Ladies and gentlemen, welcome to Pirelli's conference call, in which our Chairman, Mister Marco Tronchetti Provera, will release from here the 2004 group results. I remind you the Q&A session will follow after the presentation and that you can find the presentation slides in the investor relation section of the Pirelli web site. Now let me introduce you to Mister Marco Tronchetti Provera. Please.

Good afternoon, ladies and gentlemen. Thank you for joining us in our conference call. I'll give you another view of Pirelli's 2004 results, then Mister Puri CUI Managing Director of Pirelli Real Estate will give you some insights of Pirelli's real estate results. Presentation will be followed by a q&a session. I would like to start pointing out the group's main achievements of 2004. In 2004 we carried out some important actions that were in fact out visible in terms of group financials and economic results and profitability. First of all, both Pirelli and Olimpia proposed a capital increase in order to announce the investments in this strategic area of telecommunications. As you have recently announced the IDN call the capital increase of Pirelli&Co was fully subscribed for an amount of 1 billion 62 million as well as Olimpia for an amount of 2 billion euros. As a result, Olimpia will maintain approximately 18% stake on TIT and group after the merger. Moreover, net debt was better than expected, 1 billion 469 million euros, even discounting the warrant exercise, 175 million. I would like to remind you that 2004 was a very important year for Pirelli in terms of corporate governance improvement. Let me introduce the new bindles with the cumulative vote on the introduction of 1/5th of the members appointed by minorities. Last year, we also released our industrial two-year plan, 2004-2006, whose main target I'd like to set up. The average procreate of sales was 3-4% and EBIT average procreate 23% and as you will see 2004 group results were higher than these targets. A since view by 5.1% in the organic growth and EBIT 43.9%. At the end of last year, Pirelli was also ready to go ahead with program of strategic organisation of businesses announced in 2001, with a focus on many other segments and technology. In fact, the project of valorisation of the energy and Telecom cable sector to restate control stake was certain in motion. Pirelli Problem solution spa was established to push active networks and photonics products. Creation of business nuclear sectors and feed in environmental technologies and particularly in this sector of energy recovery from waste, that Pirelli&CO Ambiente spa with exclusive CTR Pirelli technology has now made a name for itself. Tyre sector forced expected results in the last ten years thanks to focus on pin and products and accelerated growth on profitable segments and markets. As regarding Pirelli real estate's main achievements are results, which will be illustrated by Mr. Puri later, are the following: 19% increase at EBIT including incomes on equity participation level 35% at net profit level, successful placement of our specially seeded funds and co-management of treasury funds.

So before going on with the presentation, I'd like to underline the importance of our effective corporate governance. The corporate governance announcement started in 2004 and will become effective with the resignation of the entire Board of directors before the expiration term in April 2006. In the next general shareholders meeting, on the 27th-28th of April 2005, the qualification of the list of appointments of the new Board will be needed so that minorities will be able to appoint 1/5th of the members of the Board. Pointing the new appointments, the rate of independent directors on the Board will increase. In line with the TI you can have a look at our coming group structure, with our main shareholders and participations. As you know, the group's structure is going to change in the next months, due to the project of valorisation of the energy and Telecom cable sectors. I'd like also to give you a brief update of the deal. At the moment, a short list of private equity funds has been selected and final binding offers has been required by the end of April. The closing date of the deal will be 45-60 days after the signature of the share purchase agreement upon approval of the antitrust authorities. So we expect that by the end of April anyhow the deal will be signed.

Now, I would like to give you details on the results of Pirelli&co and Olimpia capital increase. As anticipated before, both Pirelli and Olimpia's capital increase were fully subscribed. Olimpia purchased approximately 655 million ordinary TI shares, at an average price of 3.05 euros. As a result, the average price of TI ordinary shares owned directly by Olimpia, 2 billion 470 millions TI and 45000 or something shares are nearly due to approximately 4.6 euros from 5.2. After TIT merger, Olimpia's entire stake will remain at approximately 18% consider the currency TI ordinary shares and a maximum of around issuable 14 shares shop. Pirelli to Olimpia has a book value of TI shares of 4 euro in transparency.

