PIRELLI q&a 9 MONTHS 2003 RESULTS

Tronchetti Provera
Good afternoon ladies and gentlemen. We start with the 9 months results.
SLIDE 3 this headlines confirm the improvements for the first 9 months and compared to the previous year both in sales, + 9.3% of the organic improved up to 4,928 billion Euros, and margins the EBIT increased by 197 million Euros which represents 88% increase year on year. Any major organic growth we mean the results net of exchange rate, net of prices and perimeter variation effects. The third quarter saw an improvement especially in EBIT coming from 4 million euros to 55 million euros while state organic growth increased by 9.7%. The 30th of September the operating *pick cap* cash flows for 238 million euro; in net financial position have been reduced from 2 billion Euro in the year end 2002 to 1.5 billion Euro included the net capital increase of 649 million euros.
SLIDE 4 You can see that Pirelli has reached these results despite this tough environment.
Moving to the business factors the scenario is recovering slowly and pressure and plus in volumes remained high but we maintained the commitment on R&D which represent 3.5 of total sales.
Energy cables and systems has confirmed the positive effect from timing restructuring efforts.
Telecom cables and systems are approaching the break even and tax results an increasing improvement and tends meet the volumes. The real estate business has grown strongly compared to the same period in 2002 as strong by the EBIT coming from equity participation we are on 25% year on year.
SLIDE 5 The contribution of the different areas of the Pirelli group I will underline some of the main points of the large five the operating results of our industrial business which includes goods, energy, telecom cables and systems and the tyre sector increased by 52.8% to 194 million euros, from 127. Significantly increasing the operating margin from 2.6% to 4.3%; the profit before extraordinary items and taxes line shows an impressive growth from 36 million euros to 122 .
This is not due to the typical business model of Pirelli and Pirelli Real estate. Net sales are not represent directly the business volumes and that the significant figures is the net aggregate value of production which increased by 41% compared to the same period of 2002.
For the same reason the most significant economic indicators for the real estate business is the EBIT including the equity participation result with an increase 25% to 72 million euros.
At the consolidated level EBIT has reached 197 million euros +87.6 versus 9 million in 2002 with the return on sales of 4%.
The consolidated result before extraordinary items and taxes becomes positive to 51 million euros.
SLIDE 6 shows the positive trend of the EBIT in 2003 which sees a continue improvement compared to the last year especially in the third quarter an increase of 51 million euros from 4 million euros of the third quarter of 2002 and to 55 million euros. This trend is expected to be confirmed in the fourth quarter 2003. So now I leave to Mr Ferrario managing director of Pirelli and CFP to develop more on the industrial activities in the following slides.

INDUSTRIAL ACTIVITIES

GIOVANNI FERRARIO

Good afternoon to every body and thank you for joining in this preview of group results for 9 month.

In the **SLIDE 8** you have look on the main figures for the industrial business result. Organic sales sees a variation on positive 5.1% versus the previous year while the 6.3% decrease in reported sales has been mostly generated by exchange rate, net price and perimeter intervariation. If we move to the EBIT level we show an increase of 52.10% moving from 127 million in 2002, to 194 million in

2003. Thanks to the result entire, efficiencies in cable, energies and telecommunication that allowed us to increase the EBIT margin from 2.6% up to 4.3%.
Generally speaking we say a strong recovery in profitability overall.
SLIDE 9 shows the efficiencies achieved equal to 135 million of which 78 million euro in energy, 40 in telecom business and 17 in tyres. As we can see the prices mix 42 positive and volume 39 million positive quite offset the increasing unit reliable cost and raw material, negative contribution than the operating level. The cost of the raw material negative has been mostly coming from Latin America where the currency devaluation has affected our costs.
SLIDE 10 Shows the 2003 operating industrial breakdown by quarter and we show in fact an increase for the whole industrial business. In fact the second quarter for energy cables that signed a decrease, in 2002 we have got a positive contribution of 10 million euros coming from the settlement with the customer, and 1st quarter 2002 in telecom cables has got a positive issue and compensation for 6 million, so generally speaking the trend is positive in all the 3 industrial sectors.
SLIDE 11 we have more detailed figure for the energy cables. The top line signed a difference of 14.7% in sales, while if we see organic variation the difference is -1.4% of which -1.10% in volume and price and mix +0.4%, EBIT increase 54.5% thanks to global efficiencies already shown for 78 million despite is very difficult in the market. The ROS index increased from 1.4% to 2.6%.
What is still to be underlined is that we are on track with the new major high voltage projects worldwide we show more in details in the last slides of this document. In fact the order book also for the general market and special cables is increasing.
SLIDE 12 For telecom sector the sales are decreasing by 15.3% and for the organic level 8.7%. This variation is due to mostly price pressure and mix offset by the increase in volumes. The operating level results is still red, but significantly better, than 2002 thanks to restructuring process and cost efficiencies . The market conditions are still weak and price pressure is continuing also in the last part of the year and the impact on the volume also is quite negative; we continue actions on sales with broadband Adsl services and devices where we have more than doubled the turnover from 5.6 up to almost 20 million euros in 2003.
SLIDE 13 Tyre sector the organic sales show an impressive increase equal to 14.3% thanks to the price mix +6.3% volume increase +8%. The main points are a continue to this volume growth in this performing segment for the winter season is expected to increase; good results in track and moto. The EBIT margin is increasing 16% moving from 150 to 174 million euros equal to 7.7%

