

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

**Six-month Report  
at June 30, 2007**

**PIRELLI & C. Società per Azioni**

**Registered office in Milan, Via G. Negri 10**

**Share Capital - Euros 2,791,311,344.64**

**Milan Companies Register No. 00860340157**

**Economic Administrative File (REA) No. 1055**

**PIRELLI & C. S.p.A. - MILAN****Six-month Report at 6/30/2007**  
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**STATEMENT PURSUANT TO LEGISLATIVE****DECREE 58 DATED FEBRUARY 24, 1998,****SECTION 2 ART. 154-BIS**

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**PIRELLI & C. S.p.A.****Board of Directors**<sup>1</sup>

Chairman <sup>2</sup>	Marco Tronchetti Provera
Deputy Chairman <sup>2</sup>	Alberto Pirelli
Deputy Chairman <sup>2</sup>	Carlo Alessandro Puri Negri
Directors:	Carlo Acutis *
	Carlo Angelici * <sup>o</sup>
	Gilberto Benetton
	Alberto Bombassei *
	Franco Bruni * <sup>o</sup>
	Enrico Tommaso Cucchiani
	Gabriele Galateri di Genola
	Mario Garraffo *
	Dino Piero Giarda *
	Berardino Libonati * <sup>^</sup>
	Giulia Maria Ligresti
	Massimo Moratti
	Giovanni Perissinotto
	Giampiero Pesenti * <sup>^</sup>
	Luigi Roth *
	Aldo Roveri * <sup>^</sup>
	Carlo Secchi * <sup>o</sup>

\* Independent director

<sup>o</sup> Member of the Internal Control and Corporate Governance Committee<sup>^</sup> Member of the Remuneration Committee

Secretary to the Board	Anna Chiara Svelto
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**Board of Statutory Auditors**<sup>3</sup>

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

**General Managers**<sup>4</sup>

Operations	Claudio De Conto
Finance and Strategic Planning	Luciano Gobbi

**Independent Auditors**<sup>5</sup>

PricewaterhouseCoopers S.p.A.

**Manager responsible for financial reporting**<sup>6</sup>

Claudio De Conto

<sup>1</sup> Appointment: April 28, 2005. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2007.

Alberto Bombassei (co-opted by the board of directors on September 12, 2006) and Luigi Roth were appointed by the shareholders' meeting held on April 23, 2007; on July 26, 2007, the board of directors appointed Enrico Tommaso Cucchiani to replace Paolo Vagnone.

<sup>2</sup> Post conferred by the board of directors' meeting held on April 28, 2005.

<sup>3</sup> Appointment: April 21, 2006. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2008.

<sup>4</sup> Until June 30, 2006, Francesco Gori was the general manager of the Tyres Sector. Beginning July 1, 2006, he is the CEO and general manager of Pirelli Tyre S.p.A..

<sup>5</sup> Appointment conferred by the shareholders' meeting held on April 28, 2005.

<sup>6</sup> Appointment: conferred by the board of directors' meeting held on May 10, 2007. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2007.

## **DIRECTORS' REPORT ON OPERATIONS**

### **Performance of the group**

During the first six months of 2007, Pirelli & C. S.p.A. Group continued to pursue a path of growth and development particularly with regard to tyres and real estate activities. Consolidated figures show double-digit growth in net sales (+10.6 percent on a comparable basis) and in operating profit including earnings from investments (+10.2 percent), which is a more significant indicator for expressing the overall performance of the group in view of its various types of businesses.

In the first half of the year, Pirelli Real Estate finalized the acquisition of the German real estate company DGAG, which took place on January 11, 2007. At June 30, 2007, the Pirelli Real Estate's investment in the company is approximately 99.4%. The purchase price, subject to a price adjustment on the basis of the 2006 financial statements was set at approximately Euros 465 million for a 100 percent interest in DGAG. The process to adapt DGAG to the customary Pirelli Real Estate business model was already set in motion at the end of March with the deconsolidation of the commercial real estate properties and part of the residential real estate properties. In the consolidated income statement of Pirelli & C. S.p.A. for the six months ended June 30, 2007, the start of the deconsolidation process led to an increase in net sales of Euros 529.9 million and a temporary impact on the net financial position of Euros 979 million which will decrease to about Euros 90 million when the reorganization process is completed towards the end of the year.

As for industrial activities, **Pirelli Tyre** recorded an increase in net sales (+6.6 percent) and operating profit (+6 percent) in a competitive market and one marked by sustained high raw material costs that were above those of the corresponding period of the prior year. Focus continued to be placed on segments with higher added value and growth in emerging markets.

In the real estate business, **Pirelli Real Estate** registered a significant increase in operating profit including earnings from investments (+36 percent) and net income (+14 percent).

With regard to the start-ups, the results of **Pirelli Broadband Solutions** were affected by the change in the mix of broadband access products and a decline in photonics sales owing to a slowdown in expenditures for infrastructures by the majority of the world's telecommunications operators.

Net sales of **Pirelli Ambiente** are stable, without considering the extraordinary components relating to the year 2006.

As for **Olimpia S.p.A.**, on April 28, 2007 an agreement was reached for the sale of the entire investment by Pirelli and Sintonia to leading institutional financial investors and industrial parties.

The investment in Olimpia is consequently classified in the balance sheet at June 30, 2007 as "non-current assets held for sale", and the economic effects are classified as "income (loss) from discontinued operations" and contributes to the result after taxes. For purposes of comparison, this treatment was also adopted for the presentation of Olimpia's economic data for 2006. Olimpia's impact on net income in the first half of 2007 is negative for Euros 73.9 million and relates to the adjustment of the company's value to the sale price (estimated assuming the latest closing date for the sale) and without including the share of the result for the period, compared to income of Euros 71 million in the first half of 2006.

**Net sales** of the Pirelli & C. S.p.A. Group for the six months ended June 30, 2007 amount to Euros 3,196.7 million, with an increase by 30.7 percent compared to Euros 2,445.9 million in the first half of 2006. Excluding the sales relating to the partial deconsolidation of the DGAG real estate assets, net sales amount to Euros 2,666.8 million; considering also the exchange rate effect, sales, on a comparable basis, increased by 10.6 percent compared to the first half of 2006.

**Gross operating profit** (EBITDA) amounts to Euros 319.7 million, a slight decrease compared to Euros 324.2 million in the first half of 2006. Excluding non-recurring expenses of Euros 12.5 million incurred for the project to list Pirelli Tyre S.p.A., the consolidated margin in the first half of 2006 was equal to Euros 336.7 million.

**Consolidated operating profit** (EBIT) amounts to Euros 214.1 million, which is in line with Euros 216.1 million in the first half of 2006. Excluding non-recurring expenses of Euros 12.5 million incurred for the project to list Pirelli Tyre S.p.A., the consolidated operating profit in the first half of 2006 was Euros 228.6 million. The contribution of the real estate business is lower while the earnings from investments accounted for by the equity method are higher.

**Operating profit including earnings (losses) from investments**, which includes the effect of earnings or losses from companies accounted for by the equity method and dividends from unconsolidated holdings, is Euros 341.6 million, up 10.2 percent compared to Euros 310.1 million in the six months ended June 30, 2006. The growth is mainly due to the earnings from the investments associated with the real estate activities of Pirelli Real Estate.

**Income from continuing operations** in the first half of 2007 is Euros 181.2 million compared to Euros 121.9 million in the first half of 2006.

**Income (loss) from discontinued operations** in the first half ended June 30, 2007 is equal to income of Euros 17.1 million and includes, besides the aforementioned negative effect of Olimpia for Euros 73.9 million (a positive effect of Euros 71 million in the first half of 2006), the gain on the sale of the warrants on Prysmian (Lux) S.à.r.l. to Goldman Sachs (Euros 91 million).

The **total** net result is **income** of Euros 198.3 million compared to Euros 193.1 million in the first half of 2006.

The **income attributable to the equity holders of Pirelli & C. S.p.A.** in the first half of 2007 is Euros 108.2 million, compared to income of Euros 153 million in the first half of 2006.

Total **consolidated equity** at June 30, 2007 is Euros 4,692.3 million, compared to Euros 4,686.6 million at the end of 2006.

**Equity attributable to the equity holders of Pirelli & C. S.p.A.** at June 30, 2007 is Euros 3,859.2 million, compared to Euros 3,879.6 million at the end of 2006.

The **net financial position** of the group at June 30, 2007 is a net financial debt position of Euros 2,969.2 million, including an impact of Euros 979 million on the net financial position of Pirelli Real Estate as a result of the DGAG transaction. This impact will be reduced to about Euros 90 million by the end of 2007 when the deconsolidation process is completed. Excluding the effects of the DGAG transaction, the net debt position of the group at June 30, 2007 is Euros 1,990.2 million.

At December 31, 2006, the net debt position of the group was Euros 1,979.6 million (Euros 140 million of which related to the DGAG deal).



**The Parent, Pirelli & C. S.p.A.**

The net result of Pirelli & C. S.p.A. in the first half ended June 30, 2007 is income of Euros 139 million compared to income of Euros 131.9 million in the first half of 2006.

The first-half 2007 result includes the gain of Euros 91 million realized on the sale of the warrants on Prysmian (Lux) S.à.r.l. to Goldman Sachs and an accrual of Euros 180 million to adjust Olimpia's value to its sales price (estimated assuming the latest closing date for the sale).

The equity is Euros 3,012.2 million (of which Euros 2,790 million relates to share capital), compared to Euros 2,882.3 million at the end of 2006.

## **SIGNIFICANT EVENTS IN THE FIRST SIX MONTHS**

### **Corporate**

- On January 9, 2007, Pirelli & C. S.p.A. and Quattrodedue Holding B.V. (the controlling shareholder of Intek S.p.A.), in view of the project for the merger of Gim S.p.A. in Intek S.p.A., signed a put&call agreement relating to 14,923,526 Gim ordinary shares held by Pirelli & C. S.p.A., equal to approximately 7.04 percent of Gim S.p.A. ordinary share capital.

The understanding provides that, starting from the date the indicated merger comes into effect, Pirelli and Quattrodedue will have the right, respectively, to sell – up to the limits of the tender offer – and purchase the entire investment acquired by Pirelli as a result of the merger for consideration of Euros 13.1 million.

