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

Quarterly Report

1st Quarter 2006

PIRELLI & C. Società per azioni

Registered office in Milan, Via G. Negri 10

Share Capital - Euros 2,764,715,575.44

Milan Companies Register No. 00860340157

Economic Administrative File (REA) No. 1055

PIRELLI & C. S.p.A.

Board of Directors [1]

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 * o
	Gilberto Benetton
	Franco Bruni * o
	Gabriele Galateri di Genola
	Mario Garraffo *
	Dino Piero Giarda *
	Berardino Libonati * ^
	Giulia Maria Ligresti
	Massimo Moratti
	Giovanni Perissinotto
	Giampiero Pesenti * ^
	Aldo Roveri * ^
	Carlo Secchi * o
	Paolo Vagnone

(·) The director Carlo De Benedetti tendered his resignation in May 2006.

* Independent director
o Member of the Internal Control and Corporate Governance Committee
^ Member of the Remuneration Committee

Secretary to the Board	Anna Chiara Svelto

Board of Statutory Auditors [3]

Chairman	Luigi Guatri
Standing members	Enrico Laghi
	Paolo Francesco Lazzati
Alternate members	Franco Ghiringhelli
	Luigi Guerra

General Managers

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

Independent Auditors [4]
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 Appointment: April 21, 2006. Expiry: shareholders’ meeting called to approve the financial statements at December 31, 2008.

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

PIRELLI & C. S.p.A. - MILAN
Quarterly Report – 1st Quarter 2006

CONTENTS

DIRECTORS' REPORT ON OPERATIONS

In the first quarter of 2006, the Pirelli & C. S.p.A. Group pursued the course of growth begun in the previous year thanks to its strategy of focusing on higher-margin businesses. The results at March 31, 2006 show an increase in all major economic indicators, which were able to benefit from the positive performance of the core businesses of the Group, especially the Tyres and Real Estate activities.

As for industrial activities, **Pirelli Pneumatici** closed the first quarter with higher results, reaching net sales of Euros 1 billion. Even the **Pirelli Broadband Solutions** start-up continues to show a growing trend in net sales, alongside an expansion of its product portfolio. In the real estate business, **Pirelli Real Estate** posted a significant growth in operating profit including earnings from investments.

Consolidated **net sales** of the Group for the quarter ending March 31, 2006 amount to Euros 1,206.1 million. This is an increase of 17.2 percent compared to Euros 1,029.2 million in the same period of 2005, with gains recorded across all sectors of business. Excluding the foreign exchange effect and using the same scope of consolidation, net sales grew by 10.4 percent.

Gross operating profit is Euros 174.1 million (14.4 percent of net sales), up 21 percent compared to Euros 143.9 million for the same period of 2005.

Operating profit amounts to Euros 119.8 million, an increase of 29.2 percent from Euros 92.7 million for the first three months to March 31, 2005, with growth in all business segments. ROS (Return on Sales) at consolidated level is equal to 9.9 percent, a further increase over 9 percent in 2005.

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 figure of Euros 49.2 million, which is basically in line with Euros 49.8 million reported in same period of 2005. In particular, Olimpia contributed earnings of Euros 35 million, up from Euros 29.9 million in the corresponding period of 2005 thanks to a higher result reported by Telecom Italia. It should be pointed out that the financial statements of Olimpia, included in the consolidated financial statements of the Group, have been drawn up in accordance with IFRS and comprise the valuation of the investment in Telecom Italia by the equity method. The caption also includes the results of the real estate sector companies (Pirelli RE group) which show earnings of Euros 13.9 million.

Operating profit including the share of earnings (losses) of equity investments is equal to Euros 169 million. This is an increase of 18.6 percent compared to Euros 142.5 million for the first quarter of 2005.

Financial income (expenses) shows net financial expenses of Euros 40.3 million (including Euros 18 million for the measurement at fair value of the derivatives on Telecom Italia ordinary shares held by the Group) compared to Euros 36.3 million (including Euros 14 million for the measurement at fair value of the derivatives on Telecom Italia ordinary shares) for the same period of 2005.

Net income for the three months to March 31, 2006 is Euros 91.8 million, up 22.4 percent compared to the first quarter ending March 31, 2005 (Euros 75 million) before income (loss) from discontinued operations (+10.9 percent taking into account income (loss) from discontinued operations). In the first quarter of 2005, discontinued operations generated income of Euros 7.8 million.

Net income attributable to Pirelli & C. S.p.A. for the first quarter ended March 31, 2006 is Euros 74.8 million (Euros 0.014 per share), up 7.5 percent compared to Euros 69.6 million for the first quarter of 2005 (Euros 0.010 per share).

Consolidated equity is Euros 5,862.7 million, compared to Euros 5,613.8 million at the end of 2005.

The **equity attributable** to Pirelli & C. S.p.A. at March 31, 2006 is Euros 5,451.2 million (Euros 1.025 per share), compared to Euros 5,204.9 million at the end of 2005 (Euros 0.979 per share).

The **net financial position** of the Group at March 31, 2006 is a net debt position of Euros 1,494.7 million compared to Euros 2,120.4 million at March 31, 2005. The change compared to Euros 1,177.4 million at the end of 2005 is primarily due to the purchase of Capitalia S.p.A. shares (Euros 38.2 million) and Telecom Italia S.p.A. shares (Euros 201 million) and to normal seasonal factors.

At March 31, 2006, there are 27,447 **employees** compared to 26,827 at December 31, 2005, with an increase of 620 people (including 320 with term contracts).

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

The net result of the parent company, Pirelli & C. S.p.A., for the three months ended March 31, 2006 is a loss of Euros 16 million compared to a loss of Euros 18 million for the first quarter of 2005.

