

Good evening, Ladies and gentlemen, welcome to Pirelli's conference call, in which our Chairman, Mister Marco Tronchetti Provera, will present consolidated results for the first half 2005. 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. In order to attend the best audio quality, please avoid the use of speaker systems, and use the receiver, or headphone. Now, I would like to introduce you to Mister Marco Tronchetti Provera. Thank you.

**Good afternoon, ladies and gentlemen, and thank you for joining our presentation. In July, we have disclosed our first release of the first half 05 group preliminary results. Today we'll present you the final first half 05 results; in July, the closing of the cable division deal, has been performed, and the full financial effect was 1.2 billion euros.**

**As shown in the next slide, number 1, we have refocused Pirelli on high margin businesses, supporting the profitability growth path seen in the recent years, the cost control is a continuous platform for the group to maintain competitiveness, are indeed the real engine of Pirelli's innovation. Pirelli's activities are supported by transparent and effective corporate governance and a very skilled and motivated management team.**

**The group's new structure is shown in slide number 2; the group is engaged in two-three main fields, core businesses, as you know: tyres, Pirelli real estate, and Olimpia TI. (...) Pirelli problem solutions and Pirelli Ambiente, the first is giving a growing contribution in terms of sales, posting 64 millions of sales in first half 05, with an environment that is still in this steep stage. The above mentioned activities are strongly supported by Pirelli Labs, our center of innovation based in Milan Bicocca, employing more than one hundred scientists dedicated to materials, optical and process innovation. Going through the main results of the first half 05, in slide number 3, as you can see, results are not considered in the cable activity's numbers, which have contributed as discontinued operations to the net income for 33 millions... it was 13 millions in first half 04.**

**Briefly, because most of the information are already known, net income doubled to 210 millions, and attributable net income doubled to 179 millions. Group sales increased by 13.1% year-on-year, to 2.3 billions, from 2 billions in first half 04. Group EBIT impressively increased to 202 millions, an increase of 32% year-on-year; group return on sales equal to 8.9%, thanks to the re-qualification on higher profitability activities. Net financial position was 2.340 billions and 1.200 billions, considering the cables' deal effect. Olimpia's contribution to Pirelli's results has been equal to 86 millions, thanks to the pro-quart on Telecom Italia first half consolidated net results. The TI results of (...) is considered by the fact that Olimpia, for Pirelli IAS-IFRS's purposes, is accounting TI participation with the shareholders' equity method. Coming to Pirelli real estate, Mr. Puri will show you later the main drivers on first half results.**

**Slide number 4 underlines that the EBIT has been mainly increased by the results coming from the tyres sector, that increased by 33 millions, and the Pirelli real estate's run at +18 millions.**

**While the net financial position, on slide 5, at the end of June was equal to 2.34 billions, decreased to 1.1 billion, considering the financial effect coming from the Cables deal, as shown in the last column of the chart. During first half, the main effect of the net financial position has been an extraordinary one, which is the negative delta between Olimpia capital increase and Pirelli capital increase, 282 millions. The seasonality effect of 199 million euros which, as you know, is typical of the first half of our industrial activities, in the second quarter, increased 27 million euros of cash that have been generated by ordinary activity. The process this seasonality effect is mainly due to the cable business, and the rest of activities have been cash-positive. The process of 100 million euros of TI ordinary shares has also affected the net financial position, dividends paid by Pirelli&C. and Pirelli real estate, 145 million euros, and others, worth 12 millions including JIMS capital increase of 10 million euros.**

**I'd like now to go through the group's sector results starting from tyres, that are the positive contribution that is shown in slide number 6, net fence are up to 1.8 billion euros, from 1.66 billions in first half, increased 8.3% year-on-year, I will go fast through these figures because they are already known in the market; in particular in the first half 05 Pirelli tyres recorded a two-digit growth rate, both in the consumer and industrial segments, allowing an overall +8.3% variation in the first half 05. (...) and mix improvements in all areas of sectors of raw materials and energy costs also in the second quarter and despite the (...) market environment volume growth stands at 3.9% year-on-year, in the second quarter, allowing an overall increase of 2% on volume variation in the first half 05. EBITDA was 280 million euros from 242 million euros in first half 04, the increase is 15.2%; EBIT grew to 187 million euros with 10.4 return on sales, versus 9.3 in first half 04, up from 154 millions euros in first half 04. Net income was 116 million euros, grown from 83 millions euros in first half 04.**

**Slide number 7 shows the typical seasonality of Pirelli tyres' results. In a contrasted scenario given by a positive winter campaign outlook versus additional energy and raw materials costs, Pirelli's**

main targets at year end, 9% return on sales, with one year advance versus the three-year-plan. We keep investing in new low cost operations such as Romania, and new market opportunities, such as China.

