

Ladies and gentlemen, welcome to Pirelli's conference call, in which our Chairman, Mr. Marco Tronchetti Provera, will release nine-month 2007 group results. I remind you that the Q&A session will follow after the presentation and that you can find the presentation slides and the audio streaming of the event in the investors relation section of the Pirelli website. Now, let me introduce you to Mr. Marco Tronchetti Provera. Thank you.

Good evening, ladies and gentlemen, and thank you for joining us in our conference call. Today we are commenting Pirelli's nine month 2007 results, and disclosing some proposals of Pirelli's Board to the shareholders. I'll give you first an overview of them, and then Mr. Gori will give you some insights of Pirelli Tire results, and Mr. De Conto will develop more on Pirelli Broadband solutions, and, finally, Mr. Puri will go through Pirelli Ambiente and Pirelli Real Estate results. After the presentation a Q&A section will be held. Before going through Pirelli group's results I'd like to give you more details of Pirelli Board's proposals for the use of proceeds coming from Olimpia's disposal. As you know, on the 25th of October Pirelli sold its stake in Olimpia with a cash-in for Pirelli of 3 billion 329 million euros. The Board of Directors today has approved a proposal of a share capital reimbursement finalized to the distribution of an extraordinary dividend for 0.154 per share. At the same time, it has given mandate to the Chairman to begin contacts to evaluate possible repurchase of the 38.9% of Pirelli Tire owned by Speed Spa.

Now, before going through the results of Pirelli, I will show you more in detail the capital reimbursement proposal and its timing. The proposal of capital reimbursement will consist in a reduction of the shares par-value from 0.52 euros to 0.29, with the creation of available reserves for 1 billion 235 million euros, a distribution to shareholders of 0.154 per share for a total of 827 million euros. The two steps are about completed. Available reserves for Pirelli&Co. will be 408 million.

In the following explanatory slide you will find also the timetable of the proposed operation.

So, after having seen the timetable, let me go through the nine-month group results. Very briefly: organic sales grew 10.1% year-on-year and stood at 3.9 billion euros. EBIT including results from equity participation was 450 million: in 2006 396.8 million, excluding the capital gain from the private placement of 38.9 of Pirelli Tire. It was 813.2 including capital gain. Net income before discontinued operations was 207.1 from 572.5; discontinued operations is a net effect of Olimpia for -55 million euros, and the warrant related to Pirelli cables deal was +91 million euros. Total net income was positive for 243.3 million, from a loss of 1.4 billion of last year, due to the write-off of Olimpia book value. Attributable net income was 129.8 million, the net financial position was negative by 2.3 billion after the cash from Olimpia disposal... will go positive for 1 million euros.

Going more in detail: slide 6 shows the group's net financial position variations in the third quarter 07. At the 30th of September 07, it was 2 billion 328.8 million, down from 2 billion 969.2 million, after the DGAG deconsolidation for 885.8 million, and operating cash-flow of ordinary activities 25.4 million. As you can see, we acquired in third quarter Pirelli Real Estate shares for an amount of 49.5 million, reaching a 53.3 stake of ordinary share capital. Pirelli Real Estate treasury shares at the end of September equaled to 2.97% of the share capital. With the cash-in flow from the Olimpia disposal, the 3.3 billion, Pirelli will offset its corporate net debt of around 1.3 billion, and we'll be in a cash-positive situation for around 2 billion. So, after having given you this information, I'll give the floor to Mr. Gori for Pirelli Tire results. Please, Mr. Gori.

Thank you, Mr. Tronchetti and good afternoon to everybody. Pirelli Tire net sales increase to 3 billion and 191.8 million from 2 billion 990.6 million in the nine months of 2007; +6.7% year-on-year. Organic growth stood at +8%, from both consumer and industrial segments. Volumes were up 3.5% driven by a strong OE demand. EBITDA and EBIT improved with price mix at +4.5%.

Slide number 9 illustrates Pirelli Tire main figures by segment. As you already know, consumer segment includes both car and motorcycle tires while for industrial we means truck tires plus steelcord. Consumer segment accounts for the major part of Tire nine-month 07 results, with sales at euro 2,212.2 million, +6.8% year-on-year. Consumer sales organic growth was up 8.2%, driven by volumes mainly in the Americas (OE and Replacement) and price/mix everywhere.