Major events during the first quarter

Corporate

- On February 6, 2006, Olimpia S.p.A. and the shareholders Pirelli & C. S.p.A., Edizione Finance International S.A., Edizione Holding S.p.A., Banca Intesa S.p.A. and Unicredito Italiano S.p.A. sent Hopa S.p.A. the statement rescinding from the agreement signed among the parties in 2003. Therefore, at the expiration date (May 8, 2006), this agreement will not be renewed.

- On February 14, 2006, the Pirelli & C. S.p.A. board of directors voted to undertake a course of action that would lead to the best way of increasing the value of the tyres division ("Pirelli Tyres"), including its listing on the Electronic Trading Market of Borsa Italiana, with the understanding that Pirelli & C. S.p.A. would still hold the majority of the shares of Pirelli Tyres.

  In addition to the project to increase the value of Pirelli Tyres, the board of directors also approved a plan for the further concentration of resources in the strategic businesses of the Group through the disposal of financial equity investments for an equivalent amount of approximately Euros 400 million at present value, equal to about a half of that portfolio.

  Later, on April 10, 2006, Pirelli Tyre S.p.A, the company which heads all the tyre design, development, manufacturing and marketing activities of the Pirelli & C. S.p.A. Group, filed a request to list its ordinary shares with Borsa Italiana, following their Initial Public Offering (IPO) by Pirelli Tyre Holding, which holds 100% of the company, and is, in turn, a wholly-owned subsidiary of Pirelli & C. S.p.A..

  Pirelli Tyre S.p.A. is the new name of Pirelli Pneumatici S.p.A. for the listing.

- During the first quarter of 2006, Pirelli Finance (Luxembourg) S.A., a wholly-owned subsidiary of Pirelli & C. S.p.A., exercised two call options on Telecom Italia shares for a total of 75,000,000 ordinary shares (equal to 0.56 percent of ordinary share capital) at the average price of Euros 2.35 per share for a total investment of Euros 176 million.
  During the period, 10,400,000 Telecom Italia S.p.A. ordinary shares were purchased on the market (equal to 0.08 percent of ordinary share capital) at an average price per share of Euros 2.40 for a total investment of Euros 25 million.
  At March 31, 2006, Pirelli & C. holds, directly and indirectly, through Pirelli Finance (Luxembourg) S.A., 182,113,185 Telecom Italia ordinary shares (equal to 1.36 percent of ordinary share capital).

- On march 27 and 28, 2006, Banca Intesa S.p.A. and UniCredito Italiano S.p.A. communicated their desire to withdraw from the shareholders'agreement regarding their investment in Olimpia S.p.A., concluded in September 2001 with Pirelli & C., and, consequently, to exercise the right to sell their investments (equal to about 4,77% for each bank). The transfer of the investment will take place in October after expiration of the agreement (October 4, 2006) and will involve a payment by Pirelli & C. of about Euros 1.17 billion (of which Euros 130 million has already been considered in the Net Financial Position at march 31, 2006).

Tyres sector

- On March 22, 2006, Pirelli Pneumatici opened a new plant for manufacturing radial tyres for trucks and buses at Gravataì, in the Brazilian state of Rio Grande do Sul. The production unit is located in an area which already constitutes the Group's main center for the development and production of conventional motorcycle tyres. With a surface area of 573,000 m^2, the new plant adds about 500 employees (direct and allied) to the current approximate 1,500 work force, and, when fully operational, will have a production capacity of 12,000 tons a year in addition to the current 64,000-ton production capacity.

  80 percent of the Gravataì production is destined for the domestic market and 20 percent for exports, mainly to countries in Latin America. The new plant calls for an overall investment of approximately Brazilian reais 116 million (more than US$ 50 million) and, when fully operational, will contribute 8 percent of the sales of Pirelli Pneumatici in Brazil.

  The start-up of the new Gravataì plant has given another boost to Pirelli's presence in the radial truck tyre segment after the launch, in the second half of 2005, of production activities in China. These factories complete Pirelli Tyres' investment program in the Industrial segment, which can now count on new and more competitive production capacity to meet the growth in demand over the three-year period 2006-2008.

  The investment in Gravataì is part of Pirelli Tyres' growth strategy on a global scale, which involves expanding into emerging markets in the Industrial sector and focusing on the Car and Motorcycle Premium segments. The new plant joins other Pirelli plants in the radial truck segment which are already operating in Italy, Turkey, Egypt, China and the Brazilian plant of Santo André.

Pirelli Broadband Solutions

- On March 1, 2006, Pirelli Broadband Solutions, the company of the Pirelli Group which specializes in the sector of broadband access and second-generation photonics products announced that it will supply the new optical component known as the triplexer to the American market. The new component will enable telecom operators to offer "triple-play" services via optical fiber networks with a considerable competitive advantage.

  The triplexer, designed internally by Pirelli Labs for the American market, is a product based on integrated photonics technology, which makes it possible to concentrate, inside the same component, the possibility of using light to transmit and receive voice, data and video simultaneously, with a single optical fiber, to and from the computer, the television and the telephone at the user's home.

  This new solution will also make it possible for American telecom operators to offer television content with a high standard of quality via optical fiber at an extremely low cost. The competitive advantage derives from the fact that this system uses integration technology similar to that used in the field of microelectronics, making it possible to mass-produce the triplexer on silicon wafers using a highly automated process.

  In the United States, the diffusion of optical fiber to the home is growing rapidly. Currently the market is worth several billion dollars a year and is destined to expand further in the future.

Real estate activities

- On January 12, 2006, after winning the bid, which was concluded on October 14, 2005, for the purchase of a residential property portfolio in Berlin at the price of Euros 72.5 million, ownership was formally transferred to Tizian Wohnen 1 and Tizian Wohnen 2 – holdings of the subsidiary P&K Real Estate, in which Pirelli RE has a 60 percent stake in share capital. The properties purchased were part of the Corpus Immobiliengruppe property portfolio.

