

Good evening, Ladies and gentlemen, welcome to Pirelli's conference call, in which our Chairman, Mister Marco Tronchetti Provera, will present the consolidated results for the nine months 2005. I remind you that a 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. In order to obtain the best audio quality, please avoid the use of speaker systems. Now, I would like to introduce you to Mr. Marco Tronchetti Provera. Thank you.

Thank you, good evening ladies and gentlemen, and thank you for joining us in our conference call. Today we are disclosing our nine months' 2005 results, and I will give you an overview on Pirelli group's results and go through the different business unit figures. Then Mr. Puri will highlight you a real estate achievement. As you know, they have just announced the new targets for 2006-2008. Now let's have a look at our group mission, that is shown on slide 1; let's start from slide 2, which illustrates our group nine months' 2005 results. Group sales grew 13.3% year-on-year to 3.3 billion, from 2.9 in nine-months 2004. The organic growth stands at 9.5%. Group EBIT increased 278 million, an increase of 24.1% year-on-year. Group return on sales equals to 8.4%, as a confirmation of the refocus of our portfolio of activities on high-margin businesses. Olimpia's contribution to Pirelli results increased to 130 million from 8 million last year, thanks to the pro-quota on Telecom Italia nine-month consolidated net results. EBIT, including results from equity participation, stands at 473 million, an increase of 40% year-on-year, thanks to Olimpia and to Pirelli real estate, which Mr. Puri will develop later on. Group net income increased to 316 million, and attributable net income grew to 276 million. Net financial position was 1 billion 240 million. You can find a fully detailed PNL account in the back-up sections. Like three years ago, the group EBIT variation, as you can see, has been mainly driven by the positive contribution of an increase of 339 million, coming from the tyre business, 15 million from Pirelli real estate, and others, as mainly related to the fact that nine-month 2004 EBIT benefited from a positive non-recurring item of 14 million euros IPR of the submarine cables sold to Alcatel.

Going to financial position, which at the end of September, was equal to 1 billion 240 million, from 1 billion 600 million of the 2004 year-end, and 2 billion 340 million... 2 hundred, 3... oh sorry, 2 billion 340 euros at June 2005. The main effects of nine months' net financial position have been the positive impact of 198 million from free cash-flow from ordinary activities, the delta between Olimpia capital increase and Pirelli capital increase equals to 282 million. The purchase of 127 million euros of TI ordinary shares, of which, around 28 million, in the third quarter, the positive financial impact of cable disposals.

I'd like now to go through the group's industrial sector results, starting from the tyres' positive contribution, in slide number 5, as for what concerns Pirelli real estate, Mr. Puri will show you later the main highlights on nine-month results. In the tyre net sales increased to 2 billion 700 million euros from 2 billion 500 million, 2 billion 500 million... 500 million in nine months 2004, an increase of 9.8% year-on-year. In the third quarter there has been a 7.2% organic growth, thanks to increased sales in consumer segment, market number was flat or negative in North America and Europe, except for high-performance and winter and tyre segments, where we out-performed the market. Sales increased also in the truck tyre segment, mainly due to original equipment manufacturers and Middle East markets. Further price and mix improvement, an increase of 5.5% in third quarter, in all segments of set raw materials, and energy costs increase also in the third quarter. Overall, volume increase in the quarter was 1.9%, including the initial two months of our new operation in China. EBITDA was 412 million euros, from 350 million euros in nine months 2004, an increase of 17.7%. EBIT grew to 271 million euros, with 10% return on sales, versus 8.8% in nine months 2004, from 217 million euros in nine months 2004. Net income was 165 million euros, from 119 million euros in nine months 2004.

Slide number 6 is about the full-year outlook, we believe market mandatory will continue along its trend until the end of the year, while our announced price increase will become effective from early 2006.

Slide number 7 illustrates in details Pirelli's broadband solution results. Net sales from then doubled to 81 million, from 39 million during nine months 2005. A first contribution to revenues has come from Pirelli photonic products. As you know, the nine-month EBIT decrease of 9 million euro is the result of the positive contribution of broadband access and photonic development costs, start-up and qualification tests.

We confirm for this full-year 2005 our sales targets and number 8 highlights the main achievements of Pirelli broadband solution by segments. As concerning broadband access, the revenue growth has come from domestic market and for the future we foresee an increase of foreign contribution. We are scouting the European Telecom market to enlarge the clients portfolio and provide careers... the carriers... with customer and value-added broadband access solution.

Coming to photonics, we are in the stage of building the business structure, as you know, and we have already received the first contribution to revenues during third quarter 2005. Coming from CWDM CTA TM, news for the development of IT TV applications, we submitted a DTL dynamic high tunable laser to the main clients for qualification tests.

