Trascrizione Pirelli

Ladies and gentlemen welcome to Pirelli's conference call, in which the Chairman Mr Marco Tronchetti Provera will present the consolidated results for the fourth year 2003. I remind you that a pre-answer session will follow after the presentation and that you can find the presentation flyer in the Investor relation section otof the Pirelli website. Now I would like to introduce you to Mr Marco Tronchetti Provera.
Good afternoon… [ring]
Hello…
Good afternoon ladies and gentlemen, thank you for joining our company. I will give you another view of Pirelli 2003 results, then Mr Salario, Managing Director of Industrial Businesses, will present the results of the indata businesses and finally Mr Fooly, Pirelli really ? to see to you, will give you some short insight of Pirelli's real state results. Presentation will be followed by a twaynisation. We would like to start fighting out the Group main achievements of 2003.
In 2003, we carried out some important actions whose effect is already visible both in terms of group structuring enhancement and financial economic results. First of all, the merger of Pirelli and Co., Pirelli Luxembourg and Pirelli S.p.a. and the capital increase which lead to a simplified control chain and strength in financial and economical structure, and in 5000 imaging group for more than 100% and 16% at organic level as well at an improved corporate governments.
Last year we also completed the in data turnaround which lead to a growth in organic sales of 3%, an increase of in data ? from either 62 million euros to ?64 million euros, an increase of 63% and a significant reduction of 13% and the given point while the prickage floor in last two years was 1 billion. As a consequence we can state the company is now ready to cash new market opportunities.
As mentioned before a merger of Pirelli and Co., Sapa, Pirelli and Co. Luxembourg and Pirelli S.p.a. into Pirelli and Co. S.p.a. lead to a simpler and stronger group structure as you can see in flyer 5.
In fact, the company has passed from a straight one layer structure and we completed the group simplification started in 1999, when the incorporation of "Société Internationale Pirelli" and "Pirelli Partecipazioni" in… we… sorry, the incorporation of "Société Internationale Pirelli" and "Pirelli Participation" into "Pirelli S.p.a.". The merger was also the decisive step for world and corporate governor in accordance with the best practice. In slide 6… eh… in slide 6, you see the different steps in the different years throughout our corporate governors, so with this in mind the board of directors has proposed to the General Shareholder Meeting introduction of a cumulative vote and the possibility for minorities to appoint 1/5 of the vote members. I would like also to recall which were the main steps taken in the last years towards an effective corporative governments: get optional grouping key code, describing principles of transparency, loyalty and finance inspiring Pirelli's business managements; get optional code of conduct inside the living; justi? for compliance with the requirements of articles, article 150 of the Italian Law Decree as a result in any is now included in the key ? governor and sustainability in this such as the Dow-Jones and the efty… efty for good.
Now let us examine the 2003 financial results. You see flyer number 7: in 2003 group says revenues reach 6,671,000,000 euros down zero 7% compared to 2002. On a likeful like basis net of the effects of the exchange rates, net of prices and changes in the scope of consolidation, revenues actually grew by 7%. Every w 20% in stood ? in 28,000,000 euros, every damage was of 9.4% compared to a 7.9% in 2002. The pretty income was 268,000,000 euros upon 25% when compared to 2002. Net income reached 4,000,000 compared to 405,000,000 euros lost in 2002. Our total net financial position was 1,045,000,000 euros decreasing by more than 300,000,000 euros from 2,050,000,000 euros in 2002. Regarding the net financial position, I would like to show you in more detail its evolution in slide 8. In December 31st 2003, net debt was 1,745,000,000 euros compared to