REAL ESTATE BUSINESS

CARLO PURI

We will go very briefly in details as we have already presented all the results.
SLIDE 15 Description of real estate environment going through the 3 different markets: residential, commercial and services.
On residential the environment is still on the market very high propensity of the families to save money and buy homes, and what we do as a company is a very strong rotation we have sold in the first 9 months nearly 500 million euros of assets, we have acquired nearly 300 million euro of assets we have On the requisition that will be closed part in December and in first part of January something around 400/500 million euros.
On commercial, i.e. all what is not residential: offices, light industrial and shops there is a very high liquidity on the market available for investments in alternative of how is going the stock and bond market.
We have a very strong appetite from investors, especially German investors, the quality of the tenancy and the position is still very good on the asset of class A, B+ and B. We started having with class C i.e. outside the centre of the city some weakness. We are managing a very conservative portfolio while the business model is quite new and the majority of our assets is in class A and B+

and mainly in the centre of Milan and Rome. So we were and we will be able in the future to do even an year strong rotation we have sold nearly 500 million of assets and we have acquired including the transaction that we closed on October the 31st nearly 750 million.
Taking about funds, we have decided to go to in better market period with a strong suggestion from the banks to move from the month of December to the month of January, before we were supposed to do it in November but the authorisation of Bank of Italy went longer than what we have imagined. So we move it to the next year, we have received the approval from bank of Italy already and is done and we have presented all the files to CONSOB from which we are expecting the authorisation before the year end, and so we are quite confident to be able to place first retail fund, the office fund for retail investors, starting in January 2004; institutional fund is in pre-marketing and the reaction are quite good we are confident we will be able to place it in the second quarter of 2004.
Before talking about services and based on comment on NPL (Non performing loans) the market is going to open and we are just closed the another acquisition of 100 million euro and we think we are going to close a big transaction of 2 billion euros for the first quarter of 2004.
Services reached a huge potential, for upgrade of services into European standards between the continental Europe and the Italy together with the south countries of Europe with a great difference in terms of quality and volume of real estate services. We have doubled our sales in this 9 month and we have had a very big increase in EBIT we have launched our franchising network that will end the year with a roughly 140 selling points and our business plan has two goals that we are able to make to arrive to 500 selling points at the end of 2004 and 1004 by the end of 2005.
On the next slide (**SLIDE 16**) which is the last one you can see our aggregate and consolidated numbers, profit and loss, and net aggregate value of production is really the way to understand the dimension of our business which has grown around 40% EBIT including results from equity participation again this is the right numbers to measure our results mainly we worked as management company that co-invest with the institutional investors with an average of participation around 26% increased 25% from 27 to 72 and net income increased 27% of real estate activities from 31-52%. Going to the balance sheets equity increased from 360 to 372 and net financial position which is still negative -71 to 49 million euro but again the right number to see is the net financial position not including the liquidity from shareholders loans, because all the loans the shareholders give to the company where we managed and co- invest, for the Italian account principle is excluded so you only see the numbers before 71 and 49 but we think it is correct to do not consider this liquidity so we are on the net financial position not including the shareholders loans stable to 249- 248 which is a very good gearing of 0.7. Thank you

(Tronchetti Provera)

