

Pirelli & C. S.p.A. - Milan

Quarterly Report

3rd Quarter 2005

PIRELLI & C. Società per Azioni

Head office in Milan, Via G. Negri 10

Share Capital - Euros 2,764,029,317.92 fully paid-in

Milan Companies Register No. 00860340157

Economic Administrative File (REA) No. 1055

PIRELLI & C. S.p.A. – Boards**Board of Directors¹**

Honorary Chairman	Leopoldo Pirelli
Chairman ²	Marco Tronchetti Provera
Deputy Chairman ²	Alberto Pirelli
Deputy Chairman ²	Carlo Alessandro Puri Negri
Managing Director ² and General Manager	Carlo Buora
Directors	Carlo Acutis *
	Carlo Angelici * °
	Gilberto Benetton
	Franco Bruni * °
	Carlo De Benedetti *
	Gabriele Galateri di Genola
	Mario Garraffo *
	Dino Piero Giarda *
	Berardino Libonati * □
	Giulia Maria Ligresti
	Massimo Moratti
	Giovanni Perissinotto
	Giampiero Pesenti * □
	Aldo Roveri * □
	Carlo Secchi * °
	Paolo Vagnone

* Independent director

° Member of the Internal Control and Corporate Governance Committee

□ Member of the Remuneration Committee

Secretary to the Board	Anna Chiara Svelto
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Board of Statutory Auditors³

Chairman	Luigi Guatri
Standing members	Roberto Bracchetti
	Paolo Francesco Lazzati
Alternate members	Franco Ghiringhelli
	Sebastiano Guido

General Managers

Tyres Sector	Francesco Gori
Administration and Control	Claudio De Conto
Finance	Luciano Gobbi

Independent Auditors⁴

PricewaterhouseCoopers S.p.A.

1 Appointment: April 28, 2005. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2007.

2 Office conferred by the board of directors' meeting held on April 28, 2005.

3 Effective date of appointment: August 4, 2003. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2005.

4 Appointment conferred by the shareholders' meeting held on April 28, 2005.

PIRELLI & C. S.p.A. - MILAN
Quarterly Report – 3rd Quarter 2005

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REPORT ON OPERATIONS

Disposal of the Energy and Telecom Cables and Systems activities

On July 28, 2005, after obtaining approval from the relevant authorities, the June 1, 2005 agreement was executed between Pirelli & C. S.p.A. and Goldman Sachs Capital Partners for the purchase of Pirelli's Energy and Telecom Cables and Systems activities by Goldman Sachs Capital Partners.

These activities were valued for a total amount of approximately Euros 1.3 billion inclusive of the intellectual property rights and a license for the use of the Pirelli trademark for two years.

Pirelli was also assigned a warrant entitling it to obtain economic benefits equivalent to 5 percent of the capital of the vehicle company used by Goldman Sachs Capital Partners for the transaction; this will allow Pirelli to take advantage of any opportunities arising from the future growth of the business.

The agreement provides that the pension funds of the affiliates in the United Kingdom will be carried by Pirelli, with an effect of approximately Euros 98 million.

The disposal led to an improvement in the net financial position of about Euros 1.2 billion, of which Euros 490 million refers to the equity value of the transaction (Euros 135 million of which is represented by a vendor loan) and about Euros 700 million to the deconsolidated net debt.

Overall, in economic terms on consolidation, taking into account the transaction costs, the price adjustment still under discussion and an estimate of the accrual for the guarantees provided, for a total of approximately Euros 80 million, the impact at the end of the year will be a gain of approximately Euros 30 million, of which Euros 10 million relates to the license for use of the trademark.

PERFORMANCE OF THE GROUP

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

As regards the **Tyres Sector**, the first nine months of the year were characterized by an excellent result, higher raw material costs notwithstanding, confirming a double-digit profitability margin and placing it at the very highest levels of the market of reference. The positive performance is attributable to the continuing focus on the product mix, price increases and volume growth which more than compensated the further increase in raw material and energy costs. This was achieved in a scenario of lackluster market demand. The Consumer business (Car and Motorcycle tyres) registered a positive growth trend in the top market segments in both North America and, especially with the Winter tyre, in Europe. The Industrial business is also growing, in particular, in original equipment. Production of the radial truck tyre also began in China in the third quarter.

At the **Pirelli Broadband Solutions** start-up, sales continue to rise and more than doubled in the first nine months of 2005 compared to the corresponding period of 2004. The positive trend in sales is driven by broadband access products, especially ADSL, which continue to show good development prospects in Italy and outside Italy. In the third quarter of 2005, moreover, the company recorded its first sales of second-generation photonics products, which will also draw benefits from the new partnership with Marconi on the CWDM (Coarse Wavelength Division Multiplexing) solution. Good potential for development is also displayed by the DTL (Dynamically Tunable Laser), currently undergoing testing at major customers.

In the **Real Estate Sector**, the results of the Pirelli Real Estate Group continue to grow. The significant increase in fees from Fund and Asset Management activities and the improvement in the profitability of Service provider activities are again a driving force in the result for the first nine months of the year. Expansion efforts also moved forward for Franchising; the number of agencies under contract increased to 803 agencies, a figure in line with targets.

Consolidated **sales** of the Group for the first nine months of 2005 amount to Euros 3,322 million, up 13.3 percent compared to Euros 2,932 million for the same period of 2004, registering increases in all business segments. On a comparable basis, sales grew by 9.5 percent.

Gross operating profit (EBITDA) is Euros 436 million (13.1 percent of net sales), up 16.3 percent compared to Euros 375 million in the same period of 2004 (12.8 percent of net sales).

Consolidated **operating profit** (EBIT) amounts to Euros 278 million, an increase of 24.1 percent compared to Euros 224 million for the first nine months of 2004, with growth in all business segments. ROS (Return on Sales) at consolidated level is equal to 8.4 percent, up from 7.6 percent for the first nine months of 2004.

The **share of the earnings (losses) of equity investments**, which includes the effect of the result of the companies accounted for by the equity method, and dividends from other unconsolidated holdings, is an earnings balance of Euros 195 million, compared to Euros 114 million for the first nine months of 2004. In particular, the caption includes the impact of the earnings of Olimpia for Euros 130 million (Euros 8 million for the same period of 2004), due both to the improvement in the result of Telecom Italia and the increase in the ownership percentage held in comparison with last year. It should be pointed out that the financial statements of Olimpia, included in the consolidated financial statements of the Group, is drawn up in accordance with

IAS/IFRS and comprises the valuation of the investment in Telecom Italia S.p.A. by the equity method.

The caption also includes the results of the companies of the real estate sector (Pirelli Real Estate Group) accounted for by the equity method, which show earnings for Euros 63 million (Euros 52 million in the same period of the prior year), dividends from other unconsolidated holdings for Euros 20 million and investment writedowns for Euros 18 million.

In the first nine months of 2004, the caption included the gain of Euros 56 million realized on the placement of 8.37 percent of the capital of Pirelli Real Estate S.p.A. with institutional investors.

Operating profit including the share of earnings (losses) of equity investments is equal to Euros 473 million. This is an increase of 39.9 percent compared to Euros 338 million in the prior year.