2,050,000,000 euros in December 31st 2002 and for of approximately 300,000,000 euros thanks to a positive net cash loaded up from operating activities of 239,000,000 euros.
Improvement also reflects the net effects of the dividend paid of 64,000,000 euros, shared capital increase on the pick and by Pirelli and CSCA for 649,000,000 euros and the subscription of the Olympia capital increase for 328,000,000 euros. The figure also includes novel current events such as in the accounting as that of the put auction exercise of Visisco? system for summer intercombined systems in general 2004 for 61,000,000 euros and the net balance of expense and acquisitions of participation of 48,000,000 euros. In more detail, the Olympia balance shift show that the stake…. is today the 17% of the ordinary shared capital; that represents 11% of total economic capital.
Net equity after the capital increase has grown to 6.5 million euros while Pirelli net financial position has decreased by 400.000.000 euros to 3.2,000,000,000 euros. In 2004 Olympia will .. be given thanks to the dividend coming from Telecom Italia. I would like to hand my speech on the line at Pirelli & Co S.p.A. as posted in its statute account and its results of 138 million euros and the board has proposed the shareholders the dividend of 0.0310 euros for each ordinary share and of 0.0414 euros for each saving share as you can see in slide 10. So I thank you very much for your attention and now Mr Fidelli will take you to business results and after his presentation and Mr. …'s presentation I will be ready to answer together with my colleagues all your questions. Thank you, I give word to Mr Fidelli

Thank you Mr Tronchetti and good afternoon. Page nr 12 you see the product and business we manage in our portfolio for each sector. Page nr 13 I will start give a glance of your product worldwide presence and business geographically. We are now present in 22 countries with 77 factories of which energy counts for 48 and telecom 11 factories in … 22. Employees today we ac count 32400 employees, Energy 32%, Telecom 7%, Tier 61%. Sales have been approximately 6 billion euro of which Tier 49%, Energy 44 telecom 7%. The sales geographical breakdown cause Italy 15%, the rest of Europe 47, South America 13, North America 11, Africa, Asia and Pacific 14 %.
Page nr 14 call for our international presence is supported by a team of senior executives,80% of which has been grown through an international experience. This point where 400 managers missioning abroad is granting business synergies and cross fertilisation across the sectors. Then it is strong common culture and difficult behaviour as a guarantee for the stakeholders.

Page nr. 15 as a result of our action of our restructuring period we have got as a result total efficiency seen in 2003 up to 170 million, 370 in two years. The braking point has been lowered by 13% in 2001 and I will give you later a deplete in the different sectors.. Now news has been fully implemented not only in Germany, but also in US and UK and in 2003 we have been also the lowest of the new in broadband access product that now are for sales and we count customers like Telecom Italia, Fastweb and British Telecom. The now has been improving quarter on quarter and we have got a significant renewal in all the managerial positions.

Page nr. 16 the results has already been explained by Mr Tronchetti I just recall the net results moving from a loss of 300 million up to 112 million positive in 2003. While the sales reduced by approximately 5% but if we go to the organic level the variation has been an increase of 3%.

Page nr. 17 an important point is the .. you know, due to the trend of the results quarter by quarter if you check in the 4th quarter the ros has been 4.7% on revenues compared to the 2.3% in 2002. That means the speed of introduction in 2004 is pretty good compared with the previous year and we are still maintaining in this month a positive trend in terms of improvement, results improvements.

Page nr. 18 the results in terms of more details as far as efficiency is ..law and ???? Efficiency split by the different sectors are listed there so you can check and appreciate the effort of the two years. By the way we are continuing the same effort in 2004. W expect to hit at least 100,000,000 savings but our targets now are calling for other action, you know, to overcome this target. Braking point already mentioned minus 13%, Energy minus 27, Telecom Italia minus 35%, Tier plus 14%, thanks to the growth that in fact has been the fine in 2003 for the business. ??? law one billion in ????. I now want the attention for ROI. ROI moved from 3.9% up to 8.6% in 2003. You can see the increase in the energy, Telecom is still negative but is improving significantly and we expect further improvement in 2004 but we can touch later when I will talk about the Telecom result. Tier from 10.5 up to 13.2%.
Briefly the results by sector …uch ,just to, now we touch the energy. Energy, the organic variation in terms of sales: minus 4.4% of which volume minus 1.7, prices 1.7%. That means that the market in 2003 has been still difficult and the price pressure has been continued during all year. Differently in other segments but in any case still present. The ibid went up from 55 million up to 83 and in terms of percentage of the revenues from 1.8% up to 3.1%. The note at the end of the page explain that results in terms of efficiency spot 98 million offset the decrease in price, in mix and in volume. So internal efficiency has been offsetting the commercial variation.

