



PRESS RELEASE

With the application of IAS/IFRS accounting standards, the Energy and Telecom Cables and Systems activities of the Pirelli & C. SpA Group, whose sale was completed on 28 July 2005, have been treated as "discontinued operations" (activities that have been sold or are in the process of being sold) and are not therefore consolidated as operational components (Revenues, Ebitda, Ebit), but contribute solely to the net result after tax for the first six months of the year. For the purposes of homogeneous presentation, 2004 data have been treated in the same way

THE BOARD OF DIRECTORS OF PIRELLI & C. SPA APPROVES FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2005:

- **CONSOLIDATED NET PROFIT: 316 MILLION EUROS, AN INCREASE OF 35% FROM 234 MILLION EUROS IN THE SAME PERIOD OF 2004**
- **REVENUES: 3,322 MILLION EUROS COMPARED WITH 2,932 MILLION EUROS IN THE FIRST NINE MONTHS OF 2004, AN INCREASE OF 13.3% (+9.5% ON LIKE-FOR-LIKE BASIS)**
 - **OPERATING INCOME: 278 MILLION EUROS (+24%), ROS 8.4% COMPARED WITH 7.6% IN SAME PERIOD OF 2004**
 - **NET FINANCIAL POSITION: FALLS TO 1,236 MILLION EUROS COMPARED WITH 2,338 MILLION EUROS IN THE FIRST HALF OF 2005 DUE TO THE POSITIVE EFFECT OF THE DISPOSAL OF THE CABLES AND SYSTEMS ACTIVITIES**

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- **TYRES: REVENUES 2,707 MILLION EUROS, AN INCREASE OF 9.8% COMPARED WITH THE FIRST NINE MONTHS OF 2004 (+7% ON LIKE-FOR-LIKE BASIS); OPERATING INCOME 271 MILLION EUROS (+25%) AND ROS AT 10%**
- **PIRELLI BROADBAND SOLUTIONS: REVENUES 81 MILLION EUROS, OVER DOUBLE THE 39 MILLION OF 30 SEPTEMBER 2004**
 - **PIRELLI RE: OPERATING PROFIT INCLUDING INCOME FROM EQUITY PARTICIPATIONS 104.5 MILLION EUROS (+31%); NET PROFIT 78 MILLION EUROS (+25%)**
- **OLIMPIA: PRO-QUOTA RESULT 130 MILLION EUROS, SHARPLY HIGHER THEN THE 8 MILLION EUROS OF THE FIRST NINE MONTHS OF 2004**

- **FOR FULL YEAR 2005 GROUP CONFIRMS EXPECTATIONS OF SIGNIFICANT IMPROVEMENT IN RESULTS**

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- **CORPORATE GOVERNANCE: INSTITUTED FIGURE OF LEAD INDEPENDENT DIRECTOR**

Milan, 11 November 2005 – The Board of Directors of Pirelli & C. SpA met today and approved the definitive results for the nine months ended 30 September 2005.

Pirelli & C. SpA Group

In the first nine months of 2005, the Pirelli & C. SpA Group achieved further **improvements in all economic indicators**. In particular, the period saw **strong growth in profitability** and the **net result**, confirming the strategic focus on higher margin businesses and the **significant debt reduction**, due to the positive effect of the disposal of the Cables and Systems activities.

Regarding **industrial activities**, the first nine months of the year were characterized by the **excellent result** at **Pirelli Tyre** which, higher raw material costs notwithstanding, confirms a **double digit** margin of **profitability** which places at **the highest levels** of its **market** of reference. **Sales** at start-up **Pirelli Broadband Solutions** continue to rise increasing and at 30 September 2005 **more than doubled** compared with the same period in 2004. In the real estate sector, the results of **Pirelli RE** continue to grow.

At the consolidated level, Group **revenues** in the first nine months amounted to **3,322 million** euros, an **increase of 13.3%** compared with the 2,932 million euros of the same period in 2004 and with increases in all areas of activity. On a like-for-like basis, revenues rose 9.5%.

EBITDA was **436 million** euros (13.1% of sales), an increase of **16%** compared with 375 million euros in the same period of 2004 (12.8% of sales).

The consolidated **operating income** (EBIT) was **278 million** euros, an increase of **24%** from 224 million euros in the first nine months of 2004 and with increases in all sectors. The profitability margin (**ROS** – Return on Sales) at the consolidated level is **8.4%**, a further **increase** from 7.6% in 2004.

