

Ladies and gentlemen, welcome to Pirelli's conference call, in which our Chairman, Mister Marco Tronchetti Provera, will release first half 2006 group results. I remind you that the Q&A session will follow after the presentation, and that you can find the presentation slides in the investor relation section of the Pirelli web site. Now, let me introduce you to Mister Marco Tronchetti Provera.

Good afternoon, ladies and gentlemen, so let me start the presentation pointing out the two key events occurred after the end of June '06. First is Olimpia's shareholder evolutions will increase of Pirelli's stake from 57.66 to 70.46; the second is the private placement of 38.9 of Pirelli Tires stake for an equity value of 401.9 billion equal to 740 million. We'll now go through both of them more in detail starting from Olimpia's shareholders evolution.

We will see in the two charts Olimpia current shareholders structures much simplified compared to the previous one, as a result of the purchase by Pirelli and Edizione Holding of Hopa's minority stake through a cash settlement. Pirelli currently owns 70.46% of Edizione Holding and 20% of Olimpia on 4<sup>th</sup> October '06. Pirelli will buy back stakes. Consequently, Pirelli will own the 80% of Olimpia's shareholders capital. As regards to Pirelli Tires private placement, the deal was finalized on the 2<sup>nd</sup> of August '06 with an equity value valorization of approximately 1.9 billion Euro, equal to 38.9% is equal to 730 million Euro. The tires placement aims to a subsequent deal within the 2<sup>nd</sup> of February 2011, granted to (...) call-option of the sole stakes that can be exercised in February 2011 and in August 2011. Finally, eight members of Pirelli's Board of Directors are designated by Pirelli & Co. and five members by Speed SpA. Now I will present Pirelli's first half results.

Briefly, group sales amounted to 2.4 billion euro, from 2.3 billion euro in first half 05, an increase of 7.2% year-on-year. Group EBIT was 216 million and 100 thousand euro, up to 6.7% from 202.5% at the 30<sup>th</sup> of June 05; group EBIT before IPO tire cost was 128.6 million euro, up 12.9% from previous year. Group return on sales before IPO tire cost was 9.3%, 8.9 first half of 05. Group net income increased to 193 million, from 177.6 at same perimeter; for more details you have all the backup slides.

I'd like to show you group EBIT and net financial position variations, starting from EBIT; as you can see in slide 6, group EBIT was most increased by the results coming from Pirelli tires: 14.1 million euro; and Pirelli corporate: 4.7 million euro. RTO project cost about 312.5 million euro. As I mentioned before, group EBIT before tire IPO cost recorded an increase of 12.9% at 228.6 million, an EBIT margin of 9.3. As regards to net financial position at the end of June, it increased from 1 billion 177 million euro to 1 billion 574.9 million euro; the main impacts were the purchase of Telecom Italia shares for 201 million euro, and the dividend distribution for 162.4 million euro; the additional Pirelli purchase of Capitalia shares for 48.2 million euro; net financial position was reduced by the exercise of warrants for 27.3 million euro, for the partial sale of the stake of FC Internazionale for 13.5 million euro.

Now Mr. Gori will go through the business sector results, starting from the tire business. Please Mr. Gori.

Good evening. Pirelli tire net sales grew slightly over 2 billion euro, from 1.8 billion in first half 2005, +12.4% year-on-year; in particular, in the first half 2006, organic sales grew 7.4%, both in consumer and industrial segments; volumes were up 4.3% including new Chinese operations; price mix was up to 3.1% notwithstanding Brazilian Real and Turkish Lira revaluation; EBIT development was positive, showing a 10% return on sales before IPO costs; net income was 118 million euro, slightly down from 116 million euro in first half 2005.