Page nr. 20 Sales breakdown 46% utilities, general market 35%, industrial 19%. Breakdown geographical: Italy 16%, the rest of Europe 50, North America 12, South America 8: 2004 Overlook: well as far as the order book is concerned in terms of high voltage, special cables in submarine, we see a better situation compared to the same period of 2003 and our order book looks reasonably good as I said in those three segments. In terms of general market the volumes are stable in price but we see a reduction of the price pressure. North America the volumes are covering rythm by the utility investment, South America is stable. Asia and Pacific still growing. Of course everybody knows the increasing chrome material, especially copper, and we expect to recover this increase more in terms of prices. We expect to recover almost all of this increase.
Telecom sector. Telecom sector in terms of sales and prices, the situation still remains difficult as you can see. The price erosion has been ??? to 21.5% and in this scenario our BDA in any case improved from minus 22 up to minus 1 million. The ibid went from minus 84 up to 39 negative. So here the effort is still in the cost efficiencies while we are improving and focussing on the loans for new products.

Page nr. 22. The meaning of this page is that in the scenario I just pointed so the price erosion and the volume contraction, our decision has been of course for one side that we improve the cost situation, but on the other side to be more and more focussed on the loans of the new products, especially the access product, the ADSL gateway, that, which is already said, went up from 9 million in turnover in 2002 up to 29 in 2003, still growing and we expect to continue in this line.

Page nr. 23. You can see that in any case of the so called traditional product, meaning the firing cable, the innovation is still on the road. We are launching a new product but on the right end of the slide you see the two new generations of products of the broadband access already mentioned, but on the top the new generation of the photonic product that are now ready to be launched on the market and we have four new technologies ready. The first one is the tuneable laser. Then we have the air web, Htlm and the triplex. We expect in this case to change the situation in a short period time increasing significantly ourselves.
Breakdown. Sales breakdown. Optical cable and fibre count for 53% Copper cable 24. Submarine 16. Broadband 7. Broadband has to grow in 2005, in 2004, sorry, up to 15 % in terms of turnover. Geographical breakdown. 9% Italy, rest of Europe 41. North America 18, South America 10. Asia and Pacific 22. The outlook for 2004. When first of all the continuous improvement in the cost

control. Second the effort in the loans, the turnover of the broadband businesses already said and the optical cable volume in order the offset of the price pressure.

Now the tires at page 25. While 2003 has been a very positive year, the sales at organic level went up 11.6%, thanks to the volume plus 7.5%, price and mix plus 4.1%. So the growth has been sustained by price, mix and volume and then this growth is more than compensating the increasing cost … period. As already mentioned, the ibid went up from 121 to 120 in terms of percentage of the revenue from 6.7 up to 7.4%.

Page nr. 26. The base of our strategy continues to be as we did in the past year, the focus on the eye growing segments, like usb motor cycle ub and the practor. As you can see the double digit road will allow us to grow again significantly in terms of volume and the mix. This together with our OM portfolio increase our leadership in this segment as a base of our strategy.

Page nr. 27. An important point for our success is the approach on the US market and you can see that we have two lines. The first one the replacement coverage, the distribution network and the distribution organisation has been restructured. On the other hand the OEP penetration increasing significantly year on year thanks to the two new product lines coming from the different factories. The news new technology located in Georgia and the new by year planned in Brazil that in significantly committed to support the North American market. I also remind that Pirelli was rewarded by the JB power as bad eye rating for customer satisfaction.
Finally, the breakdown by business unity in terms of turnover. 71% is down thanks to consumer product and 29% is made in debt of product. Geographical breakdown. Italy 14%, the rest of Europe 45%, North America 7, South America 20%, Asia and Pacific 14.
Market outlook for 2004. Again good volume in turnover placement, sustain also with a good mix, uuhh, the price and mix improvement also has a vision in this month thanks to the eye performance as this will be a winter sales. The motor cycle will continue in the same positive trend and also the inductor, meaning the truck business, is still doing pretty well recovering the .. volumes and also the price what we are now having as a cost increase. The raw material prices are increasing but reasonably we think to cover this increase and when we will have the next May meeting for the technological day we will also give you an overlook of the first quarter that is now getting or confirming our forecast intermobe result and profit.
Now I will pass to Mr Poory who will comment on the real estate.