And now, before going to the last chart, and then to the Q&A session, I leave the flow to Mr. Puri that will show you Pirelli real estate nine-month results that have already been published.

Thank you Mr. Tronchetti... we'll show the number of the first nine months, the company increased the aggregate revenue by 50% to more than 2 million euros; asset and fund management revenues rise 51% over last year, to fall to euro 750 million, thanks to the placement of Berenice office fund. Operating profit, including income from equity participation, increased by 31% to 104.5 million euros according to IAS principles, 21% according to Italian GAAP. Net profit, after minorities, stood at 78 million euros, up 25% over the same period of last year. Shareholder's equity amount to 481.6 million euro, in line with September 2004. Net debts stand at 29.4 million euros, making an improvement, if compared to 43.2 million euros in September 2004. Adjusted net debts amount to 258 million euros, compared to 298 million at September 2004, reducing the gearing from 0.69 at September 2004 to current 0.53.

As I've just said, operating profit grew by 31% to euro 104.5 million, thanks also to the strong contribution of special services. Asset and fund management fees, which increased their weight from 25 in September 2004, to current 41. In line with our strategy, we are increasing the contribution of long-term portfolio, that moves from 28% at the end of 2004, to the current 40%. Service division grew, at operating level, by 26%, to 43 million euros, with an increase of the ROS to 18%, from the 14% of the same period of last year. These two changes: increase of services fees and increase of long-term management portfolio, make the company a lot more stable. Distribution network completed 803 contracts, which, roughly, 450 agencies are already running. Operating break-even is expected by year-end and, already at September, the loss is significantly reduced. For the current year, we confirm the targets announced, and, as you know, we have recently presented the new three-year plan, 2006-2008, in which we expect to deliver a KAGER at operating level, in the range of 10-15%. I will now give back the flow to Mr. Tronchetti. Thank you.

Thank you, Carlo. So, to conclude the outlook for Pirelli Group, it's the following: for the tyre segment we confirm full-year 2005, possibly above 9% return on sales, anticipating by one year the 2006 return on sales target; taking broadband solutions, 2005 sales targets have been confirmed, and we are confident that photonics' contribution to revenues will increase in 2006.

Coming to Pirelli real estate, we are committed to the given 2006-2008 targets; and, before ending, let me remind you that we have just appointed a leading internal director, as a new confirmation of our effective corporate governance.

Thank you very much for your attention, and let's now start the Q&A session. Thank you.

## **Q&A session:**

1. Mr. Serge Escude from UBM:

*Good afternoon, Mr. Tronchetti and Mr. Puri. I have two questions: the first one is on the broadband solution. You are today very present in domestic market, when do you think that you can achieve some results with some fine... fine groups? And the second question is: what is your view of the tyre market in South America and Europe for next year? And how do you think Pirelli will react to that environment? Thank you.*

So, broadband solution: we have already participated in two tenders outside Italy, for the broadband solution, and we are confident that we can, in next months, open the market outside Italy in a consistent way. Photonics: photonics we have in the United States our unit that takes care of it, and we expect, by next year, to start having some clients operative by the... before the end of 2006. Being a start-up, I think that we are on the right track. 2006 markets in America: I think that the expectations are a soft market on the original equipment, and a good replacement market. Mainly for our products. So, we are confident that the growth in the United States will continue.

*I was... I was asking, actually, on the South America market. South America. Sorry, no, no, no sorry. Particularly the Brazil...*

**Same answer... so, luckily...**

*That's really ?*

**Yes. So, what... what we see in South America is that replacement remains strong, and we expect it to remain strong, and we also see that it will start a better segmentation of the market. So, that's the... what we expect in ... in South America; a better segmentation means that there will be, also in South America, the beginning of a different session between high-end and low-end more significant than the one we have had until now.**

*Okay. And you can give us, provide us with some expected growth for Pirelli in South America, or do you think that you will over-perform, under-perform the market just these kinds of (...) that are very useful?*

**As you know, we never provide figures on growth; what we can say is that the trend, even in an environment which is not very easy, we'll continue all the efforts we are making on preserving our market position, and so, to grow together with the market in areas where we are leaders, leaders in terms also of size, like in Latin America, or leaders in terms of products, as we are in Europe, of products in the high-end, as we are in Europe, and North America.**

*Okay.*

**And we also want to grow in China.**

*Yes, I know, and... okay. Thank you very much.*

**Thank you.**

*Thank you.*

**2. Mr. Giuseppe Pugliese from Intermonte:**

*Yes. Good afternoon to everybody. Giuseppe Pugliese from Intermonte. I have three questions. The first one: do you see some eventually build-up in tyres in the US and Europe? And what is the day you'll give additional rating, your FEBS in these countries? And the second question is on broadband access: if you are planning some acquisitions in the next year? And the last question is on debt level: what is the debt level that you expect at the end of the year? For Pirelli.*

