



Ladies and gentlemen, welcome to Pirelli's conference call, in which our Chairman, Mr. Marco Tronchetti Provera, will disclose the consolidated full-year 2007 results. I remind you that a Q&A session will follow after the presentation; moreover, a live web casting of the event and the presentation slides are available in the investors relation section of the Pirelli website. Now, I would like to introduce you to Mr. Marco Tronchetti Provera. Thank you.

Thank you. Good evening, ladies and gentlemen, and thanks again for joining us in our conference call. Today I'm going to present you Pirelli group's 2007 results, and major achievements. I'll give you an overview of them, and then Mr. De Conto will develop the group's financial results, Mr. Gori will show you some insights of Pirelli Tyre results, and, finally, Mr. Puri will confirm and comment Pirelli Real Estate results that have already been disclosed. After the presentation, a Q&A session will be held.

Before going through Pirelli group's results in detail, let me point out the group's structure. This year we had some important changes, starting from the Olimpia sale, and Tyre Minorities buyback. Let's remark the commitment of Pirelli on the industry and particularly on the tire business. Three important achievements were reached in 2007: the return to profit after the 2007 loss caused by the devaluation of Olimpia, the threshold of 5 billion euro of sales coming from ordinary activity, a positive cash position, around 300 million euros; we are fully committed to a well-trained development in new emerging markets, like China, Rumania, Russia, and India. In addition, we are focusing on the photonics and on Pirelli Ambiente's value creation.

According to what said, the group's mission has to emphasize the strong connection between profitability and sustainability. In particular, it underlines the necessity to create value for all the shareholders and stakeholders working in four directions that are - and this is in chart number 3 - focusing on core business, to be driven by an effective corporate governance, to be the upfront of technology and innovation, relying on a skilled management with an international culture.

The last point, internationality of the group is one of the most meaningful Pirelli issues. In fact, as you can see on slide 4, today Pirelli's in 12 countries with 24 plants; and 4 are in these centers. Around 31,000 employees; 160 commercial presence; and approximately 100 scientists, split in the different geographical areas: 22% Italy; 28% Rest of Europe; 1% North America; 34% Center and South America; 15% Asia/Africa/Pacific. For what concerns sales by area, we have: Italy 24%; Rest of Europe 34%; North America 6%; Center and South America 23%; Asia/Africa/Pacific 13%. Special attention is paid to the development of new strategic facilities, like in China and Rumania, and to enhance our historical Brazilian presence. We point out that Pirelli Real Estate's activities are also today in Germany, Bulgaria, Rumania and Poland. Foreign assets under management represent 29% of total turnover. Key events today are: Pirelli&C. shareholders' agreement renewed until April 2010; a new car tire factory opening in Rumania, a new high-technology industrial pole for the automotive sector; Olimpia's sale for 4 billion 160 million euros, with a cash-in for Pirelli of about 3.3 billion euros; the Pirelli new high-performance car tire factory opening in China; the launch of Pirelli Cinturato; the buyback of 38.9% of Pirelli Tyre for an equity value of 835.5 million euros; an expected extra dividend distribution on the 3rd of April 2008, 0.154 euros per share for a total amount of 826 million euros. The proceeds from Olimpia's disposal have contributed to the cash distribution to shareholders and to enhance financial structure.

In detail, on slide number 6, you see the 3.3 billion: 2.82 value of TI shares, plus TI dividend 0.14 per share. This total amount of 3.3 billion were destined to: extraordinary dividend distribution, 826 million; 434.4 million for Pirelli Tyre buyback cash payment, plus a debt in Speed of approximately 400 million; 1.3 billion euros for the payment of corporate debt; around 93 million, or 0.0160 per ordinary share and 0.0728 per saving share; this includes 2007 dividend accrued of 0.0364 for a total of 0.0728; and Tyre Minorities buyback represented for Pirelli a cash disbursement of 434.4 million, plus 401 million referred to Speed debt, for a total equity value of 38.9% of Pirelli Tyre of 835.5 million as I mentioned before.

A very important issue I'd like to briefly talk about concerns a sustainability matter. Pirelli adopts a multi-stakeholder approach and pursues sustainable, steady, and long-lasting growth. Sustainability is integrated in the company's vision and strategies as a completed leverage. Corporate social responsibility is a common feature for all the company's activities and management areas, a fundamental risk prevention tool.