Thank you Giovanni. Good afternoon to everybody. So we go through weekly the more important items of the real estate activity. The first line in the aggregate production value net of acquisition we think is the best indicator of our growth activity. The production grows from roughly 1300 million to 1525, with an increase of 18%. The ibid including income from equity participation moved up from 102 to 128, with an increase of 25% is very important for ??? participation and you know that we are a management company and we invest in companies or funds with qualifying minorities average 28%, so we consolidate at equity our participation. Inside one 28 we have 67 million euro net coming from equity participation. .. before any explanatory items from 100 to 128 with an increase of 28% and the net income of real estate activities moved up roughly 24% from 83 to102. I want to remember that in 2002 we have had other activities that primarily comes out of the sale of securities of the portfolio ex-uem. Going to the consolidated balance sheet. First line is ???..the grow from 218 to 313 of which the most important item is the investment in participated companies, that grows from 109 to 140, 9.7. Another item as important is the shareholders' equity that grows from 369 to 425 mainly the difference between the net income and the distribution of dividend that we have done, so with around 50 million euros. Then, another line which is quite important is the adjust financial. position that is some of financial position of 9.2 million euros and shareholders' loans of the 214. and so the sum of this number is 223.7 compared with 166.7 of last

year. The yielding is stable and moves only from 0.45 to 0.53. Next page, page 32 we go through the net of the value of the company, you have each type of product, residential, commercial, land anything else, the book value, the book value pro quarter of the company and the average of the member is 28%. The market value, the market value pro quarter. I could name the difference between the book value pro quarter and the market value pro quarter for residential … 290.7 million euros, on commercial 386 million euros, land 37.1. You see there are no numbers for MTL, we don't think that gross book value, that is the number you can see under the different columns, is not the right evaluation of this, but we don't ask for now an independent evaluation like we have for the other assets. We are discussing wit Cat at KPG of what we are having for the next year a fair and independent evaluation on this kind of assets. So we arrive with the total asset under management with an AV of 740 million euros. At this number you have a shareholders' equity of 421 and we arrive to a total net and AV of 1,135. I want to point out that this number does not include the investment in anything else like I said before and also fees for activities in asset management, ?? services, fond management and franchisee network.
Next page, 33, we have a brief outlook of what we think we will be doing in 2004, going again through the two main activities, asset management services. We can point out in residential that we think we will do an acquisition for around 600 million euros. We have already under negotiation around 350 million euro and we will have sales on line with the same number we have done this year, so between 900 and 1 billion euros. The acquisition of course is book value and the sales are market value. On commercial we think we will do acquisition around 1 billion euros book value. We are moving from office to more special ??? like [….] entertainment that we think had more off site. We have already under negotiation around 400 million euros and we think we will be able to make sales for around 600/700 million euros at market value. Still in commercial we launch three funds during 2004 for a contribution value around 2.2 billion euros. One of the three is already done and is including the floating that was a success of ??? that was placed and the placement was the first of March and I remember that ??? subscription was more than 144%. In steal and for retail investor and institutional investor was more than 37,000 different people who were investing in this fund. Going to the ???, as we have said before, we have prepared in these last two years the instruction. We think we will make acquisition for 3.5 billion at gross book value. We have already negotiation that we will end I hope before two months for around 2.5 billion euros of gross book value and we think we will be able to securitizise around 500 million euros.
Land, we are going on in the value to the land we have in portfolio and I remember that more than 5 million of square meters on which edificable area will be 1.8 square meters and we are in the short least for the bid for renewing the area owned by the ??? Milano. The bid will end the end of March and we know who will win at the end of July.
Services. Specializised services. We think that the value of production can grow still with the double digit growth. We think we will have a more stabilized revenue as it is already quite stabilized, because we work mainly for the company where we are growing fast with our 28% and this company had a period of investment in five years of time that moving towards the funds as I said before this period can become longer and move from 3 to 5 to 7 to 10, so as I say we will have more stabilized revenue and fees ???. We will also try to improve the raws that we have already improved of 1 point in the year of 2003 arriving to 16 % and we hope to move up to 16.5/17%. On the franchisee network we start as you know in the last quarter of 2003. We have had a plan to open 150 shops. We move faster. We arrive to more than 250 for the end of December, so we are quite confident that we can arrive to the number of 500 concepts by the end of the year. We start the main points what we think to do in the year and doing all these activities we think we can maintain our target of anything including income from equity investment that can grow like this year between 20 and 25% in line with what we have presented to the financial community last year that is now our prior plan in 2003-2005.
Thank you very much.