Now let us see the results of each segment in the next slide: slide 9. As you probably are aware of, consumer segment includes both car and motorcycle tires, while for industrial we mean truck tires and steelcord ; as you can see, despite the sharp rise of raw material cost, consumer segment results were improving, with sales at 1.4 billion euro, +11% year-on-year, and EBIT at 140.7 million euro, +17.4% year-on-year; operating results reached, for the first time in first half, 10% margin, 9.5% in first half 2005. Coming to the industrial segment: sales increased to 615.7 million euro, +16% year-on-year; while EBIT decreased at 60.4 million euro from 67.2 million euro, with 9.8% return on sales versus 12.6% in first half 2005. This erosion is mainly due to the high natural rubber content in truck tires, and to each steep cost increase not yet offset by price increases in the market. Now I'll give back the flow to Mr. Tronchetti for Pirelli broadband solution results.

Thank you Mr. Gori. The incremented sales in broadband access business are mainly related to higher volumes in the first half of the year, while in the photonics business sales amounted to 6... 7.7 million euro. EBITDA was a breakeven, -100 million... 100 thousand euro, from a negative first half was 2.3 million euro last year. Results were near to the operative breakeven, thanks to a continuous

action of variable cost reduction and fixed cost under control increase. Pirelli broadband solution is on track with the three-year plan targets, leveraging new products, geographical expansion, and alliances.

Slide number 11 shows the most recent developments of the two segments: broadband access and photonics. Broadband access: I can reach this product roadmap moving from all platforms ADSL to 2+, introducing new dual-mode forms in the market and introducing also set-top box event platform. Coming to photonics: City8 sales were consolidated in Europe and the Telecordia qualification of dynamically tunable laser, still in progress in June, was completed in August. So, now I give the flow to Carlo Puri for a quick highlight on Pirelli Ambiente and Pirelli Real Estate. Thank you. Carlo...

Thank you, Marco Tronchetti. The environment business, "ambiente" is the Italian word for this, is the second start-up of Pirelli group, and is characterized by three main divisions: Pirelli Ambiente Eco-Technology, for the production of white diesel, called Gecam, and of diesel particulate filters for the reduction of emission in the diesel engine; Pirelli Ambiente Renewable Energy, which develops solutions for the use of renewable energy, for instance from the recovery of municipal solid waste; and Pirelli Ambiente Site Remediation dealing with environmental reclamation and re-qualification of contaminated sites. In the first half of the year, Pirelli Ambiente sales reached 39.3 million euro, from around 60 million euro of last year. Net results stand at 2 million: it's not, until now, a structural result, there was a big sale of one of our technologies in UK, where we can co-invest, but things are starting to move in the right direction.

Now I move to Pirelli Real Estate: we gave yesterday our first half results, therefore I'm going to give you just a brief summary. First half of 2006 was another strong semester for our company: aggregate revenue was approximately 1.7 billion, and was substantially in line with the previous year; as I disclosed at the end of July, EBIT including income from equity participation increased by 50% over last year, to euro 92.3 million; a net profit, that I already disclosed yesterday, of 70 million, posting a growth of 17% with respect to first half 2005. I would also like to point out that in the period our net asset value, representing, roughly, 50% of the company value, has grown by 3% with respect to the end of 2005, reaching a gross value of 1.086 billion. The company's remaining value's represented by fees of fund and asset management, specialty services and franchising network, which distribute real estate and financial products. The asset under management increased by 15% over the last twelve months, to around 14 billion euro, of which 2 billion related to non-performing loans and 12 billion related to real estate. The value of real estate asset is equal, as I said, to 12 billion, of which 6.6 are asset in funds and the remaining part is special-purpose vehicle. The core and core PNOS component represents now 44% and the opportunistic and value-added one around 56. Services revenue grew around 7%, and ROS stands around 16%.

Now I would like to clarify more what will happen at the end of the year, considering that the final approval of the law implementing the tax issue on real estate, the legislative decree 22306 was just published the 11<sup>th</sup> of August 2006, and recognition of the role of the financial real estate intermediary like funds change was... is putting a better situation only from the 1<sup>st</sup> of October; the company expected a slowdown in the third quarter, a good result in the fourth quarter, and so, for the entire 2006, a growth that will be in the range that we gave for the three-year plan 2006- 2008: 10-15%, probably losing some points from the maximum of the range, so we think we will be around 11-12%. Now I leave the flow to Marco Tronchetti, for the group outlook, and thank you everybody.