The efforts made by Pirelli in sustainability, as you can see on slide number 9, are confirmed by the appointment with Dow Jones sustainability indexes: FTSE4 Good, Kempen, Aspi, Sam and Axia.

All that said, I'll leave the floor to Mr. De Conto, who will develop 2007 group financial results, starting from slide number 11. Please, Mr. De Conto.

Thank you, Mr. Tronchetti, and good evening, everybody. 2007 group sales were 6 billion 504 million, 5.208, plus 8.5% on a like-for-like basis; this excluding the DGAG deconsolidation of 1.295 and the exchange rate effect of 1.1, and most of the growth was driven by the tire business. Pirelli Real Estate sales were 853 million, up about 21% on a like-for-like basis, excluding the abovementioned DGAG deconsolidation. For what concerns the other operating figures, we have group EBIT including income from equity participation at 562.2, with a 0.3% increase, if we exclude the capital gains of 2006 that were mainly due to the Tyre Minority capital gain of 416 million when we sold to Speed, and the sale of the Capitalia shares with another capital gain of 215 million euros. Attributable net income stands at 164.5; in 2006 it was negative for 1.1 billion, mainly due to the Olimpia devaluation for 1.9; net financial position is cash positive for 302 million euros, compared to the 1.9 net debt at the end of 2006, and this figure already includes the future cash-out of 826 million for extra dividend distribution, which will be paid next week.

Looking at the 2007 sales by business segment, you can see in the above slide that the... over the total of sales the Tyre represents 80%, Pirelli Real Estate 16%, and Tech Ventures, namely the Broadband and the environmental and the filter business, 4% of sales. The group's return on sales was 7%; this is taking out the already mentioned DGAG effect, and if we look at the net invested capital, from an accounting standpoint... point of view, that's basically split in: 51% in Tyre, 26% in Pirelli Real Estate, 2% in Tech Ventures, and the remaining 21% in Corporate, namely the financial investment that we have in Mediobanca and Telecom Italia and RGS. The group's ROI was 14%, and this number is calculated as EBIT including income from equity participation on the average net invested capital, taking out the investment of Olimpia, so that we have a like-for-like basis also for the future.

Last but not least, I just want to remind you about the 173 million that were invested in 2007 in R&D, all spent in the P&L, nothing capitalized, and this action underlines the cost and commitment of the group towards innovation.

Coming to the EBIT income from equity participation, you can see in the slide which were the main factors that had an impact on the change. As I mentioned, the capital gains were 560, which is a negative variation this year; apart from the normal business, you can see that the Pirelli Tyre venture had a negative variation of 20 million; most of that, about 13-14 million, is coming from the start-up of the photonic business, which, of course, has only R&D costs and still not yet sales. During 2007, the most important variations in net financial position were the ordinary activity operating cash-flow, which was basically in line with the previous year, and this year it was an amount of about 300 million euros, plus the investments that were done by Pirelli Real Estate and, of course, the major impact of 3.3 coming from Olimpia; and, as I already anticipated, the capital reimbursement is already considered as a debt and is included in the net financial position at the 31st of December. So, all... at the end of December, the net financial position was cash-positive for 302 million.

Now I'll give the floor to Mr. Gori, who will go through the tire business.

Thank you, Mr. De Conto and good evening to everybody. Pirelli Tire net sales increased to 4 billion and 161 million euros from 3.9 billion in full-year 2006; top line grew organically 6.5%, including... excluding exchange rate variations. Volumes were up 1.8%, as growth was lower due to lower winter sales. Price/mix was up 4.7%, nearly offsetting the strong increase in raw materials and energy costs. Industrial efficiencies contributed to EBIT improvement; net income reached 210.5 million.

And now we move to the next slide, showing the breakdown by business segment. As you are probably aware of, consumer segment includes both car and motorcycle tires, while for industrial we mean truck tires and steelcord. As you can see, consumer sales were up by 4.6%, driven by higher OE and motorcycle sales worldwide; consumer ROS was stable at 8.8%, thanks to price/mix improvements offsetting higher costs. Coming to industrial: sales were up by 7.1% driven by higher sales, mainly in Latin America and China; industrial ROS at 8.1%, linked to the increased natural rubber and steel costs.