Now let's have a look at 2004 group results in slide 6. In 2004 group net-accessories sent down 14 million euros are 6.6 a year on a like for like basis, net effects of exchange rate that applies in changes in this cup of considerations, since actually grew by 3.2%. (...) 745 million and that margin was 10.2% from 9.4 in 2003. Operating income was 380 million euros, up 41.8 compared to 268 million euros in 2003. The real estate EBIT including equity participations reached 158 million euros from 128 million euros in 2003. Group net income reached 264 million euros compared to 4 million euros in 2003. Our total net financial position was 1 billion 469 million euros decreasing by 276

million euros from 1 billion 745 million euros in 2003. Regarding the net financial position, you can find in the next lines a detailed picture of its evolution. At year end 2004, net debt was 1 billion 469 million euros compared to 1.745. At the end of 2003, a decrease of 276 million euros thanks to a positive net cash-flow deriving from operating activities of 239 million euros.
Now we will see more in detail Olimpia's main figures. First of all, I would like to point out the 400 dividend receipt from TI Olimpia's net results was positive for 60 million euros. I would also like to remind you that during 2004 Olimpia obtained a new revolving credit line of 2.4 billion euros to refine existing facilities with longer maturity and better conditions. In fact maturity date is now in January 2010, and dividable in first rates was reduced to 100 basis points in rigour from the previous 125 basis points. Moreover, pledge is now over 120 million TI shares more than the previous number of shares on the pledge 41.8 million euros syndicated facilities. Finally, TI Board director has proposed a dividend of 0.1093 euros per share. Thinking about dividends, talking about dividends, Pirelli has posted in its statutory accounts a net result of 150 million euros and however has proposed shareholders a dividend of 2.20 euro cents for each ordinary share and 3.14 euro cents for each savings share. Not confirming its policy of dividends distribution, with a total amount distributed of 113 million euros. Dividends will be paid to approximately 5 billion 178 million ordinary shares, approximately 3 billion and 24 million last year, including approximately 1 billion 518 million shares coming from a capital increase approved by extraordinary shareholders meeting of January 21st , and completed on March 11th, and approximately 135 million savings shares. The dividend pay-out 113 million euros and therefore has grown by 4%.
Now let us see 2004 net results for the industrial aggregate. In 2004 the industrial aggregate was 6 billion 573 million euros from 6 billion 34 million euros in 2003, up 8.9% when compared to last year. On a like for like basis, net effects of exchange rates applies in changes in this cup of considerations having figured by 5.1%. The EBITDA grew 16.8% and so did the 662 million euros from 567 million euros in 2003, while the EBITDA margin was 10.1% compared to 9.4% in 2003. Operating income was 380 million euros growing by 14 3.9% when compared to 264 millions euros in 2003. The term of sales was to 5.8% from 4.4 compared in 2003. Operating free cash-flow in 2004 was positive by 508 million euros. The 2004 results for the industrial aggregate and particularly the great EBIT improvement were achieved thanks to our cost and operating cost controls and a strong commitment towards profitability.
Looking at the next line, you can have an idea of how efficiencies were improving in the last three years in all the sectors and as a consequence of to(...) sporting of Telecom and energy sectors. Please note also the loy group in industrial aggregate business from 3.9% in 2002 to 13.6% and particularly in the energy sector from 4.3 to 12.9%. In Telecom the ROI is still negative, in tyres was up to 17.9% from 10.5%. Finally sales were an increase to 193 million euros up 14% from 2002.
Now let us proceed by examining the economic results for each sector, starting from energy. Sales up 9.5%. EBITDA was 199 million euros, up 18%, operating income 119 million euros compared to 83 million euros posted in 2003, UAS going 4.1% compared to 3.1% according in 2003. Net financial position, a strong improvement from 154 million euros in 2003 to 183 million euros in 2004. And during 2004 we have been carrying out important projects started in 2003, such as Base link, Stale Morocco and signed a 50 million euros contract in Singapore.
Now we move on to examining detailed results and to give you some outlooks for the market for 2005. The utilities business unit provided 13% of total sale, sales were still concentrated in Europe, 67%, while North America provided 12%, Africa and Asia and Pacific 13% and South America only 8%. Regarding 2005, we have some good news, Pirelli has been ordered a 525 million euros contract for high voltage energy cables and systems in Singapore, in Italy Pirelli has been in the order of 21 million euros contract term to provide high voltage cable, and we will also carry out a wide portfolio project in the specially segment, which is one of the most profitable. Let's continue to be focused on polar mix and customer care selection in stable contract price environment. Telecom sector, slight growth compared to 2003 EBITDA positive 9 million, operating income negative 15 million, but improving in comparison to the loss of 39 million euros in 2003. We started the activity of broadband solution the record says over 60 million euros with an impressive growth of 133 million, percent, from 2003. Breakdown of sales, optical cables and tyres provided 56% of total sales, 26 that came from copa cables, 15 came from the broadband active and 2% from full activity and others.
As you see in the following charts, now there is the new company Pirelli broadband solution, which is developing two main activities, from access systems and new photonic products, the broadband access system units started the deployment of new innovative products searching the sector of box and IDS too plus, as well as developing the new P&P technology. As regarding the new photonic products, a manufacturing unit was established, as well as the technical deployment of new products such as TTL and NAS.
Tyres. Sales up to 3 billion 555 million a year, an year increase of 9.6%, (...) view 14% to 454 million euros, operating income up 8, up to 266 million euros, with also 8.5%, improvement of 25%,

