

Ladies and gentlemen, welcome to Pirelli's conference call, in which our Chairman, Mister Marco Tronchetti Provera, will present consolidated results for the full year 2005. 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, I would like to introduce you to Mister Marco Tronchetti Provera. Thank you.

Good evening, ladies and gentlemen, thank you for joining our conference call. I'm very sorry for the delay, which is partly due to the... let's see, the time we had to spend in order to wait for the answer from the authorities, after having given the press release to them. Anyhow, thank you for being with us, today we are disclosing Pirelli's full year 2005 results, I'll give you an overview of them, then Mr. Puri will give you some insight on Pirelli Ambiente and Pirelli Real Estate. After the presentation, as usual, a Q&A session will be held.

Here are (...) the four pillars on which our group's missions are based, the dynamic management of leading companies, with solid growth and sound cash generation, our reliable and skilled management team with an international culture, new ideas coming from the Pirelli labs, innovation and an effective corporate governance. As you can see, the main purpose in the sustainable value creation exploited through control of significant influence on assets.

Slide number 3: you can have a look at the recent announcements as concerns Pirelli tires. The IT of minority stake of shared capital on Milan's Stock Exchange; Pirelli & Co. will maintain the control, the disposal of financial assets for approximately 400 million at current market values, will be implemented, and proceeds from both operations will be reinvested in core business.

Chart number 4 shows full year 2005 achievements, of our different activities; in July 05 the energy in Telecom's cables and systems has been completed with 1.2 billion of positive financial effect; Olympia's contribution to Pirelli's results is 152 million, thanks to TI increased results, and increase of the stake for Pirelli. The TI stake devaluation in Olympia approximately 1 billion announced few days ago had no impact on Pirelli, in fact the calendar in Pirelli's already 4 euros for Telecom Italia share in transparency, lower than 4.2 in Olympia after the devaluation. Coming to Pirelli tires, sales went up to 3.6 billion, with an increase of 11.7% year-on-year; the operating profit grew to 329 million, an increase of 19.6%; 9% the return on sales targets for Pirelli tires have been achieved one year in advance with respect to our 03-06 plan, and the joint-venture with the Chinese (...) world one has been signed with an initial investment of 30 million for 60% stake. Going to Pirelli broadband solution, almost doubled under-revenues up to 111... 112 million; and Pirelli Real Estate 03-05 three-year plan targets have been fully achieved, with a 22% (...) in EBIT, including income from equity participation. As regards Pirelli environment, we gave start to the building phase of a particular filter business, and we signed a license agreement with ELI energy LLC for the use of Pirelli's Refuse Derived Fuel.

Next slide is about full year 2005 Pirelli Group results; in brief, group sales grew 14.6% year-on-year, to 4 billion 500 million, from 3 billion 970 million in 04. The organic growth stands at 9.5%. Group EBIT increased to 355 million, an increase of 32% year-on-year, and group return on sales was at 7.8%. EBIT, including results from equity participation stands at 622 million, an increase of 46.4%, thanks to Olympia and to Pirelli Real Estate; group net income increased to 399 million, 31.3%, and attributable net income grew to 327 million; net financial position was 1 billion 177 million, down from 1.6 billion last year. The fully detailed P&L is available in the backup section.

Going to slide number 6: the group EBIT variation, as you can see, has been mainly driven by the positive contribution of 27 million coming from the tire business, and 45 million from Pirelli Real Estate; exchange rates variation is worth 26 million.

So, going to slide number 7: at the end of December 05, we see that the debt that was worth 1.6 billion went down to 1.177. The main effect has been the positive impact of 343 million of free cash-flow from ordinary activities; the delta between Olympia capital increase and Pirelli capital increase was 282 million; the purchase of 139 million euro of TI ordinary shares and derivatives and the positive financial impact of cable disposal was 1.2 billion.

I'd like now to go through the group results by segment, starting from tires: as concerns Pirelli Ambiente and Pirelli Real Estate, Carlo Puri will show you later the main highlights of full year results.