The agreement is subject to the merger becoming effective and can be carried out by Quattrodedue Holding BV in more than one tranche by and not after May 31, 2008. Subsequent to that date, should Quattrodedue Holding BV not have exercised the option on the entire investment, Pirelli & C. S.p.A. will have the right to sell such shares to third parties and Quattrodedue Holding BV may have to pay compensation if there is a negative difference compared to the agreed price.

On March 31, 2007, following the exchange subsequent to the merger of Gim S.p.A. in and with Intek S.p.A. which came into effect, Pirelli & C. S.p.A. received, in exchange for 14,923,256 Gim S.p.A. ordinary shares, 16,581,700 Intek S.p.A. ordinary shares.

Subsequently, on May 4, 2007, Pirelli & C. S.p.A. sold 10,432,346 Intek S.p.A. ordinary shares, equal to 3 percent of ordinary share capital, to Quattrodedue Holding B.V. for approximately Euros 8.3 million.

The deal was finalized under the put&call agreement between the two companies.

Following the sale, Pirelli & C. S.p.A. still holds 6,149,354 Intek S.p.A. ordinary shares, equal to 1.77 percent of the ordinary share capital of the company, which, on the basis of the above agreement, can be sold to third parties after May 31, 2008 if Quattrodue Holding B.V. should elect not to exercise the option on the entire investment.

Quattrodue Holding B.V. now holds 144,024,907 ordinary shares, equal to 41.42 percent of share capital with voting rights.

- On January 17, 2007, Pirelli & C. S.p.A. announced that none of the parties in the Pirelli & C. S.p.A. shareholders' agreement indicated the intention to withdraw from the pact within the contractually established expiration date of January 15, 2007. The pact will thus remain in effect, with the same composition, until the new expiration date of April 15, 2010.
- On March 30, 2007, Pirelli & C. S.p.A. sold the financial instruments from the disposal of the former Cables and Systems sector, concluded on July 28, 2005, to Goldman Sachs for consideration of Euros 246 million.

The instruments refer to a loan note granted to the buyer Goldman Sachs Capital Partners (GSCP) and warrants linked to the economic benefits of Prysmian (Lux) S.à.r.l., the vehicle company used by GSCP for the transaction.

- On April 1, 2007, the board of directors of Pirelli & C. S.p.A. met after the company received two proposals for the purchase of two stakes of Olimpia S.p.A., submitted by AT&T, an American telecommunications company, and América Móvil, the Mexican mobile phone operator.

The proposals regarded the purchase, by each of the two companies, of an interest equal to one-third of the share capital of Olimpia S.p.A..

The board of directors of Pirelli & C. S.p.A. viewed the proposals favorably and gave the chairman a mandate to proceed with the negotiations of the relative understandings in the best interests of the company and its shareholders and to submit the final terms of the deal to the board.

Mediobanca S.p.A. and Generali S.p.A. have first refusal on the Olimpia S.p.A. shares on the basis of the shareholders' agreement signed on October 18, 2006. The proposals had a duration until April 30, 2007 and, unless otherwise agreed by the parties, the proposals would no longer be valid if the relative contracts had not been signed by that date. Up to that date, there would be exclusive negotiations by Pirelli with AT&T and América Móvil.

Subsequently, on April 16, 2007, Pirelli & C. S.p.A. took note of the withdrawal of the offer submitted on April 1 by AT&T for one-third of the share capital of Olimpia S.p.A., motivated by possible regulatory difficulties connected with the deal.

- On April 19, 2007, a forward share transaction was put into place with Banca Caboto for the 134,957,885 Telecom Italia ordinary shares held by Pirelli Finance (Luxembourg) S.A.. The shares were sold at the spot price per share of Euros 2.3275 for a total of Euros 314.1 million and were later repurchased on July 24, 2007 for Euros 2.2187 per share for a total of Euros 299.4 million.

- On April 28, 2007, Pirelli & C. S.p.A., Sintonia S.p.A. and Sintonia S.A. announced that they had reached an agreement with leading financial institutional investors and industrial operators for the sale of 100 percent of the share capital of Olimpia S.p.A., a company 80 percent-owned by Pirelli & C. S.p.A. and 20 percent-owned together by Sintonia S.p.A. and Sintonia S.A..  
The acquisition will be effected by a vehicle company in which investments are held by Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A., Sintonia S.A. and Telefonica S.A..  
The provisional sales price is approximately Euros 4.1 billion. The agreed consideration will be determined as the difference between 2,407,345,359 Telecom Italia shares held by Olimpia S.p.A., valued at Euros 2.82 each, and the net debt of Olimpia S.p.A., calculated at the date of executing the agreement which will also include Euros 337 million of dividends collected from Telecom Italia S.p.A..  
The operation will have a positive impact of approximately Euros 3.3 billion on the net financial position of Pirelli & C. S.p.A..  
The execution of the agreement is scheduled to take place by October 2007.  
The deal, approved by the board of directors of Pirelli & C. S.p.A, which met on the same date, and by the competent bodies of Sintonia S.p.A. and Sintonia S.A., is subject to the approval and authorization of the competent authorities.

## Tyres Sector

- On February 12, 2007, Pirelli Tyre S.p.A. successfully concluded the syndication of a five-year multicurrency revolving credit line for Euros 675 million. The contract was signed by the company with the mandated lead arrangers BNP Paribas and Banca Monte dei Paschi di Siena, and a pool of leading Italian and international banks (Akbank, Bank of America, Banca Carige, Banco do Brasil, Banca Popolare dell'Emilia Romagna, Banco Santander Central Hispano, Banco Itau Europa, Mizuho, Natixis and Royal Bank of Canada). The loan bears interest at an initial rate equal to the Euribor +40 basis points. The purpose of the transaction is to allow Pirelli Tyre to improve its financial structure while at the same time increasing its flexibility.
- On February 27, 2007, the world council of the FIA accepted Pirelli's offer to supply tyres for the World Rally 3Championship (WRC) over the three-year period 2008-2010, appreciating not only the product and Pirelli's capacity for technological innovation, but also its aim to seek out and encourage young talent and to promote national championships. In particular, one of the reasons why the FIA chose Pirelli, is its century-long commitment to motor racing, and car rallies in particular. Pirelli's winning of the bid to supply the WRC was the second victory in the space of a few weeks. At the end of January, the Grand Am series, the most exciting championship for prototypes in the United States and one of the most popular in America, decided to adopt the Pirelli PZero for the three-year period 2008-2010.

## Real Estate Sector

- On January 11, 2007, Pirelli Real Estate, purchased approximately 97 percent of Deutsche Grundvermogen AG (DGAG), one of the most important real estate companies in Germany with offices in Hamburg and Kiel. At June 30, 2007, Pirelli RE's investment holding is about 99.4 percent. The purchase price, subject to a price adjustment on the basis of the 2006 financial statements, was set at approximately Euros 465 million for 100 percent of DGAG. Starting from the last days of March, DGAG's operations are being converted to Pirelli RE's customary business model with the deconsolidation of the commercial properties and, in part, the residential properties.
- On February 28, 2007, Pirelli RE Facility Management finalized the acquisition of Ingest Facility from Business Solutions (Fiat Group). As a result of this transaction, the company now has the leadership position in facility management in Italy.
- On March 8, 2007, the Olivia Fund, the Sicily Region real estate investment Fund (Fondo Immobiliare Pubblico Regione Siciliana) was set up by the contribution and sale on the part of the Region and certain regional entities of 34 buildings mainly used as offices located principally in Palermo and Catania with a transfer value of Euros 263 million. At June 30, 2007, the portfolio of the Fund did not include a building worth Euros 3.8 million as it was covered by the right of first refusal by third parties. The annual yield is about 8 percent. Managed by Pirelli RE SGR, the Fund is held by the Sicily Region with a majority stake of 35 percent, by RREEF Global Opportunities Fund II with a 33 percent holding and by Pirelli RE with a 22 percent stake; RREEF has also subscribed to the remaining 10 percent which will be placed with international institutional investors.

- On March 15, 2007, Pirelli RE set up the Dutch company S.I.G. RE B.V.. On March 22, 2007, in keeping with its business model, the majority of the shares of the company, which is not yet operational, were sold to other investors including the related parties of Gruppo Partecipazioni Industriali (31.6 percent) and Roev Italia (15.8 percent) while Pirelli RE retained a 40 percent interest. The objective of the S.I.G. RE B.V. joint venture (through its subsidiaries Resident Baltic, Resident Sachsen P&K, Resident Brandenburg and Resident West) is to invest in the German residential sector with transactions not exceeding Euros 60 million, since the group has an exclusive binding agreement with the real estate investment funds of the partner Deutsche Bank for acquisitions above that amount. At June 30, 2007, the S.I.G. RE B.V. joint venture holds a property portfolio in various cities of Germany for an amount of Euros 32.8 million and further commitments for the purchase of property for 61.4 million, on which deeds have been drawn up to date for Euro 57 million.
- On May 18, 2007, the closed-end real estate investment fund Retail & Entertainment was set up. The real estate assets of the fund at June 30, 2007 consist of 23 properties conferred on June 28, 2007 for an amount of Euros 610 million by Tamerice Immobiliare, a company in which Pirelli RE has a 20 percent holding. The properties conferred, located in the major cities of Italy, include the commercial activities conducted by Rinascente-Upim. During July, Immobiliare Commerciale XXIX and Newtowne, subsidiaries of Tamerice Immobiliare sold two buildings located in Rome and Naples to the new fund for Euros 132.9 million. Pirelli RE has a 20.5 percent stake in the fund.



- On May 22, 2007, Gamma RE announced its intention to launch two voluntary public tender offers for the shares of the closed-end real estate investment funds Tecla Fondo Uffici and Berenice Fondo Uffici. The funds have been listed on the MTF segment of the Italian stock exchange since March 2004 and July 2005, respectively, and are managed by Pirelli RE SGR. After obtaining Consob's authorization to publish the offering documents on June 8, 2007, on June 11, 2007 the period for tendering the shares began. On June 20, 2007, Gamma RE announced that it was revising its initial prices and offered Euros 678 per share for the Tecla Fund and Euros 685 per share for the Berenice fund. The offering later focused on the Tecla fund and Euro 690 per share was offered in cash. The takeover bid ended positively on July 5, 2007, as better described in the section on subsequent events. During the period for tendering the shares, various offers were launched by important leading financial institutions besides Pirelli RE, confirming the national and international markets' interest in the high strategic value of the two funds.
- On June 27, 2007, the joint venture between Pirelli RE and Intesa Sanpaolo was finalized to create a leader in facility and project management in Europe. The European expansion also of service provider activities followed the internationalization process already begun by investment & assets management. As part of the deal, Intesa Sanpaolo acquired from Pirelli RE a 49 percent interest in Pirelli RE Integrated Facility Management which, at the same time, acquired from Pirelli RE the 100 percent holding in Pirelli RE Facility Management, a leading company in Italy in the services sector and which also operates in the Polish market through Ingest Facility Polska. The facility management activities performed to date by DGAG in Germany and Pirelli Pekao Real Estate in Poland are also expected to be later added to the platform.

