

Good morning, ladies and gentlemen. Welcome to Pirelli's conference call in which our chairman, Mr. Marco Tronchetti Provera, will present the consolidated results for the first half, 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.

Good morning, ladies and gentlemen. Thank you for joining our conference. I will give you an overview of Pirelli & Company SPA first half 2004 results. Then, Mr. Ferrario will present the first half results of 2004 results of industrial businesses. And, finally, Mr. Puri will give you a quick overview of Pirelli Real Estate first half 2004 results. The presentation will be followed by a question and answers session.

I would like to start the conference pointing out the main achievements during the first half of 2004. The first half of 2004 showed a strong improvement of all economic indicators consistently with the 2004 - 2006 industrial outlook, presented during our Pirelli Technology Day in May 2004. We had a faster growth of group operating income, EBIT. It increased by 34%. 106 million euros were destined to R&D expenditure, representing 3.2% of industrial sales. We confirm our commitment on technology, notwithstanding the difficult economic scenario. Our industrial economic activity... activities improved, energy cables and systems doubled year on year operating income, 54 million euros on 27 million euros in 2003. New telecoms systems activities revenues of the first half stood at the same level of full year 2003, 28 million. So that means that it doubled. Finally, the tires sector posted its first quarterly performance in the last ten years. The interim results was positive, for 52 million euros, thanks to Telecom Italia dividends cashed in the second quarter. Finally, real estate activities traffic grew by 24% in operating income, including income from equity participations. Franchising networks were successfully launched.

Before going more deeply through the first half 2004 results, let's also have a look at the group shareholders and participation structures. I will go quickly through that, because it's known by all of you. Company is taking a credit now of 26.9%, after having purchased some SCS, approximately 38 million shares. In July, 8-7-4. On April 2004 Pirelli group exercised JP Morgan corruption, on approximately 47 million PI shares, for an amount of 110 million euros to... equal to 234 euros per share. Following this operation, Pirelli had participation in PI and is now 34.5%. In the beginning of July Pirelli purchased from June 98 Pirelli around 4 million shares group totally in 1.01 of the shareholders capital for an amount of 33 million euros. The book value of the shares of LCA?? as of now is averaged 2.74 million euros per share. At the end of July, Pirelli & Co. sold 3.4 million of PI-related shares equal to 8.37% of the share capital. The gross consolidated capital gain of around 56 million euros. Business allowed both increased Pirelli Real Estate liquidity and to reduce Pirelli & Co. net financial position. After the deed, Pirelli & Co's 52.6% of Pirelli Real Estate. Finally, last Thursday, both of the directors have approved the project to integrate in one company, Pirelli & Co. Ambiente Holding, the business of Pirelli & Co Ambiente & Country, after an evaluation of 6 million for Pirelli Ambiente and of 70 million for Ambiente Country ??.

Going to the first half consolidated results, starting with revenues. In the first half, revenues amounted to 3 billion 573 million euros, up 8.3% against the same period last year, posting growth in all activity sectors, 5.9% on a like for like basis. The EBITDA reached 364 million euros from 322 million, in the first half of 2003. And the EBITA margin reached 10.2% from 9.8%. The operating income amounted to 190 million euros, up 34% when compared to 142 million euros in first half of 2003. Consolidated EBIT margin was 5.3%, farther growing when compared to the 4.3% figure of 2003. It must be remembered that the 2003 figure included 10 million euros positive contribution from ??Sienna settlement. Income balance of 31 million euros, with a strong recovery from first half 2003, when it was negative for 21 million euros. Net financial position is 2 billion

euros compared with 1.7 billion euros at the end of one point...end 1.6 billion in the first half of 2003.

Going to the Olimpia results... the effect of the Olimpia results... in the first half of 2004, the first positive for 57 million euros. Last year was negative for 4.65 million euros, thanks... that is thanks to Telecom Italia dividends which were accounted for cash receipts in the second quarter. The positive net results for Olimpia were as expected for the full year.