Thank you, Carlo. Let me close the presentation stating that we confirm 06 increase in all operating results, with a sound financial structure. So, that's my last statement, now we can start the Q&A session. Thank you everybody.

## Q&A session:

1. Ms. Carola Bardelli, from Deutsche Bank:

*Yes, good evening, I have a couple of questions if I may. Would you exclude as finance of TIM to shareholders a scissione from Telecom Italia, so that Olimpia could end up having 18% of TIM? And also exclude entrance of Newscorp in Olimpia as rumored by papers during the summer, or of any other new partner? And finally, probably an easier question, if you can confirm the... you maintained the TI dividend unchanged at Euro cents (...) for the ordinaries also with the new group structure in Telecom Italia?*

**If I may, so I can answer the general questions related to Pirelli. I answered to TI questions yesterday, but just for, let's say, to be polite with you, one of the questions that concerns also Pirelli, is the dividend, so I can confirm that the dividend has no reason to be changed for next year, looking to results we are having; and for the structure of the transaction, it was already clarified yesterday that we are creating newcos with image the new, companies will be set, I mean TIM and the network, so there is no spin-off of shares, so the transaction is only a transaction, is only the fact that we are creating two newcos, one for the local loop and one for TIM, to be more flexible, to be able to operate in the market because, everybody know that we are, stuffed with the authorities that are not opening other opportunities to provide more advanced solutions, and so this is a way to be more competitive in the market, having also more financial flexibility. So I, I think that it's good for the market, good for our customers, good for our investors.**

*Thank you very much. So basically... Yeah, yeah.*

**And it will also provide transparency.**

*Yeah.*

**And will also provide transparency.**

*Ok. Thank you very much. So basically, also at the second stage you would exclude a spin-off; so this is obviously the first step but also in... in the future you're not considering a spin-off, of... of TIM.*

**No, no.**

*Cause obviously this would mean it would go, 18% of that would go to Olimpia, so that's why it's a Pirelli related question somehow.*

**No, no, no, no, I, I exclude, and I... I just mentioned the advantages are the structure and the advantages of the structure and I think that the advantages of the structure are affecting also Pirelli; that's why I mentioned them, because having a participation that is more flexible instead to be stuck within the links of the authority that doesn't provide enough room to the innovation, it's not a good thing, so we will have two companies competing, able to create value, and so I think this is the best way to run the company, not... and keeping in mind that convergence is still our focus.**

*Ok. Thank you. And on Newscorp no comment at this stage? I guess,*

**I beg your pardon?**

*On the potential Newscorp, in Olimpia, I guess,*

**No, no, there is nothing, related to Newscorp in Olimpia.**

*Thank you.*

**Thank you.**

Ladies and gentlemen, I would like to remind you that you may register for your questions by pressing star followed by one. There are no more questions for the moment.

2. Mr. **Damian Malthorpe**, from **Cazenove**:

*Thank you very much. Just a couple of questions, relating to Olimpia. After you, you, you've got 80%, could you just update us on what the Board representation will be, of the Olimpia Board? And also whether you expect you're in the position to consolidate Olimpia? That's the first question, thanks.*

**We have an agreement with Benetton, thanks to which we have co-control of the company, so we... we'll have parity within the Board, as we have had the Board split within us and the others in the past, so we... we will maintain the co-control.**

*Ok. So you won't be consolidating Olimpia within the Pirelli accounts?*

**No, we, we don't think we have.. so anyhow, we show figures in our balance sheet that are also showing the... the effect, but it is not, in our forecast we don't see the consolidation; but in fact, as you know, it doesn't change anything, because all debts in Olimpia are absolutely independent because they are granted by the shares, and there is no guarantee from Pirelli related to Olimpia. It's an independent body, Olimpia self-sustains without guarantee of Pirelli; so, it could be a formal change but structurally there is nothing that will affect the accounts of Pirelli.**