Consumer EBIT stood at 200 million, 1.8, equal to 9.1% on sales. Coming to the industrial segment, sales amounted to 979.6 million, +6.6% from 918.6 million euros in the nine months of 2006. Industrial sales organic growth was up 7.7% driven by volumes, mainly in the emerging markets and price/mix everywhere. Industrial EBIT was in line with the 84.4 million, slightly improving from 82.6 million of previous year, still suffering from raw materials' and energy's higher costs.

Now let me give you an overview of our ongoing investments. As you can see on slide 10, in addition to Brazil and Rumania investments, we foresee investments in Europe as well as in China, where, as you can see in the next slide, number 13, we will open a new car tire factory on November 27, and

launch the 2008 Cal on November 28 in Shanghai. Now Mr. De Conto will go through Pirelli Broadband Solutions results.

Thank you Francesco, and good afternoon everybody.

Net sales were 91.9 million, from 102.6 million at the end of September 2006. This was mainly due to a different product mix and a slowdown in Telecom infrastructure investment. As you can see circling this slide, the third quarter shows a growth, year-on-year, and it's the first time in the year. EBIT at a cumulative level was negative by 10.1 million, mainly due to an impact from R&D cost in the photonic division, and the sales' contraction. In the broadband access business, in the latest quarters there was an increase in sales volumes of SET-TOP-BOXes. The first nine months of the year were characterized by a consolidation of the product portfolio with the launch of this SET-TOP-BOX sale, while the transition to new generation access gateways, ADSL 2 and 2+, was completed.

As far as photonic is concerned, we kept on investing in development cost, and we also have acquired from Alcatel Lucent 12.4% of Avanex, one of the world's major players in modules and optical components for telecommunications, with products and technology complementary to those of Pirelli Broadband Solutions, particularly, as far as the tunability is concerned. As part of the transaction, Pirelli has signed and obtained an agreement for the supply of optical components from Alcatel Lucent. Now I will give the floor to Mr. Puri for Pirelli Real Estate.

Good afternoon to all of you. Please let me highlight the key achievements of Pirelli Real Estate in the first nine months of 2007. Assets under management, including the binding agreement, reached 15.5 billion euros, on which 27% is co-invested by Pirelli RE. This portfolio has generated sales for 1.187 billion, lower than the amount of 1.319 billion of last year, due to the temporary postponement of the sale of asset for the creation of the office investment platform. EBIT, including income from equity participation, net of the DGAG consolidation effects, almost completed at the end of September, stood at 141.2 million, 22% of increase compared with the nine months of 2006. Net income reached 95.8 million, with a growth of 14% over the same period of last year. In addition to that, I would like to point out that at the end of September the deconsolidation of the DGAG was almost completed ahead of the year that they had previously announced. This has been reflected in the net financial position that has decreased to 337 million, compared with the June 07 figures, of 1,095 million, and December 2006 of 96 million. Finally, as regarding the expectation for full year results, we believe we will be able to meet the targets identified in our three-year plan for EBIT including income from equity participation. Looking at our profit and loss account, aggregate pro-quota revenues increased by 70% of last year to around 1072 million euros. EBIT including income from equity participation amounts to 164 million euros, and net of the DGAG deconsolidation effect, it's equal to 141 million, 22% more. This value includes a result of investment in asset management fees of 24.6 million euros, versus 23 million in 2006, a result from the investment activity of 83 million, net of the DGAG, with respect to the 70.6 million of previous year. It includes also... in EBIT including income from equity participation for the service divisions, an amount of 59.4 million, net of the extraordinary item, this result amounted to 90.9 million, compared with 16 million of last year. In commercial service, that is the only one that reduced its result, the rise net of extraordinary items reached 11%, while 34 in the nine months of 2006, the agencies have strategically reduced assets under brokerage, consistently with the strategy of accumulation of assets for the creation of a large platform in the office segment.