Turning to the next page, our sales are split as follows: Europe 48%, down from 51% in 2006, of which Italy 10%, down from 11% in 2006; Latin America 28%, up from 26% in 2006; North America 8%, flat in euro; Africa & Asia/Pacific 16%, up from 15% in 2006. Coming to Pirelli Tyre's highlights: in 2007 we opened our new car tire plant in China with an investment of around 100 million dollars... euros... 100 million dollars, sorry. We signed an important agreement in Italy for R&D programs; we

launched the new Cinturato family, the new Pirelli Tyre targeting eco-sustainability; 2008 World Rally as well as the World Superbike and Grand-Am Championships were raced exclusively on Pirelli tires. Turning to the next page: as far as the market outlook is concerned, we forecast a slight increase in the demand of consumer tires in Europe and North America, with the exception of OE in US, while industrial tires will be overall flat or slightly negative in Europe. However, a strong growth is forecasted in all rapid developing economies, even in consumer and industrial tires. We therefore forecast full-year 2008 slightly improved results on 2007. I will now give the floor to Mr. Puri Negri.

Thank you and good evening to everybody. Pirelli RE has already disclosed its 2007 results on March 6 last. Since we have already commented them, I will only remind you the key achievements and main financial data. First of all, EBIT including income from equity participation increased by 10% over last year, to around 237 million, while net of the temporary effects of the DGAG deconsolidation, it was in line with 2006. Asset under management increased by 3%, versus last year, 15 billion, of which 1.6 are represented by real estate assets and development projects and 2.4 are referred to non-performing loans at net book value. The real estate portfolio is 71% in Italy and 29% abroad, and it was 14% in 2006; in Italy around 80% of real estate assets are managed through real estate funds; the net asset value of Pirelli RE co-investment activity, excluding NPLs that are indicated at book value, is in line with last year, at an amount of around 1 billion. In 2007, despite the current market conditions, especially in the second part of the year, we completed acquisitions for around 3.3 billion, of which 845-844 million of NPLs at book value, while we sold real estate assets and NPLs for 2.3 billion, of which 541 are related to NPLs recovery. We had had 470 in 2006. As regarding management activities, which are not included in NAV, we increased revenues from 480 million in 2006 to 676 million, mainly thanks to the INGES facility acquisition, and we reached an EBIT including income from equity participation of 126.3 million, an increase of 23 versus the previous year, excluding non-recurring items, we reached an EBIT including income from equity participation of this activity of around 81 million.

As regarding the 2007 P&L: pro-rata aggregate revenues are in line with last year; EBIT we already talked about it; consolidated net income decreased from 5% to 151 million, but net of the temporary impact of the DGAG, it shows an increase of 2%; the Board of Directors made a proposal of a dividend of 2.06 euros per share, with a payout that is in line with the target of the three-year plan and is the same dividend as last year.

As regarding the balance sheet: we increased our investments in participation companies to around 600 million, versus around 427 of last year; the net financial position reached 290... negative 290 million, with a substantial reduction with respect to September 2007, where it amounted to 337 million. Also the adjusted net financial position was reduced, relatively to September, from around 927 million to 816 million; and the gearing declined from 1.35 to 1.13 at the end of 2007, and we will go back to 1.01 next year that is our target for our gearing.

I would like to point out our sound pro-quota financial situation at SPV and fund level, amounting to around 3.2 million, almost entirely non-recourse, 98%, with a duration of 4-5 years, and with 70% with a cap and a cost of around 4.2%. So all the... vehicles, the SPVs and the funds also 100%, not only our pro-quota, are absolutely self-sustainable with the... imbalance between the leases and the costs... the financial costs and the operating costs.

Now I'll give the floor back to Mr. Tronchetti. Thank you.