*Ok. My second question if I may. You mentioned yesterday at the Pirelli level you have enough financing to satisfy the banks' put-options in October, in the release today you mentioned the, a bond falling due, excuse me, in April of next year for 500 million Euros. Are you also in a position as of today to have sufficient cash to finance that bond, that maturity, or will you need to undertake some financial restructuring in the coming months? And related to that, would you consider selling your direct 1.3-1.4% stake in the TI odds to raise cash?*

**We, we don't need anything, we have committed lines for 1 billion, we, we will have a financial position at ear end that will be below 2 billion, after the buy-back; we're going to sell some financial assets as you mentioned, so the financial structure of Pirelli will be, at year-end with that below 2 billion. The asset will be, at net asset value today, 1 billion related to the real estate, and then we have Pirelli Tires which is worth around 1 billion 150 million, and then the value of our shares in TI is more or less 1.8 billion, then we have direct shares worth 400 million, the 1.3%, and then we have other listed worth 260 million. So, all in all, we have a total net asset value that is worth 400... 4 billion 700 million, compared to a debt that is below 2 billion; so you see that the financial structure of Pirelli, as the financial structure of Olimpia, as I mentioned before, as the financial structure of TI are very strong.**

*Ok. Thank you very much. Sorry, sorry, carry on.*

**Thank you. No, no. I wanted to underline the real figures because I've seen, reading around, that there are some, let's say misinformation about the debt of the group and the needs of the group; the group has a very solid financial position which is based on reality, on figures, not on... on rumors.**

*Thank you, that's very clear. Thank you.*

**Thank you.**

3. Mr. **Luca Orsini**, from **One Investments**:

*I have two questions. The first question is on, looking at your Pirelli and Ambiente environmental group solution, there is this Gecam filter and this Gecam business, which I remember being in Camfin at one stage, can you just remind me what the relationships are with Camfin and Pirelli vis-à-vis this, the use of... of the Gecam brand and technology, and how the economics between the two companies worked or have worked; and then I have another question on a totally different company.*

So, no there is no relation at all because there, there was two years ago, if I remember well, the activity of Pirelli, of Camfin in the environment business was sold to Pirelli & Co. that was starting its business in the environment; it was a start-up for Pirelli, it was something really consistent in, in Camfin, and so we merged... we merged, we didn't sell, we merged the two activities to have a single company to run the environmental business. And now that the merger, the merger provides 51% of ownership in Pirelli & Co., 5 is independent investors and another 44% is in the hands of Camfin.

*Ok. Thank you for clarifying. I should've remembered there are so many moving parts. And on a different... can you just... maybe that's a question for Mr. Gori; can you just remind us the outlook for Pirelli Tires in the second part of the year? If there is anything specific that you want to share with us?*

As I've said before, the outlook is overall positive and improving versus previous years, on an yearly base. As far as the second half is concerned, we have two different trends. Third quarter is more difficult because of the raw material prices, namely natural rubber, that as you may know, again, went up dramatically in July, August, and September; it is now going down, but definitely the impact will be, I believe, for all competitors higher than expected. And the fourth quarter was for many reasons, including a slow-down, a definite slow-down in price of the natural rubber... price. We forecast a better quarter than last year. So, overall, I confirm the positive outlook for the year.

*If I'm allowed a follow-up, can you just tell me how is the pricing environment for your end-product in this second part of the year?*

I think that all competitors are trying, and improving, and increasing prices. Not just in Europe, also in America and in other regions, but I'm not so sure that these price increases will become effective, or will have a strong impact before year end. What is important is that the industries are trying, and increasing prices, to start up with a positive approach the year 2007.