Thank you, now we can go ahead and we can start the …sation

Pirelli : QUESTIONS AND ANSWERS:

Ladies and Gentlemen, I'd like to remind you that if you want to register for your questions, press star followed by 1 and if you want to confirm the reservation press star followed by 2. Thank you
And now for the questions, the first to submit his question is Mr. Greco from Mediobanca. Mr. Greco please proceed with your questions:

'Yes, good-evening everybody, I have three questions, one is on the industrial side, on the telecom cables, you stated that in a couple of years you have already reduced your breakeven by 35%, I was wondering whether you could give us an indication on the absolute value of turnover in which you make the breakeven midlevel for telecom cables and when you plan to achieve it. The second questions is on the financial side and I was wondering what your view on the debt level is. What I mean is that in the past there were rumours about a possible acquisition made by Pirelli Real Estate, I was wondering: what is the maximum level of debt that Pirelli and Co. can sustain and if Pirelli is, let's say, ready to support a growth by acquisition of a subsidiary. And the third question refers to Olympia, we have seen that in the short term the situation is ok, in other words there's a breakeven situation, so I was wondering about the medium term because the debt level of Olympia, even considering the current levels of dividends of Telecom Italia doesn't seem to be requirement so I was wondering what could happen in the medium-term in terms of Olympia debt. Thank you'

Mr. Ferrario will answer the first question and Mr. ??? will answer the second question:

'Well in order to lower again the breakeven, our programme is to insist on the cost reduction, and we have a programme that will impact the costs for raw materials, the quantity of material used and fixed costs too and, the second point is the ratio between investment and depreciation that will be below 1 and therefore with these two main points we expect to get close to the operational breakeven in 2004, meaning that our breakeven, our ROI, will be close to zero.'

And Mr. :

I think that if you go through the numbers of 2003, where you can see a growth of 25%, you can check that our working capital we have used from 109 to 162, you can see our net financial position the change is very small, it is from a positive 12 to a negative 9. So we have achieved a growth in 2003 and so we do not need equity, and this is very easy to understand, perhaps it was not clear in my explanation, all the acquisitions I have mentioned are acquisitions of 100%, we will participate average 28%, so in a minority position so the debt is in companies wherein we do not have control but companies where we manage. So we do not need equity to grow, we are a management company and in terms of our investment business the net income that we produce every year is sufficient. Thank you'.

Ah, okay, on the third question, right, if we look back, Olympia was a company losing money and instead it is now a company making money. It was a company whose net asset value was close to zero, now its net asset value is now close to one billion, so there are two ways in which Olympia can grow: one is value creation thanks to the increase of value of TR that we expect will happen, if you look at the figures that we have achieved this year and if we look forward, we'll confirm tomorrow in the presentation to the analyst. But the company expectations are positive and in terms of value, that means that there is room to increase the net asset value of Olympia and in terms of that I think we have stopped the erosion, we think we have little profit and we hope that in the future we can have higher profits and they are all elements that can support our strategy. Thank you'

And now the next question is by Mr. Sala from Euromobiliare: Mr. Sala please proceed with your question.

Good-afternoon, actually it is Mr. Martino De Ambrogi:

I have two questions, the first is for Mr. Tronchetti. In your last conference call, you gave us a target of reduction in med debt in the region of 200 million Euros for the current year, I was wondering whether it was still valid and whether it is possible to split it between the real estate business and the industrial business and also I'd like to know whether it includes any factoring fact.