Financial income (expenses) shows an expense balance of Euros 110 million compared to Euros 74 million in the same period of 2004. The total in 2005 includes a negative amount of Euros 38 million arising from the fair value adjustment of the financial derivatives on Telecom Italia S.p.A. securities held by the Pirelli Group which were already included in the financial statements at December 31, 2004.

The consolidated **net income** for the nine months ending September 30, 2005 is Euros 316 million, up (+35 percent) from Euros 234 million in the same period of 2004. Net income from continuing operations is Euros 266 million, a decisive increase compared to Euros 181 million in the same period of 2004.

The **net income attributable to Pirelli & C. S.p.A.** for the nine months to September 30, 2005 is Euros 276 million (Euros 0.057 per share), compared to Euros 206 million in the same period of 2004 (Euros 0.053 per share).

Consolidated **shareholders' equity** is Euros 5,565 million, compared to Euros 3,841 million at the end of 2004. The net equity attributable to Pirelli & C. S.p.A. at September 30, 2005 is Euros 5,187 million (Euros 0.976 per share), compared to Euros 3,502 million at the end of 2004 (Euros 1.011 per share).

The **net financial position** of the Group at September 30, 2005 is a net debt position of Euros 1,236 million. This is an improvement compared to Euros 2,338 million at June 30, 2005 mainly on account of the positive effect of the disposal of the Cables and Systems activities.

The parent company, Pirelli & C. S.p.A.

The net result of the parent company, Pirelli & C. S.p.A. for the nine months ended September 30, 2005 is a net loss of Euros 46 million compared to a net income of Euros 26 million for the first nine months of 2004.

The loss is due to financial expenses and investment writedowns that were not compensated by dividends from subsidiaries which are recorded on the accrual basis and will be included in the financial statements at December 31, 2005.

Last year, the result benefited from the gain realized on the disposal of Pirelli & C. Real Estate S.p.A. shares to Deutsche Bank A.G. London (Euros 89 million).

A decision will be made by the end of the year as regards the preparation of separate statutory financial statements in accordance with IAS/IFRS starting from 2005, an option granted to listed companies by Legislative Decree No. 38 dated February 28, 2005 (IAS/IFRS financial statements are mandatory starting from 2006).

SIGNIFICANT EVENTS IN THE THIRD QUARTER

Significant events which occurred during the third quarter of 2005 are described below:

Tyres Sector

- The new Pirelli radial truck tyre factor at Yanzhou, in the Chinese province of Shandong, was inaugurated following the signing of the joint venture agreement announced on June 16, 2005 between Pirelli and Roadone Tyre Co. Ltd. and executed on July 29, 2005, after approval was received from the relevant authorities.

The factory covers an area of 500 thousand square meters and employs about 750 persons; initial annual production capacity will be about 0.6 million pieces which, when fully operational, will become about 1.2 million pieces. The production of the Yanzhou factory is intended for the Chinese market and other markets in southeast Asia and Australia.

Pirelli will operate in China through a 60 percent-controlled company with Roadone Tyre, which is headed by the Chinese Yinhe group.

Pirelli Broadband Solutions

- On September 27, 2005, Pirelli Labs and Georgia Tech, a prestigious American university research institute specialized in electronics and optical technologies, signed a five-year research agreement to develop new broadband technologies mainly for the American telecommunications market.

Under the agreement, visiting scientists from Pirelli Labs will work in Georgia Tech's Electronic Design Center Tech, where ad hoc laboratories will be built, and Pirelli Labs and Georgia Tech will have joint use of Pirelli Labs' clean rooms which occupy about 5,000 square meters in the Pirelli Labs building.

Atlanta will also be home to the new American headquarters of the Pirelli Group, which already has an important industrial operation in Georgia, at the MIRS technology tyre factory at Rome, and the headquarters of Pirelli Broadband Solutions, the new company which develops and markets the inventions of Pirelli Labs.

Thanks to its partnership with Pirelli Labs, Georgia will become a foremost world center in photonics and broadband technologies.

Real estate activities

- On July 14, 2005, the global offer for shares of Berenice Fondo Uffici ended well in advance of the July 26 closing date. This is the third listed real estate fund promoted by Pirelli RE SGR and is specialized in buildings for tertiary-office occupancy or reconvertible for that purpose. Total requests for shares were equal to 142 percent of the shares offered and the offering price was fixed at Euros 505 per share.
- On July 14, 2005, Pirelli RE won the bid for the purchase of the ex-Manifattura Tabacchi in Milan for approximately Euros 56 million. Closing of the deal is expected to take place by the end of 2005, with Pirelli RE purchasing 50 percent of the company, currently controlled by Fintecna, which owns the area.
- On July 19, 2005 the Diomira reserved closed Fund was set up, seeded with 19 buildings from Enpam for a value of about Euros 149 million. The offer, for approximately Euros 70 million, was entirely placed with qualified investors, including the Pirelli RE and Lehman Brothers joint venture for investments in the residential sector. Pirelli RE participates in the Fund with about a 32 percent interest.
- On July 26, 2005, the board of directors of Pirelli RE SGR approved the interim management accounts at June 30, 2005 of the managed real estate funds and passed resolutions on the following:
 - for Tecla Fondo Uffici, the payment of dividends equal to Euros 22.43 per share with a semiannual return of 4.7 percent. Considering also the dividends paid on June 30, and December 31, 2004, the Fund closes the first 16 months of operations with the distribution of total income of Euros 55.88 per share for an average annual return of 8.6 percent, based solely on dividends without taking into account the revaluation of NAV.

- for Olinda Fondo Shops, the payment of dividends equal to Euros 16.90 per share with a semiannual return of 3.4 percent. The Fund closes its first seven months of operations with the distribution of total income of Euros 16.90 per share for an average annual return of 6 percent, based solely on dividends and without taking into account the revaluation of NAV.

- for Cloe Fondo Uffici, the payment of dividends equal to Euros 26,810.55 per share with a semiannual return of 10.7 percent. Considering also the dividends paid on December 31, 2004, the Fund closes its first months of operations with the distribution of total income of Euros 41,918.03 per share for an average annual return of 16.8 percent, based solely on dividends without taking into account the revaluation of NAV.

- for Clarice Light Industrial, for the second quarter of 2005, the distribution of dividends equal to Euros 5,751.49 per share, with a quarterly return of 2.3 percent. The Fund closes its first six months of operations with the distribution of total income of Euros 12,276.07 per share for an average annual return of 9.1 percent, based solely on dividends and without taking into account the revaluation of NAV.

- On July 28, 2005, Pirelli RE purchased land for development of about 1.5 million square meters in the area of Portogruaro in the Province of Venice for the building of an integrated industrial park. Start of the work is scheduled for the first quarter of 2006 with an investment estimated at about Euros 150 million over the next four years.

Corporate

- During the quarter, 10,850,000 Telecom Italia S.p.A. ordinary shares (equal to 0.1 percent of ordinary share capital) were purchased for Euros 27.7 million. This corresponds to an average price of Euros 2.55 per share.

The total number of Telecom Italia S.p.A. ordinary shares purchased during the year is therefore 49,557,885 (equal to 0.4 percent of ordinary share capital) for Euros 127 million. This corresponds to an average price of Euros 2.56 per share.

THE GROUP

The highlights of the consolidated data for the nine months ending September 30, 2005 of the Pirelli & C. S.p.A. Group and the periods under comparison have been prepared in accordance with IAS/IFRS.