- Pirelli RE and GE are in the midst of a period of exclusiveness with regard to the purchase of a non-performing loan portfolio from Banca Antonveneta with a gross book value of approximately Euros 5.1 billion, after having won, at the end of 2006, a portfolio of mortgage and corporate loans which originated from Banca Antonveneta and the subsidiary Interbanca with a gross book value of Euros 1 billion.

### **Pirelli Ambiente**

- On January 22, 2007, Pirelli & C. Ambiente Eco Technology S.p.A. operating in the sector of technologies for sustainable development, and LiqTech AS, a Danish company which has operated for years in the sector of silicon carbide filters for the retrofit market, signed an agreement to conduct research into improving the performance of the filters.

The results generated by the research will be jointly owned by the two companies but Pirelli will have the exclusive rights to exploit them in Europe, Russia and the former Soviet Republics, Brazil and China. Similarly, LiqTech will have the exclusive rights to exploit the results of the research in the U.S.A., Mexico, South Korea, India and Japan.

Furthermore, under the agreement, LiqTech will support Pirelli & C. Ambiente Eco Technology S.p.A. in the development of the production technology for mass-producing silicon carbide anti-particulate filters which will first be used on diesel engines.

The results generated by this development work will be the exclusive property of Pirelli & C. Ambiente Eco Technology S.p.A. and will be implemented in the factory which the company is building in Romania, starting from January 2007, for the manufacture of anti-particulate filters for the original equipment market. The factory will become operational in the second half of 2008 and will have a production capacity of more than 1,300 tons of silicon carbide filters a year.

## **THE GROUP**

In this report on operations, in addition to the financial performance measures established by IFRS, certain non-IFRS measures originated from the latter are presented although they are not required by IFRS (“Non-GAAP Measures”).

These performance measures are presented for purposes of a better understanding of the trend of operations of the group and should not be construed as a substitute for the information required by IFRS.

Specifically, the “Non-GAAP Measures” used are described as follows:

- **Gross operating profit:** this financial measure is used by the group as the financial target in internal business plans and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the group as a whole and for each single segment, in addition to the Operating Profit. The Gross Operating Profit is an intermediate performance measure represented by the Operating Profit from which depreciation and amortization are subtracted.
- **Earnings (losses) from investments:** earnings (losses) from investments consist of all the effects recorded in the income statement referring to investments that are not consolidated line-by-line. These include dividends, the share of the earnings (losses) of companies accounted for using the equity method, impairment losses of available-for-sale financial assets and gains (losses) on the disposal of available-for-sale financial assets.  
Movements in the fair value of assets available-for-sale that are recognized directly in equity are excluded.
- **Net financial (liquidity)/debt position:** this performance measure is represented by the gross financial debt less cash and cash equivalents as well as other interest-earning financial receivables. The notes present a table that shows the balance sheet amounts used to calculate the net financial (liquidity)/debt position.

The highlights of the interim consolidated financial statements in the first half ended June 30, 2007 can be summarized as follows:

	(in millions of euro)		
	1 <sup>st</sup> Half 2007	1 <sup>st</sup> Half 2006	Year 2006
. Net sales	<b>3,196.7</b> *	2,445.9	4,841.2
. Net sales (excluding DGAG deconsolidation)	<b>2,666.8</b>	2,445.9	4,841.2
. Gross operating profit (loss)	<b>319.7</b>	324.2	614.1
% of net sales (excluding DGAG deconsolidation)	<b>12.0%</b>	13.3%	12.7%
. Operating profit	<b>214.1</b>	216.1	401.4
% of net sales (excluding DGAG deconsolidation)	<b>8.0%</b>	8.8%	8.3%
. Earnings (losses) from investments	<b>127.5</b>	94.0	790.7
. Operating profit incl. earnings (losses) from investments	<b>341.6</b>	310.1	1,192.1
. Financial income (expenses)	<b>(81.2)</b>	(110.7)	(143.1)
. Income taxes	<b>(79.2)</b>	(77.5)	(127.8)
<b>. Income from continuing operations</b>	<b>181.2</b>	121.9	921.2
% of net sales (excluding DGAG deconsolidation)	<b>6.8%</b>	5.0%	19.0%
<b>. Income (loss) from discontinued operations</b>	<b>17.1</b>	71.2	(1,970.0)
<b>. Total income (loss)</b>	<b>198.3</b>	193.1	(1,048.8)
. Income (loss) attributable to the equity holders of Pirelli & C. S.p.A.	<b>108.2</b>	153.0	(1,167.4)
. Earnings (loss) per share (in euros)	<b>0.020</b>	0.029	(0.217)
. Total equity	<b>4,692.3</b>	5,714.6	4,686.6
. Equity attributable to the equity holders of Pirelli & C. S.p.A.	<b>3,859.2</b>	5,342.0	3,879.6
. Equity per share (in euros)	<b>0.719</b>	0.995	0.723
. Net financial (liquidity)/debt position	<b>2,969.2</b> **	1,574.9	1,979.6
. Capital expenditures	<b>116</b>	126	255
. R&D expenditures	<b>88</b>	87	171
. Employees (number at period-end)	<b>31,270</b>	28,455	28,617
. Factories	<b>24</b>	24	24
<i>Pirelli &amp; C. shares outstanding</i>			
. ordinary shares (number in millions)	5,233.1	5,233.1	5,233.1
. savings shares (number in millions)	134.8	134.8	134.8
. Total shares outstanding	5,367.9	5,367.9	5,367.9

\* of which, impact of partial DGAG deconsolidation is Euros 529.9 million

\*\* of which, impact of DGAG acquisition is Euros 979.0 million (Euros 140 million at December 31, 2006)

For a more meaningful understanding of the performance of the group in its various segments of business, the following economic data and the net financial position are provided divided by business segment.

CONTINUING OPERATIONS (in millions of euro)	1 <sup>st</sup> Half 2007					TOTAL	
	Tyre	Broadband	Environment	Real Estate	Other		
. Net sales	2,151.4	55.8	35.0	951.7	*	2.8	<b>3,196.7</b>
. Net sales (excluding DGAG)				421.8			<b>2,666.8</b>
. Gross operating profit (loss)	301.7	(5.9)	(2.8)	24.2	2.5		<b>319.7</b>
. Operating profit (loss)	206.3	(6.9)	(3.1)	19.5	(1.7)		<b>214.1</b>
. Earnings from investments	0.4	-	-	105.9	21.2		<b>127.5</b>
. Operating profit (loss) incl. earnings from investments	206.7	(6.9)	(3.1)	125.4	19.5		<b>341.6</b>
. Financial income (expenses)	(28.3)	(1.0)	(0.1)	(23.5)	(28.3)		<b>(81.2)</b>
. Income taxes	(61.0)	0.0	0.0	(16.6)	(1.6)		<b>(79.2)</b>
. Income (loss) from continuing operations	117.4	(7.9)	(3.2)	85.3	(10.4)		<b>181.2</b>
. Net financial (liquidity)/debt position	695.5	22.3	6.3	1,094.8	1,150.3		<b>2,969.2</b>
				(:)			<b>(:)</b>

\* including Euros 529.9 million from partial DGAG deconsolidation  
(:) of which, DGAG impact is Euros 979.0 million

CONTINUING OPERATIONS (in millions of euro)	1 <sup>st</sup> Half 2006					TOTAL	
	Tyre	Broadband	Environment	Real Estate	Other		
. Net sales	2,018.4	72.7	39.3	308.4	7.1		<b>2,445.9</b>
. Gross operating profit (loss)	292.6	(0.1)	1.9	41.9	(12.1)		<b>324.2</b>
. Operating profit (loss)	194.6	(0.6)	1.5	37.7	(17.1)		<b>216.1</b>
. Earnings from investments	0.4	-	-	54.6	39.0		<b>94.0</b>
. Operating profit (loss) incl. earnings from investments	195.0	(0.6)	1.5	92.3	21.9		<b>310.1</b>
. Financial income (expenses)	(24.6)	(2.3)	0.0	(0.6)	(83.2)		<b>(110.7)</b>
. Income taxes	(52.1)	(0.4)	(0.4)	(21.1)	(3.5)		<b>(77.5)</b>
. Income (loss) from continuing operations	118.3	(3.3)	1.1	70.6	(64.8)		<b>121.9</b>
. Net financial (liquidity)/debt position	739.6	(1.0)	(1.6)	82.3	755.6		<b>1,574.9</b>

## Net sales

Net sales amount to Euros 3,196.7 million in the first half ended June 30, 2007 and record an increase of 30.7 percent compared to the first half of 2006.

A percentage breakdown of net sales on a comparable basis by business segment is as follows:

	<b>1<sup>st</sup> Half 2007</b>	<b>1<sup>st</sup> Half 2006</b>
Pirelli Tyre	80.7%	82.5%
Pirelli Broadband Solutions	2.1%	3.0%
Pirelli Ambiente	1.3%	1.6%
Pirelli Real Estate	15.8%	12.6%
Other	0.1%	0.3%

The change on a comparable basis by business segment is the following:

· Pirelli Tyre	+	8.4%
· Pirelli Broadband Solutions	-	23.2%
· Pirelli Ambiente	-	10.9%
· Pirelli Real Estate	+	36.8%
<b>Total group</b>	<b>+</b>	<b>10.6%</b>
· Foreign exchange effect	-	1.8%
· Change in scope of consolidation	+	21.9%
<b>Total change</b>	<b>+</b>	<b>30.7%</b>

### **Operating profit**

Operating profit in the first half of 2007 amounts to Euros 214.1 million (8 percent of net sales) compared to Euros 216.1 million in the first half of 2006. Excluding non-recurring expenses incurred for the project to list Pirelli Tyre S.p.A., the consolidated operating profit in the first half of 2006 was Euros 228.6 million.