Going to problem solution results, net sales grew strongly to 64 million euros, from 28 millions in first half 04, and incremented sales in broadband access business are mainly related to devices supporting a new wave of services, like voice of LIP. EBITDA was negative by 2 million euros from -4 in first half 2004; EBIT was still negative by 3 million euros from -4 in first half 04; the EBIT of broadband access was positive to higher volumes and cost reduction, offset by a negative impact of new photonics products still in R&B phase, to support second half 05 developments. Net income was negative, -4 million euros, from -5 millions in first half 04. Related broadband solution is on track with the three-year-plan targets, capitalizing our new products' geographical expansion and alliances.

Slide 9 breaks down the main achievements of the two segments, but the broadband access reconfirms the leadership in the domestic market, with new clients and innovative services provided, like the voice of LIP and modularity. On the commercial side, new developments are expected from EU and Latin America. Finally, our office is going to be integrated with new services like the PMP, the so-called Pirelli Management Platform, so leveraging our proved experience. About photonics, we are in the phase of development, building the business structure to support the sale of photonics products, and we expect to start in the second half of the year... to start having the first sales. The (...) have been submitted for qualification tests to the main clients, and we're in the phase of setting up new agreements with leading Telecom systems integrators. I leave now the flow to Mr. Puri, about the Pirelli real estate's first half results, that have been already delivered to the market. Carlo...

Thank you. Well, first half of 2005 was another strong semester for our company, making us fully confident that we will reach the targets set out in the three-year business plan 2003-2005, so finishing this year. Net profit increased by 25% over last year, reaching around 60 million euros, as disclosed at the end of July; the net profit on historical result is around 18%; EBIT, including income from equity participation is at 38% over last year, to euro 80 millions, on a IAS basis, and 21 on historical result, I say historical result because the three-year business plan was built on this data. I remind you that no contribution to funds has been done in the period, in fact Bernice office was placed with high success in July. It is also important to notice that in this figure it's included 2.2 million euros of profit coming from NPLs, last year the activity posted a loss of around 1 million euro. More importantly, we continue the trend of increasing the weight of EBIT, deriving from management season services on the total EBIT, from 17% to 42% in first half of 2005.

Next slide, in the first half of the year, we increased both assets under management, and assets under services, to euro 12.1 millions and 39.6 billions euros, respectively, the first one and the second one. Those figures include for 2005 the fee, treasury administrative funds, for 1.1 billion euros, and the non-performing loans at market value. The results of the fund and asset management was driven by strong contribution of fees, which reached 16.5 millions, from 4 millions, in first half 2004. In the first half, services' profitability grew significantly, with a 49% of increase, over last year, thanks to a great operating efficiency. The distribution network, with 700 contracts signed, posted reduced the operating loss to only 1.2 million euros versus last year, and we expect it to reach a break-even for the year end. For the year end, I would like to confirm the growing trend, of the first half, and we will be able to achieve the target of 20-25 KAGER at the EBIT level, already announced, on the historical result; on October 19, we will present to all of you the new three-year-plan, from 2006 to 2008. I'll give the flow back to Mr. Tronchetti for the group's outlook. Thank you.

Thank you, Carlo. So, the 2005 outlook for Pirelli group is the following: first, we confirm a continuous growth in profitability; second, the group's 04-06 targets are confirmed, and in particular, as we have seen, tyres are on track, to anticipate by one year the 06 targets, Pirelli problem solution is in line with targets and Pirelli real estate's EBIT, including income from equity participations, is in line with the three-year plan targets; regarding Olimpia, you have seen increased contribution on Pirelli's results, mainly due to TI positive results. Thank you very much for your attention, and I'm ready to answer to your questions. Thank you.