The comments and the comparisons in the report are therefore presented using data based on homogeneous standards.

The highlights of the consolidated financial data for the nine months to September 30, 2005 can be summarized as follows:

	(in millions of euros)				
	3 rd Quarter 2005	3 rd Quarter 2004	9 months to 9/30/2005	9 months to 9/30/2004	Year 2004
. Net sales	1,041	916	3,322	2,932	3,967
. Gross operating profit (1)	130	123	436	375	468
% of net sales	12.5%	13.4%	13.1%	12.8%	11.8%
. Operating profit (1)	76	72	278	224	267
% of net sales	7.3%	7.9%	8.4%	7.6%	6.7%
. Share of earnings (losses) of equity investments	83	81	195	114	135
. Operating profit incl. share of earnings (losses) of equity invest.	159	153	473	338	402
. Financial income (expenses)	(44)	(39)	(110)	(74)	(100)
. Income taxes	(26)	(24)	(97)	(83)	(87)
. Net income from continuing operations	89	90	266	181	215
% of net sales	8.5%	9.8%	8.0%	6.2%	5.4%
. Net income from discontinued operations			50	53	89
. Total net income			316	234	304
. Net income attributable to Pirelli & C. S.p.A.			276	206	251
. Earnings per share (in euros)			0.057	0.053 (2)	0.065 (2)
. Shareholders' equity			5,565	3,606	3,841
. Net equity attributable to Pirelli & C. S.p.A.			5,187	3,331	3,502
. Equity per share (in euros)			0.976	0.962	1.011
. Net financial (liquidity)/debt position			1,236	2,046	1,601
<i>of which assets held for sale</i>				649	456
. R&D expenditures			131	129	171
. Employees (number at period-end)			26,864	37,476	37,154
<i>of which assets held for sale</i>				12,857	12,364
. Factories (number)			24	74	74
<i>of which assets held for sale</i>				52	52
<i>Pirelli & C. shares outstanding at 9/30/2005</i>					
. ordinary shares (number in millions)			5,180.7	3,326.8	3,327.5
. savings shares (number in millions)			134.8	134.8	134.8
. Total shares outstanding at 9/30/2005			5,315.5	3,461.6	3,462.3

(1) includes, in 2004, the gain on the sale of Intellectual Property Rights (IPR) of the Telecom Submarine activities (Alcatel agreement) for Euros 14 million

(2) takes into account the capital increase effected in 2005 (adjustment factor = 0.89)

For a better understanding of the performance of the Group in its various sectors of business, the following economic data and the net financial position are provided by business sector.

	(in millions of euros)									
	Tyres		Pirelli Broadband		Pirelli & C. Real Estate		Other		TOTAL	
	9 months to 9/30/2005	9 months to 9/30/2004	9 months to 9/30/2005	9 months to 9/30/2004	9 months to 9/30/2005	9 months to 9/30/2004	9 months to 9/30/2005	9 months to 9/30/2004	9 months to 9/30/2005	9 months to 9/30/2004
. Net sales	2,707	2,466	81	39	459	392	75	35	3,322	2,932
. Gross operating profit	412	350	(6)	(7)	48	34	(18)	(2) ⁽²⁾	436	375
% of net sales	15.2%	14.2%	n.s.	n.s.					13.1%	12.8%
. Operating profit (loss)	271	217	(6)	(7)	42	27	(29)	(13) ⁽²⁾	278	224
% of net sales	10.0%	8.8%	n.s.	n.s.					8.4%	7.6%
. Share of earnings (losses) of equity investments		-			63	52	132 ⁽¹⁾	62 ⁽³⁾	195	114
. Operating profit (loss) incl. share of earnings (losses) of equity invest.	271	217	(6)	(7)	105	79	103	49	473	338
. Financial income (expenses)	(30)	(27)	(1)	(4)		4	(79)	(47)	(110)	(74)
. Income taxes	(76)	(71)			(26)	(21)	5	9	(97)	(83)
. Net income from continuing operations	165	119	(7)	(11)	79	62	29	11	266	181
% of net sales	6.1%	4.8%	n.s.	n.s.					8.0%	6.2%
. Net financial (liquidity)/debt position	385	340	3	16	29	43	819	998	1,236	1,397

(1) valuation of Olimpia S.p.A. by the equity method shows earnings of Euros 130 millions (Euros 8 million in 2004)

(2) includes the gain on the sale of IPR of the Submarine Telecom activities (Alcatel agreement) for Euros 14 million

(3) includes the gain on the sale of Pirelli RE shares for Euros 56 million

Net sales

Net sales amount to Euros 3,322 million for the nine months ending September 30, 2005, with an increase on a comparable basis of 9.5 percent against the corresponding period of the prior year.

Net sales amount to Euros 1,041 million for the third quarter of 2005 compared to Euros 916 million for the third quarter of 2004, an increase of 13.6 percent.

Gross operating profit

Gross operating profit for the first nine months of 2005 rose by 16.3 percent from Euros 375 million to Euros 436 million. Gross operating profit is equal to 13.1 percent of net sales, compared to 12.8 percent for the first nine months of 2004.

Gross operating profit for the third quarter of 2005 amounts to Euros 130 million (12.5 percent of net sales) compared to Euros 123 million for the third quarter of 2004 (13.4 percent of net sales). It should be noted that in the third quarter of 2004, a gain was recorded on the sale of IPR to Alcatel for Euros 14 million.

Operating profit

Operating profit for the first nine months of 2005 is equal to Euros 278 million, representing 8.4 percent of net sales compared to Euros 224 million for the corresponding period of 2004.

The change in operating profit can mainly be attributed to:

<u>Operating profit 9 months to 9/30/2004</u>		<u>224</u>
. Foreign exchange effect	15	
. Tyres Sector	39	
. Pirelli Broadband Solutions	1	
. Pirelli Real Estate	15	
. Other	(16)	
of which, sale of IPR in 2004 to Alcatel -14		54
<u>Operating profit 9 months to 9/30/2005</u>		<u>278</u>

Operating profit for the third quarter of 2005 is equal to Euros 76 million (7.3 percent of net sales) compared to Euros 72 million for the third quarter of 2004. It should be noted that in the third quarter of 2004, a gain was recorded on the sale of IPR to Alcatel for Euros 14 million.

Share of earnings (losses) of equity investments

The share of the earnings (losses) of equity investments is a positive balance of Euros 195 million compared to a positive balance of Euros 114 million for the same period of 2004. The amount also includes the results of the companies in the Real Estate Sector which show earnings of Euros 63 million (Euros 52 million for the first nine months of 2004).

The caption also includes the share of earnings of the investment in Olimpia S.p.A., accounted for by the equity method, for Euros 130 million (Euros 8 million for the first nine months of 2004).

It should be pointed out that the financial statements of Olimpia, drawn up in accordance with IAS/IFRS, included in the consolidated financial statements of the Group, comprise the valuation of the investment in Telecom Italia S.p.A. by the equity method.

The caption also includes dividends from other unconsolidated holdings of Euros 20 million and investment writedowns of Euros 18 million.

For the nine months to September 30, 2004, the caption included the gain realized on the placement of 8.37 percent of the capital of Pirelli Real Estate S.p.A. with institutional investments for an amount of Euros 56 million.