- On January 30, 2006, the board of directors of Pirelli RE SGR approved the interim management accounts at December 31, 2005 of Tecla Fondo Uffici, Berenice Fondo Uffici and Olinda Fondo Shops and passed resolutions on the following:

  - for Tecla Fondo Uffici, for the second half of 2005, the payment of dividends of Euros 21.92 per share (equal to 80 percent of distributable income) with a semiannual yield of 4.6 percent. Considering the full-year 2005, the dividend yield is equal to 9.3 percent, above the annual target dividend yield of 5.5 percent indicated at the time of placement. Also taking into account the previous years, the Fund has had an average annual yield of 8.6 percent on dividends paid alone since its placement;

  - for Olinda Fondo Shops, for the second half of 2005, the payment of dividends of Euros 19.54 per share (equal to 80 percent of distributable income) with a semiannual yield of 3.9 percent. Considering the full-year 2005, the dividend yield is equal to 7.3 percent, above the annual target dividend yield of 5.5 percent indicated at the time of placement. Also taking into account the previous years, the Fund has had an average annual yield of 6.7 percent on dividends paid alone since its placement;

- for Berenice Fondo Uffici, with a mid-July 2005 placement, for the second half of 2005, the payment of dividends of Euros 15.05 per share (equal to 86 percent of distributable income) with a yield of 3 percent which corresponds to an annualized yield of 6.3 percent, above the annual target annual dividend yield of 4.75 percent indicated at the time of placement.

With regard to the closed-end unlisted reserved property investment funds, the annual dividend yield for Cloe Fondo Uffici was 15.3 percent, above the target dividend yield of 9.7 percent indicated at placement. For Teodora, operating only since mid-October 2005, the annualized dividend yield is 10.3 percent, above the target dividend yield of 7.5 percent indicated at the time of placement. For the subscribers of Clarice Light Industrial, the annual dividend yield is in line with the target yield of 9 percent indicated at the time of placement.

- On February 20, 2006, Pirelli RE and Merrill Lynch signed a binding agreement to set up a joint venture (with a 35 percent stake by Pirelli RE and a 65 percent stake by Merrill Lynch) for the investment of Euros 1.5 billion in the hotel tourism sector in Italy over the next five years.

- On March 29, 2006, the second investment in the Raissa fund was finalized. Olivetti Multiservices (Telecom Italia Group) contributed 201 properties worth approximately Euros 158.1 million to this seeded fund intended for qualified investors. The contribution of the properties, which are commercial properties, are in addition to the properties conferred on December 28, 2005 worth about Euros 486 million. The Fund will be seeded by a total of 900 properties of which about Euros 790 million come from the Telecom Italia Group.

- On March 29, 2006, the Pirelli RE Group won the bid to build the new S. Anna di Como hospital. The work calls for a total investment of Euros 150 million. As a result of winning this bid, which is in addition to the project to build the Valpolcevera (Genoa) hospital which was won in 2005, Pirelli RE has achieved its objective of increasing its business in this sector.

- On March 30, 2006, Olivetti Multiservices (Telecom Italia Group) made a second contribution to the closed-end speculative property investment fund “Spazio Industriale Fondo Comune di Investimento Immobiliare Speculativo (the first conferral took place on December 29, 2005). The second contribution consists of 120 properties worth approximately Euros 70.8 million. The contribution of the buildings is in addition to the conferral of properties finalized on December 29, 2005 worth approximately Euros 177 million. The Telecom Italia Group is expected to make a total transfer of more than 400 properties for a total of approximately Euros 300 million.

THE GROUP

The highlights of the consolidated financial data of the Group for the first quarter of 2006 can be summarized as follows:

(in millions of euros)

	1st Quarter 2006	1st Quarter 2005	Year 2005
. Net sales	**1,206.1**	1,029.2	4,545.7
. Gross operating profit	**174.1**	143.9	567.6
% of net sales	**14.4%**	14.0%	12.5%
. Operating profit	**119.8**	92.7	354.9
% of net sales	**9.9%**	9.0%	7.8%
. Share of earnings (losses) of equity investments	**49.2**	49.8	267.1
. Operating profit incl. share of earnings (losses) of equity invest.	**169.0**	142.5	622.0
. Financial income (expenses)	**(40.3)**	(36.3)	(144.4)
. Income taxes	**(36.9)**	(31.2)	(128.5)
. Net income from continuing operations	**91.8**	75.0	349.1
% of net sales	**7.6%**	7.3%	7.7%
. Net income from discontinued operations		7.8	49.8
. Total net income	**91.8**	82.8	398.9
. Net income attributable to Pirelli & C. S.p.A.	**74.8**	69.6	327.4
. Earnings per share (in euros)	0.014	0.010	0.066
. Total equity	**5,862.7**	5,218.0	5,613.8
. Equity attributable to Pirelli & C. S.p.A.	**5,451.2**	4,851.0	5,204.9
. Equity per share (in euros)	**1.025**	0.913	0.979
. Net financial (liquidity)/debt position	**1,494.7**	2,120.4	1,177.4
of which assets held for sale		640.0	
. Employees (number at period-end)	**27,447**	25,465	26,827
. Factories (number)	**24**	24	24
Pirelli & C. shares outstanding at March 31, 2006			
. ordinary shares (number in millions)	**5,182.0**	5,180.5	5,180.7
. savings shares (number in millions)	**134.8**	134.8	134.8
. Total shares outstanding at March 31, 2006	**5,316.8**	5,315.3	5,315.5

For a more meaningful understanding of the performance of the Group in its various sectors of business, the following economic data and the net financial positions are provided according to business sector:

	1st Quarter ending March 31, 2006					
(in millions of euros)	Tyres	Broadband	Environment	Real Estate	Other	**TOTAL**
. Net sales	1,000.4	38.5	21.4	142.1	3.7	**1,206.1**
. Gross operating profit (loss)	148.7	(0.4)	2.6	27.2	(4.0)	**174.1**
. Operating profit (loss)	99.2	(0.7)	2.4	25.0	(6.1)	**119.8**
. Share of earnings (losses) of equity	0.0	0.0	0.0	13.9	35.3 (1)	**49.2**
.Operating profit (loss) incl. share of earnings (losses) of equity invest.	99.2	(0.7)	2.4	38.9	29.2	**169.0**
. Financial income (expenses)	(10.8)	(0.6)	0.0	0.3	(29.2)	**(40.3)**
. Income taxes	(26.9)	(0.4)	(0.4)	(8.6)	(0.6)	**(36.9)**
. Net income (loss) from continuing operations	61.5	(1.7)	2.0	30.6	(0.6)	**91.8**
. Net financial (liquidity)/debt position	719.9	2.2	(3.6)	5.0	771.2	**1,494.7**

	1st Quarter ending March 31, 2005					
(in millions of euros)	Tyres	Broadband	Environment	Real Estate	Other	**TOTAL**
. Net sales	861.7	31.0	16.3	113.3	6.9	**1,029.2**
. Gross operating profit (loss)	132.6	(0.5)	(0.4)	16.3	(4.1)	**143.9**
. Operating profit (loss)	87.7	(1.2)	(0.8)	14.2	(7.2)	**92.7**
. Share of earnings (losses) of equity	0.2	0.0	0.0	19.6	30.0 (1)	**49.8**
.Operating profit (loss) incl. share of earnings (losses) of equity invest.	87.9	(1.2)	(0.8)	33.8	22.8	**142.5**
. Financial income (expenses)	(7.7)	(0.3)	0.0	0.3	(28.6)	**(36.3)**
. Income taxes	(26.9)	0.0	0.0	(7.0)	2.7	**(31.2)**
. Net income (loss) from continuing operations	53.3	(1.5)	(0.8)	27.1	(3.1)	**75.0**
. Net financial (liquidity)/debt position	313.3	27.3	(1.1)	12.4	1,128.5	**1,480.4**
. Net financial position of discontinued operations						**640.0**
. Total net financial (liquidity)/debt position						**2,120.4**

(1) Valuation of Olimpia S.p.A. by the equity method shows earnings of Euros 35 million (Euros 29.9 million in 2005).

Net sales

Net sales amount to Euros 1,206.1 million for the three months ending March 31, 2006, with an increase of 17.2 percent compared to the corresponding period of the prior year. The effective change, on a comparable basis, is equal to 10.4 percent, of which 6.9 percent is due to volumes and 3.5 percent to prices/mix.

Gross operating profit

Gross operating profit went from Euros 143.9 million for the first quarter of 2005 to Euros 174.1 million for the first quarter of 2006. Gross operating profit is equal to 14.4 percent of net sales, compared to 14 percent for the first three months of 2005.

Operating profit

Operating profit for the first three months of 2006 is Euros 119.8 million, representing 9.9 percent of net sales compared to Euros 92.7 million for the corresponding period of 2005 (9.0 percent of net sales).

Contributing to the operating profit are principally the tyres sector for Euros 99.2 million (Euros 87.7 million for the first three months of 2005) and the real estate sector with Euros 25 million (Euros 14.2 million for the corresponding period of 2005).

The change can be summarized as follows:

		(in millions of euros)
Operating profit 1st Quarter ending 3/31/2005		**93**
. Tyres Sector	11	
. Environment Sector	3	
. Pirelli Real Estate	11	
. Other	2	
		27
Operating profit 1st Quarter ending 3/31/2006		**120**

Share of earnings (losses) of equity investments

The share of earnings (losses) of equity investments refers to earnings of Euros 49.2 million compared to earnings of Euros 49.8 million for the first quarter of 2005. It includes the results of the real estate sector companies which show earnings of Euros 13.9 million (Euros 19.6 million for the first quarter of 2005) and the earnings of Olimpia S.p.A., valued by the equity method, for Euros 35 million (Euros 29.9 million for the first quarter of 2005). It should be pointed out that the financial statements of Olimpia, prepared in accordance with IFRS and included in the consolidated financial statements of the Group, comprise the valuation by the equity method of the investment in Telecom Italia S.p.A..

Net income

The net income from continuing operations for the three months ending March 31, 2006 is Euros 91.8 million (after income tax expenses of Euros 36.9 million) compared to a net income from continuing operations of Euros 75 million for the first three months of 2005 (after income tax expenses of Euros 31.2 million). The first quarter of 2005 had recorded net income from discontinued operations of Euros 7.8 million.

The net income attributable to Pirelli & C. S.p.A. for the three months to March 31, 2006 is Euros 74.8 million compared to net income of Euros 69.6 million for the first quarter of 2005.

Equity

Consolidated equity went from Euros 5,613.8 million at December 31, 2005 to Euros 5,862.7 million at March 31, 2006.

The change in equity can be summarized as follows:

(in millions of euros)

.	Translation differences		4
.	Net income for the period		92
.	Dividends to third parties paid by:		(10)
	- Pirelli & C. S.p.A.		
	- Pirelli & C. Real Estate S.p.A.		
	- Other Group companies	(10)	
.	Exercise of Pirelli & C. Real Estate S.p.A. stock options		11
.	Purchase/sale of Pirelli & C. Real Estate S.p.A. treasury shares		(2)
.	Fair value adjustment of available-for-sale financial assets		135
.	Change in Olimpia valuation		23
.	Other changes		(4)
			249

The equity attributable to Pirelli & C. S.p.A. went from Euros 5,204.9 million (Euros 0.979 per share) at December 31, 2005 to Euros 5,451.2 million (Euros 1.025 per share) at March 31, 2006.