The change in operating profit, according to business segment, can mainly be attributed to the following (in millions of euros):

<b>Operating profit for the 1<sup>st</sup> half of 2006</b>		<b>216.1</b>
<hr/>		
·	Pirelli Tyre	11.7
·	Pirelli Broadband Solutions	(6.3)
·	Pirelli Ambiente	(4.6)
·	Pirelli Real Estate	(18.2)
·	Other	15.4
		<b>(2.0)</b>
<b>Operating profit for the 1<sup>st</sup> half of 2007</b>		<b>214.1</b>
<hr/>		

#### **Earnings (losses) from investments**

Earnings (losses) from investments in the first half of 2007 amount to earnings of Euros 127.5 million compared to earnings of Euros 94.0 million in the first half of 2006.

This item includes the earnings of the companies in the real estate sector accounted for by the equity method for Euros 60 million (Euros 54.6 million in the first half of 2006), the gain realized on the sale of 49 percent of the Facility operations by Pirelli Real Estate for Euros 42.1 million and the dividends received for Euros 12.0 million (Euros 43.3 million in the first half of 2006).

#### **Financial income (expenses)**

Financial income and expenses show net financial expenses of Euros 81.2 million compared to net financial expenses of Euros 110.7 million in the first half of 2006 (which included a negative component of Euros 58.6 million relating to the measurement of derivatives on Telecom Italia shares).

## **Income**

Income from continuing operations in the first half of 2007 is Euros 181.2 million compared to Euros 121.9 million in the first half of 2006.

The income from discontinued operations in the first half ended June 30, 2007 amounts to of Euros 17.1 million and includes the negative impact of Olimpia (Euros 73.9 million) as a result of adjusting the company's value to the sales price (estimated assuming the latest closing date for the sale) and without including the share of the result for the period (positive for Euros 71.2 million in the first half ended June 30, 2006) and the gain of Euros 91 million on the sale of the warrants on Prysmian (Lux) S.à.r.l. to Goldman Sachs.

Total net income in the first half of 2007 is Euros 198.3 million compared to Euros 193.1 million at June 30, 2006.

Income attributable to the equity holders of Pirelli & C. S.p.A. in the first half ended June 30, 2007 is Euros 108.2 million (Euros 0.020 per share), compared to Euros 153 million in the first half ended June 30, 2006 (Euros 0.029 per share).



## **Equity**

Equity went from Euros 4,686.6 million at December 31, 2006 to Euros 4,692.3 million at June 30, 2007 with an increase of Euros 5.7 million. Details are as follows:

	(in millions of euro)
Translation differences	34.4
Income for the period	198.3
Dividends to third parties paid by:	(74.4)
- Pirelli Tyre S.p.A.	(27.2)
- Pirelli & C. Real Estate S.p.A.	(42.9)
- Other Group companies	(4.3)
Pirelli & C Real Estate S.p.A. treasury share purchases/sales	(16.0)
Fair value adjustment of available-for-sale financial assets	(21.1)
Net actuarial gains (losses) on employee benefits	13.2
- Income /expenses recognized in income at the time of sale of available-for-sale financial assets or in the presence of impairment losses	(119.2)
Acquisition of investment in Turchia Pneus from third parties	(7.7)
Other changes	(1.8)
	<b>5.7</b>

The equity attributable to the equity holders of Pirelli & C. S.p.A. at June 30, 2007 is equal to Euros 3,859.2 million (Euros 0.719 per share) compared to Euros 3,879.6 million at December 31, 2006 (Euros 0.723 per share).

## **Net financial position**

The net financial position of the group went from a debt position of Euros 1,979.6 million at December 31, 2006 to Euros 2,969.2 million at June 30, 2007. A portion of the increase, for Euros 979 million (of which Euros 140 million was already included at December 31, 2006), refers to the impact of the DGAG deal in Germany by Pirelli Real Estate which will be reduced to approximately Euros 90 million by the end of the year.

Net cash flows from ordinary activities were also impacted by the usual seasonal trend of the net working capital in the businesses, especially Pirelli Tyre.

The change during the period is summarized as follows:

	(in millions of euro)
. Cash flows used in ordinary activities	(167.2)
. DGAG real estate deal in Germany	(839.0)
. Receipts on sale of Prysmian warrants	91.0
. Dividends paid	(74.4)
<b>Change in net financial position</b>	<b>(989.6)</b>

### **Research & Development expenditures**

R&D expenditures amount to Euros 88 million in the first half of 2007 (3.3 percent of net sales excluding the effect of the deconsolidation of DGAG assets), in line with the first half of 2006 (Euros 87 million or 3.6 of net sales)

### **Employees**

At June 30, 2007, there are 31,270 employees (including 4,257 with temporary contracts) compared to 28,617 (of which 3,479 with temporary contracts) at December 31, 2006. The increase is localized, as regards the tyres sector, in Brazil and the new investment areas in China and Romania and, as regards the real estate sector, in connection with the acquisition of DGAG.

The breakdown of employees by geographical area and by business segment is as follows:

	<b>June 30, 2007</b>		<b>December 31, 2006</b>	
<b>Geographical Area</b>				
Europe:				
. Italy	7,522	24.06%	7,176	25.08%
. Other European countries	8,670	27.73%	7,521	26.27%
North America	263	0.84%	265	0.93%
Central and South America	10,256	32.79%	9,802	34.26%
Oceania, Africa and Asia	4,559	14.58%	3,853	13.46%
	<b>31,270</b>	<b>100.00%</b>	<b>28,617</b>	<b>100.00%</b>
<b>Business segment</b>				
Tyres	26,876	85.94%	25,169	87.95%
Pirelli Real Estate	2,782	8.90%	1,864	6.51%
Pirelli Broadband Solutions	185	0.59%	166	0.58%
Pirelli Ambiente	71	0.23%	52	0.18%
Other	1,356	4.34%	1,366	4.78%
	<b>31,270</b>	<b>100.00%</b>	<b>28,617</b>	<b>100.00%</b>

## **SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FIRST SIX MONTHS**

- On July 3, 2007, Pirelli Ambiente, a company of the Pirelli & C. Group active in the sector of renewable energy, and Global Cleantech Capital (GCC), a private equity fund specialized in clean energy investments, signed an agreement to establish Solar Utility S.p.A., a joint venture operating in the photovoltaic energy sector.  
Pirelli Ambiente and GCC will each hold a 50 percent stake in Solar Utility S.p.A.. Over the next 5 years, the new joint venture expects to invest approximately Euro 24 million to install integrated photovoltaic systems in buildings in Italy, with the aim of producing about 50MW of clean electricity.  
Solar Utility will actually install and remain the owner of the photovoltaic systems destined for owners of commercial and industrial buildings and, in exchange, will supply them with clean energy at competitive prices. Furthermore, the joint venture will be able to sell complete projects for producing photovoltaic energy to investors who are interested in stable yields in the long term, since these are guaranteed by the set of incentives offered for the next 20 years under the Energy Decree issued on February 19, 2007.
- On July 5, 2007, the takeover bid for the shares of the Tecla Fund launched by Gamma RE, a Morgan Stanley Real Estate Special Situations Fund (51 percent) and Pirelli RE (49 percent) joint venture, closed after reaching more than 86 percent of the shares with voting rights. The company confirmed its intention to set up an accumulation platform for investments in the offices sector to which the Tecla shares could be conferred together with other real estate portfolios and development initiatives in the same sector. As for the public tender offer launched by Gamma RE for the shares of the Berenice fund, which closed on July 2, 2007, the takeover bid was not finalized since the condition for the acquisition of shares equal to at least a majority of the shares issued was not met.

- On July 13, 2007 the Piedmont Regional Council, the Turin Provincial Council, the City of Settimo Torinese and Pirelli Tyre signed a framework agreement with the aim of creating a hi-tech technological and industrial center to manufacture car and truck tyres in the territory of Settimo Torinese.

In keeping with Pirelli's sustainable development strategies, the new factory will adopt the appropriate measures to minimize impact on the environment and energy consumption, and both the building and the design will be of the highest possible quality.

Within the sphere of the plan to relaunch industry in Settimo Torinese, Pirelli Tyre and the Politecnico University of Turin signed an agreement to activate joint projects in the fields of research and technological innovation.

- On July 17, 2007 Pirelli RE and RREEF (Deutsche Bank Group) real estate investment funds sealed a binding agreement for the purchase from Cerberus of 100 percent of BauBeCon, an important German real estate group mainly operating in the residential segment. The deal was concluded on July 27, 2007 and Pirelli RE (40 percent) and RREEF (60 percent) acquired the real estate assets intended mainly for residential use for Euros 1,647 million.
- On July 18, and 19, 2007, agreements were reached to set up the following joint ventures: Pirelli RE Romania, 80 percent-owned by Pirelli RE and 20 percent by UniCredit Tiriatic Bank, one of the most important credit institutions in Romania; Pirelli RE Bulgaria, 75 percent-owned by Pirelli RE and 25 percent by UniCredit Bulbank, the largest financial institution in Bulgaria.

- On July 19, 2007, at Slatina (in the Romanian province of Olt), Pirelli presented the development programs and the activities of the group's new industrial and technological center in Romania. The presentation took place at the ceremony to mark the production of the millionth high-performance tyre manufactured at the plant. Pirelli's new base in Romania has three production plants, two of which are already operational (high-performance and steelcord tyres) and one which is still being built (anti-particulate filters), involving a total investment of approximately Euros 235 million.
- On July 27, 2007, Pirelli & C. S.p.A. purchased 859,741 Pirelli Real Estate shares from a leading institutional investor. The shares represent about 2 percent of the share capital of the company and were purchased for an approximate equivalent amount of Euros 34.4 million, bringing its direct holding to 52.3 percent.
- On August 7, 2007, Quadrifoglio Milano S.p.A., a company in which the equally-owned Pirelli RE-Fintecna Immobiliare joint venture has an interest, signed the urbanistic agreement, together with the City of Milan and the Autonomous Administration of the State Monopolies, for the recovery and development project of the former Manifattura Tabacchi complex which lies in the Lombardy region's capital on an area of more than 83,000 square meters. The reclamation and demolishing work will start in September of this year and the restructuring and building work by summer 2008. The estimated value when finished is approximately Euros 250 million.
- On August 8, 2007, Gamma RE, a joint venture between Morgan Stanley Real Estate Special Situations Fund (51 percent) and Pirelli RE (49 percent), announced that it had tendered 49,544 Berenice fund shares, for an equivalent amount of Euros 45.2 million, to the public tender offer launched by Zwinger Opco 6 BV, realizing a gain of about Euros 17.7 million. After the offering was closed on August 9, 2007, Zwinger Opco announced that it will come to hold about 90.69 percent of the total of the issued shares of the fund.