Financial income (expenses)

Financial income (expenses) shows a net expense balance of Euros 110 million compared to Euros 74 million for the same period of 2004. The increase is mainly due to a negative component of Euros 38 million arising from the fair value adjustment of the financial derivatives on Telecom Italia S.p.A. securities that were included in the financial statements at December 31, 2004 (Convertible Bond Asset Swaps on Telecom Italia convertible bonds and Share Swaps on Telecom Italia shares and convertible bonds held by Pirelli Finance Luxembourg S.A.).

Net income from continuing operations

Net income from continuing operations for the nine months ending September 30, 2005 is Euros 266 million (after income tax expenses of Euros 97 million) compared to a net income of Euros 181 million for the first nine months of 2004 (after income tax expenses of Euros 83 million).

Net income from discontinued operations

This item includes the net income from discontinued operations for the six months to June 30, 2005 (Euros 33 million) and the effect of the disposal.

Net income

Total net income for the nine months ending September 30, 2005 is Euros 316 million (after net income from discontinued operations of Euros 50 million) compared to net income of Euros 234 million for the first nine months of 2004 (after net income from discontinued operations of Euros 53 million for the first nine months of 2004).

The net income attributable to Pirelli & C. S.p.A. for the nine months to September 30, 2005 is Euros 276 million compared to a net income of Euros 206 million for the first nine months of 2004.

Shareholders' equity

Consolidated shareholders' equity went from Euros 3,841 million at December 31, 2004 to Euros 5,565 million at September 30, 2005.

The change of Euros 1,724 million can be summarized as follows:

	(in millions of euros)
. Effect of the adoption of IAS 32/39 at January 1, 2005	137
. Translation differences	170
. Net income for the period	316
. Dividends to third parties paid by:	(149)
- Pirelli & C. S.p.A.	(113)
- Pirelli & C. Real Estate S.p.A.	(32)
- Other Group companies	(4)
. Pirelli & C. capital increase (net of costs incurred)	1,048
. Exercise of Pirelli & C. S.p.A. warrants	1
. Exercise of Pirelli & C. Real Estate S.p.A. stock options	22
. Fair value adjustment of available-for-sale financial assets	155
. Consolidation effect of Tyres joint venture in China	20
. Other changes	4
	1,724

The shareholders' equity attributable to Pirelli & C. S.p.A. went from Euros 3,502 million (Euros 1.011 per share) at December 31, 2004 to Euros 5,187 million (Euros 0.976 per share) at September 30, 2005.

Net financial position

The net financial position is a net debt position of Euros 1,236 million. This is an improvement compared to December 31, 2004 (Euros 1,601 million including Euros 456 million relating to the Cables and Systems activities) and compared to June 30, 2005 (Euros 2,338 million), thanks to the sale of the Cables and Systems activities.

The change from December 31, 2004 of Euros 365 million, can be summarized as follows:

		(in millions of euros)
·	Foreign exchange effect	37
·	Free cash flow	198
·	Financial income (expenses)	(72)
·	Income taxes	(97)
·	Proceeds from the sale of Cables & Systems activities	490
·	Deconsolidation of Cables & Systems debt at 6/30/2005	715
·	Net flows first half Cables & Systems activities	(259)
·	Impact of capital increase received/subscribed	
·	· Olimpia capital increase	(1,344)
·	· Pirelli & C. capital increase	1,062 (282)
·	Purchase of Telecom Italia shares	(127)
·	GIM share capital increase	(10)
·	Dividends paid	(149)
·	Joint venture in China (Tyres sector)	
·	· Investment	(30)
·	· Change in the scope of consolidation	(29) (59)
·	Other changes	(20)
Change in net financial position		365

R & D expenditures

R&D expenditures borne by the Group and completely expensed in the statement of income went from Euros 129 million for the first nine months of 2004, excluding the expenditures relating to the Cables & Systems activities (4.4 percent of net sales) to Euros 131 million for the first nine months of 2005 (3.9 percent as a percentage of net sales).

Employees

Headcount of employees at September 30, 2005 is 26,864 (including 3,422 employees with temporary contracts) compared to 37,154 at December 31, 2004 (including 3,513 employees with temporary contracts).

The considerable reduction in headcount is due to the sale of the Cables & Systems activities (12,364) which is only partly countered by the increase connected with the higher utilization of workers with temporary contracts to meet the peaks in demand and the expansion of tyre operations in Romania and China.

RELATED PARTY DISCLOSURE

Related party transactions, including intragroup transactions, are neither unusual nor exceptional but fall under the normal business operations of the companies of the Group. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm's length.

Details are provided below of the effects of transactions with related parties on the statement of income and the balance sheet of the Pirelli Group at September 30, 2005.

The following table indicates the major statement of income and balance sheet transactions between companies consolidated line-by-line and associates in continuing operations.

(in millions of euros)

Revenues for goods and services	64	They mainly refer to the supply of services to associates of Pirelli & C. Real Estate
Costs for goods and services	2	
Financial income	9	
Trade receivables and other receivables	36	They mainly refer to receivables from associates of Pirelli & C. Real Estate
Financial receivables	220	They mainly refer to receivables from associates of Pirelli & C. Real Estate
Trade payables and other payables	4	They mainly refer to payables to associates of Pirelli & C. Real Estate

The following table indicates the major statement of income and balance sheet transactions between companies consolidated line-by-line in continuing operations and related parties of the Pirelli Group through directors (Telecom Italia, Camfin and F.C. Internazionale).

(in millions of euros)		
Revenues for goods and services	189	They refer to services rendered by Pirelli & C S.p.A., Shared Service Center s.c.r.l. and Pirelli & C. Real Estate S.p.A. to the Telecom Italia group (Euro 188 million) and services rendered by Polo Viaggi S.p.A. to F.C. Internazionale S.p.A. (Euro 1 million)
Costs for goods and services	38	They refer to costs for telephone, information and energy from the Telecom Italia group (Euro 23 million), the supply of natural gas from the Camfin group (Euro 9 million) and costs for the sponsorship of F.C. Internazionale S.p.A. (Euro 6 million)
Trade receivables and other receivables	63	They refer to receivables connected with the aforementioned services rendered (to the Telecom Italia group Euro 62 million and to F.C. Internazionale S.p.A. Euro 1 million)
Trade payables and other payables	9	They refer to payables in connection with the supply of the aforementioned services (from the Telecom Italia group for Euro 5 million, the Camfin group Euro 1 million and F.C. Internazionale S.p.A. Euro 3 million)

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE QUARTER

- On October 3, 2005, Marconi and Pirelli Broadband Solutions announced a cooperation agreement for the supply of next-generation network transmission solutions to telecommunications operators. Under the terms of the agreement, Marconi will provide its customers, as part of its comprehensive portfolio of photonics products, City8™, the CDWM Metro Access System multiservice platform. This is an innovative and carrier-class platform capable of addressing the most critical issues relating to metro and access areas. The Pirelli City8™ platform is supported by Marconi's ServiceOn Network Management System which can remotely manage an entire telecommunications network, thus increasing efficiency and reducing operating costs. Thanks to the integration of the Pirelli platform in the Marconi solution, operators will be able to eliminate bottlenecks in those network sections and more efficiently manage the flow of broadband traffic. Furthermore, Pirelli's CDWM technology makes it possible to multiply the band in the city area, thus reducing operating costs.
- On October 10, 2005, P&K Real Estate – a company 60 percent-owned by Pirelli RE and 40 percent-owned by the Kronberg group – won the bid for the purchase, for an amount of Euros 72.5 million, of a residential portfolio in Berlin from Corpus Immobiliengruppe (one of the most important real estate operators in Germany with assets under management worth about Euros 3 billion).