Now let's have a look on Olimpia what has been done in order to enhance its financial structure as already communicated Olimpia on October 15th sold 504 million Telecom Italia 2001 -2010 in convertible bonds and in the same time purchased 266 million and 300.000 of Telecom Italia ordinary shares at the unit price of 2,24 euros. This operation has crystallised the bond premium increasing the stake in TI 14.2% from the previous 11.6. The expected impact on PNL from the TI dividends in 2004 is positive. For what concern the Olimpia capital increase approved yesterday by the Board of Directors and by the General meeting and **SLIDE 19** shows the main terms of the deal. The total amount is up to 770 million euros, by the issue of up to 770 million Olimpia ordinary shares at the per value of 1 euro each. 700 million euros the proceeds that will be used to purchase 295 Telecom Italia shares at an average price 2.37 per share. The total amount of shares that have been purchased from Mediobanca following to the agreement signed on 5th November 2003 for the purchase of TI ordinary shares. The main effects of Olimpia capital increase are shown in **SLIDE 20** so the capital increase of Olimpia to substantially strengthen its PNL driven to the definitive break even. Increase the stake of Telecom Italian of 17% of the ordinary shares amounting in

Olimpia with 1,752 billion euros, reduce the TI book value in Olimpia to 5.1 euro shares from the previous 5.8 euro. I would like to underline the book value of TI shares in Pirelli is now reduced to 4.2 euros per share from 4.9 euro per share. The very end of this presentation I would like to share with you in the **SLIDE 22** the outlook over the first quarter of 2004 and before saying that I just want to mention that the 70 million exceeding the 700 million euros that will be paid to Mediobanca to buy TI shares will be probably dedicated to a capital increase of Olinvest that should be announced by today so we will give you more details during the day, anyhow we are valuating positively if the figures that we have in hand would be confirmed because it will be convenient for Olimpia not to be diluted. The outlook for 2004, 2003 will benefit from a positive trend both in energy and in submarine system, the strong winter season is expected to further enhance margins, for the real estate business residential and commercial show returns better than plan and the year end target are on track as it has been confirmed by a growth of 20-25%.
(FERRARIO) I think we can be more clear been, better short term instead is a little bit below target in the long term because we will making the refunding in January, the service season is in line and this is why we confirm our targets.
(TRONCHETTI PROVERA) Full year 2003 EBIT is expected in progress vs 2002. At the industrial level the operating growth range will be similar to the one saw in the first 9 months on year on year basis. So following they composed the main important recent events both in the industrial and real estate business.
That’s all thank you everybody. You have in the presentation some reference to recent events that have been in the press that are showing how we are moving in the market and what we have achieved recently, the fact of the opening of a new tyre factory in Brazil, the brand of Pirelli and the fact that the value of our products have been recognized in the US where we won the JD Power Award which is one of the most prestigious tyre company award because it is the analysis of the market of made with 30,000 users new vehicles in USA who indicated as Pirelli as number 1. Pirelli tyres run over to win the World Rally Championship, in Telecom business Pirelli launched the next generation telecom equipment and awarded also for the new 5 significant contracts mainly in Iran we won a contract for 400 km fibre cables, and Indonesia won telecom contract with Siemens. Energy cable we won a 100 million euros contract in Tunisia and Pirelli cables with the UK in Kuwait for water supply and oil field cables. We are moving forward real estates as Mr PURI mentioned before recently launched the franchising network and the bank of Italy approved the ordinance the first private quarter real estate fund by contribution in Italy. These are the recent achievement, thank you for your attention and we are ready to answer to your questions.

Q&A SESSION

MANCA ANGELO	JULIUS BAER

Good afternoon to everybody I have 3 questions on the investor side and a couple of questions on Olimpia side:

Industrial:
1. I was wondering if Pirelli considering to sell any of its industrial business at this stage of restructuring
2. Could you elaborate a little bit on telecom cables and growth in sales in the third quarter that shows a wide slow down when compared to the 2nd quarter Union growth
3. Do you still expect to achieve the 6% EBIT margin on energy cables in 2004, EBIT margin on tyres

1. About Olimpia, would exclude that Pirelli will fiscally consolidate Olimpia under the new tax law?
2. Would you exclude that Olimpia or Olinvest could be buying for the TI shares in coming months?

A.
I leave the answer on telecom cables to Mr Ferrario.
So for the strategy of the Group we do not have any project to sell part of the industrial business to date, so it is not in our agenda.
About Olimpia, will not be consolidated in Pirelli balance sheet and at the Olimpia level to buy other shares.

Mr Ferrario
On sales of Telecom cables in the 3 quarter slightly reduced but almost in line with 2nd one mainly due to some reduction in Europe but partly compensated from US we got different trend, the negative value in Europe the third mean this reduction. It is important is the results has been shown is increasing significantly thanks to efficiency.

Tronchetti Provera
We expect the improvement to continue in the EBIT margin also for 2004.