Net financial position

The net debt position at March 31, 2006 is Euros 1,494.7 million compared to Euros 1,177.4 million at December 31, 2005. The change from December 31, 2005 is principally attributable to the purchase of Telecom Italia S.p.A. shares (Euros 201 million) and Capitalia shares (Euros 38 million).

Employees

At March 31, 2006, there are 27,447 employees (including 3,422 temporary employees), compared to 26,827 at December 31, 2005. This is a total increase of 620 of which 320 temporary employees.

Related party disclosures

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

The economic and balance sheet effect of transactions with related parties on the consolidated financial statements of the Pirelli Group at March 31, 2006 are as follows:

Transactions with associates:

Revenues for goods and services	28	These mainly refer to the supply of services to the associates of Pirelli & C. Real Estate
Costs for goods and services	1	
Financial income	4	
Trade receivables and other receivables	69	These mainly refer to receivables from the associates of Pirelli & C. Real Estate
Financial receivables	272	These refer to receivables from the associates of Pirelli & C. Real Estate
Trade payables and other payables	5	These mainly refer to payables to the associates of Pirelli & C. Real Estate

Transactions with related parties of Pirelli through the directors (Telecom Italia, Camfin and F.C. Internazionale Milano):

Revenues for goods and services	71	These 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 70 million), services rendered by Pirelli Ambiente Tecnologie S.p.A. to the Camfin group (Euro 1
Costs for goods and services	19	These refer to telephone, computer and power services by the Telecom Italia group (Euros 7 million), the supply of natural gas by the Camfin Group (Euros 11 million) and costs for the sponsorship of FC Internazionale S.p.A. (Euros 1 million)
Trade receivables and other receivables	67	These refer to receivables for the supply of the above services (to the Telecom Italia group for Euros 65 million, to the Camfin group Euro 1 million and to FC Internazionale S.p.A. Euro 1 million)
Trade payables and other payables	15	These refer to payables for the supply of the above services (to the Telecom Italia group for Euros 4 million, the Camfin group for Euros 10 million and FC Internazionale S.p.A. for Euros 1 million)

<u>Significant events subsequent to the end of the first quarter</u>

- On April 3, 2006, in order to finalize the agreement announced to the market on February 15, 2006, and following the authorization of the Polish Antitrust Authority, Pirelli RE acquired 75 percent of Pekao Development, which has changed its name to Pirelli Pekao Real Estate, from Bank Pekao (Unicredit Group) for approximately Euros 20 million. As a result of this acquisition, Pirelli RE is giving concrete form to the aim of developing its business model in Eastern European countries.

- On April 27, 2006, Pirelli Labs, the Pirelli Group's center of technological excellence, and ENEA, Ente per le Nuove Tecnologie, l'Energia e l'Ambiente, launched three hi-tech research projects in the field of renewable energy sources and sustainable development within the sphere of a special five-year framework agreement.

  The first research projects launched involve concentrated photovoltaic cell technology, a new generation of sensors for monitoring the environment and, finally, groundwork studies in the field of cold fusion.

  The agreement between ENEA and Pirelli Labs also calls for the definition of other research projects in sectors of mutual interest.

  The beginning of this partnership is further proof of Pirelli's commitment to the field of technologies for sustainable development.

- On May 8, 2006, Pirelli and Schrader Electronics signed an agreement with the aim of developing and marketing an innovative system, located, for the first time, directly inside the tyre and capable of detecting all kinds of identifying data in addition to temperature and pressure. The heart of the system consists of a miniature sensor which can function without batteries thanks to its capacity to generate its own energy.

  Thanks to the new sensor, the tyre is able to interact with the vehicle, optimizing the on-board electronic systems, whose parameters adapt according to the information received from the device, leading to improved safety and performance.

The new system, which was specially developed for original equipment, is particularly suitable for Run Flat tyres, since it allows for optimum management of the parameters when traveling with a flat tyre caused by a puncture.

Outlook for the current year

The results achieved in the first quarter of the year confirm the forecasts for 2006 of a further improvement in results compared to the prior year, unless external extraordinary events occur which cannot be foreseen at the time.

TYRES SECTOR

The highlights of the consolidated financial data of the Tyres Sector for the first quarter of 2006 can be summarized as follows:

(in millions of euros)

	1st Quarter 2006	1st Quarter 2005	Year 2005
. Net sales	**1,000.4**	861.7	3,632.9
. Gross operating profit	**148.7**	132.6	518.1
% of net sales	**14.9%**	15.4%	14.3%
. Operating profit	**99.2**	87.7	328.8
% of net sales	**9.9%**	10.2%	9.1%
. Financial income (expenses)	**(10.8)**	(7.5)	(33.4)
. Income taxes	**(26.9)**	(26.9)	(97.0)
. Net income	**61.5**	53.3	198.4
% of net sales	**6.1%**	6.2%	5.5%
. Net financial (liquidity)/debt position	**719.9**	313.3	237.4
. Employees (number at period-end)	**24,262**	22,226	23,673
. Factories (number)	**24**	24	24

Net sales for the three months ending March 31, 2006 amount to Euros 1,000.4 million, with an increase of 16.1 percent compared to Euros 861.7 million for the corresponding period of the prior year. This is an increase of +8.1 percent, net of the foreign exchange effect, of which +4.3 percent is attributable to the price/mix component, confirming the constant focus on the premium product range, and +3.8 percent to volumes, including a 1.6 percent contribution by operations in China.

Gross operating profit is Euros 148.7 million (14.9 percent of net sales), an increase of 12.1 percent compared to Euros 132.6 million for the first quarter of 2005.

Operating profit for the three months ending March 31, 2006 is Euros 99.2 million, a gain of 13.1 percent compared to Euros 87.7 million for the corresponding period of the prior year. The percentage of operating profit to net sales is 9.9 percent.