- October 17, 2005 marked the date of the creation of the Teodora Fund. This is a mixed fund, seeded by properties and cash destined for qualified investors, with an expected duration of ten years. The Teodora Fund consists of 10 properties mainly for office use, sold by the companies Roev Italia, Adar Holding and Schiavonetti which are part of the Haggiag real estate group operating in Italy and outside Italy, for a value of about Euros 152 million. The properties are located principally in central Italy, with a high concentration in the city of Rome. The offer was entirely placed with mostly foreign qualified investors.
- On October 18, 2005, Pirelli & C. S.p.A. purchased from Deutsche Bank AG, under the bookbuilding offering launched by the Bank and reserved for institutional investors, 13,690,319 RCS MediaGroup S.p.A. ordinary shares, equal to about 1.87 percent of the ordinary share capital of the company for an equivalent amount of approximately Euros 59 million. After this transaction, Pirelli & C. S.p.A.'s stake in RCS MediaGroup S.p.A. ordinary share capital is equal to about 4.81 percent with an average carrying price of approximately Euros 3.3 per share.
- On November 3, 2005, under the agreement signed on July 29, 2005, Pirelli RE acquired an 8.3 percent stake in Turismo&Immobiliare, a company which holds a 49 percent interest in Italia Turismo, from each of the current shareholders, Banca Intesa, the IFIL Group and the Marcegaglia Group. After the deal, which was approved by the antitrust authority on October 28, 2005, Pirelli RE holds a 25 percent stake in Turismo&Immobiliare for an investment of Euros 3.4 million.

OUTLOOK FOR THE CURRENT YEAR

The results reached during the first nine months of the year allow the Group to confirm its expectations for a significant improvement in results for the full-year 2005, unless external extraordinary events occur which cannot be foreseen at this time.

In particular, with regard to the industrial activities of the tyres sector, although pressure over raw material costs have intensified and taking into account seasonal factors, **Pirelli Pneumatici** expects to reinforce the trend in improved results compared to the prior year and achieve the profitability target (ROS at 9 percent) budgeted for 2006 a year in advance.

For **Pirelli Broadband Solutions**, it is expected that the significant market share for broadband access products will hold firm and that sales and research activities for second-generation photonics products will be further stepped up.

As regards **Pirelli Real Estate**, based upon the results recorded for the first nine months of the year and available information, a significant increment in the operating profit including the share of earnings (losses) of equity investment is expected for 2005, such as to achieve the growth targets already communicated to the market.

TYRES SECTOR

The highlights of the consolidated financial data of the Tyres Sector for the nine months ending September 30, 2005 can be summarized as follows:

	(in millions of euros)				
	3 rd Quarter 2005	3 rd Quarter 2004	9 months to 9/30/2005	9 months to 9/30/2004	Year 2004
. Net sales	911	807	2,707	2,466	3,253
. Gross operating profit	132	107	412	350	452
% of net sales	14.5%	13.3%	15.2%	14.2%	13.9%
. Operating profit	84	63	271	217	275
% of net sales	9.2%	7.8%	10.0%	8.8%	8.4%
. Financial income (expenses)	(14)	(8)	(30)	(27)	(33)
. Income taxes	(21)	(19)	(76)	(71)	(74)
. Net income	49	36	165	119	168
% of net sales	5.4%	4.5%	6.1%	4.8%	5.2%
. Net financial (liquidity)/debt position			385	340	214
. R&D expenditures			112	110	144
. Employees (number at period-end)			23,727	21,531	21,513
. Factories (number)			24	22	22

Net sales for the nine months ending September 30, 2005 amount to Euros 2,707 million, with an increase of 9.8 percent compared to the corresponding period of the prior year.

The change in net sales can be attributed to:

• Volumes	+	1.8%
• Prices/mix	+	5.2%
		<hr/>
Change on a comparable basis	+	7.0%
		<hr/>
• Foreign exchange effect	+	2.7%
• Change in scope of consolidation	+	0.1%
		<hr/>
Total change	+	9.8%
		<hr/>

Net sales for the third quarter of 2005 amount to Euros 911 million, an increase of about 13 percent compared to the same quarter of the prior year (Euros 807 million).

Operating profit for the nine months ending September 30, 2005 is equal to Euros 271 million compared to Euros 217 million for the same period of the prior year. Operating profit is equal to 10 percent of net sales and compares to 8.8 percent for the first nine months of 2004.

The change in operating profit is due to the following:

<u>Operating profit 9 months to 9/30/2004</u>		<u>217</u>
. Foreign exchange effect	15	
. Prices/mix	85	
. Volumes	27	
. Production factors per unit cost	(65)	
. Efficiencies	5	
. Other	(13)	
		54
<u>Operating profit 9 months to 9/30/2005</u>		<u>271</u>

Operating profit for the third quarter of 2005 is Euros 84 million. This is considerable increase compared to Euros 63 million for the same period of the prior year 2004.

Net income for the first nine months of 2005 is Euros 165 million (after financial expenses of Euros 30 million and income tax expenses of Euros 76 million) compared to Euros 119 million for the first nine months of 2004 (after financial expenses of Euros 27 million and income tax expenses of Euros 71 million).

The **net financial position** at September 30, 2005 is a net debt position of Euros 385 million compared to Euros 214 million at December 31, 2004 after the payment of dividends to the parent company for Euros 120 million and includes the impact of the China joint venture for Euros 59 million.

Headcount of **employees** at September 30, 2005 is 23,727, including 3,283 employees with temporary contracts. Compared to December 31, 2004, the increase of 2,214 employees is principally due to the opening of the new production sites in Romania and China, the reorganization of distribution in Brazil and a higher number of temporary workers.

Factories, now at 24, grew in number from December 31, 2004 as a result of the addition of the site in Romania, the DrahtCord Saar's Steelcord unit which entered the scope of consolidation, and the new site in China. Instead, the non-core business for the manufacture of vulcanization rooms and the site in the U.S.A., at Little Rock, were sold.

Consumer Market

The **car and light truck** business unit grew in terms of both volumes and sales compared to the first nine months of 2004. The contributions by North America and Japan were particularly positive while, in Europe, the business units held its ground thanks to the growth of sales for Replacements.

The product mix had an especially positive impact thanks to the continuing emphasis on segments with a higher value-added and, in the third quarter, the growth of the sales of winter tyres over and above the favorable trend of that specific market segment.

The new winter products, particularly the Sottozero Tm and Scorpion Tm Ice and Snow, excelled again in 2005 in tests conducted by specialized German magazines, achieving the very highest levels of performance.

The portfolio of homologations is in continual expansion with Auto Partner carmakers such as: Alfa Romeo, Audi, Bentley, BMW, Cadillac, Daimler Chrysler, Fiat, Jaguar, Porsche, Seat, Saab, Skoda, Volkswagen and Volvo.

The success of the homologations is confirmed by the increment in the number of vehicles equipped with Pirelli tyres at the Frankfurt car show in September.