compared to 2003, growth was sustained by market shares gains in most markets thanks to European new products access as well as by North and South America's positive trends. Price meets and efficiencies have been able to offset raw materials and energy costs.
Now let's have some highlights on our sales results and on 2005 market outlook. 6 net % of sales came from consumer segments, 31% from the industrial ones, as what regards our worldwide market trends, our sales in Europe were 56% of the total, in South America 23%, in North America 8% and in the rest of the world we had 13%. In 2005, we expect a further growth coming from an increase in market demand of new products, as well as growth coming from South and North America for deep sale growth development. For material energy additional costs increased by, to be offset, we expect to be offset by price mix and efficiency improvements. Now, before going to the q&a session, I'll give a little flow to Mr. Puri to give some highlights on Pirelli Real Estate. Thank you.

Good afternoon, Ladies and Gentlemen, I am Puri, the CO of Pirelli Real Estate. Year 2004 has been another very good year for our company, EBIT including income from equity participation grew by 23%, and net profit by 25%. In two years, 2002-2004, we were able to deliver a 54 growth of EBIT level, and 55% at net profit level. Asset under management in 2004 have risen in Europe 10.7 billion, 10.3% over 2003, and we are not considering the government portfolio of the steep funds, that is another 1.2 billion euros, so the total asset we will manage next year will be near 12 billion euros. Of this portfolio, the opportunistic one is around 7.9 billion, and the long-term portfolio will be of around 2.8, plus the 1.2 that I mentioned before, of the government portfolio. The share that our company had in the opportunistic portfolio is around 28% and was 26% at the end of 2003, while long-term portfolio is 3.7, and this component be not existing in 2003. Pirelli's rate total share of the two portfolios amounts to 2.4 billion euros. In the fund management business, we successfully placed four specially seeded funds, total market value around 2.8 billion and, as I mentioned before, we were also appointed as co-manager of the first government funds, of which our part is around, as I said before, 1.2 billions. In the MPLs, non-performing loans, we finalised a joint-venture, as you know, with Morgan Stanley real estate funds, for acquisition and manage the portfolio of MPLs. At the end of 2004, we'll manage a portfolio of around euro 1 billion, at net book value. Pirelli distribution network, in only two years of operation, has become the third largest network in Italy, with more than 520 contracts signed at the end of 2004. At the consolidated profit and loss account, all the loss relevant figures show a significant growth over the same period of last year. Aggregate production value grew by 29% to euro 1 billion 970 and, as I said before, in the previous line, the operating profit, including income from equity participation, reached 157.5 billion euros, increase a 23% over 2003. Profit before taxes also grew by 26%, the net profit reached 128 million, 25% of growth of the same period of last year. At a consolidated balance sheet level, it is important to mention that the shareholders equity stand at 510 million euros at the end of 2004, compared with 421.6 at the end of 2003, the difference of nearly 89 million euros increase, due to both the difference between dividends paid, nearly 54 million euros, and net profit for that period, 128 million and 14, nearly 15 million euros rise in shareholders equity following the exercise of stock option. Net debts reached euro 35 million at the end of 2004, decreased from 40.9 million of September 2004, while at the end of 2003 were 9.92 billion. Adjusted net debts, including shareholders loans to companies at which the group holds minority stakes, is equal to 245 million, down from 295 at the end of September 2004, and instead it was 233 at the end of 2003. I think it's important to notice that the given rapture cents at 0.47 and this less at working head at December 2003, that was 0.53. The company net acid value represents by the sum of shareholders equity and the company shares of unrealised capital gain, is equal to 558.9... excuse me, the unrealised capital gain, is, amounts to 1069 million euros. It is important to notice that the NIV is just, represents one component of Pirelli Real Estate value, it does not include all the activities of fund management, the activities of asset management, the specially services and the distribution network, that become a very important part of our company. Thank you for your attention, I'll give back the word to Mr. Tronchetti.

Thank you. So, before starting the q&a session, we'll give you a very brief outlook for 2005. First of all, we expect a farther improvement of profitability results at group level. Net financial position in line with 2004 on a like to like basis. The industrial activities that continue for various other segments and technology we have an increase of profitability. So, I think these are the issues that we already raised, illustrating the results of 2004, the trend will go ahead in the same direction of improvement. Thanks for your attention, and now let's start with the q&a session.

Q&A session:

1. Mr. **Martino De Ambroggi** from **Euromobiliare SIM**:

Yeah, good evening, good afternoon to everybody. My first question is on tyres. If I look at your....

Can you repeat? Can you please speak louder, a bit...