## **OUTLOOK FOR THE CURRENT YEAR**

The strategy of focusing on segments with higher valued-added and the good trend of the major businesses in the first half allow the group to confirm a further improvement in results for the full-year 2007, unless external factors of an extraordinary nature intervene which cannot be foreseen at this time.

## **RECONCILIATION OF CONSOLIDATED EQUITY**

The reconciliation between the equity of the parent, Pirelli & C. S.p.A., and the consolidated equity attributable to the equity holders of Pirelli & C. S.p.A. is as follows.

	(in millions of euro)			
	Share capital	Reserves	Income (loss)	Total
<b>Equity - Pirelli &amp; C. S.p.A. at June 30, 2007</b>	<b>2,790</b>	<b>83</b>	<b>139</b>	<b>3,012</b>
Results for the year of consolidated companies (pre-consolidation adjustments)			124	124
Capital and reserves of consolidated companies (pre-consolidation adjustments)		1,611		1,611
Consolidation adjustments:				
- carrying amount of investments in consolidated companies		(978)		(978)
- infragroup dividends		644	(644)	-
- other		(399)	489	90
<b>Consolidated equity - group at June 30, 2007</b>	<b>2,790</b>	<b>961</b>	<b>108</b>	<b>3,859</b>

## PIRELLI TYRE

The highlights can be summarized as follows:

	(in millions of euro)		
	1 <sup>st</sup> Half 2007	1 <sup>st</sup> Half 2006	Year 2006
. Net sales	<b>2,151.4</b>	2,018.4	3,949.5
. Gross operating profit	<b>301.7</b>	292.6	533.7
% of net sales	<b>14.0%</b>	14.5%	13.5%
. Operating profit	<b>206.3</b>	194.6	342.3
% of net sales	<b>9.6%</b>	9.6%	8.7%
. Earnings (losses) from investments	<b>0.4</b>	0.4	(2.4)
. Operating profit incl. earnings (losses) from investments	<b>206.7</b>	195.0	339.9
. Financial income (expenses)	<b>(28.3)</b>	(24.6)	(54.1)
. Income taxes	<b>(61.0)</b>	(52.1)	(86.5)
Income	<b>117.4</b>	118.3	199.3
% of net sales	<b>5.5%</b>	5.9%	5.0%
. Net financial (liquidity)/debt position	<b>695.5</b>	739.6	601.5
. Capital expenditures	<b>111</b>	115	224
. R&D expenditures	<b>75</b>	74	147
. Employees (number at period-end)	<b>26,876</b>	25,214	25,169
. Factories (number)	<b>24</b>	24	24

**Net sales** in the first half of 2007 amount to Euros 2,151.4 million, with an increase of 6.6 percent compared to the same period of the prior year. Excluding the foreign exchange effect, the increase is 8.4 percent.

The change can be summarized as follows:

• Volumes	+	2.9%
• Prices/mix	+	5.5%
<b>Change on a comparable basis</b>	+	<b>8.4%</b>
• Foreign exchange effect	-	1.8%
<b>Total change</b>	+	<b>6.6%</b>



The distribution of net sales is as follows:

<b>Geographical area</b>	<b>1<sup>st</sup> Half 2007</b>	<b>1<sup>st</sup> Half 2006</b>
Italy	11%	12%
Other European countries	39%	38%
North America	8%	8%
South America	27%	27%
Africa/Asia/Pacific	15%	15%

<b>Product category</b>	<b>1<sup>st</sup> Half 2007</b>	<b>1<sup>st</sup> Half 2006</b>
Car tyres	60%	60%
Industrial vehicle tyres	27%	27%
Motor cycle tyres	9%	9%
Steelcord and other tyres	4%	4%

**Gross operating profit** went from Euros 292.6 million (14.5 percent of net sales) in the first half of 2006 to Euros 301.7 million in the first half of 2007 (14 percent of net sales), with an increase of 3 percent compared to the same period of 2006.

Excluding non-recurring expenses incurred for the project to list Pirelli Tyre S.p.A. (Euros 6.5 million), the margin in the first half of 2006 was equal to Euros 299.1 million.

**Operating profit** is Euros 206.3 million, up 6 percent compared to the same period of the prior year, with the percentage of operating profit to net sales at 9.6 percent, compared to Euros 194.6 million in the first half of 2006 (9.6 percent of net sales).

The growth of sales and efficiencies compensated the increase in production factors. Raw material costs produced a negative effect on operating profit, excluding the foreign exchange effect, of Euros 29.5 million.

Excluding non-recurring expenses incurred to list Pirelli Tyre S.p.A. (Euros 6.5 million), the operating profit in the first half of 2006 was Euros 201.1 million.

The change can be summarized as follows (in millions of Euros):

<b>Operating profit 1<sup>st</sup> half 2006</b>		<b>194.6</b>
<hr/>		
. Foreign exchange effect	(4.9)	
. Prices/mix	34.2	
. Volumes	33.6	
. Production factors per unit cost	(49.5)	
. Efficiencies	7.7	
. Depreciation and other	(9.4)	
		<b>11.7</b>
<b>Operating profit 1<sup>st</sup> half 2007</b>		<b>206.3</b>
<hr/>		

**Income** in the first half of 2007 is Euros 117.4 million (after financial expenses of Euros 28.3 million and income tax expenses of Euros 61 million) compared to Euros 118.3 million in the first half of 2006 (after financial expenses of Euros 24.6 million and income taxes of Euros 52.1 million). The increase in financial expenses compared to the first half of 2006 is the result of the change in the balance sheet structure which took place during the second quarter of 2006.

The **net financial position** is a net debt position of Euros 695.5 million compared to Euros 601.5 million at December 31, 2006 after the payment of dividends for Euros 69.9 million (including Euros 42.7 million paid to Pirelli & C. S.p.A.).

At June 30, 2007, there are 26,876 **employees** (including 3,984 with temporary contracts). Compared to 25,169 (including 3,265 with temporary contracts) at December 31, 2006, the increase in the number of both temporary and permanent employees is mostly in Brazil and in the new investment areas in China and Romania.

## **Consumer market**

In the first half of 2007, there was overall growth in sales and profitability compared to the same period of 2006, thanks to higher volumes and a better price and product mix. In particular, sales amount to Euros 1,492 million (+6.4 percent compared to the first half of 2006) and the operating result from ordinary operations amounts to Euros 149.1 million (+8.5%), with a ROS of 10%.

In the **Car/Light Truck** segment, in Europe, the increase in volumes was particularly evident in the Original Equipment channel. In North America, despite a steady demand for Replacements and a negative demand for Original Equipment, Pirelli again reported double-digit growth. In South America, there was an overall increase in market demand and growth was particularly evident in the Original Equipment segment.

During the first half of 2007, the P Zero the Hero, the new ultra high-performance tyre developed for supercars, was launched on the world market.

The new P Zero has already obtained 15 homologations as original equipment for the latest and most prestigious supercars, including the Ferrari 599 GTB Fiorano, the Lamborghini Murciélago and Gallardo, the Audi R8 and S8, the Aston Martin DB9, the Maserati Quattroporte, the Jaguar XK and the Mercedes AMG models.

In the **Motorcycle** segment, too, there was an improvement in demand in all the main markets, especially in Europe, and North and South America, where Pirelli and Metzeler have strengthened their market shares.

Sales in the Motorcycle segment increased compared to the first half of 2006, in both the Pirelli and Metzeler brands. In the Replacements channel, there was significant growth in North America and Latin America. Sales in Europe continued to increase, despite a slight contraction of the market, which was slightly down compared to the first quarter.

There were positive results from sales in the Original Equipment channel, especially in Europe and Latin America. Pirelli obtained many important homologations, such as the MV F4 312 fitted with the Dragon Supercorsa PRO, the Ducati Hypermotard S fitted with Diablo Corsa III, the Aprilia Mana 850 fitted with Scorpion Sync, the Buell 1125R fitted with Diablo Corsa III and also for scooters, Gilera GP800, Gilera Fuoco 500 and Honda SH 300.

Metzeler obtained motorcycle homologations for the Guzzi Bellagio 940 fitted with Roadtec Z6, the Aprilia Shiver 750 fitted with the Sportec M3, and the Benelli TREK Amazzonas 1100 fitted with the Tourance.

Pirelli again led the field on the racetrack, confirming its success as the Official Tyre Supplier for the World Superbike Championship. One record after another was broken, demonstrating that the performance of Pirelli tyres is constantly improving. In Off-road competitions, Pirelli led the field in the World Motocross Championships in the MX1, MX3 categories and in the European championship. Metzeler dominated all classes of the World Enduro Championship. Pirelli achieved more outstanding results in Road Racing in the European National Championship and in the Extra-European Championship. In North America, Pirelli is the exclusive supplier of the Canadian Superbike Championship and the SunTrust MOTO-ST series organized by Grand-Am.

### **Industrial market**

The first half of 2007 closed with sales of Euros 659 million, an increase of 7 percent compared to the same period of 2006, despite the negative trend of the exchanges. The operating result from ordinary operations amounts to Euros 57.2 million, in line with the first half of 2006, despite increases in cost factors such as natural rubber and energy. ROS was 8.7%.

Overall, the market demand in Europe and South America was positive.

In the segment of tyres for **trucks**, Pirelli's business increased in China and consolidated the market share of the prior year in its reference markets (the Mediterranean area and South America), particularly with reference to the Original Equipment channel.

In the first half of 2007, the economic performance of **Steelcord** operations reported an increase in volumes compared to the same period of the prior year, in a market scenario where the demand remained stable - except in China, where it increased.