The **results from participations**, which include the evaluation by shareholders' equity method of investments and dividends from other companies not consolidated, is **positive 195 million** euros, compared with 114 million euros in the first nine months of 2004. In particular, the **impact of Olimpia** was a **positive 130 million** euros (8 million euros in the same period in 2004), due both to Telecom Italia's improved results and the increase in the stake held compared to last year. It should be noted that Olimpia's financial statements, received in Group's consolidated statements, is drawn up in accordance with IAS/IFRS accounting standards and includes a valuation of the Telecom Italia SpA stake which uses

the shareholders' equity method. The results of the real estate sector company (**Pirelli RE Group**) are also included and were a **positive 63 million** euros (52 million euros a year earlier).

The **operating profit including income from equity participations** was **473 million** euros, an increase of **40%** compared with 338 millions last year.

Financial charges were **negative for 110 million** euros compared with 74 million euros in the same period in 2004.

Net profit on 30 September 2005 was **316 million** euros, an **increase of 35%** from 234 million euros in the same period of 2004.

Net profit attributable to Pirelli & C. SpA on 30 September 2005 was a **positive 276 million** euros (0.057 euros per share), compared with 206 million euros in the same period of 2004 (0.053 euros per share).

Consolidated shareholders' equity stood at **5,565 million** euros, compared with 3,841 million euros at the end of 2004. **Shareholders' equity attributable** to Pirelli & C. SpA on 30 September 2005 amounted to **5,187 million** euros (0.976 euros per share), compared with 3,502 million euros at the end of 2004 (1.011 euros per share).

The Group **net financial position** on 30 September 2005 was a passive **1,236 million** euros, a **significant improvement** from -2,338 million euros on 30 June, mainly due to the **positive effect** of approximately 1.2 billion euros deriving from the disposal of the Cables and Systems activities.

During the quarter, 10,850,000 Telecom Italia SpA shares (equal to 0.1% of ordinary share capital) were bought on the market with an outlay of 27.7 million euros, corresponding to an average price of 2.55 euro a share.

The Group's commitment to **research and technological innovation**, the negative economic context notwithstanding, was confirmed in the first nine months of 2005 with **investment in research and development** of **131 million** euros, equal to approximately **3.9%** of sales.

Group **employees** on 30 September 2005 were **26,864** compared with 24,790 on 31 December 2004, with an increase of 2,074 (701 of whom with limited-period contracts) mainly in Tyre activities and linked to volume growth and expansion in China and Romania.

Pirelli Tyre

Revenues in the first nine months of 2005 were **2,707 million** euros, an increase of **9.8%** compared with 2,466 million euros on 30 September 2004 (+7% on a like-for-like basis).

EBITDA was **412 million** euros (15.2% of sales), an increase of **17.7%** from 350 million euros in the first nine months of 2004.

The **operating income** amounted to **271 million** euros, an increase of **25%** from 217 million euros on 30 September 2004, with **ROS** at **10%**.

The **net financial position** on 30 September 2005 was negative **385 million** euros compared with 340 million on 30 September 2004. The figure was impacted by the launch of investment, approximately 59 million euros, in China.

At the end of September 2005, **employees** were **23,727**, including 3,282 employees with limited-period contracts (the headcount on 31 December 2004 was 21,513, of whom 2,576 were temporary).

The positive performance registered in the first nine months of 2005 was determined by a continued focus on the product mix, price increases and volume growth, which more than offset the further rise in raw materials prices and energy costs, and in the context of less than brilliant market demand. The Consumer business (Car and Moto) saw positive growth in the higher market segments, both in North America and, especially with Winter in Europe. The Industrial business also grew, particularly in original equipment: in the third quarter, moreover, radial truck tyre production started in China.

Pirelli Broadband Solutions

Revenues in the first nine months of 2005 were **81 million** euros, **more than a twofold increase** from 39 million euros in the same period of 2004. In the third quarter, the company recorded its first sales of second generation photonics products.

EBITDA was **negative 5.6 million** euros, an improvement from -6.6 million euros on 30 September 2004.

The **operating income**, positive for broadband access activities but impacted by the start-up of second generation photonics products, was a **negative 6 million** euros, an **improvement** from -6.9 million euros in the same period of 2004.