Now let's go more in detail the group EBIT variations. Slide number five, as mentioned before, operating income EBIT amounted to approximately 190 million euros. Increase of 34% when compared to 142 million euros in first half of 2003. Data exchange rates of the industrial aggregate was negative for 5 million euros. The energy valuation year on year was positive for 28 million euros while Telecom for 5 million euro and tires for 30 million euros. I remind you that Pirelli Real Estate EBIT contribution, minus 3 million euros, was not so meaningful due to the company business model. The meaningful figure for Pirelli Real Estate is EBIT including the results of equity participation, that increased by 30 million euros. And these figures are net, as you know. The corporate contribution, minus 7 million euros, takes into account a Sienna?? certain contribution of 10 million euros, positive, in 2003. As regarding the group finan... net financial position of 30 June 2004 was negative by approximately 2 billion 15 million euros, against 1 billion 745 million euros at year end 2003. But in line with 2004/ 2006 targets and taking into account the following items. In second quarter 2004, net cash flow from operating activities was positive for 187 million euros. As a consequence, the negative amount of 213 million euros of the first quarter due to the seasonality effect has been quite recovered. Second, the dividend payments was 132 million euros. Third, corruption of 47 million Telecom Italia shares exercised on 7 April 2004 whose total amount was 110 million euros. And then, there is a subscription of euro SPA capital increase, approximately 30 million euros. Net financial position of 30 June 2003 was 1 billion 598 million euros. And we confirm that, year end, we will reach the level that was in the plan in line with last year, net debt, and even less.

Now I give the floor to Mr. Giovanni Ferrario.

Thank you very much. And, good morning, ladies and gentlemen.

Good morning ladies and gentlemen. Before focusing on the industrial aggregates and the industrial sector first half results, I would like to remind of our commitment. In the next three years our group will aim to continue its profitable growth and will confirm its mission statement, building international leadership in innovative products and services. Also, maintaining the R&D focus as a priority. This mission is set in the operation for all our operating units and we think the 2004 first half results can be considered as a very first achievement of our plan, completely in line with the target.

Next slide number 8, the first half 2004 the industrial activity sales revenues reached approximately 3.3 billion euros, up to 8.2% when compared with the first half 2003. On the same perimeter base net of the effect of the exchange rates and net of prices, revenues actually grew by 4.7%. EBITDA grew 80% from to 287 million euros to 338 million euros. Operating income EBIT was approximate 193 million euros, growing by 43% when compared with the first half 2003. ?? rose to 5.9% against 4.4. Pre-cash flow, 89 million euros from 75 million.

Now, let's see more details EBIT variations, slide number 9. The EBIT reached 193 million from 135 million euros, with an increase of 58 million euros. This result was mainly due to the

commercial valuation positive of 49 million, of which 66 euros in volume and minus 17 euro related to price index. Then, the efficiencies with the continuous efforts, equal to 37 million. The increase in unit production cost has been negative, for 27 million, of which 19 million, labour costs and 10 million, raw material.

Sector results, slide number 10, energy. The sales approximately totalled 1,450 million, up 10.4% compared with the first half 2003, equal to 1,312 million, in line with the previous year, so on a like for like basis. EBITA, 94 million euros from 70 million in the first half 2004 with an increase of 34%... plus 34%. Operating income was approximately 54 million, compared with a figure of 27 million posted in the same period last year. The Ross?? has been growing from 2.1 up to 3.7%. Next, telecom cable... Telecom Cabling System the revenue in the first half 2004 were approximately 205 million euros down 10.1% when compared with the same period of June 2003, was being 223 million. This was mainly due to fibre price erosion. It should be also mentioned that the first half of '03 benefited from the voicing of two submarine projects, approximately 40 million euros. EBITDA in break even. Operating income was negative for 50 million euros of which minus 7 related to the submarine activities, posting an improvement when compared to the 21 million in the first half 2003. We are ready to launch our line of new product system models and components based on our past research of Pirelli for the optical network and broadband access we will launch at the end of this year. Finally, tires sector, the sales amounted to approximately 1,646 million, compared with 1,509 million in the first half 2003. The total growth being 11.7%. This result was achieved thanks to the volume growth and price mix improvement, which more than offset the raw material price increase. Operating income was approximately 154 million euros, with ROI's of 9.4 million.... 9.4%, an improvement of 19 % compared to 29 million euro in the first half of 2003.