**Thank you. So, we expect no increase on our... both in the US and Europe, we expect to have the same level, more or less, that we had last year. Then, broadband: we are more... more interested in looking for ventures, agreements, we do not expect any buy, we want to leverage on our patterns, to maximize profitability, and growth, partnering with some... someone... some of the leading companies round the world. So, we feel that it's an opportunity.**

*Okay.*

**Then, the last question was the level of debt. I think that, taking into account engagements we have on the put options, the OPA expiring agreements in February; I think that, all in all, we will stay between 2 billion- 2 billion and a half, depending on different options. So, the level of debt, at the end of 2005, will be, let's say, in line with a balance equity debt situation whereby we'll feel comfortable. I want to remind you that, by year-end, we will be more or less at the level we are today... so, that's the... that's the level of debt I expect.**

*Okay. Just a quick follow-up on the first question, just to better understand what's going on. You said in your statement that there is a kind of softness in the tyre market. It means that you will reduce your utilization rate to avoid increasing in eventually build-up, or where?*

**We said that we expect softness in ROE... replacement is still performing well. So, we don't think we have to slow down our production, the absorption on market side is still good, as you know, at year-end there is only one variable that can slightly affect the level, and it's due to the weather, it's due to snow. So, this is the only element that could change slightly the level, but, all in all, I don't think there will be any major effect at year-end.**

*Okay. Thank you.*

**Thank you.**

**3. Mr. Federico Bruzzi from Deutsche Bank:**

*Yes. Good afternoon to everybody. I have three questions, actually. One is on the corporate structure. So, I'm interested to know whether you will roll out for Pirelli the acquisition of Hopa's stake in Olimpia, and, particularly, in case of the exercise of the banks' put options? And, secondly, can you just remind us how many cashiers can Pirelli purchase according to the agreements with the other shareholders in Olimpia? And, finally, on broadband solution: if you can give us a detail, an idea of what is TI's and Fastweb's share of 81 million total sales in the broadband solution? In the nine months? Thank you.*

**So... but Olimpia it's easily to be said. So, maximum we can go up to 84% in case we buy... or 80 something, because also Benetton has the right to buy part of the stake of Hopa. So, we can go up to around 80, in case we buy back everything, I mean, both Hopa and the banks, that is the maximum. I don't believe that, at the end of the day, that will be the results. And that's why I expect that our debt level, in any case, will be between 2 billion and 2 billion and a half. So, that's the... that's the best information I can provide you now. So, we consider to buy everything, so there is now no problem doing that. In case someone wants to stay with us, at right conditions, he's welcome. So... but that is something that will be discussed next year. The TI broadband, I want to remind you that TI will have 6 million and other thousand-something, or will have 6 million, more than 6 million, at year-end, of broadband customers, out of which 1.1 will be outside Italy, in France, Germany and Holland. And, as far as I know, Fastweb has 600,000... I think, or a bit more, a bit less. So, these are the figures.**

*Yeah, sorry, so, the question was: what is the share of your broadband solution revenues, coming from these two companies?*

**Oh... Sorry...**

*You didn't say it...*

**So, we... we have broadband solution access in Telecom Italia, it's about 60%; and in Fastweb it's more or less the same. No, no... in Fastweb it's 15%.**

*Perfect. Thanks. Thanks a lot.*

**Thank you.**

**4. Mr. Martino De Ambroggi from Euromobiliare SIM:**

**Just to... sorry, I want to specify that, in Fastweb, we have, even more than in Telecom Italia, part of the market, but it represents 15% of our sales. In the broadband solution. So, 60% is represented by**

**Telecom Italia, in terms of sales, and 15% is... the total sales, part of the sales in Fastweb. And the market share in Fastweb is very high.**

*Yes. It's my turn, probably. Good evening to everybody.*

**Sorry if I interrupted you.**

*Oh, no problem. It was an interesting answer. First question is on capacity, your capacity to reduce debt going forward. So, and the current, the existing... the existing group structure. What's your normalized annual capacity to reduce debt? The second question is on tyres: could you give us, or could you quantify the contribution of Latin America in Q3 and in the total nine months, for the current year? And, always on tyres: I believe that the 9% target... well, it's already done. So, I see a higher margin this year. And probably because... the implicit Q4 results would be an EBIT down, year-on-year? I saw in your slides that you are mentioning price pressure from... and cost increase, but it seems to me to be conservative? Thank you.*