Going to the key balance sheet figure, I have already mentioned that we've almost completed the deconsolidation of the DGAG, so the net financial position is only 337 million; the adjusted financial position excluding shareholders' loans, have reported a net debt of around 997 million, compared with 1,428 million in June of this year, and 430 million in December 2007. Now I'd like to point out some points of our strategy that I think are important to tell you, looking at what the market is doing and that have heavily penalized our stock: the first point that I would like to point out is that with the expansion we have done in Eastern and Central Europe, that are very promising markets, with a very high downside protection, we have achieved a very important target. As of today, the assets under management abroad represent roughly 27% of our total portfolio; in particular Poland posted 12 million euros of EBIT in the first nine months of 2007, while Germany is still in restructuring process, and this process has already started, and we think we will end it in the first months of next year. We very strongly believe in such geographic areas. In Italy our portfolio in funds is equal to 7 billion euros, 73% of the total portfolio; such structure allows us to operate with a higher operational

efficiency. As of today, in the Italian market we have completed 40% of the 3.1 billion total acquisitions, we never used some bigger ones (...) FinTechna, BNL, and the asset of Regione Sicilia. NPL business, together with credit servicing, looks very promising for the year-end 2007. We expect to nearly double the operating result of 2006, and so move up from 12 million to nearly 24 million euros.

Then I want to go to our corporate financial structure, that looks quite solid after the DGAG... after the DGAG deconsolidation we are looking at a deal level in the range of 1 for the year-end, we have 1.2 billion euros of committed credit facility with residual average life of 2.5 years, and, roughly, with 65 basis points of Euribor. Also the financial levels for funds and vehicle that we manage are very solid, the pro-quota debts of our company are 2.5 billion, with an average leverage of approximately 70%. These debts are 98% non-recourse, with a mid-long term maturity on average of more than 4 years, with a peak of 6 years for the most recent portfolio. 80% of the debts of the vehicle and funds is covered by interest rate increase, and the leverage cap is 4%. I want to repeat that the debts in the funds and vehicle are 98% non-recourse, just because we find a 2% in the acquisition of the German companies; these non-recourse debts have a long, mid-long term maturity on average of more than 4 years, with a peak of 6 years, 80% of these debts at the vehicle and funds level is covered by interest rate increase, and the leverage cap is 4%. Then, I want to point out that the appraised value of our portfolio is fair and adequate, in many portfolios we think we have further up-sights, over 700 million of commercial sales happened in the first nine months of 2007, we have completed at 6% higher than the appraised value. Offsite potential is also expected in the commercial activity under the turnaround phase of Upim and Rinascente, where we own, as you know, a 20% stake. Last remark: the stock price now, considering just the 2006 results and dividends, we trade as a (...) of 7.5, and a dividend yield of 7.4.

Thank you, and I give the floor to Mr. Tronchetti.

Grazie, Carlo. Thank you. To sum up briefly: Pirelli Group confirms for 2007 the increase in P&L results with a sound financial structure. So, now I'd like to thank you very much for your attention, and, let's now start the Q&A session. Thank you.

Q&A session:

1. Mr. Martino De Ambrogi from Euromobiliare SIM:

Yes. Good evening, everybody. Many questions, but, probably I'll limit them to three questions. The first one is on the tire business by debt: probably I missed the beginning of the conference call, but Speed is already willing to discuss with you? Or is it something that you intend to do but there are no indications on this? The second point is on Pirelli Real Estate: Mr. Puri Negri explained the bullish picture.. you bought shares, but you know better than me the figures are 2% at 40 euros... 35... 1% at 35 euros. So, I ask you if you bought more shares recently and, particularly, if you bought any shares today? And if not why? Thank you very much.

Okay. Thank you. There were some problems to have a clear voice, but anyhow... I'll answer...

I can repeat it...

I'll answer to what I understood. In case my answer's not complete, please ask me what I've lost...

Okay.

... about your question. So, first of all, the buyback of tires: we are in touch with Speed, and we will start talking with them in the next days to see if there is ground to have a transaction that is in the common interest.

Okay.

So, that's the first. Second, and I leave the floor to Carlo Puri, we bought 0.4% of Pirelli Real Estate, as Pirelli&Co., in the month of October. The buying of shares until the end of September is in our press release today. So, we added only the 0.4; we didn't do more than this, because we have market conditions that are very uncertain, we strongly believe in the company, but we want to understand what is happening and we will continue to have confidence in the company, so, if and when to act will be a decision that will take into account market conditions.

So, just to check if I understood: so, you didn't buy any shares in the past few days? Obviously not before results, and you have no intention to buy any other shares today? Or tomorrow?

Well, today the market is closed.

Well, yes. Tomorrow.

Tomorrow.

Yes... good point.

And we really want to understand there's something that we do not understand, but I think there is something that nobody understands.