As a result of the considerable increase in the price of the raw material, steel, which began early in 2004, costs again remained high in the first half of 2007 (currently 60 percent higher than at the beginning of 2004).

Growth in production capacity continued in low-cost areas (Brazil, Romania and Turkey), which, today, represent two-thirds of production capacity.

### **Outlook for the current year**

For the current year, Pirelli Tyre forecasts that the trend of improvement in the operating results compared to the prior year will continue, unless external extraordinary events occur which cannot be foreseen at this time.

## **PIRELLI BROADBAND SOLUTIONS**

The highlights can be summarized as follows:

	(in millions of euro)		
	1 <sup>st</sup> Half 2007	1 <sup>st</sup> Half 2006	Year 2006
. Net sales	<b>55.8</b>	72.7	129.4
. Gross operating profit (loss)	<b>(5.9)</b>	(0.1)	1.1
% of net sales	n.s.	n.s.	n.s.
. Operating loss	<b>(6.9)</b>	(0.6)	(0.3)
% of net sales	n.s.	n.s.	n.s.
. Losses from investments	-	-	(1.0)
. Operating profit (loss) incl. earnings losses from investments	<b>(6.9)</b>	(0.6)	(1.3)
. Financial income (expenses)	<b>(1.0)</b>	(2.3)	(1.6)
. Income taxes	<b>0.0</b>	(0.4)	(0.4)
. Loss	<b>(7.9)</b>	(3.3)	(3.3)
% of net sales	n.s.	n.s.	n.s.
. Net financial (liquidity)/debt position	<b>22.3</b>	(1.0)	13.1
. Employees (number at year-end)	<b>185</b>	146	166

**Net sales** in the first half of 2007 amount to Euros 55.8 million compared to Euros 72.7 million in the first half of 2006 and are largely composed of broadband access products. The decrease is principally due to the change in the mix of broadband access products as well as the postponement of marketing campaigns by certain major customers of the company until the second half of the year. Photonics again recorded a contraction owing to a lengthening of the time to implement the IPTV systems by the telephone operators.

The **operating result** in the first half of 2007 is a loss of Euros 6.9 million. The higher loss compared to the first half of 2006 is due to the reduction in net sales and in the contribution margin of broadband access products. Second-generation photonic products again also recorded an operating loss.

The **loss** in the first half of 2007 is Euros 7.9 million after financial expenses of Euros 1 million.

The **net financial position** is a net debt position of Euros 22.3 million. This is higher than the net debt position at December 31, 2006 (Euros 13.1 million) due to an extension of payment terms for the major customers.

At June 30, 2007, there are 185 **employees** with an increase of 39 people compared to the first half of 2006 and 19 compared to December 31, 2006. The increase is concentrated in the Engineering and Sales functions.

### **Broadband access**

During the first six months of 2007, the portfolio composed five product lines, Access gateways, Set-top Boxes, Extenders, Terminals and PMP (Pirelli Management Platform), was further developed and consolidated.

In the **access gateways** line, the transition from previous software solutions to ones based on Jungo stack technology was completed. The first commercial product based on the new technology is the new residential Gateway for Fastweb, which also incorporates wireless MIMO MRC technology, deriving from the technological partnership with Ralink.

In cooperation with Digicom, which will act as a subcontractor, a project has been launched to create a solution for small business gateways which will make it possible to fill the gap in the product line in the SOHO market, thanks to a modular machine solution which can be configured for up to 8 voice channels, including BRI ISDN channels.

The **set-top box** line has been growing rapidly. In addition to making the first deliveries of products based on IP+DVB-T technology to Telecom Italia, the product portfolio was enhanced in the high performance range by a product based on IP+DVB-T+PVR technology, which will be used for the customer Telecom Italia France.

More news on the technology front indicates that Pirelli has acquired Confocus software, which will enable Pirelli Broadband Solutions to have an independent platform on which to develop new markets.

In the **extenders** line, certification was completed for AV power lines (thus completing the portfolio, since it already uses DS2 powerline chip technology) and the wireless MIMO 2.4 GHz and 5GHz extenders, which will be tested by some tier 1 operators.

In the field of **terminals**, sales of Dual Mode telephones continued to spread through Telecom Operators and large-scale distribution.

A slowdown in plans by telephone operators made it necessary to review the roadmap strategy for the new telephones, which will probably involve the introduction of a Windows-Mobile platform and the start of development of a multimedia telephone for the year 2008.

The **PMP** has been enhanced by the DuMan modular system, enabling it to operate dual mode telephones. A phase of system integration has been initiated with regard to the PMP, with the aim of making the best possible use of the solutions on offer, and by exploiting the SW solutions adopted in other product lines.

### **New Photonics Products**

During the first half of 2007, development activities focused mainly on the three main areas of the photonics business: innovative optical components, opto-electronic modules and optical transport systems.



With regard to **optical systems**, there was a slight contraction in sales of the Coarse WDM optical transport platform known as City8™, compared to the first half of 2006. The contraction can mainly be attributed to the slowdown in investments in IPTV networks on the part of leading telephone-network operators. Despite this, more than 2,000 devices were sold in Italy, France, Germany, Sweden, Spain and the United States. Since 2006, Greece has joined the list of customers. In addition, the 1.2 release of the device was launched on the market. This release, which adds new functions to the original version, will make the product more competitive on the market.

In the second half of 2007, this product will be further integrated with new functions, such as the capacity to support 10 Gbit/s signals and Dense WDM channels. As a result, it will be suitable not only for strengthening already-existing metropolitan broadband networks but can also be used for metro-regional segments.

In the sphere of **optical components**, after the positive conclusion of the qualification of the Tunable Laser, small volumes of the device are being shipped to customers in North America and the Far East. Production volumes are expected to increase in the second half of the year.

Finally, work continues on development of the line of innovative opto-electronic modules (in the MSA-tunable and XFP-pluggable format), begun in December 2005, based on optical devices and nanotechnology (such as the Tunable Laser and the Optical Dispersion Compensator) which were developed in-house. The company's main customers continued to test samples of the product at their premises prior to the release of the products on the market, scheduled for the second half of 2007.

### **Outlook for the current year**

Given the current trend of the market, especially in the field of broadband access, the company expects to significantly reduce the decline in net sales accumulated in the first half of 2007, compared to the prior year.

## PIRELLI REAL ESTATE

In the first six months of 2007, the operating profit including earnings from investments amounts to Euros 125.4 million compared to Euros 92.3 million in the first six months ended June 30, 2006, with an increase of 36 percent. The net income attributable to the equity holders of the company is up by 14 percent, from Euros 70.0 million in the first half of 2006 to Euros 80.1 million in the first half of 2007.

### Economic review

In reading the income statement presented below, it should be noted that the share of aggregate revenues and the operating profit including earnings from investments, because of the type of business conducted by the group, are the most important indicators and express, respectively, the group's share of business volumes and the trend in earnings.

(in millions of euro)	1 <sup>st</sup> Half 2007	1 <sup>st</sup> Half 2006
<b>Total share of aggregate revenues (1)</b>	<b>811.9</b>	<b>673.5</b>
Consolidated revenues	951.7	308.4
Consolidated revenues excluding DGAG	421.8	308.4
<b>Operating profit including earnings from investments (2)</b>	<b>125.4</b>	<b>92.3</b>
<b>Income attributable to the equity holders of the company</b>	<b>80.1</b>	<b>70.0</b>

(1) The share of aggregate revenues expresses the share of business volumes and includes consolidated revenues and the share of revenues of the associates, joint ventures and funds in which Pirelli RE has holdings

(2) Operating profit including earnings from investments comprises the operating profit (Euros 19.4 million) in addition to the share of earnings of companies accounted for by the equity method (Euros 60.0 million), dividends from holdings (Euros 2 million) and income from real estate investment funds (Euros 1.9 million)

The **share of aggregate revenues** amounts to Euros 811.9 million, an increase of 21 percent compared to Euros 673.5 million in the first half of 2006.

**Consolidated revenues** amount to Euros 951.7 million compared to Euros 308.4 million in the first half of 2006. Excluding the component relating to the first stage of the deconsolidation of DGAG, equal to Euros 529.9 million, consolidated revenues amount to Euros 421.8 million (+37 percent). The partial deconsolidation of the assets at the end of March 2007 related to a part of the residential portfolio which was transferred to the joint venture between Pirelli RE (35 percent) and the RREEF real estate investment funds of Deutsche Bank (65 percent) and the entire commercial portfolio acquired which was taken over by the joint venture between Pirelli RE (35 percent) and the MSREF real estate investment funds of Morgan Stanley (65 percent).

**Operating profit including earnings from investments** is Euros 125.4 million, with an increase of 36 percent compared to Euros 92.3 million of the same period of the prior year.

**Income attributable to the equity holders of the company** is Euros 80.1 million compared to Euros 70.0 million in the first half of 2006, an increase of 14 percent.

## **Balance sheet and financial review**

(in millions of euro)	6/30/2007	12/31/2006
<b>Fixed assets</b>	<b>745.2</b>	<b>581.7</b>
. including investments in funds and investment companies (1)	460.9	426.1
<b>Net working capital</b>	<b>1,147.0</b>	<b>283.3</b>
<b>Net invested capital</b>	<b>1,892.2</b>	<b>865.0</b>
<b>Equity</b>	<b>704.9</b>	<b>708.7</b>
. of which attributable to the equity holders of the company	694.9	700.3
<b>Provisions</b>	<b>92.5</b>	<b>59.9</b>
<b>Net financial (liquidity)/debt position (2)</b>	<b>1,094.8</b>	<b>96.4</b>
. of which shareholder loans	(333.6)	(334.1)
<b>Total net invested capital financed</b>	<b>1,892.2</b>	<b>865.0</b>
<b>Net financial (liquidity)/debt position before shareholder loans</b>	<b>1,428.4</b>	<b>430.5</b>
<b>Gearing ratio (3)</b>	<b>2.03</b>	<b>0.61</b>
<b>Net financial (liquidity)/debt position before shareholder loans post-deconsolidation of DGAG</b>	<b>571.0</b>	
<b>Gearing ratio, post-deconsolidation of DGAG</b>	<b>0.81</b>	

(1) This item includes investments in associates and joint ventures (Euros 382.5 million), investments in real estate investment funds and junior notes

(Euros 67.4 million included in the consolidated balance sheet under "available-for-sale financial assets") and junior notes

(Euros 11.1 million included in the balance sheet under "other receivables")

(2) The net financial position at June 30, 2007 post-deconsolidation of DGAG is estimated at about Euros 206 million

(3) The gearing ratio corresponds to the ratio of the net financial (liquidity)/debt position before shareholder loans to equity

**Equity attributable to the equity holders of the company** at June 30, 2007 is Euros 694.9 million compared to Euros 700.3 million at December 31, 2006, with a decrease of Euros 5.4 million. The change is mainly due to the income for the period (+Euros 80.1 million) and the distribution of dividends (-Euros 87.0 million).