**If I remember well, I said we expect, possibly, a result, possibly above 9. So, what I mentioned is that we expect the price... there is no price pressure, I mentioned that we expect the price increase to be implemented starting from January next. So, that's why I think that the fourth quarter will provide us the opportunity to achieve the targets, to be over 9%, as return on sales. So, this is what I mentioned before, saying that we'll be above 9%, possibly. "Possibly" is just because it's always better to be on the safe side. But... the cash-flow production: so, the debt production is linked to the cost of production, and it's linked to the results of the tyre business, next year, and we expect the production of cash-flow to be at least in line with the one we had this year. So, we are also financing the group, as you know, we are investing in China, in Baja, in Rumania, so, we are committed to grow, but a profitable growth. And the cash-flow, anyhow, should be around the cash-flow of this year. The real estate has already given the targets, and broadband we expect a growth that will not absorb cash, so that's the... these are the main guidelines for next year.**

*Yeah. If I may summarize what my expectation is: I see, under the existing group structure, a slightly less than 100 million debt reduction. Am I correct? Am I...*

**It could be slightly more.**

*Slightly more. Okay. And, just on Latin America's contribution to tyres' performance.*

**Well, Latin America has two kinds of contribution: one is internal market, the other one is the export. All in all, Latin America represents 40% of the total sector's contribution. And, really, the exchange rate can change our attitude towards the balance between export and internal market sales. So, it can change, but it's, more or less, 40%. For sure it will grow, in case the sales in the United States, or products coming from Baja will grow faster than expected. So, as you know, we use Latin America also as a base for exports to the United States.**

*Yes, sorry, just a clarification, it's 40% of total EBIT? Or...*

**40. Four-zero.**

*Yeah, but the total EBIT, or the improvement of this year in EBIT?*

**No, no... we... this is the contribution to EBIT consolidated, I mean, taking into account the exports...**

*Okay.*

**Okay.**

*And, if I can just follow-up: I'd like to understand what's your view after the recent weak performance of Telecom Italia. I saw you bought some more shares, TI ordinary shares. I can imagine that you would like to buy more shares at current prices, but I see also a situation... until you don't have a clear opinion of what will happen to the put option, you cannot buy any more, or, at least, you cannot a lot of TI shares, because the financial structure, after all what you mentioned before, we will see if it's true or not, if will happen or not, but I see a stretched financial structure. So, can we see more TI purchases on the market, considering current prices, or it's something that could be very, very small?*

**But, as I mentioned before, I confirm the target of that. Within this, we have call options, so we can play in the market, taking into account what will be the evolution of the agreements with the partners, with which we can deal about the put option, or about the expiring of the agreement, so like with Hopa. So, it's partly up to us, like in the case of Hopa, where they can take the decision to leave, but we can take the decision on how they can leave the agreement. So, we could buy them, or we could avoid to buy them, depending on convenience for the company. So, there is some flexibility, the answer is that there is some flexibility, and that it will depend on future agreements the attitude we will have in the market. Reminding you that we have, also, in our portfolio, call options that can be exercised. So, we are quite in a good position to take the best possible decision in the interest of the company. And to profit from the market conditions.**

*Okay. So, are you buying more shares in this quarter?*

**No, no, we are not going to buy more shares. We have the call options, so you know, so we...**

*Okay.*

**We don't need to...**

*Okay. Thank you.*

**Thank you.**

**5. Mrs. Monica Bosio from Caboto Banca Intesa:**

*Thanks. Good evening to everyone. I was wondering if it's possible to have a break-down of the operating profitability of the tyres' segment? And, I would like to... I was thinking if you might remind me the weight of the winter tyres in the high-performance division? Thank you. Hello?*

**So, more that 50% of our sales is high-performance tyres.**

*Yeah...*

**But... and so you can imagine that we don't want to give a break-down that I'm not providing, because...**

*Okay.*

**... if I give the break-down, we give a gift to our competitors. So, and we are competing everyday to sell every single tyre.**

*Okay. I tried.*

**Anyhow, I think that EBIT shows that it's increasing, the profitability, in all segments. That's, I think, the key factor. The second was about? It was about... what was the second question?**

*The weight of the winter.*

**Winter, we are doing... we are doing well. We are increasing our market share, and I think that it's interesting to read "Out of motor Munich sport", that is the most important magazine in Germany, and there you can see that the performances of our winter tyres are the leading performances, and that's why we're increasing.**

*Okay. Thanks.*

**Thank you.**

6. Mr. **Bruce Davidson** from **Redburn Partners**:

*Thank you. Just a follow-up on the cash-flow. I wonder if you were to give some indication of what you think the capital expenditure total will be? This year, and in view of your expansions in China and Rumania, etc. What the total expenditure might be in 2006?*

**So, all in all, our investments will be in line with the depreciation. So, this is the target we have, and we will stay within the targets, including the 90 million we're going to invest in China, within 2006. That includes Rumania, China, and all the other countries. So, there will be no change in our policy.**

*Okay. 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 1.

There are no more questions for the moment.

**Thank you, thank you to everybody.**

Ladies and Gentlemen, the conference call is over. Thank you very much for your attention.