You should understand better than us.

No, we understand the company... we know what is inside the company, but we don't want to see a market that goes down and down even if there is no logic in going down and down. And sorry if I give a vulgar explanation, but there is no good English explanation, we can't speak against the wind, so let's wait and see what happens, but we believe in the company, so, we will continue to follow closely what happens to the share value.

Yes, well, if I may: so, in any case, if we look at your net cash... just the last question on this subject, you have 2 billion cash, I don't know how much but, roughly, we can say 1 billion will be spent for the tire division, 0.8 distributed as dividend, and you still have 200 million of cash. If it's not in your core business as you always said was your intention to invest this cash and I understand tires, real estate, and fiber optics or photonics, I don't understand the 200 million which direction will take... so, just if you can clarify on this.

Possibly, the convenient one with the right timing.

So, you are saying it's not the right timing. Okay.

I don't know. I have to... not only I... I think all of us have to understand what is happening. So... but we will look closely to market conditions.

Okay. Thank you.

Thank you.

No more questions at the moment.

2. Ms. **Valentina Romitelli** from **UBS**:

Yes. Good evening. Just a clarification: the message I got here is that you are interested in investing more in Pirelli Real Estate, taking into consideration the best possible timing, of course. Is that correct? Thank you very much.

We mentioned clearly that we are interested in investing in our core businesses. Pirelli Real Estate is one of the core businesses, we invested in it in the last few months, we are now 53 points up plus another 3 once something has... directly owned by the company. We saw the shares fall down in a way we do not understand, so we want to understand better, and we'll evaluate if and when to invest more, so we don't want to be the ones that are collecting, or the other that are selling at a price that the day after goes down again. We want to buy at the right price. The right price is the lowest possible... price... who knows which is the lowest possible. The company value we know is there, and you know is there, the information that has been given by Mr. Puri is quite clear. But the market surrounding us is a market where the evaluation of companies is linked to expectations of other factors that are not linked with the intrinsic value of the company. So, the trouble in the financial market has affected many real estate, not taking into account the value of each company. So, we gave all the information to the market, in order to let the market understand, and we buy when we see that it's convenient for the company to buy.

Does this mean that treasury shares, I mean, Pirelli&C. treasury shares, I mean, is not a way for investing directly in your.. in your business? So, you prefer to go into the operating companies... shares directly, rather than your own? So that is not an option.

No, no, no. There is no such evaluation.

Thank you very much.

Thank you.

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

Yes. Good evening. So, just a follow-up on Valentina's questions; so, basically, you are excluding that you would ask the authorization to the forthcoming EGM for the buyback of your own Pirelli&C. shares? And the other thing that I was interested to know is also, going forward, what kind of dividend policy would you consider suitable for the company after the extraordinary dividend? Thank you very much.

Thank you. Probably I didn't explain correctly and I didn't understand correctly the question. I was talking about Pirelli Real Estate. I thought the question on buyback was linked to Pirelli Real Estate. Generally speaking, the buyback at Pirelli&Co. level can be one of the options that will be presented by the Board at the general meeting, and is also written in our press release. So, this is one of the possibilities having reserves to use part of it for a buyback of Pirelli&Co.

Okay. Thank you. Sorry, I had another question... and with regard to the dividend policy going forward?

Dividend policy of Pirelli&Co.: the Board will take a decision. For the time being, there is no intention to change the dividend policy; so, this is the... but no decision has been made for the next ordinary general meeting that will approve the balance sheet of 2007.

So, sorry, again, I didn't receive the slides... so, basically, the... oh, okay, because the other... the general meeting that will be held then in April could decide on a further distribution. Is that what you mean?

I'm sorry you didn't receive the slides... we have already called for an extraordinary meeting that will be held in December, to the capital decrease, then the timetable is that March next, mid-March next, we will have a general meeting that will approve the dividend, and then... the extraordinary dividend, and then in April we will have the normal ordinary annual general meeting about the balance sheet.

Okay. But that could...

In March we will have the payment of the extraordinary dividends.

Dividend... and then... so, does that mean the...

And then in April we will make a decision about the ordinary dividends; it will be made after the decision of the Board to present a proposal, to the annual general meeting in April, for the distribution taking into account the results of 2007.

Okay. Thank you. Thank you very much.

Thank you.