The **net financial position** was negative **3.1 million** euros.

On 30 September 2005, the **headcount** stood at **119**, compared with 79 on 31 December 2004.

The positive sales performance was driven by broadband access products, above all ADSL, which are continuing to show good prospective development in Italy and abroad. In the third quarter of 2005, the company achieved its first revenues from second generation photonics, which will also benefit by the new partnership with Marconi for the CWDM (Coarse Wavelength Division Multiplexing) solution. DTL (Dynamically Tunable Laser) is also showing promise and is now undergoing qualification with its main clients.

Pirelli RE

It should be noted that Pirelli RE is a **management company**, which manages funds and special purpose companies that own properties and non-performing loans, and in which it holds minority interests (the fund and asset management businesses). It also provides a full range of property services to the above vehicles and to other customers (the property services business), either directly or via its franchise network of estate agents. **Aggregate revenues** (which according to IAS/IFRS accounting standards substantially equate with the previously used aggregate value of production net of acquisitions) and **operating profit including income from equity participations** are, therefore, the most appropriate measure of the Group's turnover and operating performance.

The **operating profit** including income from equity participations amounted to **104.5 million** euros, with an increase of **31%** from 79.6 million euros in the first nine months of last year.

On 30 September 2005, attributable **net profit** rose to **78 million** euros, an **increase of 25%** from the same period in 2004 (62.4 million euros).

The result on 30 September continues to be characterized by a significant increase in fees in the activities of Fund and Asset Management and from the improvement in profitability from Service Provider activities; the expansion of Franchising activities continued, with affiliates rising to 803, as planned.

For further information on the performance of real estate activities, consult the press release issued by Pirelli & C. Real Estate on 7 November 2005.

Pirelli Ambiente

Pirelli & C. Ambiente Holding, the company created in 2005 to strengthen the Group in the environmental and sustainable development sectors, posted sales of approximately 44 million euros in the first nine months of the year. In the third quarter, the company launched the sale of anti-particulate filters for the reduction of emissions from diesel vehicles and continued activities in the fields of renewable energy sources, and the production and sale of the low environmental impact fuel "GecamTM - Il Gasolio Bianco".

Outlook for 2005 fiscal year

The results obtained in the first nine months of the year permit the confirmation of the Group's expectations for a **significant improvement in results** for full-year 2005, excluding external elements of an extraordinary and unforeseeable nature.

In particular, in industrial activities, **Pirelli Tyre**, even with further increases in the cost of raw materials and taking the business's seasonality in account, expects a consolidation of

the improved results' trend, compared with last year, and the achievement one year ahead of schedule of the profitability target (ROS at 9%) indicated for 2006 in the 3-year Plan.

Pirelli Broadband Solutions expects to maintain a significant market share in broadband access products, and should develop further commercial and research activities related to second generation photonics products.

Pirelli RE, on the basis of results achieved in the first nine months and the information available, expects growth in the operating profit including income from equity participations in 2005 to be in line with the guidance previously given to the market.

Corporate Governance

The Board of Directors, with the aim of further strengthening the role of independent Directors (10 of a total 20), has decided to introduce the figure of **Lead Independent Director**. The Lead Independent Director (identified in the President of the Internal Control and Corporate Governance Committee, Professor Carlo Secchi) will be the point of reference and coordination for the independent Directors needs and input.

The Lead Independent Director will be able, among others, to convene – autonomously or at the request of other Directors – dedicated Independent Directors' executive sessions to discuss themes of interest regarding the functioning of the Board of Directors or the company's management.

Finally, the Board of Directors, availing itself of the options granted it in the company Bylaws in accordance with the law, has adapted article 7 (assemblies) of the company Bylaws to regulatory changes. In particular, in the light of Consob's "Regolamento Mercati" and in line with the Bylaws' aim to facilitate participation in company life, minimizing costs and requirements, all that is required to attend Shareholder Meetings is the communication of the intermediary, without the need for the shareholder to produce any certification.

Significant events occurring after 30 September 2005

On 12 October 2005, Pirelli's new radial truck tyre factory was inaugurated in Yanzhou, in the Chinese Province of Shandong. The Group will develop its presence in China with an investment of approximately 90 million dollars in 2005, which is expected to rise up to 180 millions in the space of two years. The factory has an annual production capacity of approximately 0.6 million pieces, which will become approximately 1.2 million when fully operational.