Q.
As far as Olimpia is concerned, do you exclude that Pirelli will use the Fiscal consolidation with Olimpia.

A.
We have a joined control with Benetton so there will not be any fiscal consolidation.

PREVITERA	BANCA AKROS

Q.
What concern Olimpia, in the capital injection all the partners will contribute, is there a put option that the banks will obtain, that allow them to sell their stake to Pirelli or to other partners, or support additional investors.

A.
Has been mentioned also by the banks yesterday, there will be a put option like for the rest of the stake of the banks, the banks will have the right if the price goes up, so higher than 3.5 euros to keep the shares on the contrary under 3.5 euros the shares will be in the hands of the banks.

Q.
The date of the put option?

A.
2006, like the others.

DE AMBROGI	EURO MOBILIARE SIM

Q.
1. About the Net debt, have you got a target for a year end and the year forward?
2. To understand better understanding on what happened in Q3 cash generation of 100 million euros does it include already the purchase of 1.9 percent of Capitalia and/or the divestiture of minor assets as already explained during the conference call?

A.
To the second question the answer is yes, Capitalia is included. We bought Capitalia at average price of 1.89 euros for a total amount of 41,930,000 million euros 1.9%, for a total proceeds 79,400,000 million euros; most of the investments has been covered by the divestitures of minor participations we had in our portfolio

Q.

May we know which one?

A.
For instance Ebitcom and Caltanet .

About the Net debt, 2.5 before capital increase of Olimpia it will become 1.9 year end which is lower than the consolidated net debt we had last year but year end of 250,000 billion.
Stable but with a slight decrease.

Q.
Have got any target going forward to reduce it?

A.
The company is producing cash so the target is to go ahead and reduce it by another 200 million euros in 2004. We want to go ahead in this way.

Q.
Cap picks is lower than the last year, is there any factory effect?

A.

No, any factory effect the cap pick less we did close many factories, we cancelled all the investments related to these factories so the rationalization of costs is also affected cap picks which are focused to high end of our production that is why we are investing more.

Q.
Olinvest, a part from the beginning of the story we do not know anything about it.

A.
Until we there not be the press release we cannot say anymore on this, we believe that today there will be the Board and they will provide information to the market.

DARIO FUMAGALLI	DEUTSCHE BANK

Q.
1. Industrial business, can you elaborate target 2004 for each division and can you give us the line assumption for expected growth for each division
2. If Olimpia intends to further increase the stake in Telecom Italia
3. Pirelli real estate. Have ever considered to reduce 62% stake in the company.

A.
2. Olimpia do not have any project to increase the stake in TI
3. No project to reduce the stake in Pirelli real estate
1. Industrial business trend we mentioned shortly before but I leave Mr Ferrario to answer.

(Ferrario) I think we are almost in line with the previous 3 year plan, this is true for tyre and energy cable, while the telecom cable is highly affected by market situation specifically the price trend in this moment continues to be the critical point; we are in a stage or in a moment we evaluating this point. For the other 2 sectors, i.e. tyres and energy, we continue to growth in profitability.

MASSIMO VECCHIO	INTERMONTE

Q.
Can you give some indications on the outlook for 2004. Could you be more precise on 2004 and specifically on telecom cable, what is the profitability target?

A.

In the 3 year plan, we expect to continue the improvement we have in the tyre business thanks to the project in lines and the efficiencies in new factories that we have in US and the other in Brazil; we also expect energy cable to continue the recovery that is taking place; and telecom to go back at least to […] because the actions are having effect, the market is still weak on the price side. Anyhow, we expect it to break even we will provide a better picture on March.
Next, on real estate will continue in line with 3 year plan that was presented when the company was listed thanks also to the launch of funds and to new franchise networks, the fact is entering in the non performing assets, this looking forward a way to stabilize the performance of real estate; creating a company in the world of real estate is becoming a-typical, that thanks to services, thanks to network in systems, thanks to non performing loans, to the management of the funds. This model will provide satisfaction to us and to all investors.

Q.
Have you said that for telecom cable, 4th quarter you are targeting a break even, can we extrapolate a break even also for the full year 2004?

A.
End of 2004 we expect the break even. We see the continuous price erosion in the market we are too scared sometimes that the price will go down by 15% which sounds quite greedy, there are also signs of new orders coming from US;
so we have a mixed feeling until now on 2004, I want to underline is that we passed through this turmoil, we do not want to be too positive looking forward, we expect to launch new products related to the assets network, all in all we expect to returning in a competitive position able to catch the opportunity in case there will be, as I repeat the market is still weak it is better to say that we are targeting break even, hoping that something positive will come from the market. What we will do is to continue reducing our costs.