There are no more questions at the moment.

4. Mr. Marco Cristofori from Chevreux:

Good evening, everybody. A question on tire if I may: I noticed that there was a slight margin erosion during the third quarter, so I wondered if Mr. Gori could supply a guidance for the coming quarter, or for the coming years. Thank you.

...

Hallo?

Yes. The slight erosion of the third quarter is linked to an unforecasted low demand in the month of September... and the forecast for the fourth quarter is, to stay within the words of Mr. Tronchetti, and the guideline given for Pirelli group... so, we look forward to an improvement overall of our results versus 2006. As far as 2008 is concerned, we are working now on the managing plan and it's not a fantastic scenario in terms of costs, energy costs and raw materials, but we are confident we'll keep improving in this business.

So, sorry... sorry if I may, but do you think that we have reached the peak of the cycle for the tire or the peak of profitability for the tire this year?

I can speak only for Pirelli Tire: and in this case I'm confident that we are far from the peak.

Thank you.

5. Mr. Martino De Ambrogi from Euromobiliare SIM:

Yes. I have three additional questions for Mr. Puri. First, if you could give us an idea of what could be the future for the Antonveneta NPL portfolio after the recent MNA deal with Montepaschi? The second is: you are... probably just a confirmation of what you mentioned... you are confirming your dividend policy for the current year? Despite there is a mix of extraordinary gains... I know you don't like this expression, so you can correct it... and considering that Pirelli doesn't need any more significant dividends. Thank you.

Well, for the first question I'll give the floor to Mr. Deporpique.

Yes, thank you Mr. Gori. On the Antonveneta transaction and (...) transaction we feel relatively comfortable to get the transaction done, obviously, until the transaction is signed and closed, there is, you know, always a little bit of uncertainty, but as far as we are concerned, we think, you know, that the transaction will come to a closure... so, because it's been a long negotiation and there are, you know, a number of contractual liabilities on this transaction. So, we feel very comfortable that we'll get it done.

Okay.

The second question: for what we know now, there is no... there isn't any idea to change our policy for the dividend distribution. I did not understand the third question...

Well, actually, I didn't ask you a third question... if I may, I'll try to right now. So, just to understand what your view is on the buyback made by Pirelli Real Estate on its own shares, obviously... I'm not referring to squeeze-out, so I'm not considering these scenarios, but on... you used to buy back shares in the past, and I can imagine even more today.

We have... in this moment we have bought back 3.3%... of buyback on our shares.

Okay. This is not...

And the... and the management has increased to nearly 3% the possession of shares of the company.

Okay. So, I can imagine you are continuing... these days.

We have to take into account also the gearing of the company, we have to find a balance between the acquisition of our shares and the gearing of 1% that we have given to the shareholders to maintain a very conservative position and a solid financial position, especially in a situation like this one.

Okay. Thank you very much.

Thank you.

The next question comes from...

I'll explain, cause maybe it was not clear, I wanted to say one-to-one... I said... perhaps it was 1%... it was a wrong way... I say one-to-one between equity and debt at the corporate level to have a conservative position in these conditions... excuse me.

I'm sorry, sir, may I go ahead with the next question, please?

Yes. Of course.

6. Ms. **Valentina Romitelli** from **UBS**:

Thank you. On Pirelli Real Estate payout, did you say that you assume you can continue with the same policy you had in the past? I just wanted to double check this. And on tires, I just wanted to have a feeling... you have announced in the last few days a further increase in prices. I would like to ask Mr. Gori if, assuming this is going to stick, is that a price increase that should, sort of, (...) profitability with cost of raw materials as they are today? So, should, let's say, the cost stay as of today?

The price increase is in view of defending profitability, given the current scenario, from the beginning of next year, even though we are currently implementing or executing the price increase in these weeks. But effectiveness will come from then onwards.

Should that become effective anyway is this enough to cover the increase on the cost side with a level of raw materials as it is today?

No, I didn't mention this, the scenario is very nervous. So, this price increase is due. It goes without saying that it may not be sufficient, depending on the evolution of the next weeks.

Okay.

About dividends, we keep the same dividend policy, and we are going on with the same three-year plan.

Thank you.

Thank you.

There are no more questions at the moment.

The control room confirms: there are no more questions at the moment.

So, thank you to everybody, and we'll keep in touch for the next meeting.

Bye bye.

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