## **Q&A session:**

1. Mr. **Serge Escude** from **UBM**:

*Good afternoon. My question is on the next target of profitability of the tyres division. You were just mentioning that you were ahead of your targets, for your three-year-plan, what do you think could be achievable for the... over the 9%... for the tyres division? Thank you.*

**So, the answer is easy: we think we will improve... but we haven't delivered any new targets to the market, so we cannot do it.**

Yes.

**Our expectations, thanks to the product portfolio we have, and the position in the market, is that, having achieved in advance the targets, there is room for an improvement.**

*Yes, sure, you are the best in class, or one of the best in class, for profitability in the tyres business. Over 9% you think is achievable?*

**Yes, I think so.**

*Okay. Thank you.*

**Thank you.**

2. Mr. **Martino De Ambrogi** from **Euromobiliare**:

*Yes. Good evening to everybody. My first question is on TI shares, I mean, are you planning further TI shares' purchases? And, I have a follow-up question connected... linked to this question.*

**No, as you know, we have already now a portfolio of derivatives, and so we bought 100 million euros of shares, and so we are looking at the market's evolution to see if and when to exercise the derivatives we have.**

*So no direct purchases on the market are planned today? Even if the price's slightly below... than the price that you bought the last 100 million of shares?*

**Well, as far as I know... and I know... the price is in line with the price we paid for the 100 million we spent to buy the shares, so... we don't see any difference.**

*Okay. And, the second question, related to the same aspect, so I include... if I include the put option cash-out flow, you are reaching a debt level depending on which will be the free cash-flow generation next year, but you are reaching something in the region of 2.3 billions of net debt, without including the exercise of the derivatives you already have, and you were mentioning on TI shares, so, I consider this as a good level, I mean, have you in your mind a higher net debt limit, as I assume this could be considered as a sort of limiter with a limited financial flexibility to buy further TI shares?*

**I fully agree with you, I consider this as the right level, we have time, we will see what will happen in the market, we will see what will happen with the put options, but the target of debt you have in mind is the same that I consider a fair one.**

*Okay. And if I may just add one more question, on the tyre segment... we saw a new legislation for winter tyres in Germany, is it already included in your 9% target for return on sales? And the second part of the question is: do you expect something significant coming from this kind of reform and if it's already exported... we can say, around Europe? Some just similar legislation?*

**But... first of all, as you know, the legislation in Germany is important, and is also in a market that is going far, the most important market in Europe. So, I think that this legislation will have an effect to stabilise the market. Before seasonality was affecting more the market than we expect it will affect in the future. I mean, if one year it was snowing much, and the year after it was snowing just a little bit then stocks were up and problems used to come. Now, with the new legislation, the, let's say, 90% of the market will not be affected by seasonality. Our targets, I confirm, are including the new legislation, because it's already in place.**

*Okay. Thank you.*

**Thank you.**

**3. Mrs. Monica Bosio from Caboto:**

*Thanks. Good evening. I would like to know something more about your expectations about the growth rate in Latin America. And I would have a second question regarding China. I would like to know, if possible, the expected contribution to Pirelli's results of the joint-venture in China. Thank you.*

**So... starting from the second question, what we expect from the Chinese market, is to have a 10% return on sales.**

*Okay, Thanks.*

**So... that's what we can see today... Latin America, we expect to continue the trend we are having today, our position in the market is known, the flexibility we have is also known, so we have also a capacity that can be delivered in the US and Europe, depending on internal market conditions. So, I think that the structure we have in Latin America makes us very comfortable and I think it will continue to contribute positively to the growth of our group.**

*Thank you very much.*

**Thank you.**

**4. Mr. Massimo Vecchio from Intermonte:**

*Good afternoon to everybody. I have a question on Olimpia. Given that you now own... Olimpia owns like 18-19% of TI shares and this level is much lower than what was originally planned, are you worried, in a way, to lose your control premium on TI? And, how do you, let's say, see... how do you balance the fact that you may have limited flexibility in buying new TI shares with this particular risk? And will you be willing to have new shares in Olimpia to help you to increase your stake in TI? Thank you.*

**First of all, the level of stake we have in TI is the one that we had in mind, so there is nothing that has changed, since we started the public offer on TIM and the merger between TI and TIM, so there is no difference between expectations and results. Second, we believe that this level has a premium, and we believe we have a good management, and I think that the... today our position is not linked only to the strategic stake we have, but is mainly linked to the professionalism and achievements of the management team.**

*But you don't see the risk therefore that someone may buy some, let's say, 20-25% stake on the market and your control premium that you paid may be at risk?*

**No, we believe that the market is, and will be with the management that will be able to do the best job inside the company. And, for the time being, we believe that we have a management team that is**

very good, if anybody wants to buy shares, we are very happy, because we consider that the shares are undervalued. So I don't see any reason to be worried of anything, so we just want to continue to do our job properly and professionally, as we have done until now.