The second question is for Mr. Ferrario, Mr. Ferrario mentioned in the conference call that backlog in the energy/cable was improving: is it possible to have some more details just to understand what might be the speed of the improvement, if therefore, it is possible to have some more information on the target for the energy/cable for the current year. Thank you'

'What we mentioned during the last conference call was the target for 2004 and it was 1.7 million Euros and not a reduction of 200 million Euros, so what we can state today as a positive statement is that we have achieved this aim twelve months' ahead of the expectation, net of dividend year-end 2004. So we expect to keep the same level at least, net of dividend, year-end 2004. We will fight in order to… anyhow I think what we have done in the last two years has led to quite an interesting achievement. And on the subject of the split between the real estate and the industrial business, I think that the answer of Mr. Puri contained all the elements to evaluate the real estate, which doesn't need major investments to grow, as we expect it will grow in 2004.

Mr. Ferrario
'Yes, as far as the order book in terms of energy, if we consider utilities and high voltage, the order book now compared to the same period of 2003is more or less between 10 and 15 per cent in terms of increase. Submarines is more than that, we can count between 25 and 30 per cent and special cables, today we have around 20 and 25% above the level of the parterre. In terms of building wire, the order book is not increasing in terms of volumes as I said, the situation is just that in terms of price pressure, because today we are not decreasing any more the prices as we did last year in the same period.

In terms of profitability, the expectations of return on sales?

Well in terms of profitability we expect a significant improvement in 2004 thanks to the situation in terms of orders and even more in terms of efficiencies. Because as I said earlier, we are working very hard to reduce further costs.

For 2004 and the outlook for 2006, we have already organized a technological day for industrial activity in May, so we will be providing more precise guidelines about expectations in May, Thank you.

Thank you, if I may, I have another question concerning the answer on Olympia that you gave earlier. The hope for higher profits for Olympia, just to be precise, means only higher dividends from Telecom Italia or other kinds of actions at Olympia level.

‘So, if we look at events in the past, many things have happened, so we did convert bonds, nobody expected it, so we decreased the book value of Olympia, then we made a capital increase and we did reduce again the book value of Olympia. And it provided us with a chance to increase the dividends, so it could be that in the future other strategies will help Olympia to be more profitable, coming from downstream and therefore from dividends or coming from upstream, buying shares, where convenient.

Is it convenient, today?

The next question is submitted by Mr. Vecchio from Intermonte, Mr. Vecchio please proceed with your question:

Good-afternoon everybody, I have three questions: first question is on row manterials of prices, can you expound a little bit on what kind of contract you have, the length of the contract and the measure in which you can translate to customers the growth in raw materials and what is your feeling and outlook on what is going on the raw materials side.
Second question is on some new contracts in US for fibres to the premises. I have been reading about potential contracts with Verizon and with other very big companies but those contracts have never been confirmed or in any way announced by Pirelli. Can you give us some information in this respect?

And the third question is on the outlook, I understand that you have a presentation in May but I would like to know whether you can expound a little bit on the statement given in your press release, it talked about growth, including pro quota income from equity participation, which is not very clear to me, if you cannot so remember, what is your target 2003- 2005 business plan. Thank you very much.

Well, as far as raw materials growth is concerned, we need to distinguish between copper, natural rubber and steel. Well, in terms of copper, the unitary cost is more or less 100% transport to the market in terms of utilities submarine, in terms of building wire the cost is the transport with a delay of a month but generally speaking we are covering this increase, entrenching this increase to the market, actually. In terms of natural rubber and steel, well, we have to consider that the raw materials are increasing pretty much, the natural rubber is increasing pretty much, but we have a different incidence in the truck business and in the UHP or passenger/tyres. With respect to the truck business, as I earlier mentioned, we are actually able to transfer of the cost increase into the prices, on the passenger front, the incidence of the natural rubber is much lower and we are confident that in any case also in a different environment we could transfer the majority of these costs into the prices. As far as steel is concerned, well steel, only recently has started to increase but the increase is so sharp that today the problem is to have the material more than to pay an increase and this being the case we think that we will be able to transfer this price increase into the customer price. As far as the fibre to the premises is concerned, well, in the United States, this kind of application is kind of getting increasingly popular, so there is an active work on the part of ourselves and our potential customers. We are also studying new solutions in terms of fibres that could assist and abet in solving the problem in this specific application, working also in the connectivity solutions, so we think that thanks to these efforts moving from the product, as soon as the contract will be mature, we will be in the first line, having such kind of orders.