*Thank you very much.*

**You're welcome.**

**3. Mr. Martino De Ambrogi, from Euromobiliare Sim:**

*Yeah. Good evening. First question is on the sale of the stake in the tire division. So, could you quantify the capital gain and the tax impact on the divestiture? And the second part of this question concerns... I don't know how to say it, but... can we assume that this capital gain will be... I don't know if entirely or partly used to off-set... why not, a devaluation of TI shares? Or is that something that cannot be taken into account? The second question is on the improvement that you are mentioning in the tires division. You said, the first half trend will be confirmed in the second half. Could you clarify: what do you mean in terms of sales and EBIT? Particularly, if we consider that raw material cost used to be slightly more favorable right now than just a couple of months ago?*

So I will answer for... for the sales of the assets... for the stakes... assets... for the sale of the stakes of tires, so the first average should be around 370 million Euros; at year end we will see if they will manage reserves, if they will be used in a different way. So we have taken a decision about it and we have to see year end how the structure of our balance sheets will be. So there is no decision taken. Now I leave the floor to Mr. Gori. It seems to me I already answered your question about...but... now if he has any details to add... please Mr. Gori.

We are not disclosing any figures, but as I told you, the overall outlook is positive and improving versus 2005. Consequently, the second half should be slightly better than the second half 2005 as well. However, I gave a sign of a third quarter weaker than average trend, because of natural rubber price, mainly. And fourth quarter stronger than average because of several factors, including winter tires, including a slow-down in the natural rubber price.

Sorry, I didn't answer your question about taxation. So we... we should add a participation exemption, so the effect of the taxation should be very low.

*Ok. And if I may ask a third question, because in yesterday's conference call you didn't mention the word 'sale of asset'...and, that being obliged to choose among the three companies that you now have in Telecom Italia, what could be the asset Olimpia would like to stay with, in the long run?*

**This is a decision that has to be taken at TI level, so it's something I cannot answer now. The fact is that all kinds of flexibility are available for TI; the most important flexibility has to come out in the relation with the regulatory in order to leave the company free to exploit its technologies without the links that today are affecting competitiveness of TI and TIM. They had very good results, but they could do better if they were not stuck because of regulation. So that is the first... and the second... fact is that the company now is creating three separate assets, which is a good combination in terms of...let's say, possible evaluation of the company.**

*Ok. Thank you.*

**And we also have TI Media, which is the fourth.**

*Yeah. Thank you.*

**Thank you.**

There are no more questions at the moment. Ladies and gentlemen, you may register for your questions pressing star followed by one... I confirm there are no more questions.... There is a new question from Mr. Luca Orsini, from One Investments. Mr. Orsini, you may proceed with your question. Thank you.

**4. Mr. Luca Orsini, from One Investments:**

*Mr. Tronchetti, I'm sorry to ask you a question on Telecom Italia, but yesterday at the call it was impossible to do so. One thing I don't understand is... you are splitting, you are essentially separating TIM from TI for regulatory to have free hands on...and not be ... disturbed by the regulatory in your joint offer, and that makes enormous sense. What I don't understand is... will you have separate sales-force from now on, from TIM and TI, or will they have the same sales-force? Because I remember there was one other thing you were unifying with the merger?*

**At the beginning, before the company is split, nothing changes. Then, when the company is set, it will be separate. And we... we are also going to underline this, with the regulator, in order to obtain the flexibility I mentioned before. So, we want to remove all obstacles, one of which could be to have a single sales-force. That could be, let's say, a reason to impede a... a full exploitation of our products in the market because of these reasons. So, the final aim is to be... to continue to be the best performer. Together, separate, in the same company, in different companies... but we have seen that, in our market, what is right is a full merger and a full exploitation of the synergies of the convergence cannot be exploited 100%. We did a lot of synergies. Let's say, the structure of synergies at the beginning. But now it's difficult to exploit them fully, because of the limits that are due to the attitude of... competitors and regulators. So, we will continue to have some synergies in some areas, where there is no... let's say, regulatory effect, and we will compensate the less synergies we are having in the market by having more freedom. So that's the... and, all analogies we've made will be better for both companies or for both sides of the same company today, to get separate and make, if possible and needed, commercial agreements. So we can continue, an example is... we can continue to sell 'Unico' with the two companies having a commercial agreement. So we... we can do a lot of things, but we have to, let's say, avoid being stuck as we are today, for what concerns our innovations.**