Slide 8: Pirelli tire net sales increased to 3.6 billion euro, from 3.2 billion in full year 04, an increase of 11.7% year-on-year; organic growth stands at 7.4% thanks to an increase in sales in both consumer and industrial segments, over performing an overall weak demand in western markets. Further price and mix improvements, was 5.6% in all segments, offset raw materials and energy costs increased; overall volume increase was 1.8%, including the initial months of our new operations in China. Winter tire segment in Europe grew more than the market; EBITDA increased 14.6% year-on-year and EBIT grew to 329 million euro, an increase of 19.6%, with a 9.1% return on sales. Net income was 199

million euro, an increase of 18.6%, and fourth quarter EBIT was affected by minor restructuring, it was 8 million.

So, let me briefly pass through slide number 9: sales breakdown by business segment, industrial was 31%, consumer 69% of total turnover; and breakdown by geographic area of our sales shows that Italy accounts for 13%, rest of Europe 40%, North America 9%, South America 25%, and the rest of the world 13%. For 06 we expect sustained growth, coming from premium consumer segments, and emerging industrial market.. mainly, let's say, coming from NAFTA and the emerging industrial markets: China is one of them. The EBIT growth is expected in 06 thanks to price mix improvements, not considering unpredictable dynamics, there is high pressure on raw materials and energy costs, which is necessarily asking for new additional price increases. And we are still building additional capacity in low cost countries. Before we see the typical tires' seasonality moving towards the second half of the year, due to the expected growth of winter and original equipment sales in Germany.

And last but not least, in the next slide we are committed to announce brand name to an impressive advertising campaign.

Slide number 12: about Pirelli broadband solution results; net sales almost doubled, if compared with 04, first contribution to revenues has come from photonic products, around 6 million; as you know, the full year 05 EBIT negative 7 million, is the result of the positive contribution of broadband access and photonic development costs: mainly startup, qualification tests and business structure. Three-year plan 06 targets should be fully achieved.

In slide 13: we point out the main achievements of Pirelli broadband solution by segment, as regards broadband access. Revenue growth has come from domestic market and for the future we have foreseen an increase of foreign market contribution. We have accounted European Telecom market to enlarge the clients' portfolio and provide the carriers with customer and value-added broadband access solution.

Coming to photonics: next slide, slide number 14; we are in the stage of building the business structure, as you know, and we got the first revenues from CWBM CTATM used for the development of IPTV applications; we submitted a DTL, a dynamically tunable laser, to demand clients for qualification tests.

Next slide is about Pirelli broadband solution outlook: in 06 we've forecasted a revenue growth for more than 30%, versus 05; EBIT close to breakeven; internationalization of broadband access and switch from accessories, to models and photonic as for the expiration of the non-compita agreement with CONI. So, now I leave the flow to Carlo Puri for Pirelli Ambiente and Pirelli Real Estate results and targets. Carlo please.

Thank you, Mr. Marco Tronchetti. I'll give you some information about our startup in the environment business: 'ambiente' is the Italian word for environment; in the second startup of Pirelli Group, and is characterized by three main divisions: one is Pirelli Ambiente Tecnologie for the production of Y-diesel that is called GECAM and the anti-particulate filters for the reduction of emission from diesel engines. The second one: develop solution for the use of renewable energy, and in particular the recovery of municipal solid waste, with a Pirelli patent; our technology can transform the solid waste in a product: we have done our first seat for production in Italy with a cementary production of the Buzzi group, and then we have sold the license in UK, with a company that was listed as a secondary market and called Re-energy, that, as I said before, is a British company. The positive impact that is coming in this year is around 3 million euro.