Thank you, Carlo. So, regarding the 2008 outlook, we confirm business operating result in line with 2007, notwithstanding a continuous pressure and volatility on raw material costs in the tire business. The achieved focus on industrial businesses with the Minority Pirelli Tyre buyback and a solid financial structure allowed us to evaluate the best future growth in markets such as Russia and India. We confirm for real estate an operating result in line with 2007, excluding the DGAG impact, in spite of the uncertainties in the real estate market. As far as the minor businesses are concerned, we are exploring possible consolidations taking place in the photonic market, and eventually being part of the combination of the different technologies. At the same time, also in environmental activities, like the photovoltaic and antiparticulate filters, rules in European countries are changing, and we are following closely the evolution to best exploit our capabilities, knowing that the market is becoming larger. So, taking into account the uncertainties of the financial markets and the uncertainties of consumer products' evolution in the next months, it looks like it is better to postpone the presentation of the three-year plan. So, we are definitely convinced, and we have consistent elements to say that 2008 will confirm the results of 2007 in all areas, but to set a three-year plan it

sounds more serious to wait until the picture around us is more transparent than it is today; on raw material prices, on financial markets' evolution, we believe that in the second half of the year, by the end of September, mid-October, it should be possible to have a better vision on future results of the company.

All that said, we confirm that the actions that we put in place and the results that we see that are coming up are consistent with a forecast that provides us with a 2008 in line with 2007 results, with a sound financial position and some opportunities that will be better off in the second half of the year. So, thank you very much for your attention, and we are now available for the Q&A session.

Q&A session:

1. Ms. **Carola Bardelli** from **Deutsche Bank**:

Yes. Good afternoon. Actually, attention is a big word, because we don't have the slides, so we couldn't pay a lot of attention to what was said, but maybe I can ask you a couple of general questions; firstly on the buyback, I was wondering if there is any intention to propose a buyback to the AGM? And secondly I would like to know if there is any intention of merging Pirelli Tyres in Speed in the future? And if you would... if you continue to exclude a spin-off of the tire business from Pirelli, so, basically, a creation of two companies? And the same question also for the real estate. Thank you very much.

Thank you for your question. And we are very sorry. We... it was just a few minutes ago that... there was a delay in giving you the possibility to see the slides. So, now they should be on, they're telling me... anyhow, we are available to clarify any information we gave until now. The first question was about the buyback: yes, we will propose to the AGM next April to confirm the buyback for Pirelli spa for the next year. And the second question was about the spin-off: no, there is no plan of spin-off of the real estate or the spin-off of tire. Third: the merger between Speed and the tire business is something that can be done, there is no problem in doing it, so we... it's in our project to have a... it's like to have it now, but we will finalize it as soon as possible. As you know, the deal for the Mediobanca part will be finalized by July next. After the closing... after the finalization we will go ahead with the merger between Speed and Pirelli Tyre.

Thank you very much . I just wanted to ask a follow-up: so, the buyback would be on 10% of capital?

It's following the Italian law that, as you know, gives the authorization to have a buyback after the 10%. So, that will be the proposal that we will make to the AGM.

Wonderful. Thank you very much.

Thank you.

2. Mr. **Martino De Ambrogi** from **Euromobiliare SIM**:

Yes. Good afternoon everybody. Three questions on tires and after some questions on general issues. On tires your guidance, rough guidance, of an improvement at operating level for the current year, I'd like to understand what your assumptions on volumes are, on Brazilian contribution, and raw materials. And, on the tire division, for Mr. Gori another question on your comment... I mean, it's on Michelin's decision to link prices to oil price changes: what's the evolution for the sector after this decision? Thank you.

Okay. I'm going to answer to your questions. As far as volumes are concerned, they will contribute to the results, with the exception of winter tires, as we expect a relatively difficult season because of the high stocks at dealer shops in Germany. South America, not just Brazil, will continue to contribute to the results of the tire business, as usual. We see no change from the past history, while raw materials are clearly going up... I would like to say out of control, when expressed in US dollars, even though we tend to partially neutralize the effect in euros as well as in the Brazilian Real or, relatively speaking, also in the Chinese Renminbi. As far as the Michelin press release I read about, well, you see, there are very different ways to negotiate with the OEM price increase, and this is one of the methodologies, which, of course, is based on the assumption that the petrol price is not going to slow down or to reduce, but we have our own ways, I think each manufacturer tries to increase prices with the OEMs because of the overall scenario on input costs.

Are you planning a similar evolution?

We forecast price increases but, as you know, they are easier on the upturn market and much more difficult on the OEM.

Okay. And one more question on the tires division: net debt went sharply down. I'd like to understand what the contribution of net working capital is.

Well, the contribution from the working capital was not very significant; we did invest more than in 2006, and results were higher. So, overall, it's been in line with the previous year's performance.