The **Motorcycle** tyres business unit also grew in both Replacements and Original Equipment, thanks to the input from Latin America and the growth of the segment.

The conclusion of Pirelli's 2005 season as the Official Tyre Supplier of the World Superbike and Supersport championships met with enormous success by the public and the press and lent support to the continuous expansion of the motorcycle tyre business.

The World Rally Championship, the FIA GT Championships and the American Le Mans Series, where Pirelli equips numerous teams, instead, are now in the final stages of the races.

Industrial Market

Truck tyre volumes are up compared to the prior year due to higher volumes of the Original Equipment channel. Negative performance is confirmed for the Replacements market in Europe while the growth of sale volumes continues in markets outside Europe and in South America

On July 29, 2005, a joint venture in China was finalized for the production of radial truck tyres in the province of Shandong.

The Yanzhou factory covers 500 thousand square meters, employs about 750 people and will have an initial annual production capacity of about 540 thousand pieces. When fully operational, the factory will be able to manufacture more than 1.2 million pieces a year. The production is intended for the Chinese market and the markets of southeast Asia and Australia.

Pirelli will develop its presence in China with an investment of about U.S.\$ 90 million in 2005, which will become about U.S.\$ 180 million in the space of a few years. This will allow the company to rapidly gain a position as one of the largest manufacturers of tyres in China.

Such investments will also allow the start of construction of a car tyre factory, which will produce for the growing Chinese market in the high performance segment.

Pirelli operates in China through a 60 percent-controlled company, with the shareholder Roadone Tyre, which is part of the Chinese Yinhe group.

Growth was recorded in the **Steel Cord** business unit for the first nine months partly as a result of the input from the new production site in Romania.

PIRELLI BROADBAND SOLUTIONS

The highlights of the consolidated financial data of the Pirelli Broadband Solutions for the nine months ending September 30, 2005 can be summarized as follows:

	(in millions of euros)				
	3 rd Quarter 2005	3 rd Quarter 2004	9 months to 9/30/2005	9 months to 9/30/2004	Year 2004
. Net sales	17	11	81	39	63
. Gross operating loss	(4)	(3)	(6)	(7)	(10)
% of net sales	n.s.	n.s.	n.s.	n.s.	n.s.
. Operating loss	(3)	(3)	(6)	(7)	(10)
% of net sales	n.s.	n.s.	n.s.	n.s.	n.s.
. Financial income (expenses)	-	(3)	(1)	(4)	(4)
. Net loss	(3)	(6)	(7)	(11)	(14)
% of net sales	n.s.	n.s.	n.s.	n.s.	n.s.
. Net financial (liquidity)/debt position			3	16	27
. Employees (number at period-end)			119	67	79

Net sales for the nine months ending September 30, 2005 amount to Euros 81 million compared to Euros 39 million for the first nine months of 2004. They mainly refer to broadband access products and the introduction of the first photonics products on the European market.

The **operating result** for the nine months ending September 30, 2005 is a profit for broadband access activities and an operating loss of Euros 6 million for second-generation photonics products, negatively influenced by the start-up stage, compared to a total operating loss of Euros 7 million for the first nine months of 2004.

The **net financial position** is a net debt position of Euros 3 million compared to Euros 27 million at December 31, 2004.

Headcount of **employees** at September 30, 2005 is 119, with an increase of 40 compared to December 31, 2004, concentrated in the Engineering and Sales functions.

Broadband Access

The market displays enormous potential for development and the company is counting on this to acquire contracts and orders. The first nine months of 2005 were witness to the consolidation of PBS market leadership in Italy. This occurred as a result of the acquisition of other customers such as Tiscali and Eutelia for the launch of the new VoIP services based on Pirelli solutions, a significant presence in Fastweb and the growth of business with Telecom Italia using solutions both for the residential and SMB (Small Medium Business) environment.

Sales activities in the first half also centered on the introduction of PBS solutions on the European and South American markets and the identification of potential commercial and technological partners to penetrate emerging markets and develop innovative Broadband solutions.

Development of PMP (Pirelli Management Platform) continued as this will allow PBS to introduce the “Solution” concept to the Broadband Access market and to add functions to the second-generation Access Gateways, namely telemanagement and automatic provisioning, and thus improve the quality of the service supplied to operators and reduce the operating costs of access equipment.

New Photonics Products

During the first half of 2005, the development stage ended for products such as CWDM (Coarse Wavelength Division Multiplexer). During this period, besides stabilization of the product, partnership alliances were sealed in Europe and worldwide for the sale of the CWDM solution.

The commitment in the area of optical components is also continuing by means of the process to introduce the market to DTL (Dynamically Tunable Laser) as the most important product in the technological photonics range. Currently, pre-mass produced prototypes of these products are in the process of being tested at major customers with excellent technical feedback which puts Pirelli's product on the cutting-edge for technical solutions and competitiveness.

REAL ESTATE SECTOR

Economic review

The highlights of the statement of income are presented below. In reading these figures, it should be pointed out that the aggregate revenues (which, under IAS/IFRS, are basically equivalent to the aggregate value of production net of acquisitions, used previously) and the operating result including the share of earnings (losses) of equity investments, because of the type of business conducted by the Pirelli & C. Real Estate S.p.A. Group, are the most important indicators expressing, respectively, the business volumes managed and the trend in results at the operating level.

	(in millions of euros)	
	9 months to 9/30/2005	9 months to 9/30/2004
Aggregate revenues	2,381.1	1,584.5
Consolidated revenues	458.8	391.9
Operating profit including the share of earnings (losses) of equity investments	104.5 (*)	79.6
Net income - attributable to the parent company	78.0	62.4

(*) includes Euros 3.5 million of income from real estate funds

Aggregate revenues grew 50 percent and amount to Euros 2,381.1 million, compared to Euros 1,584.5 million for the first nine months of 2004.

Consolidated revenues for the nine months ending September 30, 2005 are Euros 458.8 million, with an increase compared to Euros 391.9 million for the nine months ending September 30, 2004.

Operating profit including the share of earnings (losses) of equity investments is a profit of Euros 104.5 million, with an increase of 31 percent compared to Euros 79.6 million for the first nine months last year. Fees for asset and fund management now account for more than 40 percent of the total, compared to 25 percent for the nine months to the end of September 2004.

The **net income attributable to the parent company** is Euros 78 million, with a growth of 25 percent compared to the first nine months of 2004 (Euros 62.4 million).

Balance sheet and financial review

(in millions of euros)	9/30/2005	12/31/2004
Fixed assets	352.6	375.7
<i>. including investments in real estate funds and investment companies</i>	250.2	241.5
Net working capital	210.4	204.6
Net invested capital	563.0	580.3
Shareholders' equity	487.2	491.9
<i>. of which attributable to the parent company</i>	481.6	485.5
Provisions and contributions	46.4	48.2
Net financial (liquidity)/debt position	29.4	40.2
<i>. of which loans by shareholders</i>	(228.4)	(209.8)
Total net invested capital financed	563.0	580.3
Net financial (liquidity)/debt position before loans by shareholders	257.8	250.0
Gearing ratio, financial position before loans by shareholders	0.53	0.51

Shareholders' equity attributable to the parent company at September 30, 2005 is Euros 481.6 million compared to Euros 485.5 million at the end of 2004. The change is due to the combined effect of a reduction originating from the distribution of dividends (Euros 68.3 million) and the reclassification of treasury shares to shareholders' equity (Euros 32.9 million), as well as both an increase in the income for the period (Euros 78 million) and in capital with a share premium to service the stock options (Euros 21.6 million).

