



PRESS RELEASE

With the application of IAS/IFRS accounting standards, the Energy and Telecom Cables and Systems activities of the Pirelli & C. SpA Group 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, 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. Therefore, the operating data referred to for the Pirelli & C. SpA Group in substance represent Tyres, Broadband Solutions and Pirelli RE activities. Further, the attached tables include summarized pro-forma data for the Pirelli & C. SpA Group's balance sheet to 30 June 2005 which assume the full consolidation of the Cables and Systems activities

PIRELLI & C. SPA BOARD OF DIRECTORS EXAMINES PRELIMINARY DATA FOR FIRST HALF ENDED 30 JUNE 2005:

- **GROUP REVENUES: APPROXIMATELY 2,280 MILLION EUROS COMPARED TO 2,016 MILLION EURO IN FIRST HALF 2004, +13% (+12% NET OF EXCHANGE RATE EFFECTS)**
- **OPERATING INCOME (EBIT): +33% TO APPROX. 202 MILLION EUROS, ROS AT 8.8% COMPARED TO 7.5% IN FIRST HALF 2004**
- **NET FINANCIAL POSITION: NET DEBT IS APPROX. 2,340 MILLION EUROS. DECREASES TO APPROX. 1,140 MILLION EUROS INCLUDING THE POSITIVE EFFECT OF THE CABLES AND SYSTEMS ACTIVITIES' DISPOSAL (APPROX. 1.2 BILLION EUROS). THE VARIATION FROM THE FIRST QUARTER 2005 (AT 31 MARCH 2005 NET FINANCIAL POSITION WAS -2,120 MILLION EUROS) IS MAINLY DUE TO DIVIDEND PAYMENTS OF APPROX. 145 MILLION EURO AND THE ACQUISITION OF TELECOM ITALIA SHARES FOR APPROX. 100 MILLION EUROS**
 - **TYRES: REVENUES APPROX. 1,800 MILLION EUROS, AN INCREASE OF 8.3% COMPARED TO FIRST HALF 2004 (+7.1% ON LIKE-FOR-LIKE BASIS). OPERATING PROFIT UP 21% TO APPROX. 187 MILLION EUROS, ROS AT 10.4%**
- **PIRELLI BROADBAND SOLUTIONS: FIRST HALF 2005 REVENUES (APPROX. 64 MILLION EURO) EQUAL TO 2004 FULL YEAR REVENUES**
 - **REAL ESTATE ACTIVITIES: +38% OPERATING INCOME INCLUDING INCOME FROM EQUITY PARTICIPATIONS TO APPROX. 80 MILLION EUROS**

- **FOR FULL YEAR 2005 GROUP CONFIRMS EXPECTATIONS OF SIGNIFICANT IMPROVEMENT IN ALL SECTORS AT BOTH THE OPERATING AND NET RESULT LEVELS**

Milan, 28 July 2005 – The Board of Directors of Pirelli & C. SpA today examined the preliminary and non-audited results for the first half ended 30 June 2005.

Pirelli & C. SpA Group

Over the first six months of 2005 the Pirelli & C. SpA Group saw a **significant improvement in all economic indicators**: in particular, a **further increase in profitability**, validating Pirelli's strategy of focusing on a selected number of high margins businesses and aimed at the top-of-range market segment.

At the consolidated level, **revenues** in the first six months of 2005 amounted to approximately **2,280 million** euros, an increase of **13%** compared with 2,016 million euros for the same period in 2004 and the same perimeter, and with increases in all sectors of activity. Net of the effects of exchange rates, revenues rose 12%.

The consolidated **operating profit** (EBIT) amounted to approximately **202 million** euros, with an increase of **33%** compared with 152 million euros in the first half of 2004 and using the same perimeter. **ROS** – Return on Sales at the consolidated level was **8.8%**, an increase from 7.5% in 2004.