The change in operating profit can be summarized as follows:

		(in millions of euros)
Operating profit 1st Quarter ending 3/31/2005		**88**
• Foreign exchange effect	11	
• Prices/mix	1	
• Volumes	11	
• Production factors per unit cost	(20)	
• Efficiencies	5	
• Depreciation	(2)	
• Other	5	
		11
Operating profit 1st Quarter ending 3/31/2006		**99**

Net income for the three months ending March 31, 2006 is Euros 61.5 million (after financial expenses of Euros 10.8 million and income tax expenses of Euros 26.9 million). This is an increase of 15.4 percent compared to Euros 53.3 million for the first three months of 2005 (after financial expenses of Euros 7.5 million and income tax expenses of Euros 26.9 million).

The **net financial position** is a net debt position of Euros 719.9 million compared to Euros 237.4 million at December 31, 2005. The increase from December 31, 2005 is the result of the process for the corporate reorganization of the Sector with a view to its listing on the stock exchange, apart from other normal seasonal factors.

At March 31, 2006, there are 24,262 **employees**, including 3,283 temporary employees (at December 31, 2005, there were 23,673 employees, including 2,958 temporary employees).

During the first quarter of 2006, the sector consolidated the trend of growth seen in 2005, producing higher net sales, above the world market average, and a double-digit jump in operating profit.

In the **Consumer** market (cars and motorcycles), revenues amount to Euros 698.9 million, up 14.4 percent compared to the same period of 2005. The operating result is Euros 71.7 million (+21.3 percent compared to Euros 59 million for the first three months of 2005), with a ROS of 10.3 percent. Such results are due to higher volumes and prices/mix. For the year ended December 31, 2005, the Consumer business unit had reported revenues of Euros 2,524 million and an operating result of Euros 202 million with a ROS of 8 percent.

In the **Industrial** market, revenues total Euros 301.5 million, with an increase of 20.2 percent compared to the same period of 2005. The operating result of Euros 27.5 million is substantially the same as the result reported for the first quarter of 2005 (Euros 28.6 million). ROS is 9.1 percent principally as a result of the increase in raw material costs and the effect of the start-up of the new factory in China. The Industrial business area closed the year 2005 with revenues of Euros 1,109 million, an operating profit of Euros 126.5 million and a ROS of 11.4 percent.

PIRELLI BROADBAND SOLUTIONS

The highlights of the data of Pirelli Broadband Solutions for the first quarter of 2006 can be summarized as follows:

(in millions of euros)

	1st Quarter 2006	1st Quarter 2005	Year 2005
. Net sales	**38.5**	31.0	112.2
. Gross operating loss	**(0.4)**	(0.5)	(6.3)
% of net sales	**n.s.**	n.s.	n.s.
. Operating loss	**(0.7)**	(1.2)	(7.0)
% of net sales	**n.s.**	n.s.	n.s.
. Financial income (expenses)	**(0.6)**	(0.3)	(0.7)
. Income taxes	**(0.4)**		(0.4)
. Net loss	**(1.7)**	(1.5)	(8.1)
% of net sales	**n.s.**	n.s.	n.s.
. Net financial (liquidity)/debt position	**2.2**	27.3	7.2
. Employees (number at year-end)	**132**	101	122

Net sales for the three months ending March 31, 2006 amount to Euros 38.5 million, with an increase of 24.2 percent compared to Euros 31 million for the corresponding period of the prior year.

The **gross operating loss** for the three months ending March 31, 2006 is Euros 0.4 million and is in line with the corresponding period of the prior year.

The **operating result** shows a profit for broadband access activities but was nevertheless hurt by the start-up phase of second-generation photonics products. Overall the total is close to a breakeven (an operating loss of Euros 0.7 million) which is an improvement over the operating loss of Euros 1.2 million reported for the corresponding period of 2005.

The **net loss** for the three months ending March 31, 2006 is Euros 1.7 million and is basically the same as the net loss of Euros 1.5 million for the corresponding period of 2005.

The **net financial position** is a net debt position of Euros 2.2 million.

At March 31, 2006, there are 132 **employees** compared to 122 at December 31, 2005.

The growth reported by Pirelli Broadband Solutions for the first three months of 2006 was driven by broadband access products (especially ADSL), which continue to show good prospects for development in Italy and abroad. New products continued to be developed and marketed during the first quarter. In particular, in the sphere of second-generation photonics, the CWDM solution (Coarse Wavelength Division Multiplexing) for metropolitan networks continues to receive a good response from the market.

PIRELLI & C. REAL ESTATE

Economic review

The highlights of the income statement are presented below. In reading these figures, it should be pointed out that the aggregate revenues and the operating result including the share of earnings (losses) of equity investments, because of the type of business conducted by the 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)	1st Quarter 2006	1st Quarter 2005
Aggregate revenues	**717.8**	**689.6**
Consolidated revenues	142.1	113.3
Operating profit including the share of earnings (losses) of equity investments (*)	**38.9**	**33.8**
Net income - attributable to the parent company	**30.1**	**26.9**

(*) Includes income from real estate funds of Euros 1.8 million in 2006 and Euros 1.1 million in 2005.

Aggregate revenues amount to Euros 717.8 million compared to Euros 689.6 million for the three months to March 31, 2005 (+4 percent).

Consolidated revenues amount to Euros 142.1 million for the three months ending March 31, 2006 compared to Euros 113.3 million for the first quarter ending March 31, 2005.

Operating profit including the share of earnings (losses) of equity investments is Euros 38.9 million, with an increase of about 15 percent compared to Euros 33.8 million for the first quarter of 2005. As for the composition by activity segment, capital activities account for 61 percent while specialist services, fund and asset management fees and franchising constitute 39 percent. In percentage terms, the contribution is unchanged compared to the first quarter ending March 31, 2005.