So it was in line. No absorption.

No. Frankly speaking, nothing extraordinary.

Okay. Thank you. And a general question on the Telecom Italia stake: what's the future of this stake, taking into account there is more than 100 capital loss at current market prices? And, connected to this question... I'm back to the buyback... because, if I'm not wrong, the available reserves were in the region of 400 million, but before distributing the recurrent dividends, so if you are making mark-to-market of the Telecom Italia stake probably next year, this buffer is even lower than 400 minus the dividend to be distributed. Am I right?

Yes, you are partly right, partly wrong, because there have to be also the results of 2008...

Yes.

So, the consistency of the reserves will be at least equal to the existing ones.

Okay. So, in any case it's... more or less in the region of 400 million the available reserves that you are planning for the current year?

No, no, reserves... we are in the region of 500 million.

500. Okay.

Yes. That's the... the... and TI... we hope that it will recover, because our target is to sell the shares as soon as it becomes convenient.

Okay. Thank you.

Thank you.

3. Ms. **Monica Bosio** from **Banca IMI**:

Good afternoon, everyone. I have a question on tires: could you please quantify the level of investments for 2008 and maybe the amount, roughly, of the start-up costs related to the new plants in Russia and India? Thank you very much.

As far as the investments... they are planned and they are slightly higher than in 2007, so somewhere below 300 million euros, while Russia and India is not an issue; we are not yet in the position to define a deal and quantify it. So it's a bit too early.

Okay. And what about China and Rumania? Are there any start-up costs or any additional costs?

Yes, there are of course. Mainly in China but not only, also because the new factory was opened in November 2007 and in the first year of operation it's not yet fully efficient.

Okay. But do you still plan a slight improvement in operating profitability of the tire division?

Abbiamo parlato di miglioramento di... sorry, we told you that we are going to improve results, not specifically profitability...

Okay.

...in terms of percentage.

Okay. Thanks..

Thank you.

There are no more questions at the moment.

Before the other question, I want to make it clear that the annual general meeting... at the annual general meeting we will ask for the authorization for the buyback of Pirelli&Co. shares after 10% as it is... as it is allowed by law. It doesn't mean that we're going to buy back the 10%; we will do whatever will be convenient for all the shareholders.

4. Mr. **Giuseppe Puglisi** from **Intermonte**:

Good afternoon to everybody. A couple of questions. The first one regards Pirelli Tyre: can you give me an indication of what the tax rate will be for 2008 in Pirelli Tyre? And the second question regards Telecom Italia and Mediobanca stakes: have you put in place any hedging activities for those stakes? And do you confirm that the stakes are the same with respect to the end of 2007? Then please a quick follow-up...

De Conto speaking. As far as the tax rate in the tire business, I do expect... we do expect to see about 35% tax rate for 2008; a slight increase, due to the fact that we had a one-off benefit in 2007.

Okay.

There is no hedging activity about the shares.

In both Mediobanca and Telecom Italia?

Both.

Okay. And the stakes are the same with respect to the end of 2007? So, you have the same number of shares or have you sold something last month?

The participation is the same.

Okay. I have another question about the bond, the corporate bond that will expire at the end of 2007. Do you plan a payback or a renewal of the bond, maintaining the same level of the debt?

No, we are going to reimburse them, because we are cash... we are cash positive.

Okay. So, the total debt level... the gross debt will be reduced in 2008. Okay. Thanks a lot.

Thank you.

5. Mr. **Thomas Besson** from **Merrill Lynch**:

Good evening. I have two questions for you on the tire business and on the strategy. Firstly, can you speak about the profitability of your Chinese business and tell us a bit more of what can offer a further new (...) and what can offer profits or losses it generated in 07? How fast do you think revenues will grow in 08? And whether you think you will be able to make new profits in China in 08? And, second, a more strategic question, is there any plan to grow externally the tire business, by, for instance, making Asian or US acquisitions? Or is the plan to only grow organically the tire business? Thank you.

As far as China is concerned, as I said already, the profitability is under a start-up phase, so it's not really in line with the rest of the tire business, and we forecast to have the positive impact on... from 2009 onwards. Sales are of course increasing, both domestically as well as export-wise in Asia/Pacific. As far as the growth, external growth, is concerned, it's difficult to find companies that are in line with our business and focus on high performance, ultra-high performance styles. So, we tend to privilege organic growth with new green fields in new attractive markets.