Let's now go through the main achievements of Pirelli Real Estate, with the next slides; we completed, in this year, acquisitions for 3.2 billion euro, and sales for approximately 3.2 billion euro, the first, the acquisition, is book value and the sale is market value; the 3.2 are two components to the market 2.5 and contribution for funds 0.7; the capital gain is around 27%, and is equal to 0.750 billion euro. We were able to increase the assets under management, to euro 3 billion, market value, from 10.7 million in December 2004; service business strongly increased profitability, from 16% in 2004 to 18% of ROS; and the franchising network with an EBIT of 1.3 million, performed better than the expected breakeven of the three-year plan. We have continued our strategy of stabilization of results by increasing the contribution of fund and asset management fees, and fees of servicing and franchising to above 40% in 2005, from 24% of total EBIT in 2002. We have also rebalanced the portfolio which was 100% opportunistic in 2002, increasing the core coreplast components up to 38% of total assets.

Change slide now: the year 2005 has been another very strong year for our company, we were able to deliver a growth of 40% on IAN basis, an 18% on Italian Accounting Principles, at EBIT, including income from equity participation and growth of 24% of net profit level. The total EBIT including income from equity participation reached euro 186 million, and net profit reached 145 million. The

Board of Directors has made a proposal for a dividend of 1.9 per share... euro per share, corresponding to a payout of approximately 55%, in line with the three-year plan targets.

Next slide: as regarding the balance sheet, I'd like to point out that our net financial position has improved with respect to 2004, decreasing to 30.5 million euro, from 40.2 million euro in 2004, and the adjusted net financial position, not including shareholders loans, has instead slightly increased from 250 million in 2004, to 293 million euro leading a gearing of 0.453, still below our 2006-2008 targets of 0.6-0.8.

Next slide: net asset value at the end of 2005, amounts to more than 1 billion euro, and is substantially stable, compared with the previous year. As you know, Pirelli Real Estate is a management company, and more than half its market value is represented by different components, that are not included in the net asset value, and are: fund and asset management, services provided, franchising network, and, as I said before, the value of approximately more than 50% of the market value of the company.

Going on to the next slide, to see the strategy of this year: the three main points, I think, are: our target of growth of the EBIT, including income from equity participation that is around 10-15% of KAGER in 2006-2008, and in 2006 we are committed to post a growth in the open part of the wrench; the second point is that we plan to increase our assets under management from 10.8 billion book value of 2005 which correspond to what I've said before, at market value, of 30 billion, to 12.5-13 billion book value in 2006 so, to approach our target for 2008 of 16-18 billion euro. And also we will pursue another international expansion, that we just start this year, looking for opportunities especially for residence portfolio in Germany, and instead of capacity of building new homes in the new Europe, and there consolidate our partnership with PEKAO Development, that as you know is.. will be... will change name in Pirelli PEKAO and will be participated 75% from our group, and 25% from PEKAO that is the bank of Unicredit in this area. Thank you very much, and I'll leave the flow to Mr. Marco Tronchetti. Thank you.

Thank you Carlo. Going straight to dividend distribution, total amount stands at around 114 million, in line with 04; the dividend proposal is 2.1 euro cents per ordinary and 3.64 euro cents for saving shares; and then the outlook: we expect a growth in sales and operating results in 06. So, this is all, we tried to make up for part of the time that has delayed the meeting, so sorry again for that, we are now waiting for your questions. Thanks a lot.

Q&A session:

1. Mr. Serge Escudè from UBM:

Good evening. Very quick questions: you are saying that the pressure on raw materials and energy costs are still very high, and you are saying that new additional prices should be necessary in 2006? That one doubt is that you're coming from a year where prices were very, very high, and you increased your prices, I think many times during 2005, so you think that it's still possible to increase those prices? Because I read that your direct competitors are saying that it will not be easy to increase those prices because the consumer will not support that increase of raw material anymore. And the second question is: what are you expecting, in terms of EBIT margin, in 2006? Do you think that it can be stable? And my last question is: what is your target for the Pirelli Group asset debt equity for 2006? Thank you.