The **net income attributable** to the parent company is Euros 30.1 million, compared to Euros 26.9 million for the first quarter ending March 31, 2005, with a growth of 12 percent.

Balance sheet and financial review

(in millions of euros)	3/31/2006	12/31/2005
Fixed assets	**435.5**	**410.7**
. including equity investments in funds and investment companies	*328.9*	*303.3*
Net working capital	**205.5**	**215.9**
Net invested capital	**641.0**	**626.6**
Equity	**585.0**	**552.1**
. of which attributable to the parent company	*575.9*	*535.4*
Provisions and contributions	**51.0**	**44.0**
Net financial (liquidity)/debt position	**5.0**	**30.5**
. of which loans by shareholders	*(358.0)*	*(262.0)*
Total net invested capital financed	**641.0**	**626.6**
Net financial (liquidity)/debt position before loans by shareholders	**363.0**	**292.5**
Gearing ratio, financial position before loans by shareholders	**0.62**	**0.53**

Equity attributable to the parent company at March 31, 2006 is Euros 575.9 million compared to Euros 535.4 million at the end of 2005 with an increase of Euros 40.5 million. The change is basically due to the combined effect of an increase due to the net income for the period (+Euros 30.1 million) and the exercise of stock options (+Euros 11.5 million) and a reduction due to the purchase and sale of treasury shares (-Euros 1.8 million).

The **net financial position** at March 31, 2006 shows a net debt position of Euros 5.0 million, with an improvement compared to Euros 30.5 million at December 31, 2005 (Euros 12.4 million at March 31, 2005).

The **adjusted net financial position** (expressed before financing made to minority-owned companies) is a net debt position of Euros 363.0 million, compared to Euros 292.5 million at December 31, 2005 (Euros 200.1 million at March 31, 2005).

The **gearing** ratio is 0.62 compared to 0.53 at December 31, 2005 (0.40 at March 31, 2005).

Fixed assets total Euros 435.5 million at March 31, 2006 compared to Euros 410.7 million at the end of 2005, with an increase of Euros 24.8 million. The change is due principally to the combined effect of an increase in the value of investments in associates (Euros 26.3 million) and a reduction in the value of investments in funds due to the partial reimbursement of principal following the sale of some properties (Euros 0.8 million).

PIRELLI AMBIENTE

The highlights of the data of Pirelli Ambiente for the first quarter of 2006 can be summarized as follows:

(in millions of euros)

	1st Quarter 2006	1st Quarter 2005	Year 2005
. Net sales	**21.4**	16.3	61.5
. Gross operating profit (loss)	**2.6**	(0.4)	(2.0)
% of net sales	**n.s.**	n.s.	n.s.
. Operating profit (loss)	**2.4**	(0.8)	(3.6)
% of net sales	**n.s.**	n.s.	n.s.
. Financial income (expenses)	**-**	-	-
. Income taxes	**(0.4)**	-	0.2
. Net income loss	**2.0**	(0.8)	(3.4)
% of net sales	**n.s.**	n.s.	n.s.
. Net financial (liquidity)/debt position	**(3.6)**	(1.1)	0.8

Pirelli Ambiente, the company created in 2005 to build up the Group's presence in the environmental and sustainable development sector posted revenues for the three months ended March 31, 2006 of Euros 21.4 million (+31.3 percent compared to Euros 16.3 million in the same period of 2005), thus confirming the effectiveness of the technologies developed by the company. The growth achieved in the first quarter is due to the sale of the low-impact environmental fuel *Gecam™* - Il *Gasolio Bianco,* in particular, on the French market through the French subsidiary, Gecam France, the development of the new business line of antiparticulate filters to reduce emissions from diesel-powered vehicles and the agreement sealed with the UK company ReEnergy for the development and marketing of fuel derived from solid urban waste (CDR-P) in the United Kingdom.

On the front of renewable energy and energy recovery, work continued on the production of quality fuel from solid urban waste (CDR-P) through the consortium company I.D.E.A. Granda. Lastly, work also is moving forward on the reclamation and clean-up of contaminated sites on the basis of experience matured in the real estate and industrial sectors.

PROFORMA DATA

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

Proforma consolidated financial data at March 31, 2006 of Pirelli & C. S.p.A. is presented below, assuming the consolidation line-by-line of Olimpia S.p.A..

		Proforma adjustments				
(in millions of euros)	**Consolidated financial statements 3/31/2006 Pirelli & C. S.p.A. (1)**	**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**	**Proforma consolidated financial statements 3/31/2006 Pirelli & C. S.p.A. (2)**
Condensed income statement						
Net sales	1,206	-	-	-	-	1,206
Operating profit	120	-	0	-	-	120
Financial income (expenses)/Valuation adjustments to financial assets	9	(35)	58	-	23	32
Income taxes	(37)	-	-	-	-	(37)
Total net income	92	(35)	58	-	23	115
Net income - attributable to Pirelli & C. S.p.A.	75	(35)	35	-	-	75
Reclassified balance sheet						
Equity	5,863	(35)	7,521	(4,668)	2,818	8,681
- of which equity - attributable to Pirelli & C. S.p.A.	5,451	(35)	4,546	(4,511)	-	5,451
Net financial (liquidity)/debt position	1,495	-	3,533	-	3,533	5,028

(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 financial statements of Olimpia S.p.A. at March 31, 2006, adjusted to conform with IFRS, wherein the investment in Telecom Italia is accounted for by the equity method (using financial statements prepared in accordance with IFRS);
- the consolidated financial statements of Pirelli & C. S.p.A. at March 31, 2006 (prepared in accordance with 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 income statement and balance sheet effects of valuing Olimpia S.p.A. by the equity method in the Pirelli & C. S.p.A. consolidated financial statements at March 31, 2006;

- in the column "Olimpia S.p.A. line-by-line consolidation": inclusion of the assets, liabilities, costs and revenues resulting from the financial statements at March 31, 2006 of Olimpia S.p.A., prepared in accordance with 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 amount of the Olimpia investment in the Pirelli financial statements was eliminated against the underlying share of the accounting net equity.