Thank you very much.

Thank you.

No more questions at the moment.

6. Mr. **Martino De Ambrogi** from **Euromobiliare SIM**:

Yes. One more question on the cash available. We already discussed the issue concerning Pirelli RE purchases, but you restarted quite recently to buy more Pirelli RE shares. What's your attitude today, considering current market prices? I remember we discussed it, probably in Q3 results when the stock was in the region of 26-27.

I think I can provide you the same answer. So, we see the buyback of Pirelli Real Estate shares from Pirelli&Co. as an opportunistic... with an opportunistic approach: when the price goes down, below a certain level, we consider it convenient for all shareholders if the main shareholder, the controlling shareholder, buys back some shares.

I understand you cannot say what the level of the price you are mentioning as an interesting opportunity is, but the last purchases were made at current market prices, so I would expect further purchases.

What I can tell you is that we will buy when convenient. I will never tell you the price...

Yes, I'm not asking the price... yes, I understand, but it's just my way of thinking... so, it's a 9% dividend deal if you believe in next year targets... in the current year targets there will probably be another interesting dividend. So, that's my way of thinking. Apart from the fact...

I think that you are right... we will act in the most rational... possible rational way.

Okay. And the last question: very last question on Pirelli RE. Is there any risk for a rights issue, and this is the reason why you are not buying more shares more aggressively? I'm saying this just because your debt equity target is 1... it was 1.13 at the end of last year. And after dividend payment, and after the (...) deal, it will go up... probably up to 1.4 or even more, so, just to understand, I know there are strategies in order to reduce the debt, but is it something that can be totally ruled out, rights issue, or it's not so?

I think there's some confusion. The debts of the... the net financial position of Pirelli Real Estate is 300 and something million... I'll find the right numbers...

Yes, 290.

289.7

Yes.

So, it's very low. The adjusted financial position is today...

I'm referring to the adjusted one.

...at the end of the year was 1.13;

Yes.

And not 1.35;

No.

1.35 was in September. So we have increased the quality of our net financial position with the deconsolidation... we had the (...) deconsolidation of DGAG. Now, in this year we are doing we have done all throughout the year: we are selling part of our portfolio and we are buying a new portfolio. The new acquisition is subject to the waiver of the bank that has financed Karstadt under the control of Goldman Sachs and Karstadt, the same company, I don't remember the name of the holding now, and now there's a change of control, because instead of Karstadt there is a new group as Deutsche Bank, Generali, and, in a very minority position... the Borletti group. So, this is an acquisition like we have done thousands of other acquisitions, where we have a minority position, it's 20% or 50%, so it's a 10% overall the 4.5 billion, and we have 50% of management together with Arcom that is the operating company of Goldman Sachs. And then we will sell part of the assets at the end. So it's going on the same process that we have done the other years. The quality of the assets we have is quite good, and, as we said before, the debts at the position of funds and special purpose vehicles is completely non-recourse. I'd say not completely, because we find 49 million in DGAG, so it's like to saying 100%... and I said before the duration, the average strike, 4.3, the average spread... so, it's a position where we don't see any risk, and I think our shareholders have absolutely the same opinion.

No, I think the same. I'm just referring that... on the acquisition side, it's clear... your strategy, and we saw some important deals in the first months this year, but on the divestiture side, I'm asking you if there is some more difficult... if there are more difficulties in the current environment to sell your assets if you are not selling coffee assets.

If you remember we have sold more than 500 million the last quarter of last year that was not what we normally say a fantastic period, but just because the value... the open market value we had and the book value we had are quite conservative, and the quality of the assets is good, so I think we won't have any problem this year in doing the same kind of activities.

Perfect. Thank you.

The target of Pirelli Real Estate remains the same: to have a ratio that is one-to-one between debt and equity. That's the target.

I also remind you that we have sold in January other assets for another 100 million...

Yes.

...and we are in the process to sell more. So, we have already presented the numbers, and it depends of course on the quality of the assets you have and at which level you have. So, I don't think there is so much difference in these days and what happened in November, December, and January. It's the same market.

Okay. Perfect. Thank you.

There are no more questions at the moment.

Thank you very much. Thank you for your attention.

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