Now I give the floor to Mr. Carlo Puri.

Good morning, ladies and gentlemen. The first half results confirm the ongoing growth trend in line with the targets set out in the three-year business plan. EBIT including income from equity participation grew by 24% year on year, while net profit increased by 25% to euro 50 million. The adjusted financial position, not including shareholders loan to companies where a minority stake is held, was negative 278.5 million euro, as compared with a negative figure of 249.3 million euro, at June 30th, 2003. Beginning ratios to 0.66 as against 0.69 on June 30, 2003, in line with the targets of the three-year plan. The company in the first half successfully completed the placement of two funds, Heykla?? office funds and Cloe?? office funds, for around 1.8 billion euro at market value. Despite the recent set up, the results of the fund management is already positive for 0.2%. Another fund is expected to be placed within year end 2004. Therefore, we will complete contribution for around 2.2 billion of value and reach over 2.5 billion of assets at market value. In the NPL's business, Pirelli Real Estate and Morgan Stanley signed a binding agreement aiming at the realization of a JV between Misrep?? and Pirelli Rei, to manage NPLs portfolio and set up a new company controlled by Misrep?? for 51% and Pirelli 49% in the credit servicing. The company will be a leading company in the management of NPLs in Italy. There is a put and co?? option starting from January 2007 on the 51% of the company by Pirelli Rei??. In the first 6 months we made total acquisition for around 560 million euro. We have around 1 billion euros in the pipeline before the year end in the residential and commercial sectors, of which 170 million euro are already under preliminary contracts. The first half...um... in the first half the ?? activation drive for setting up of the network to distribute real estate, banking and insurance services to the retail market. As of June 30th, 2004, 390 contracts had been signed and we reached 434 at the end of August. The valuation for all the year was 500, so we are anticipating our targets.

Assets under management, including non-performing loans at market value and not at gross book value, as in the past, amount to 10 billion euros, an increased compared to the figure of 9.7 billion euro at the end of 2003. The figure as of June 30th still does not include the portfolio of non-performing loans arising from the binding contract signed with Misrep ?? after the end of the period. And thanks to which, assets under management at market value, rise to a figure in excess of one billion euro. Assets under management, the 10 billion euro that I said before, are broken down into 8.2 billion euro of opportunistic portfolio and 1.8 billion euro of long-term portfolio. Pirelli Rei?? stakes in opportunistic portfolio is 29%, 26 at the end of 2003. In the long term portfolio managed by Pirelli Rei?? SGR, the figure stands at 3.8. This business was not present in 2003. Further to the different management mix and in line with the three-years plan, the overall stake of Pirelli Rei is 2.4 billion euro, equal to 24%. And was 2.6 billion euro, or 26% at the end of 2003. The net asset value the some of shareholders equity ??and leased for quarter capital gain, equal to 664.5 million euro, stood at 1.082.4 million euros. The figure represents only a part of the worth of the company, insofar it doesn't include asset management services, the value of Pirelli Rei SGR active in fund management, and managing, as I said before, Etecla?? and Cloa?? funds with an asset value of 1.8 billion euro. The value of Pirelli Re?? agency, Pirelli Rei property management, project management, facility management, and Pirelli servicing active in special services. And also doesn't include the value of Pirelli Rei franchising active in distribution services for real estate and financial products with the affiliate that I just say before. Thank you.

I'd like to add only closing remarks. Pirelli confirms considerable improvements of both operating and in all sectors in 2004 and net financial position in line with expectations, as I mentioned before. Thanks and now let us start a Q&A session.

Ladies and gentlemen, I would like to remind you that you may register for your questions by pressing star followed by one. The first question from Mr. Martino de Ambroggi from Euromobiliare Sim. Mr. de Ambroggi, you may proceed with your question. Thank you.