  For purposes of this representation, the difference between the carrying amount of the Olimpia investment in the Pirelli consolidated financial statements and the underlying share of net equity (Euros 240 million for Pirelli's share equal to 60.4 percent and Euros 397 million for the entire amount) was directly deducted from equity (with a contra-entry to the carrying amount of the Telecom Italia investment).

A comparison of 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, 2005 and at March 31, 2006 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.

(in millions of euros)	**Equity**		**Net debt**		**Net debt/Equity**		**Equity - attributable to Pirelli & C. S.p.A.**	
	3/31/2006	**12/31/2005**	**3/31/2006**	**12/31/2005**	**3/31/2006**	**12/31/2005**	**3/31/2006**	**12/31/2005**
Pirelli & C. S.p.A. Group: consolidated data	5,863	5,614	1,495	1,177	0.25	0.21	5,451	5,205
Pirelli & C. S.p.A. Group: proforma consolidated data with Olimpia S.p.A. consolidated line-by-line	8,681	8,393	5,028	4,667	0.58	0.56	5,451	5,205
Pirelli & C. S.p.A. Group: proforma consolidated data with Olimpia S.p.A. and the Telecom Italia group consolidated line-by-line	33,275	32,029	44,071	44,525	1.32	1.39	5,451	5,205

The Board of Directors

Milan, May 11, 2006

QUARTERLY DATA

AND

COMMENTS

QUARTERLY DATA

(in millions of euros)

	1st Quarter 2006	1st Quarter 2005	Year 2005
. Net sales	**1,206.1**	**1,029.2**	**4,545.7**
. Other revenues	**58.6**	175.4	283.6
. Production value	**1,264.7**	**1,204.6**	**4,829.3**
. Cost of sales	(820.0)	(816.6)	(3,231.8)
. Labor costs	(270.6)	(244.1)	(1,029.9)
. Amortization and depreciation	(54.3)	(51.2)	(212.7)
. Operating profit	**119.8**	**92.7**	**354.9**
. Share of earnings (losses) of equity investments	49.2	49.8	267.1
. Financial income (expenses)	(40.3)	(36.3)	(144.4)
. Income before income taxes	**128.7**	**106.2**	**477.6**
. Income taxes	**(36.9)**	**(31.2)**	**(128.5)**
. Net income from continuing operations	**91.8**	**75.0**	**349.1**

COMMENTS ON THE QUARTERLY DATA

Form and content

The accounting policies, valuation criteria and principles of consolidation used in preparing the quarterly data at March 31, 2006 are the same as those adopted in the annual financial statements at December 31, 2005, that is, based upon IFRS in force today and on their current "interpretation" resulting from the documents issued to date by the "International Financial Reporting Interpretations Committee – IFRIC".

Net sales

Net sales for the three months ending March 31, 2006 amount to Euros 1,206.1 million compared to Euros 1,029.2 million for the three months ending March 31, 2005.

The increase compared to the corresponding period of 2005 can be analyzed as follows:

.	Volumes	+	6.9%
.	Prices/mix	+	3.5%
	Change on a comparable basis	**+**	**10.4%**
.	Foreign exchange effect	+	6.8%
	Total change	**+**	**17.2%**

The distribution of net sales by geographical area of destination is as follows:

(in millions of euros)	**1st Quarter 2006**		**1st Quarter 2005**	
Geographical Area				
Europe:				
. Italy	431	35.73%	328	31.93%
. Other European countries	348	28.87%	320	31.10%
North America	95	7.85%	71	6.94%
Central and South America	224	18.53%	200	19.48%
Oceania, Africa and Asia	108	9.02%	110	10.55%
	1,206	**100%**	**1,029**	**100%**

Labor costs

Labor costs for the first three months of 2006 amount to Euros 270.6 million and represent 22.4 percent of net sales compared to Euros 244.1 million for the corresponding period of the prior year (23.7 percent of net sales).

Operating profit

Operating profit for the first three months of 2006 is Euros 119.8 million (9.9 percent of net sales), an increase compared to Euros 92.7 million for the same period of 2005.

Net income

The net income from continuing operations for the three months ending March 31, 2006 is Euros 91.8 million compared to Euros 75 million for the first three months of 2005.

Net financial position

The net debt position at March 31, 2006 is Euros 1,494.7 million compared to Euros 1,177.4 million at December 31, 2005 and Euros 2,120.4 million at March 31, 2005 (of which Euros 640 million relates to discontinued operations of the Cables and Systems Sector).

The financial position is composed of the following:

(in millions of euros)

Net financial position	31/03/2006	31/12/2005
. Current borrowings from banks and other financial companies	1,354	556
. Current financial accrued liabilities and deferred income	81	62
. Cash and banks	(851)	(300)
. Marketable securities	(136)	(180)
. Current financial receivables	(48)	(27)
. Current financial accrued income and prepaid expenses	(8)	(12)
Short-term net financial position	**392**	**99**
. Non-current borrowings from banks and other financial companie	1,689	1,551
. Non-current financial receivables	(578)	(468)
. Non-current financial accrued income and prepaid expenses	(8)	(5)
Medium/long-term net financial position	**1,103**	**1,078**
Change in net financial position	**1,495**	**1,177**

The combined increase of the items “current borrowing from banks” and “cash and banks” is principally due to the implementation of the corporate reorganization taking place in the tyres sector, which was completed at the end of the quarter, the relative financial movements will be balanced out during the next few months. The increase in liquidity could also be used to settle transactions with the other shareholders in Olimpia S.p.A..