The **net financial position** shows a net debt position of Euros 1,094.8 million: the net debt position at June 30, 2007 post-deconsolidation of the German company, which may be concluded by the end of September instead of at the announced date of the end of the year, is estimated at about Euros 206 million compared to Euros 96.4 million at December 31, 2006, with an increase attributable largely to the distribution of dividends (Euros 87 million).

The **adjusted net financial position** (expressed gross of shareholder loans made to minority-owned companies) is a net debt position of Euros 1,428.4 million. The adjusted net financial position at June 30, 2007 post-deconsolidation of DGAG is estimated at about Euros 571 million compared to Euros 430.5 million at December 31, 2006.

**Gearing** ratio, post-deconsolidation of DGAG is estimated at about 0.8, while the gearing ratio at the balance sheet date is 2.03 (0.61 at December 31, 2006).

**Fixed assets** total Euros 745.2 million compared to Euros 581.7 million at the end of December 2006, with an increase of Euros 163.5 million. The change is basically due, on one hand, to investments in Ingest Facility and DGAG (+Euros 119.8 million) and an increase in the value of the investments in associates, joint ventures and funds (+Euros 122.3 million), and, on the other, to the sale, in the area of non-performing loans, of the securities from the ex-Banco di Sicilia transaction (-Euros 83.1 million).

**Net working capital** is equal to Euros 1,147.0 million compared to Euros 283.3 million at the end of 2006. The increase of Euros 863.7 million is due to higher inventories, consolidated assets and liabilities following the acquisition of DGAG at the beginning of 2007.

### **Outlook for the current year**

Based on the results in the first half and available information, the group confirms that the growth forecast for operating profit including earnings from investments for the full-year 2007 will outperform the targets set in the 2006-2008 three-year plan (CAGR 10-15 percent).

## **PIRELLI AMBIENTE**

The highlights can be summarized as follows:

	(in millions of euro)		
	1 <sup>st</sup> Half 2007	1 <sup>st</sup> Half 2006	Year 2006
. Net sales	<b>35.0</b>	39.3	69.0
. Gross operating profit (loss)	<b>(2.8)</b>	1.9	0.5
% of net sales	n.s.	n.s.	n.s.
. Operating profit (loss)	<b>(3.1)</b>	1.5	(0.2)
% of net sales	n.s.	n.s.	n.s.
. Financial income (expenses)	<b>(0.1)</b>	-	(0.1)
. Income taxes	<b>0.0</b>	(0.4)	(0.5)
. Income (loss)	<b>(3.2)</b>	1.1	(0.8)
% of net sales	n.s.	n.s.	n.s.
. Net financial (liquidity)/debt position	<b>6.3</b>	(1.6)	-
. Employees (number at period-end)	<b>71</b>	48	52

The consolidated net result in the first half of June 30, 2007 is a loss of Euros 3.2 million compared to income of Euros 1.1 million for the corresponding period of 2006 and a loss of Euros 0.8 million for the year ended December 31, 2006.

A summary of the results of the three operating companies wholly-owned by Pirelli Ambiente S.p.A. is presented below.

### **Pirelli & C. Ambiente Renewable Energy S.p.A. (PARE)**

The result of the company in the first half of 2007 is a loss of Euros 0.9 million compared to income of Euros 1.7 million in the corresponding period of 2006 and Euros 0.7 million in the year ended December 31, 2006. It should be mentioned that the result for the year 2006 was positively affected by a deal concluded in the United Kingdom which led to the collection of consideration of Euros 2.9 million for the sale of patent rights.

During the first half, the company continued to develop negotiations with a view to starting new projects in the field of renewable energy through the production of quality fuel (RDF-P) from solid urban waste for the subsequent development of energy recovery through the replacement of primary fossil fuels in existing plants. Activities for producing the quality fuel (RDF-P) were profitably conducted through the associate I.D.E.A. Granda S.Cons.R.L., which recovered 11,500 tons of fuel compared to 8,600 tons in the corresponding period of 2006.

### **Pirelli & C. Ambiente Eco Technology S.p.A. (PAET)**

The consolidated operating result in the first half of 2007, although in line with forecasts, is a loss of Euros 1.3 million, which is higher than the loss of Euros 0.2 million reported in the same period of the prior year.

Despite the income from the emulsion division, in fact, the result reflects the costs incurred to develop the diesel post-treatment particulate filtering systems and the OEM project.

The net financial position at June 30, 2007 is a net debt position of Euros 4.6 million (Euros 0.6 million at December 31, 2006). This is the result of investments made for about Euros 1.4 million, the absorption of working capital for Euros 1.7 million and the operating loss of Euros 1 million, net of depreciation and amortization charges.

With regard to emulsions, the decrease in Gecam volumes marketed in Italy, equal to about 9 percent compared to the same period of 2006, is countered by the good trend in volumes marketed in France which increased by 7.6 percent.

As for diesel post-treatment filtering systems, despite the persisting slowness with which the regulatory framework is evolving at both a regional and national level, approximately 700 orders have already been acquired which, compared to the approximately 250 during the whole year of 2006, suggest that business will develop favorably and that the targets will be met.

**Pirelli & C. Ambiente Site Remediation S.p.A. (PASR)**

The result in the first half of 2007 is a loss of Euros 0.4 million compared to a loss of Euros 0.1 million in the corresponding period of 2006 and a loss of Euros 0.1 million in the year ended December 31, 2006.

During the first half of 2007, the company continued its work on the full-scale management of environmental problems principally for the companies of the group and related companies, with particular reference to Environmental Due Diligence, evaluation, planning and management of activities such as demolition and land reclamation conducted by specialist companies which are authorized to conduct such work.

Such work was mainly carried out at the Milano Bicocca industrial site and at the Corsico ex-Cartiere Burgo industrial site, as well as at the ex-Telecom Italia properties conferred to the Pirelli Real Estate group's company Tiglio.



## **CORPORATE GOVERNANCE**

Awareness of the importance of Corporate Governance for value creation for all shareholders and for progress in sustainable development induces the Company to keep its own corporate governance system constantly in line with national and international best practices, as well as making sure that it is up to date with legislative changes.

As already mentioned in the Annual Report, which is included in the relevant section of the balance sheet and is available on the website of the Company, such system is specified in the Code of Ethics, in the Company's By-laws, in the Rules of Proceedings for the Shareholders' Meeting and in a series of principles, rules and procedures.

Such documents (available on the website of the Company) are verified and where necessary updated in order to keep pace with developments in regulations and best international practices, as well as changes in practices.

In this section of the six-monthly Report, updates and additions to the corporate governance system of the Company during the current financial year up to the date of this report are highlighted.

### **The Board of Directors**

The Ordinary Shareholders' meeting held on April 23, 2007 resolved, among other things, the appointment of two directors: Alberto Bombassei (already appointed by the Board of Directors on September 12, 2006, in substitution of Carlo De Benedetti) and Luigi Roth (in substitution of Carlo Buora who, on November 6, 2006, resigned from all offices held in the Pirelli Group). Moreover, following the resignation of Paolo Vagnone from his position on July 20, 2007, the Board of Directors, in the meeting of July 26, 2007 appointed Enrico Tommaso Cucchiani as Director of the Company.

These directors, as well as the entire Board, will expire on the occasion of the Shareholders' Meeting which will be convened to approve the financial statements as of December 31, 2007.

Both Mr. Bombassei and Mr. Roth hold the requirements provided by the Legislative Decree February 24, 1998, n.58 ("Testo Unico della Finanza") and by the Corporate Governance Code issued by the "Corporate Governance Committee" (Borsa Italiana) to be qualified as independent; their appointment has brought the entire number of independent directors to 55% (eleven over twenty) of the total number of directors.

The current composition of the Board of Directors, in addition to being included in the beginning of this six-monthly Report, is also available on the website of the Company, together with the curricula vitae of each director.

#### **By-laws and Rules of Proceedings for the Shareholders' Meeting**

The Extraordinary General Meeting of Shareholders of April 23, 2007 has also approved some amendments to the Company By-laws in consideration of the new discipline introduced by the so-called Savings Protection Law (law n. 262 December 28, 2005) and the recommendations of the new Corporate Governance Code issued by Borsa Italiana (in particular: appointment of the manager responsible for preparing the company's financial reports; rules relevant to the request to add items to the agenda of the general meetings; rules relevant to the terms for the submission of slates for the appointment of directors).

The shareholders expressed their vote on the amendments proposed for each article with different voting.

Following such General Meeting, Commissione Nazionale per le Società e la Borsa ("Consob") has introduced regulations relevant to the Savings Protection Law and the relevant decree of coordination (Decreto Legislativo December 29, 2006, n. 303).

The Company's By-laws were substantially already in compliance with the new regulatory framework but the Company has deemed appropriate to proceed in particular with reference to the procedure of appointment of the Board of Statutory Auditors, prior to its expiry date, and with some amendments to the text of the By-laws.

The shareholders have also resolved to update the Rules of Proceedings for the Shareholders' Meeting. The main amendment is relevant to the effects on the organization of the General Meeting's works pursuant to the right granted to the shareholders by the Savings Protection Law to add items to the agenda of the meeting; other amendments aim at better clarifying the new regulations.

The current text of the By-laws and Rules of Proceedings for the Shareholders' Meeting are available on the website of the Company.

#### **Organizational model, principles, rules and procedures**

On March 12, 2007 the Board of Directors verified and amended the Organizational Model of the Company (adopted on July 31, 2003 pursuant to Legislative Decree June 8, 2001, n. 231) in accordance with the new regulatory framework. The Organizational Model of the Company consists of a set of principles and procedures arranged in a pyramidal system which can be summarized as follows: Group Code of Ethics, General Principles of Internal Control, Lines of Conduct, Internal Control Checklist.