GARETH WILLIAMS	ACTNVEST

Q.
About Olimpias we saw that the stake in Telecom Italia go up to 11% from the merge of Olivetti and Telecom Italia and within the conversion of the bonds increased. What from the conversion also of financial instruments that Olinvest holds which is about 2.25% of Telecom Italia stake?

A.
We do not know what Olinvest is going to do. We do not have any news about it. They have these instruments but we do not know what they want to do.

Q.
Would have a target in mind which would be comfortable of stake of the new Telecom Italia? Because your stake was diluted from 27% to down 14%?

A.
We were comfortable with 11%, we are comfortable with 12.5% because the price that we paid to go up to 12.5 was a good price that is why we have converted because the spread in the convertible and the expected yield of the shares. We bought the stake from Mediobanca, we were comfortable because it was at a good price in interesting yield we invested in the company just because we believe in the company. We were comfortable with the 11, with 14 and we are comfortable with 17 because we are positive on the outlook of the company and that is why we bought the shares. We believe in the company and hope the investor believe as we do because of the expected value of the company will grow. Looking to the basic, looking to the results.

Q.

Following this reason, do you see a further chance to decrease the book value and Telecom Italia shares seen as an opportunity and make further investment on this?

A.

Yes but we do not print money, we have to keep the balance sheet of Pirelli as balanced as possible.

EDUOARDO BONANNO	CENTRO SIM

Q.
1. Do you have any agreement with the capital increase in Olimpias that includes some put option with anybody else?

2. What kind of fiscal effect will hit Olimpias with the approval of the new Italian Fiscal Reform regarding loss carried forward and dividend tax credit

A.
2. The only fiscal effect is that we will lose the tax credit
1. No agreement of put option with anybody except the banks

SERGE ESCUDE	UBM

Q.
1. If you expect the market to continue to be weak in the cable sector, TLC , do you think is it possible to make some joint venture with your competitors or some of the companies operating in the sector?
2. Contribution that your expect form the new products in the TLC sector, what company kind of wait do you for this year and the following years.
3. I would like you to more explicit about the growth of the Group expected for the next year, and the EBIT margin expected for next year.

A.

Investments growth will not be changed and will be in line below "121" that is a competitive position we stay below the competitive position.
Cable sector, we do not see any sort of possible venture, in case something comes up and it is convenient we are open to see anything that could create value. Anything that put 1+1 =3 will be deeply analysed.
Contribution from new products in TI business next year should be 15% of our total turnover, in telecom business of Pirelli.

Q.
My question was on the growth on sales in 2004, what do you expect?

A.
For the growth it depends on the exchange rates, net of exchange rates and net prices we expect a growth which should be around 5%. This is what we expect and this is for the industrial business; for the real estate is much higher; the figure for the industrial business is conservative , I left out the prices and this 5% does include the prices. The telecom business will still be affected also in 2004. So up real estate, and up tyres close 2 digit, up energy with a question mark due to prices on fibres.

Q.
And what are your expectation on EBIT margin of the group?

A.
We expect a growth of the margin.

Q.
Could you elaborate?

A.
I do not tell you the figure, just because we are preparing the 3 year plan and we will present the average close rates we expect for 2004-2005-2006.

Gianluca Pediconi	Banca Leonardo

Q.
I loss your target of net debt for 2004, I have heard that if the cash generation it will be 200 million euro, is this right?

A.
We expect the net debt reduction of 200 million for 2004

Q.

It is a very impressive target, could you please elaborate more, where, from which division do you expect the cash to come from?

A.
What I can tell you today is the total figure and not split between different activities this is due mainly to the EBIT growth, control of the working capital and that's it. So we expect in all areas the EBIT growth, the control also of the investments that should stay below the level of depreciation , putting together the 3 elements we are confident to delivered this 200 million net debt reduction.

Q.
Most of this 200 million will come from the operation, that is to say operating item of non recurrence?

A.

I am not considering the non recurring items.

DE AMBROGI	EURO MOBILIARE SIM

Q.
One question on Cost cutting. 130 million euros in 9 months 03 which is the total amount for full year of 2003 and the expectation you have on 04.

A.
FERRARIO

The total amount of savings is around 160/170 million euro compared to 135 achieved in 9 months 03. Compared to 200 we have already achieved in 2002.

Q.

We can say that 04 will not benefit from additional cost cutting?

A.
Absolutely yes we will continue our action on cost cutting we have other actions on the way of course the total rebound will be a little bit lower but you know is a continuous actions that we have on our side in the 3 sectors in action plan which continues on a daily basis we are setting now the final target for 2004. It was in my presentation is a continuous work we have ideas and we have already identified new areas of efficiencies.