The **net financial position** at September 30, 2005 shows a net debt position of Euros 29.4 million. This is an improvement compared to a net debt position of Euros 43.2 million at September 30, 2004 (Euros 40.2 million at December 31, 2004 and Euros 42.6 million at June 30, 2005).

The adjusted net financial position (expressed before loans made by shareholders to minority-owned companies) is a net debt position of Euros 257.8 million, compared to Euros 297.6 million at September 30, 2004 (Euros 250 million at December 31, 2004 and Euros 273.3 million at June 30, 2005).

The gearing ratio is 0.53 compared to 0.51 at December 31, 2004 and 0.69 at September 30, 2004.

Fixed assets total Euros 352.6 million at September 30, 2005 compared to Euros 375.7 million at the end of 2004. This is a decrease of Euros 22.1 million mainly attributable to the reclassification of treasury shares to shareholders' equity as mentioned above (Euros 32.9 million) and the net increase of investments in funds and junior notes underwritten.

PIRELLI & C. AMBIENTE HOLDING

The result of the company for the first nine months of 2005 is a loss of Euros 2.8 million.

At the end of the month of December 2004, Pirelli & C. Ambiente Holding S.p.A. (51 percent-owned by Pirelli & C., 45.3 percent by Camfin and 3.7 percent by Centrobanca Sviluppo Impresa SGR) bolstered the Group's presence in the environmental sector by integrating the activities of Pirelli & C. Ambiente S.p.A., a company operating in the field of renewable energy sources through the production of a fuel derived from waste and in the sector of environmental redevelopment, and Cam Tecnologie S.p.A. (now Pirelli & C. Ambiente Tecnologie S.p.A.), a company already controlled by Camfin S.p.A. and a producer of low-impact environmental fuel Gecam™ - Il Gasolio Bianco (The White Diesel).

Under the process for the reorganization of the company, Pirelli & C. Ambiente S.p.A., on July 1, 2005, contributed the operations relating to environmental reclamation to the subsidiary Pirelli & C. Ambiente Bonifiche S.r.l. (ex-Progetto Ambiente Gamma S.r.l.). The contribution price was fixed at Euros 0.13 million and paid through a capital increase of the same amount subscribed to entirely by Pirelli & C. Ambiente S.p.A.. Subsequently, Pirelli & C. Ambiente S.p.A. sold the entire investment in Pirelli & C. Ambiente Bonifiche S.r.l. to Pirelli & C. Ambiente Holding S.p.A. at book value.

In particular, Pirelli & C. Ambiente reported a loss of Euros 1.6 million for the first nine months of 2005, compared to a loss of Euros 1.7 million for the corresponding period of 2004 and a loss of Euros 1.5 million for the same period of 2003.

During the first nine months of 2005, the company continued to develop its activities in the field of renewable energy sources by producing, through the associate I.D.E.A. Granda S.Cons.R.L., a quality fuel (CDR-P) derived from solid waste for the subsequent start of renewable energy development through the replacement of primary fossil fuels in existing plant.

Pirelli & C. Ambiente Bonifiche S.r.l.'s result for the first nine months of 2005 is basically a breakeven.

The company Pirelli & C. Ambiente Tecnologie S.p.A. (ex-Cam Tecnologie S.p.A.) reported a pre-tax loss of Euros 1.03 million compared to a pre-tax loss of Euros 0.6 million for the same period of the prior year.

Under the company's strategy to diversify production, additional emphasis was placed on activities related to the development, fine-tuning and sale of diesel engine after-treatment filtering systems to reduce exhaust gas emissions from "heavy" diesel engines.

In this regard, it should be noted that, in September, the first 10 filtering systems and the first dosage system for additives were invoiced under the order acquired in December 2004 for the delivery of 317 after-treatment diesel engine systems for a minimum invoiced amount of approximately Euros 1.2 million.

PROFORMA DATA

Proforma consolidated financial data assuming the line-by-line consolidation of Olimpia S.p.A.

Proforma consolidated financial data at September 30, 2005 of Pirelli & C. S.p.A. is presented below, assuming the consolidation line-by-line of Olimpia S.p.A..

	Consolidated financial statements 9/30/2005 Pirelli & C. S.p.A. (1)	Proforma adjustments				Proforma consolidated financial statements 9/30/2005 Pirelli & C. S.p.A. (2)
		Elimination of Olimpia S.p.A net result attributable to Pirelli & C. S.p.A.	Olimpia S.p.A. line-by-line consolidation	Olimpia consolidation entries	Total proforma adjustments	
<i>(in millions of euros) IAS/IFRS</i>						
Condensed statement of income						
Net sales	3,322	-	-	-	-	3,322
Operating profit	278	-	(1)	-	(1)	277
Financial income (expenses)/ valuation adjustments to financial assets	85	(130)	216	-	86	171
Income taxes	(97)	-	-	-	-	(97)
Net income from continuing operations	266	(130)	215	-	85	351
Net income from discontinued operations	50	-	-	-	-	50
Total net income	316	(130)	215	-	85	401
Net income - attributable to Pirelli & C. S.p.A.	276	(130)	130	-	-	276
Shareholders' equity	5,565	(130)	8,440	(5,597)	2,713	8,278
- of which shareholders' equity - attributable to Pirelli & C. S.p.A.	5,187	(130)	5,102	(4,972)	-	5,187
Net financial (liquidity)/debt position	1,236	-	3,445	-	3,445	4,681

(1) Pirelli & C. S.p.A. consolidated financial statements (investment in Olimpia S.p.A. accounted for by the equity method with Olimpia accounting for Telecom Italia by the equity method)

(2) proforma data (line-by-line consolidation of Olimpia S.p.A.)

The proforma consolidated financial data has been prepared using:

- the interim financial statements of Olimpia S.p.A. at September 30, 2005, adjusted to conform with IAS/IFRS, wherein the investment in Telecom Italia is accounted for by the equity method (on financial statements prepared in accordance with IAS/IFRS);

- the interim consolidated financial statements of Pirelli & C. S.p.A. at September 30, 2005 (prepared in accordance with IAS/IFRS) wherein Olimpia S.p.A. is accounted for, in turn, by the equity method.

The principal proforma adjustments included in the above table are as follows:

- in the column “Elimination of Olimpia S.p.A. net result attributable to Pirelli & C. S.p.A.”: elimination of the statement of income and balance sheet effects of valuing Olimpia S.p.A. by the equity method in the Pirelli & C. S.p.A. consolidated financial statements for the nine months ended September 30, 2005;
- in the column “Olimpia S.p.A. line-by-line consolidation”: inclusion of the assets, liabilities, costs and revenues resulting from the financial statements for the nine months ended September 30, 2005 of Olimpia S.p.A., prepared in accordance with IAS/IFRS consistent with the Pirelli Group, attributing the share of net equity and results of operations to the minority interest. It should be pointed out that the forward purchase of 124,129,937 Telecom Italia ordinary shares, concluded by Olimpia in 2001, was accounted for at original cost as an increase in the investment in Telecom Italia with a contra-entry to the relative payable account;
- in the column “Olimpia S.p.A. consolidation entries”, the carrying value of the Olimpia S.p.A. investment in the Pirelli & C. S.p.A. financial statements was eliminated against the underlying share of the accounting net equity.