When we mentioned growth from equity participation, looking at the actual figures, we can see that in 2003 we have a positive effect coming from the real estate equity participation, which is equal to 67 million Euros which is negatively balanced by one-hundred million coming from Olympia. Next year, we expect the equity participation coming from real estate to improve, as it has been stated by Mr. Puri, and we expect that Olympia will be at least positive, so the effect of Olympia will not be below 10 million Euros positive so that's the expectation for the equity participation; for the other outlook of 2004, as I mentioned before the guidelines will be given in May.

Thank you very much.

The next question is submitted by Mr. Angelo Manca , Mr. Manca please proceed with your question.
Yes thank you very much.

Yes, good-afternoon everybody. First question is as follows: 'if you could please provide us with some kind of guidance or target in terms of EBTA margins, fee industrial businesses, for 2004. Second question is about financial structure, just to have confirmation of the net debt that you expect for end 2004 which is in line with the net debt as of today, if I understood correctly. And if we can also assume that Pirelli Real Estate net debt will be at the same level of that of today. Thanks

Thank you, looking forward to confirm that the outlook is positive but the size of the different targets will be delivered to the market in May, and I confirm that the net debt, year-end after dividends is expected to be in line with the net debt year-end ERN 2003.

Thank you. Excuse me, for real estate, while the net financial position can move some ten million Euros up and down, as I said earlier, it is not a significant number in terms of our model of business, what we have to see is the kind of giving we have on the adjusted net financial position, because working minorities, it is very difficult to have a net financial position that changes significantly so we will see but we not number that is not very significant, on the company and on the consolidate number. Thank you.

Yes, I was just trying to extract what is the net cash for industrial activities, so just running quick numbers, if I assume an EBTA from industrial activities of roughly 619 million Euros this year, which is 20% per cent increase, some capex for 360 million Euros, interest and financial charges payments for 130 million Euros and 60 million Euros taxes, and then I also discount dividends from Pirelli Real Estate to Pirelli 35 million Euros, roughly 35 million Euros, and dividends out from Pirelli to …. for 109 million Euros, if I'm correct, I still have net cash left of roughly 19/90 million Euros, I forgot on purpose working capital changes so if you could clarify this point for us. Thank you.

You'll have the answer to your outlook in May. Thank you.

Ok. Thank you.

There are no more questions, I do apologise, the next question is submitted by Marco Cristofori from Cheverau. Mr. Cristofori please proceed with your question.

I have three short questions. The first one is on your cut action, you are able to cut costs by 170 million Euros last year, I wondered if you have a target for 2004.

The second question is: Mr. Ferrario mentioned some difficulties in the supplying of steel cord, I wondered whether this could have an impact on your production output in the coming months and the third question is: I hear in your press release that you had a target to expand activities in China so please could you expound a little on this subject also. Thank you.

I will answer the first and second question, probably even the third.
So, cost reduction, we have a target to continue, with a sizeable figure which will be delivered in May, and the output of the tyre production will not be affected by the steel cord shortage that Mr. Ferrario mentioned. And, in China, we are still looking round to see if there is something convenient. We are checking this opportunity closely, as you well know there is an overcapacity; we want to check and make an investment only if we believe it to be convenient. We do believe that China is the market of the future but we also know that we cannot create an investment that may create losses for too many years.
So we are looking into this opportunity and this market closely and we are also in touch with our producers in order to be sure that if we go there we also have a good supply agreement with our customers.

There are no more questions.

So thank you very much, everybody, we hope to see you in May, thank you.