Thank you. Energy and raw materials: we expect, thanks to the mix and price increase, and also because of the mix of production we have, that we can consistently maintain the expectation I underlined few minutes ago, so we expect to continue to grow, both in terms of revenues and EBIT. And so we are convinced we are able to balance, we have to take into account that we have a different mix compared to Pearce; then... you mentioned EBIT target: EBIT target we expect it, having achieved one year in advance the three-year plan target, we expect at least to have the same result. So we expect the top line to grow, and the EBIT to stay in line, in terms of percentage of revenues. Going to net financial position, we don't see any significant change, in cost innovation in the different businesses, towards... compared to last year; the net financial position will depend on the outcome of the Olympia put option, the OPA agreement, tire IPO and sales of strategic... non-

strategic assets. So I think that operationally, nothing changes, and we have the extraordinary, let's say, items that will affect the net financial position but there isn't any critical point because thanks to the listing of the IPO of the tires and thanks to the assets disposals, the financial position of the company in fact is around zero. So, I think that there is room to do whatever is needed to make the company stronger, through these transactions.

If I understand well: so you are expecting an increase in sales that will be the same... that will cover the cost, the higher cost of raw material? Is it what you're saying? And so you are not expecting to be more efficient for recovering that higher cost and productivity for the next three-year plan? You are not saying that there's a new plan that will be presented with new efficiencies, your possibility to produce with higher margins?

(.....)

...all coming from that line?

No, no ...no, no. Both. We'll do both; on one hand we'll increase prices, on the other hand, thanks to volumes and mix of productions, we will be able to achieve a revenue growth and an EBIT that will increase in line with the increase of the revenues. So, this is... keeping the same ratio between... at least keeping the same ratio between revenues and EBIT.

Okay. Thank you very much.

Thank you.

Thank you.

2. Mr. Martino De Ambrogi from Euromobiliare:

Good afternoon to everybody. My first question is on tires division: first I'd like to understand what was Brazilian contribution in 05? And what is your expectation in 06? And second question on tires concerns what your expectation on sales growth is: if unbid single digit growth for full year 06 is something reasonable. And second part of my questions concerns net debt targets: so, excluding all what you were mentioning concerning extraordinary deals, which is the normalized free cash-flow generation? What's your target in terms of net debt for 06, excluding each and every... and any MLA deal under current group structure?

So... so, Brazil: Brazil, contribution of Brazil is 25%... of Brazil... of Latin America's contribution is 25% of our sales, and depending on exchange ratio, it could go up to 30-35% of contribution to our EBIT. EBIT... it really depends on the Reyes value because, as you know, we have quite a good flexibility in exporting, depending on market situation and also on currency situation. So, this is, more or less, the contribution in terms of EBIT.

If I may...

Cash-flow generation should be, let's say, before dividends, around 200 million, so this is what we expect to have. And then there was a third question on your... oh, yes, the debt.. but we... if you look at the figures, today we have 1.2 billion of net debt. Let's imagine that we have to spend, if we buy back shares of OPA, if we buy back shares of the two banks, we have to invest 1.5-1.6, depending on prices, and from the asset disposals, and from the tire IPO we can call it, more or less, the difference's few hundred millions... the means for investments. So, at the end of the day, we should be between 1.2 and 1.5 billion net debt, and so we could keep a very solid relation between debt and assets. So... and there is room to make other investments.

Okay. If I may, on assets to be divested: is it including the Eurostazioni project?

So... the.... Let's say, the participation we have are... so the most important, are: Mediobanca, Capitalia, and these are the financial... the financial assets, and the value of these assets is much higher today than the 400 million. So, we are part of agreements, that are expiring, so we... I think that before the year end we will have a plan for these assets... to dispose... for these assets

disposal. The cash-in is expected to be in 07 , so part of it could be in 06, part of it could be in 07. So this is the plan.

Okay. And if I may, always on tires division: we didn't mention the sales growth expected for 06, and on the Brazilian contribution, could you quantify, at EBIT level, what was the contribution in 05?

As I mentioned before, the contribution to our balance sheet is based on figures that on a consolidated basis are around 35%. You have to take into account that there is part of it that is export, part of it that is linked to the internal market, and this is the average profitability we have in Brazil, and there are rules for the export that are applied in order to define the value of the goods that are exported from Brazil, and it is also linked to the Reyes evaluation. There is no specific figure... a figure we provide to the market, because there are years like this year where the export accounted for approximately 20% of the production in Brazil, and there are years where, if convenient, will go up to 35%. Anyhow, total growth of sales we expect in Brazil is around 7% in, let's say, Euro value.