The Group's **net financial position** on 30 June 2005 is **negative** for approximately **2,340 million** euros (of which approximately **715 million** euros connected with the Cables and Systems activities). Including the positive effect of the Cables and Systems activities' disposal (approximately 1.2 billion euros), net financial position decreases to approximately 1,140 million euros. The variation from the first quarter (at 31 March 2005 net financial position was -2,120 million euros) is mainly due to effects linked to dividend distribution (approximately 145 million euros) and the acquisition of 38.7 million Telecom Italia shares (approximately 100 million euros). The variation from negative 1,601 million euros at the end of 2004 was, in part, also a consequence of routine seasonal factors and of the negative balance between the subscription of Olimpia S.p.A's capital increase for 1,344 million euros and the company's own capital increase of 1,062 million euros approved on 21 January 2005.

Group Industrial Activities

The performance of the Group's Industrial Activities in the first half of the year was characterized by the **excellent performance** of the **Tyres Sector**, which recorded a further increase in profitability compared with the preceding quarters. **Pirelli Broadband Solutions** also **grew** with sales in the first half of 2005 equalling those achieved in the whole of 2004.

Tyres

Sales in the first half of 2005 amounted to approximately **1,800 million** euros, an increase of **8.3%** compared with 1,659 million euros in the first half of (+**7.1%** on a like-for-like basis).

The **operating profit** was approximately **187 million** euros with a ROS of **10.4%**, an increase of **21%** from 154 million euro in the first half of 2004. The growth in volumes, particularly in North America, and the continual drive towards a high margin product mix contributed to the positive performance, despite the price increase in raw materials.

Pirelli Broadband Solutions

Sales in the first six months of 2005 totalled approximately **64 million** euros, **more than double** compared with the 28 million euros of the first half of 2004 and consisted of broadband access products.

The company's **operating profit**, while positive in regard to broadband access activities, was also impacted by the start-up of second generation photonics products and was in total **negative for 3 million** euro, compared with negative 4 million in the first six months of 2004.

Group Real Estate activities

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** (pro-quota) are, therefore, the most appropriate measure of the Group's turnover and operating performance.

The **operating profit** including pro-quota income from equity participations amounted to approximately **80 million** euros, compared with 58 million euros in the same period of 2004, an **increase** of **38%**.

For additional information on the performance of real estate activities refer to Pirelli & C. Real Estate press release of 27 July 2005.

Outlook for 2005 fiscal year

The results obtained in the first half of the year allow management to confirm Group expectations of a **significant improvement in results** for full year 2005 in all sectors of

activity at both the operating and net levels, excluding unforeseeable external factors of an extraordinary nature.

§

Pirelli & C. SpA financial statements for the six months period ended on 30 June 2005 will be examined by the Board of Directors on **12 September 2005**.

§

Furthermore, the agreement between Pirelli & C. SpA and Goldman Sachs Capital Partners for the sale of Pirelli's Energy and Telecom Cables and Systems business to Goldman Sachs Capital Partners was completed today, under the terms announced on 1 June 2005. The closing of the transaction was finalized after having obtained the approval from the competent authorities.

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

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

www.pirelli.com

Euro/MIn historic exchange rates	Group Pirelli & C. Cons.		Discontinued Operations						Goup Pirelli & C. Cons. Old Perimeter	
			Energy Cables and Systems Sector		Telecom Cables and Systems Sector		Interel.			
	30.06.05	30.06.04	30.06.05	30.06.04	30.06.05	30.06.04	30.06.05	30.06.04	30.06.05	30.06.04
Revenues <i>Δ %</i>	2,283	2,016 <i>13.2%</i>	1,633	1,499 <i>8.9%</i>	193	177 <i>9.0%</i>	(42)	(58)	4.067	3.634 <i>11.9%</i>
EBIT <i>% on sales</i>	202 <i>8.8%</i>	152 <i>7.5%</i>	78 <i>4.8%</i>	59 <i>3.9%</i>	(3) <i>n.s.</i>	(11) <i>n.s.</i>	(3)		274 <i>6.7%</i>	200 <i>5.5%</i>