For purposes of this representation, the difference between the carrying value of the Olimpia S.p.A. investment in the Pirelli & C. S.p.A. consolidated financial statements and the underlying share of net equity (Euros 955 million for Pirelli & C. S.p.A.’s share equal to 60.4 percent and Euros 1,580 million for the entire amount) was directly deducted from shareholders’ equity (with a contra-entry to the carrying amount of the Telecom Italia investment).

A comparison of shareholders' equity and net debt between the consolidated financial statements of Pirelli & C. S.p.A. and the proforma consolidated financial data of Pirelli & C. S.p.A. at December 31, 2004 and at September 30, 2005 is presented below, assuming:

- the line-by-line consolidation of Olimpia S.p.A.;
- the line-by-line consolidation of both Olimpia S.p.A. and the Telecom Italia group.

<i>(in millions of euros)</i> IAS/IFRS	Shareholders' equity		Net debt		Net debt/Shareholders' equity		Shareholders' equity - attributable to Pirelli & C. S.p.A.	
	9/30/2005	12/31/2004	9/30/2005	12/31/2004	9/30/2005	12/31/2004	9/30/2005	12/31/2004
Pirelli & C. S.p.A. Group: consolidated data	5,565	3,841	1,236	1,601	0.22	0.42	5,187	3,502
Pirelli & C. S.p.A. Group: proforma consolidated data with Olimpia S.p.A. consolidated line-by-line	8,278	6,355	4,681	5,175	0.57	0.81	5,187	3,502
Pirelli & C. S.p.A. Group: proforma consolidated data with Olimpia S.p.A. and the Telecom Italia group consolidated line-by-line	31,834	25,307	46,701	38,037	1.47	1.50	5,187	3,502

The Board of Directors

Milan, November 11, 2005

**QUARTERLY DATA
AND
COMMENTS**

QUARTERLY DATA

(in millions of euros)

Statement of income	3 rd Quarter 2005	3 rd Quarter 2004	9 months to 9/30/2005	9 months to 9/30/2004	Year 2004
. Net sales	1,041	916	3,322	2,932	3,967
. Other revenues	129	41	271	185	265
. Production value	1,170	957	3,593	3,117	4,232
. Cost of sales	(791)	(587)	(2,401)	(2,022)	(2,801)
. Labor costs	(249)	(247)	(756)	(720)	(963)
. Amortization and depreciation	(54)	(51)	(158)	(151)	(201)
. Operating profit	76	72	278	224	267
. Share of earnings (losses) of equity investments	83	81	195	114	135
. Financial income (expenses)	(44)	(39)	(110)	(74)	(100)
. Income before income taxes	115	114	363	264	302
. Income taxes	(26)	(24)	(97)	(83)	(87)
. Net income from continuing operations	89	90	266	181	215

COMMENTS ON QUARTERLY DATA

Form and content

The accounting policies, valuation criteria and principles of consolidation used in preparing the quarterly data at September 30, 2005 are the same as those adopted for the Six-months Interim Report at June 30, 2005 or are based upon IAS/IFRS in force today and on their current “interpretation” resulting from the documents issued to date by the “International Financial Reporting Interpretations Committee – IFRIC”.

These interim financial statements have also been prepared by considering the amendments to IAS 19 (Employee Benefits), issued by the IASB (International Accounting Standards Board) on December 16, 2004.

Such amendments have passed the authorization process as they have been approved by both EFRAG (European Financial Reporting Advisory Group) and ARC (Accounting Regulatory Committee). In order to complete the approval process, they must still be published in the Official Journal of the European Union, which is expected to take place by the end of 2005. This is a formality and no other amendments are expected to be made.

One of the amendments introduced consists of the option to recognize in full actuarial gains and losses on post-retirement benefits of the defined benefit type directly in shareholders' equity. The Group has elected to use this option.

The application of the option has produced a change in the impact of the transition to IAS/IFRS published in the Six-months Interim Report at June 30, 2005, equal to a decrease in shareholders' equity at December 31, 2004 of Euros 53 million.

Net sales

Net sales for the nine months ending September 30, 2005 amount to Euros 3,322 million compared to Euros 2,932 million for the first nine months of 2004.

The increase compared to the same period of 2004 can be analyzed as follows:

• Volumes	+	4.1%
• Prices/Mix	+	5.4%
Change on a comparable basis	+	9.5%
• Foreign exchange effect	+	2.4%
• Change in scope of consolidation	+	1.4%
Total change	+	13.3%

The breakdown by sector and by geographical area of destination is as follows:

	(in millions of euros)			
	9 months to 9/30/2005		9 months to 9/30/2004	
Geographical area				
Europe:				
. Italy	939	28.3%	798	27.2%
. Other European countries	1,233	37.1%	1,159	39.5%
North America	213	6.4%	185	6.3%
Central and South America	668	20.1%	550	18.8%
Oceania, Africa and Asia	269	8.1%	240	8.2%
	3,322	100.0%	2,932	100.0%
Sector				
Tyres	2,707	81.5%	2,466	84.1%
Broadband solutions	81	2.4%	39	1.3%
Real Estate	459	13.8%	392	13.4%
Other	75	2.3%	35	1.2%
	3,322	100.0%	2,932	100.0%

Labor costs

Labor costs for the first nine months of 2005 amount to Euros 756 million and represent 22.7 percent of net sales, compared to Euros 720 million for the corresponding period of the prior year (24.5 percent of net sales).

Operating profit

Operating profit for the first nine months of 2005 is Euros 278 million (8.4 percent of net sales). This is a considerable increase compared to Euros 224 million for the same period of 2004.

The change compared to the same period of the prior year is principally due to:

<u>Operating profit 9 months to 9/30/2004</u>	<u>224</u>
. Foreign exchange effect	15
. Prices/mix	89
. Volumes	30
. Production factors per unit cost	(72)
. Efficiencies	6
. Depreciation	(1)
. Nonrecurring events	(10)
. Other	(3)
	54
<u>Operating profit 9 months to 9/30/2005</u>	<u>278</u>

Net financial position

The net debt position at September 30, 2005 is Euros 1,236 million compared to 1,601 million at December 31, 2004 and Euros 2,338 million at June 30, 2005.

	(in millions of euros)	
Net financial position	9/30/2005	12/31/2004 (*)
. Current borrowings from banks and other financial companies	629	755
. Current financial accrued liabilities and deferred income	67	49
. Cash and banks	(336)	(509)
. Other marketable securities	(327)	(284)
. Current financial receivables	(28)	(54)
. Current financial accrued income and prepaid expenses	(11)	(17)
Net short-term (liquidity)/debt position	(6)	(60)
. Non-current borrowings from banks and other financial compani	1,672	1,933
. Non-current financial accrued liabilities and deferred income	6	-
. Non-current financial receivables	(429)	(267)
. Non-current financial accrued income and prepaid expenses	(3)	(1)
. Other securities	(3)	(4)
Medium/long-term net financial (liquidity)/debt position	1,242	1,661
Net financial (liquidity)/debt position	1,236	1,601

(*) including assets held for sale equal to Euros 456 million