On 18 October 2005, Pirelli & C. S.p.A purchased from Deutsche Bank AG, London, 13,690,319 shares of RCS MediaGroup, equal to approximately 1.87% of the company's ordinary capital, for approximately 58.9 million euros.

Conference Call

The results for the first nine months of 2005 will be illustrated at 17.30 (4.30 pm GMT), in a conference call with the participation of the Chairman of Pirelli & C. SpA, Marco Tronchetti Provera.

Journalists will be able to follow the conference call, without the possibility of asking questions, by dialling **+39 06 33485042**.

The presentation can be followed in audio streaming – in real time – at www.pirelli.com, in the Investor Relations section, where the supporting documentation will also be available.

Pirelli Press Office – Tel. +39 02 85354270 – pressoffice@pirelli.com

Pirelli Investor Relations – Tel. +39 02 64422949 – ir@pirelli.com

www.pirelli.com

Summaries of the financial statements for the period ending 30 September 2005; pro-forma consolidated balance sheet and statement of income for Pirelli & C. S.p.A at 30 September 2005, assuming full consolidation of Olimpia S.p.A. and valuation of the investment in Telecom Italia S.p.A. according to the equity method. Calendar of main corporate events.

PIRELLI & C. SPA GROUP

	(million euros)				
	3rd Q 2005	3rd Q 2004	30/09/2005	30/09/2004	31/12/2004
. Sales	1.041	916	3.322	2.932	3.967
. EBITDA ⁽¹⁾	130	123	436	375	468
% on sales	12,5%	13,4%	13,1%	12,8%	11,8%
. EBIT ⁽¹⁾	76	72	278	224	267
% on sales	7,3%	7,9%	8,4%	7,6%	6,7%
. Income from equity participations	83	81	195	114	135
. Operat. income incl. income from equity part.	159	153	473	338	402
. Financial charges/income	(44)	(39)	(110)	(74)	(100)
. Tax charges	(26)	(24)	(97)	(83)	(87)
. Net profit operat. activities	89	90	266	181	215
% on sales	8,5%	9,8%	8,0%	6,2%	5,4%
. Net profit discontinued operations			50	53	89
. Total net profit			316	234	304
. Net profit attributable to Pirelli & C. S.p.A.			276	206	251
. Attributable net profit per share (in euro)			0,057	0,053 ⁽²⁾	0,065 ⁽²⁾
. Shareholders' equity			5.565	3.606	3.841
. Shareholders' equity attributable to Pirelli & C. S.p.A.			5.187	3.331	3.502
. Shareholders' equity per share (in euro)			0,976	0,962	1,011
. Net financial position (assets)/liabilities			1.236	2.046	1.601
<i>Nfp "discontinued operations"</i>				649	456
. R&D investments			131	129	171
. Employees n. (at end period)			26.864	37.476	37.154
<i>Employees discontinued operations</i>				12.857	12.364
. Number of plants			24	74	74
<i>Discontinued operations number of plants</i>				52	52
<i>Pirelli & C. shares in circulation</i>					
. ordinary (n. milion)			5.180,7	3.326,8	3.327,5
. savings (n. million)			134,8	134,8	134,8
. Total shares in circulation			5.315,5	3.461,6	3.462,3

(1) including in 2004 the proceed for IPR sale of Submarine Telecom activities (Alcatel agreement) for euro 14 million

(2) taking in account 2005 capital increase (adjustment factor = 0.89)

Attachment 2

(million euros)

	Tyres		Pirelli Broadband		Pirelli & C. Real Estate		Others		TOTAL	
	30/09/2005	30/09/2004	30/09/2005	30/09/2004	30/09/2005	30/09/2004	30/09/2005	30/09/2004	30/09/2005	30/09/2004
. Sales	2.707	2.466	81	39	459	392	75	35	3.322	2.932
. EBITDA	412	350	(6)	(7)	48	34	(18)	(2) (2)	436	375
% on sales	15,2%	14,2%	n.s.	n.s.					13,1%	12,8%
. EBIT	271	217	(6)	(7)	42	27	(29)	(13) (2)	278	224
% on sales	10,0%	8,8%	n.s.	n.s.					8,4%	7,6%
. Income from equity participations		-			63	52	132 (1)	62 (3)	195	114
. Operat. income incl. inc. from eq.	271	217	(6)	(7)	105	79	103	49	473	338
. Financial charges/income	(30)	(27)	(1)	(4)		4	(79)	(47)	(110)	(74)
. Tax charges	(76)	(71)			(26)	(21)	5	9	(97)	(83)
. Net profit activities in operation	165	119	(7)	(11)	79	62	29	11	266	181
% on sales	6,1%	4,8%	n.s.	n.s.					8,0%	6,2%
. Net financial position (assets)/liab	385	340	3	16	29	43	819	998	1.236	1.397