*If I may, another question on almost the same topic. Are you starting already to have some discussion with the two banks on the put option, or do you have a framework for that?*

**Whenever something has to be delivered to the market, it will be done. So, it would be, let's say, not proper to say anything until anything has been agreed.**

*Okay, thank you very much.*

**...nothing has been agreed until now.**

*Thank you very much.*

**Thank you.**

**5. Mr. Federico Bruzzi from Deutsche Bank:**

*Yes, good afternoon to everybody. One question on your financial charges: can you tell us... or, actually, can you elaborate on the cost of debt you had in the first half of the year, and if there's any one-offs in these 66 millions? Then, if you could tell me whether there is any seasonality in the broadband division, or, more specifically, if you see the continuing trend in orders even... also for the second part of the year, as mainly reflecting... mainly for the revenues? And the third one is relating to Allinvest. Can you tell us, can you elaborate on the possibility for new key to ask for the break-up of Olimpia? Thank you.*

**So, starting from interest rates. Interest rates' average cost is around 5%, and, within the 66 millions of charges, we have a devaluation of the derivatives which is in the range of 40 million euros. For the second question, seasonality on broadband, yes... oh, sorry, the derivatives are the TI derivatives I mentioned before, and that are known. So, nothing new. So, what is known being in our portfolio, we don't have any other derivatives. Second question, seasonality broadband: yes the first half is the strongest part of the season, and the second half is the less strong part of the year. And the third question was the break-up of Olimpia that I didn't understand the question... so what did you mean? I... you mean that the right of Hopa to... this is the...**

*Under which condition...*

**Beg your pardon?**

*Sorry, under what conditions can... in a situation... I mean... the other shareholders ask for the break-up of the venture of Olimpia? And Allinvest, actually.*

**Well, no, we... you know that there is the agreement that has been published, and is known, there is the right, next year on our side and on Hopa's side, to leave, so we can ask them to go, and they can ask to leave. In case they go, we can decide whether we want to apply the cash settlements, or to let them go with part of the shares and part of the debt.**

*Okay. Okay. Thank you.*

**Thank you.**

6. Mr. **Edoardo Bonanno** from **Centro Sim**:

*Yes, good evening, everybody. I have a couple of questions. The first one is on several stakes on business companies that Pirelli has. Can you tell us if you consider them, all of them, strategic, or if you have some assets that you may dispose in the future, considering that, if I'm not wrong, the total value of this participation is around 500 millions euro? And at last, on the tyres' division: in the past you stated that the tyres' division, at a certain point, was not strategic, but I'm talking about five years ago. Now it's a PS that results very good and that the tyres' division is strategic again, but I'm wondering if you will ever consider to dispose that activity again, or maybe just an IP or listing that... of the tyres' division alone? Thank you.*

**Thank you. The participation we have in our books... most of them are strategic, they are strategic since several, many of them like Mediobanca, so these participations are luckily having very positive results, both in terms of market evaluation and dividends, so we are happy to have them in our portfolio, and I really am surprised, because I never mentioned... I never, ever mentioned to sell the tyre business. Well, what I mentioned, in 2001, was the possibility to sell the truck-tyre division, together with the cable business, energy and Telecom, but luckily, the evaluation of the Telecom and energy business, that we sold in July, was up some hundred milions, compared to the evaluation of 2001, so our financial targets are fulfilled by the sale of the energy and Telecom division, and the truck-tyre business has strongly improved its results, and we are happy to confirm that they are strategic inside our portfolio, and there is no plan of IP, or whatever, linked to the tyres.**

*Okay. Thank you.*

**Thank you.**

There are no more questions.

**Thank you very much to everybody, and good afternoon.**

Ladies and Gentlemen, the conference call is over. Thank you very much for your attention.