*Yeah. If I'm allowed a follow-up, what about administration and building?*

**Administration and building... when the company will be set, will be separate. The positive effect of the analysis we made during the merger, is that we found more efficiency in one side or in another, so the two companies, at the end of the day, can have lower costs to run their independent administration. As you know, administration can even be outsourced, so we can... we had the**

opportunity to see where the weak points and strong points were, in order to be more efficient on both companies.

*Ok, thank you very much.*

**Thank you.**

5. Mr. **Martino De Ambrogi**, from **Euromobiliare Sim**:

*Yeah. Thank you. Just a couple of clarifications on your around 2 billion net debt target for year end. Does it include any TI ordinary share purchases, and what is the portion related to the tire division?*

**Now, this... this is the total net debt year end. It includes the buy-back of the Olimpia shares from Unicredit and Banca Intesa. It includes around 400 million for the sale of some financial investments we have in our portfolio. And, and... and also the equity swap settlement of 71 shares... TI shares.**

*Ok.*

**So I think it includes everything.**

*Ok. But no new purchases of TI shares on the market?*

**No, no.**

*Ok. And, what's the portion related to the tires division business?*

**Compared to tires, the debt is around 650 million if I remember... Yes, 650 million.**

*Perfect. Thank you.*

**Roughly. Thank you.**

6. Mr. **Giuseppe Puglisi**, from **Intermonte**:

*Good evening. A couple of questions... The first one is regarding the raw price material environment, after this improvement in raw materials' prices. Do you think this environment is sustainable? And, what do you think will happen in 2007? I would like to understand, in particular, what the variables that could impact this trend are? The second one... the second question regarding... regards Olimpia. In case of some disposal from TI, is it possible to assume that there will be an extraordinary dividend from TI to Olimpia? And... Thank you.*

**I'll answer the second question, and leave Mr. Gori to answer the first question. So, it's really something that I cannot answer...sorry. For reasons you can imagine, because we've taken a decision to sell some of the assets. We don't know which will be the... in case of sale of assets, the amount of money we get. We... so, it's really an answer without answer.**

*Ok.*

**As far as raw material prices forecasts, it is difficult to answer you. What I can tell you is that China is one main factor for driving up prices, of natural rubber mainly. However, there is also a build-up of capacity of synthetic rubber expected by 2007 in China, that will progressively replace natural rubber consumptions. So, I believe that the peak reached in the summer of 2006 may not be repeated easily. Then, overall, it's always true that if there is a strong demand, that's good, overall, for the sales, for the top line, and, of course, we have to suffer a bit in costs of raw materials. If the demand slows, we**

**may benefit on the raw material side, but we are going to suffer on the top line. So, that's the overall situation.**

*Ok. If I may, another question regarding the broadband. Telecom Italia is strongly focusing on the broadband. Is it possible to exclude that there will be a sale from Pirelli to Telecom Italia...of the... or... of your broadband business?*

**No. It is not excluded. I think that it is... one of the players of the market: Pirelli, and when Pirelli is able to provide products that are competitive with the others... we can sell to Telecom Italia, but Telecom Italia doesn't have any will to enter the industry of production, of... products for broadband. So, Telecom Italia wants to keep its own know-how in putting together different technologies, and in combining them in the most efficient ways. So, it wants to have suppliers, but doesn't want to have its own internal production. So, we test the products, we make (...) on solutions on traditional products that are sold to us, so we improve the performance, as TI, of the products sold on the market, thanks to our labs, thanks to our technicians, but we don't want to enter into the production of products for broadband.**

*Ok. Thank you.*

**Thank you.**

There are no more questions.

**So thank you very much, thank you for your attention, good evening to everybody.**