.

Question: Yes, good afternoon, I have a question on your investment in China. Can you give some more details what the kind of sale are you expecting from the plants? And, if I may, I don't understand if the investment, it was the same thing about 33% of the current capacity of Pirelli, it means a huge amount of capacity, and so the targets of the three year plan should be more than the one you stated in May, which was a 4% increase compounded growth between 2003 and 2006, if I'm not wrong, because this is a very huge capacity you're adding to Pirelli tyres.

Answer: Well, for the first question, the tyre factory you're talking about as far of the company which is lifted, so this company has first to take the decision and to give information to the market, so we can not provide any information before we finalize and provide to the market the information. Anyhow, the target of the production line we said we've not changed our expectations, because we will build this capacity between now and 2006, so we will see the effect of this from 2006 on. So it doesn't change the perspective for the three year plan.

Question: And the return of capital invested on this investment, can you give some more details?

Answer: They are in line with the best investments we made, so it would be early to say anything. Until the deal is done we can not provide, as I mentioned before, any information, because it could be sensitive for our partners.

Question: Ok, and, if I may, I have another question. Why do you choose the businesses of cable to institutional investors? What did make up this choice?

Answer: We have a strong market position, we have a good management that proved its quality in the last years, performing better than any other competitor, the institutional investors often pass since months if they are ready to sell these assets, so I think that all these are to create more value with the management for institutional investors than for other players that are smaller than us, generally speaking, because we are the largest operator in the energy business, and the others could have problems with the antitrust, so we want to keep going our operations, we want the management in place, and we want to make a deal that is in the interest of investors, management, Pirelli, in this array.

Here's another question from **Mr. Marco Greco from Mediobanca**. Mr. Greco, you may proceed with your question. Thank you.

Question: Getting back to the possible usage of the proceeds of the likely disposal of the energy cable business, if I remember well in the conference call following H1 result, you said that you were interested in increasing your stake in Telecom Italia if there were excess availabilities, let's say. So now it's possible that some extra cash can be raised. You also mentioned before that you can evaluate also a number of other opportunities, but I want to understand what kind of alternate opportunities you are considering, because, I mean if there are internal opportunities, it seems that additional capacity has been already funded, that's why the target, you state that target seems to be achievable, so I was wondering if you are considering any opportunity for some acquisition or something like that, so if you can elaborate a little bit on this issue, thank you.

Answer: It is very easy to elaborate on that. No acquisition outside the perimeter of our activities, we are ready to invest in the businesses where we are, and Olimpia is one of these businesses, so that's what we do. No outside acquisition in businesses where we have not been.

Question: So the choice is between Olimpia and internal growth in the tyre business, that's it?

Answer: No, there is also environment, real estate, broadband access, networking system, luckily we have a large portfolio of business, and they are all with good perspectives. Real estate goes in Mediobanca. And we'll stay where we are, we are not moving.

There are no more questions.

Hello, sorry, there is a follow-up question from **Mr. Serge Escudet from UBM**. Mr. Escudet, you may proceed with your question.

Question: Yes, I have a follow-up question on industrial businesses. Can you give us some information about the broadband business access, especially the contract you're expecting to get in the future, and in the next quarter or the next year in Italy or in Europe, how is the ... doing, in one word? I'm asking Mr. Ferrario.

Answer: Yes, ok. We have customers in Italy, in UK, the customers in Italy are for example Telecom Italia. We expect a two digit growth also for next year and we are opening the US market, where we already have a few people, and looking to China, though we want to strengthen our position in Europe, and then, after the first half next year, when the new photonics product will be ready, we want to expand in US and China. So we expect quite an interesting growth in this business...

Question: Can you give me more numbers on the US, or China, are they all in the plan, in your...

Answer: No, in the plan there is nothing. This business was not in the plan when we did show, the business was not included taking into account China and US, it was only the European business included in our three year plan.

Question: So the addition of US and China to your...

Answer: When we will have the first order in US, we will make a press release, and we will be happy to tell you about US and China.

Next question from **Mr. Edoardo Bonanno from Centro SIM**. Mr. Bonanno, you may proceed with your question. Thank you.

Question: Yes, good evening everybody. I just have a follow-up question on the Olimpia issue, given that you will probably use part of the cash you're raising from ... cable into Olimpia, I'm just wondering if you would consider to increase also your stake in Olimpia, if you see every shareholder which is committed today doing its own part, basically.

Answer: We don't have any sign that our partners want to leave the Olimpia partnership, as you know for ... there is until 2006 the agreement to stay in, then they have an option to get out with their part of shares on that, so I don't see anything happening in terms of change, of strategy, on our partners' side.

Next question from **Mr. Riccardo Esposito from Banca Profilo**. Mr. Esposito, you may proceed with your question. Thank you.

Question: Good evening. Please, could you disclose the impact of new international accounting standards on P&L and balance sheets, in particular with reference to the put option and other off balance and other derivatives. Thank you.

Answer: In the bunches that are with second put option, the one of 130 million or something, so there will be no other major effects on our balance sheet. Maybe something slightly positive in the P&L, but nothing of major importance.

Question: And you will be forced to make the mark to market of the put option?

Answer: No, not at all.

Question: And the consolidation of Olimpia is still excluded?

Answer: Yes.

There are no more questions.

Thank you very much, good evening!