Yeah, if I look at your... My first question is on tyres. If I look at your three-year business plan target, we are in advance, so I was wondering if you'd give us... which is your guidance for 2005, considering that your read-to-know sales are in the region of 8.8% as a target for 2006, probably will be achieved already in 2005? And the second question is on net debt, probably, if I'm not wrong, you said that for 2005 on a like for like basis you see net financial positions stable, am I correct?

Thank you. For results on tyres, the tyre will continue, that's what we expect. It's too early to say if we feel better than expected, so we hopefully we will, and we will do all we can in order to do better than in the past. Financial position inline, we have to take into account that on one end we have a higher finance incoming from the warrant exercise, but we invested more than what we got from the capital increase into Olimpia. So, we cannot sort the difference, so that is what we expect.

Yes, something in the region of 1.5 with no, we can say, factoring securitization activities and so on, so it's 1.5 also for 2005?

We expect to be in line, you see, it's a major effort because we have a difference of 200 million, so our target... of 300 million, so our target is to at least cut by half the difference. So, that's what we have in mind.

Thank you.

Thank you.

2. Mr. **Massimiliano Vecchio** from **Intermonte**:

Good afternoon to everybody. I have three questions. The first one is basically a follow up on the tyres outlook. Looking at your slides, it seems that the improvement in 2005 will be basically driven by volume. Can you state what the risk is in this outlook and what you see in the potential risks' area in terms of geographic market, basically? The second question is on the tax rate, I've seen it's very low in 2004, can you say why and also can you give some indication on what is the structural tax rate now for the group? And the third question is on Telecom Italia, Olimpia and the debt, the new debt, the 1.8 billion euro credit line. Can you confirm, as we read in the press, that below 2.9 euros for TI you should add some new shares, some new TI shares to the banks as a warranty? Thank you.

I'll start answering to the last question. The revenue's 2.6, it's not 2.1, so it's far from... it's much better than before. The tax rate improvement is linked to the fact that we implemented for the first time the consolidated fiscal balance sheet. And there is also the right of the... negative before taxes, so this is why we have this tax rate. What we expect to have is between 32 and 33% that's what we expect the tax rate for 2005. Going to tyres... yes, the growth is driven by volumes and prices and at least price stability, or a slight increase in prices. Risks, risks... we see, for the time being, both Brazil and the US, going well, also the European markets in the segments where we are, for the time being, are performing well, much better than the other segments, so that the lower end is affected by... there's no economic growth, the upper end of the market is performing well, so the risk is linked to a change of demand in the market but, for the time being, we are gaining market shares in segments where we are linked to the high performance and specialities.

Do you see the market growing, both in consumers and original equipment or is there some difference between the two segments?

No, thanks to the products we have, for the original equipment we see that we can continue the trend because the demand for our products hopefully won't let it end, and as you read products, we have a strong demand. So, we feel comfortable. In the after market, we expect that we can continue to grow. We have a number of new products we will (...) that should create more consistency to our plan.

And, sorry, a follow up question on the TI. I was talking, when I said 2.9 euros, I was talking about the price we read on the press, that below this price Olimpia should give some more shares to the banks. Can you confirm that? Is it something that you can... that you can say?

No, no, no... the only… if TI shares go below 2.6..

Yes, 2.6.

... we have to add shares.

Okay.

So, as you know, now we have a number of shares that doesn't create any problem and 2.6 we do not expect to reach it. But, anyhow, it's a non-issue.

Okay. Thank you very much.

Thank you.

3. Mr. **Marco Greco** from **Mediobanca**:

Yes. Good afternoon. A couple of questions for me. One is still on the tyre sector. I wanted to understand if you have run a simulation on what will be the effect of raw materials on your operating profit. I mean, you told that it will be offset by higher efficiency, but I want to understand, if it's possible to understand, how negative is the raw materials effect on 2005 operating profit. And the second question is about your working capital, I mean, in 2004 you have improved a lot your working capital, so now you're stating that in 2005 you want to further reduce... well, to further improve your balance sheet and to maintain your net financial position stable, despite the investments, so I want to understand if you see still room for further improvement in the working capital. Thank you.

Starting from the last question, so working capital I think we made, as you underlined, quite a strong effort with good results. So, we do not expect a major improvement. Our effort and our push will be always there in order to improve it, but we already made something consistent, so I don't see a major effect on working capital. Raw materials. The effect on raw materials should be around 10%, but the (...) come into leverage influence of raw materials is around 20%, that means the net effect should be around 2%, and now we have to see how the exchange rates will move. So I think it could even be partly offset by the movement of the exchange rate. And now it's something that can be covered by the prices.

Okay, thank you.

Thank you.

No more questions at the moment.

So, thank you for your attention. Bye, bye.

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