Yeah, good morning to everybody. My first question is on Pirelli real estate. So, I understand that the reason of increased liquidity for Pirelli real estate, but I... knowing that Mr. Puri is very bullish on the business model... on the market, I was a little bit surprised about the sale of 8 plus percent of Pirelli real estate. So, if you could elaborate a little bit more on this. And the second question is for Mr. Ferrario, being in September, almost at the end of Q3, could you quantify what you consider to be a considerable improvement on a year on year basis for the EBIT for the industrial companies? Thank you.

Thank you. The preference of Pirelli real estate was due to the fact that, for all investors, we had the same reaction on the Pirelli real estate evaluation. The company was considered a good company, undivided. But the answer was that there was not enough liquidity in the market. So that's why we did elaborate the project to place the shares. We knew that the value of the company was higher. But it was a way to have the growth of the value. And, as you can see, after the placement, the plan was turned up. Even, as Mr. Puri mentioned before, the value of the company could be elaborated in a different way, taking into account the different services that are not in the value of the company... the value of the market provided to company. So, I think that we made a positive move for the market, and positive also for our participation. Thanks.

Any further divestiture?

No, no...it's not...

... not only for the Pirelli real estate?

No, no, no. For the time being there is no reason to plan any other divestitures. And we want to keep control of Pirelli real estate

Yeah, but on the other businesses?

There is nothing in the pipeline in that direction.

Thank you.

For the year end results, we expect the energy to be in line with our three-year plan. Slightly better for the tires. And, as far as the telecom fibre and cable, we expect to be break even. And, then, we will add the launch and increase that has already been posted in the first half for the new product for the broadband. And that's what will help us to, you know, open opportunities for 2005 in this business.

Yeah, when you talk about break even are you taking about on a full year basis or just for the Q4?

I am talking about cable and fibre only and we are talking about the full year. On the full-year basis.

While the new products have a profitability?

Sorry?

The new products that you are launching for the broadband?

The new products will support the cost of the start up. So, we are investing in structure, we are investing in new people coming in. So, of course, for the first year we are not expecting to be profitable because it is a pure start up.

Okay. Thank you.

You're welcome.

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

Yes, good morning. One question for Mr. Tronchetti. You said before that there is no reason to plan any other divestiture for the time being, but you recently told that you are considering if to increase your stake in TI through Olimpia. So, I wanted to understand if Olimpia has the money to eventually increase the second TI and if Pirelli has the money, for the time being, to eventually fund Olimpia. Thank you.

It's an easy answer. If we have the money we make the investment. If we don't have the money, we don't make the investment. We don't want to increase the level of debt, so in case we will have the cash, we will do it. In all... starting in 1991-92, we moved all our businesses to the upper end of the business in order to increase the contribution margin. We made divestiture where there was an opportunity, like we did with Corning??, with the Optical Technologies, etcetera, in order to cash in while it was a good opportunity to do it. Or, we sold businesses having lower contribution margins, like the diversified products, to invest in business where we expect to have a higher contribution margin. So, that's the policy of the company. That's why we built the real estate business. So, our focus is always in moving from low contribution margins to high contribution margin activities. And that will be the driver of all our divestiture and investments in the future, as it has been in the past.

Okay, thank you.

There are no further questions for the moment.

There is again Mr. Martino de Ambroggi from Euromobiliare Sim. Mr. de Ambroggi you may proceed with your question. Thank you.

Yeah, if I may have a follow up on the answer from Mr. Ferrario. You are... you told that tires are above your target. So, we can say that, for 2004, the 19% growth recorded in the first half could be considered, more or less, the average for the full year for the EBIT?

Now, first of all, as you know, our target... our business has a seasonality. So, the first six months normally are higher than the second part of the year. Secondly, as you know, we have the Winter... that is... the Winter season that is starting, so it's always difficult to understand how this business will go. Also, if, in fact, the first sales has been, I would say, good. But also we have to expect something... some more timing in order to define the real trend of the year end. Of course, that depends also from the weather conditions, if you understand. So, it's difficult now to define the forecasts.

Yup. Okay. Thank you.

There are no further questions.

Thank you. Thank you, everybody.