(1) Equity evaluation of Olimpia S.p.A. positive for euro 130 million (euro 8 million in 2004)

(2) including proceed for IPR sale of Submarine Telecom activities (Alcatel agreement) for euro 14 million

(3) including proceed for PRE stock sale for 56 million euros

PIRELLI & C. S.p.A. PRO-FORMA DATA

	30/09/2005 Pirelli & C. S.p.A consolidated financial statements (1)	Pro-forma adjustments			30/09/2005 Pirelli & C. S.p.A pro- forma consolidated financial statements (2)
		Reversal of Olimpia S.p.A result owing to Pirelli & C. S.p.A	Olimpia S.p.A. fully	Olimpia books of consolidation	
<i>(million euros) IAS/IFRS</i>					
Statements of Income Summary					
Sales	3.322				3.322
EBIT	278		(1)	(1)	277
Financial charges/income/adj. value of fin. activities	85	(130)	216	86	171
Taxes	(97)	-	-	-	(97)
Net profit activities in operations	266	(130)	215	85	351
Result discontinued operations	50				50
Total net profit	316	(130)	215	85	401
Attributable net profit	276	(130)	130	-	276
Reclassified balance sheet					
Shareholders' equity	5.565	(130)	8.440	(5.597)	2.713
- attributable shareholders' equity	5.187	(130)	5.102	(4.972)	5.187
Net financial position (assets)/liabilities	1.236	-	3.445	-	3.445

(1) Pirelli & C. consolidated financial statements (investment in Olimpia valued using shareholders' equity method with Olimpia valuating TI with the shareholders' equity method)

(2) pro-forma data (Olimpia fully consolidated)

<i>(million euros)</i> <i>IAS/IFRS</i>	Shareholders' equity		Net debt		Net debt(Shareholders' equity)		Company's shareholders' equity	
	30/09/2005	31/12/2004	30/09/2005	31/12/2004	30/09/2005	31/12/2004	30/09/2005	31/12/2004
Pirelli & C. SpA Group: consolidated data	5.565	3.841	1.236	1.601	0,22	0,42	5.187	3.502
Pirelli & C. SpA Group: pro-forma consolidated data incl. Olimpia SpA fully consolidated	8.278	6.355	4.681	5.175	0,57	0,81	5.187	3.502
Pirelli & C. SpA Group: pro-forma consolidated data incl. Olimpia Spa and Telecom Italia SpA fully consolidated	31.834	25.307	46.701	38.037	1,47	1,50	5.187	3.502

Calendar of main Corporate events:

Calendar of main corporate events for year 2006 follows:

13 March 2006: Meeting of Board of Directors to examine draft financial statements of the Company and draft consolidated financial statements for the year ended 31 December 2005.

The above documents will be published by 90 days from the end of the period and, consequently, in accordance with art. 82 of Consob resolution 11971/99 (with following modifications and integrations), the quarterly report for the fourth quarter 2005 will not be drawn up.

19-20 April 2006 (first and second convocation): Annual General Meeting of Shareholders for the approval of the financial statements at 31 December 2005. Consequently, it is forecasted that any dividend related to fiscal year 2005 would be paid on May 2006.

11 May 2006: Meeting of Board of Directors to examine financial statements for the first quarter ended 31st March 2006.

27 July 2006: Meeting of Board of Director to examine draft and unaudited financial statements for the six months ended 30 June 2006.

12 September 2006: Meeting of Board of Directors to examine financial statements for the six months ended 30 June 2006.

The above document will be published by 75 days from the end of the period and, consequently, in accordance with art 82 of Consob resolution 11971/99 (with following modifications and integrations), the quarterly report for the second quarter 2006 will not be drawn up.

9 November 2006: Meeting of Board of Directors to examine financial statements for the third quarter ended 30 September 2006.

Any change in the Calendar will be communicated as soon as decided.