Overall? For the tires?

No, no, no. that is... that is Brazil, export Brazil.

Oh, export Brazil.

Overall, we expect a bit more than... Overall, we expect a bit more than this; if not a bit more.. no... Okay. Thank you.

Okay. Thank you.

Thank you.

No more questions at the moment.

3. Mr. Giuseppe Puglisi from Intermonte:

Good evening. I would like to ... can you hear me?... sorry?

We can hear you.

Sorry?

We can hear you perfectly.

Okay, perfect. So, my first question is : if your clients in third division are accepting easily the price increase that you applied in the last three months? And the second question is: what are your assumptions on raw materials' price increase? Because after the unexpected price increase in 2005, in my view, it's so difficult to have a good preview of what will be the price increase in 2006. And third and last question: can you tell us why the tax rate was lower than the one you had in 2004? So, if I'm right, it was roughly 27% in 2005? So, if there is some particular reason for this? Thank you.

Okay. Thank you. So.... the increase in prices of raw material are expected to be in line with the increase in 05, that has been already quite consistent: average over 5%; and, as I mentioned before, we will cover partly thanks to price increase and partly thanks to mix and volumes. And our customers are... in the high-end of the market, they are ready for the new products we will launch; they are ready to pay; so, what we see is that price will be better for replacement and for ROE, so it will be easier to... to pass the increase in raw materials to the replacement ... and as you know, the replacement.. are the most of our sales. Regarding taxation: but there is an easy answer: so the

Olympia is transparently the result of TI, so there is no tax effect on Olympia results. And so that's why the tax rate decreases.

Okay. I have one question: if we consider a (...) country (...) business in 2006, we will see, quarterly speaking, an increase in last quarter? (...) growth quarter-on-quarter? Because if you are planning a further price increase, my assumption is that you will (...) margin decrease... and the next (...) and recovering last quarter (...)

Anyhow, the tax rate will be, more or less, in line with this year's. The effect of Olympia is to be taken aside, because it comes as part of the net result of TI, so as already paid, a tax... is a ... taxation. So, there is no effect, or the effect is to reduce the tax rate. And for the rest of the group we expect to remain in line with the tax rate we had in 05.

Okay. If I had one question...

...

Can you hear me?

...

Can you hear me?

Yes. We can hear you. Yes. We can hear you.

Yeah, yeah, okay. My question is: what's your expectation for the margin trend for tires in 06? Because, as I said before, there is, in my view, there should be some decrease in the next two or three quarters thanks... because if you will be able to increase prices in 2006, you will increase prices, but in the last part of the year, after two prices increases in the last two quarters. So, is it correct in my view to see a decrease in margins in the next two or three quarters for tires with a recovery in the last quarter of 2006?

Well, we expect to fully implement the price increase by middle of the year, so we expect a second half fully exploit the price increase; about the profitability, I mentioned it before, we expect profitability in line, at the EBIT level in terms of percentage of revenues... but revenue grows and so we expect a growth on EBIT. So, a growth on EBIT earning to the growth on revenues, but keeping the profitability we exploited this year.

Okay. Thank you.

Thank you.

No more questions at the moment.

4. Mr. Martino De Ambrogi from Euromobiliare:

Yeah. Very quickly. BBA could be already profitable in 06? Thank you.

Sorry. In which business do you mean?

Well, BBA: Broadband and Access.

BBA breakeven.

Okay. So, despite the improvement in 05, you don't see any improvement in your production?

Yes, but we are paying the startup of the photonics, and we are investing in this area, which is interesting, having high margins and being linked to a technology that we handle quite well, that is photonics.

Okay, thank you.

No more questions at the moment.

So, thank you everybody, I would like to thank all of you for the attention you gave us and good evening to everybody.

Ladies and Gentlemen, the conference call is over. Thank you for calling Pirelli.