Further changes to the corporate governance system of the Company following the provisions of the new Corporate Governance Code issued by Borsa Italiana were relevant to the "Rules of Conduct for Effecting Transactions with Related Parties" and to the "Procedure for Information Flows to Directors and Auditors".

The results of the above mentioned amendments according to the new regulatory framework, together with the recommendations and instructions expressed by the Code of Conduct, have already been published in the Annual Report on the corporate governance system included in the financial statements as of December 31, 2006.

### **Manager responsible for preparing the Company's financial reports**

In compliance with the Savings Protection Law, which introduces the new role of a Manager responsible for preparing the company's financial reports, and further to the acknowledgement of such rule in the Company's By-laws, on May 10, 2007 the Board of Directors appointed Claudio De Conto (General Manager and Chief Operating Officer of the Company, responsible for all fiscal and administrative departments) Manager responsible for preparing the Company's financial reports, granting him any organizational and managerial powers for the exercise of the tasks assigned, together with full economic independence.

The Manager responsible for preparing the Company's financial reports, together with the Chairman of the Board of Directors (the member delegated by the Board) will sign the report required by article 154-bis of the Testo Unico della Finanza starting from the financial statements as at December 31, 2007,

### **Composition of share capital**

On September 11, 2007 the share capital of Pirelli & C. S.p.A. was equal to Euros 2,791,311,344.64 divided in n. 5,367,906,432 shares with nominal value of Euros 0.52 each, of which n. 5,233,142,003 ordinary shares and n. 134,764,429 non convertible savings shares.

The share capital could be increased up to a maximum nominal value of Euros 2,819,508,786.64 by way of issuance of up to n. 54,225,850 ordinary shares of Euros 0.52 each, for a price of Euros 1.15 each, of which Euros 0.63 as a share premium, against the possible exercise of options granted to managers and others employed by the Company, by its subsidiaries and by the subsidiaries of the latter as part of the “Pirelli to People” and “Group Senior Executive” stock-option plans approved by Pirelli S.p.A. in 2001.

To the Company’s knowledge, no legal or natural person can exercise control on the Company itself, according to Article 93 of the “Testo Unico della Finanza”.

The names of the participants in the “Pirelli & C. S.p.A. Block Share Syndicate”, whose purpose is to ensure Pirelli & C. S.p.A. share structure stability, and an excerpt of the relevant agreement are available on the website of the Company [www.pirelli.com](http://www.pirelli.com).

### **Relations with investors and other shareholders**

In accordance with its tradition of transparency and fairness, the Company actively promotes relations with shareholders, institutional and private investors and with financial analysts, with other market operators and with the financial community in general within the proper limits of their respective roles, and periodically organizes meetings with representatives from the Italian and international communities.

In March 1999, the Company established an Investor Relations Department to foster dialogue with the financial market. The Investor Relations Department, (which reports directly to the Manager for Finance and Strategic Planning) is headed by Alberto Borgia and has its own section in the website of the Company at [www.pirelli.com](http://www.pirelli.com).

In this section investors can find every document published by the Company, including in the English language, related to financial reporting (e.g., the annual financial statements and the six-month interim period and quarterly reports) and the Corporate Governance system of the Company (e.g., the By-laws, the Regulations for Shareholders' Meetings, the Rules of Conduct for Effecting Transactions with Related Parties, the Procedure for Information Flows to Directors and Auditors, the Procedure for the Management and Communication to the Public of Privileged Information and the minutes of Shareholders' meetings). The section also gives access to press releases distributed by the Company and the documentation that the Company makes available to the financial community in presentations and/or meetings and information on the share capital of the Company and shareholders (including the publication of shareholders' agreements).

Pirelli & C. was one of the first companies in Italy and Europe to publish specific inserts giving economic and financial data in the mass media, as well as one of the first to set up a kit on the website for small investors.

Investors queries may be sent: *ir@pirelli.com*, *Tel: 02.64422949*; *fax: 02.64424686*.

## PIRELLI & C. S.p.A. – SUMMARY FINANCIAL DATA

### Balance sheet

*(in millions of euro)*

	<b>6/30/2007</b>	<b>12/31/2006</b>
Property, plant and equipment	99.5	103.4
Intangible assets	1.7	1.7
Financial assets	1,479.3	5,353.2
Net working capital	(32.0)	(186.1)
Non-current assets held for sale (Olimpia)	3,309.9	-
	<b>4,858.4</b>	<b>5,272.2</b>
Equity	3,012.2	2,882.3
Provisions	180.4	221.4
Net financial (liquidity)/debt position	1,665.8	2,168.5
	<b>4,858.4</b>	<b>5,272.2</b>

The above interim statement presents the balance sheet and financial position of the company. The most significant changes during the first half of 2007 refer to the following:

- **financial assets** decreased by Euros 3,873.9 million. An analysis of the changes is presented in the following table:

*(in millions of euro)***Investments:**

Banca Leonardo S.p.A.	3.6
RCS Mediagroup S.p.A.	2.8
Pirelli Cultura S.p.A.	1.3

**Divestitures:**

Intek S.p.A.	(6.8)
KME Group S.p.A.	(1.8)
Consortium S.r.l.	(0.3)

**Writedowns:**

Pirelli Holding N.V. (formerly Pirelli Tyre Holding N.V.)	(378.3)
Telecom Italia S.p.A.	(9.4)
Pirelli Cultura S.p.A.	(0.2)

**Reclassification of investment to "Non-current assets held for sale"**

Olimpia S.p.A.	(3,474.9)
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<b>Other</b>	(0.1)
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Measurement at fair value and income /expenses recognized in income at the time of sale of available-for-sale financial assets or in the presence of impairment losses previously recognized in equity	(9.8)
	<b>(3,873.9)</b>

- The change in **“net working capital”** is mainly due to the payment of the liability contracted with Pirelli Holding N.V. (formerly Pirelli Tyre Holding N.V.) for the purchase of the investment in Pirelli Tyre S.p.A. during the year 2006 (Euros 151.5 million).
- **“Non-current assets held for sale”** include the investment in Olimpia S.p.A. which was classified under financial assets in the financial statements at December 31, 2006. The investment in Olimpia S.p.A. (Euros 3,474.9 million at December 31, 2006) was written down by Euros 165 million to adjust the value of the investment to the estimated sales price;



- **Equity** increased by Euros 129.9 million compared to December 31, 2006. The changes in equity are presented in the following table:

*(in millions of euro)*

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<b>Equity at December 31, 2006</b>	<b>2,882.3</b>
Income/(expenses) recognized directly in equity:	
- Fair value adjustment of available-for-sale financial assets	(16.6)
- Income /expenses reversed to income at the time of sale of available-for-sale financial assets or in the presence of impairment losses	6.8
- Actuarial gains (losses) on employees' leaving indemnity	0.7
Total income (expenses) recognized directly in equity	(9.1)
Income for the period	139.0
<b>Equity at June 30, 2007</b>	<b>3,012.2</b>

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- **“Provisions”** decreased from the end of 2006 mainly as a result of the payment of the price adjustment (Euros 39.9 million) on the sale of the Pirelli activities in the Energy and Telecom Cables and Systems sectors to Goldman Sachs Capital Partners in July 2005.
- The **net debt position** went from a net debt position of Euros 2,168.5 million at December 31, 2006 to Euros 1,665.8 million at June 30, 2007, with a net decrease of Euros 502.7 million. The analysis of the changes is detailed in the following table:

*(in millions of euro)*

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<b>Net financial debt position at 12/31/2006</b>	<b>(2,168.5)</b>
Financial investments	(7.7)
Payment of price adjustment on sale of cables and systems sectors	(39.9)
Financial divestitures	106.4
Dividends collected	657.5
Change in net working capital	(154.1)
Financial expenses and other changes	(59.5)
<b>Net financial debt position at 6/30/2007</b>	<b>(1,665.8)</b>

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**Income statement**

*(in millions of euro)*

	<b>1<sup>st</sup> Half 2007</b>	<b>1<sup>st</sup> Half 2006</b>
Financial expenses, net	(427.6)	(25.7)
Financial investments	657.5	173.3
Other operating income (expenses)	(4.7)	(16.3)
<b>Income before income taxes</b>	<b>225.2</b>	<b>131.3</b>
Income taxes	2.7	0.5
<b>Income from continuing operations</b>	<b>227.9</b>	<b>131.8</b>
Income (loss) from discontinued operations	(88.9)	0.1
<b>Income for the period</b>	<b>139.0</b>	<b>131.9</b>

The income for the period amounts to Euros 139.0 million compared to Euros 131.9 million for the corresponding period of 2006.

The most important items are described below:

- Details of **net financial expenses** are as follows:

*(in millions of euro)*

	<b>1<sup>st</sup> Half 2007</b>	<b>1<sup>st</sup> Half 2006</b>
- Interest expenses	(49.4)	(37.5)
- Other financial expenses	(2.9)	(4.1)
- Impairment losses on available-for-sale financial asset and investments in subsidiaries	(387.7)	(1.4)
- Interest income	5.8	14.1
- Other financial income	0.2	0.5
- Gains on the sale of available-for-sale financial assets and investments	6.4	2.7
<b>Total net financial expenses</b>	<b>(427.6)</b>	<b>(25.7)</b>

Impairment losses refer mainly to Pirelli Holding N.V. (Euros 378.3 million).

- Details of “investment income” are as follows:

	<i>(in millions of euro)</i>	
	<b>1<sup>st</sup> Half 2007</b>	<b>1<sup>st</sup> Half 2006</b>
<b>Subsidiaries:</b>		
Pirelli Holding N.V.	550.0	100.0
Pirelli & C. Real Estate S.p.A.	44.1	40.7
Pirelli Tyre S.p.A.	42.7	-
Sipir Finance N.V.	5.5	7.0
Other minor companies	1.8	0.9
<b>Associates:</b>		
Eurostazioni S.p.A.	1.7	1.6
<b>Other companies:</b>		
Consortium S.r.l.	-	2.6
Capitalia S.p.A.	-	9.9
Telecom Italia S.p.A.	6.6	6.6
RCS Mediagroup S.p.A.	3.9	3.9
Other minor companies	1.2	0.1
<b>Total</b>	<b>657.5</b>	<b>173.3</b>

- “Other operating income (expenses)” show an improvement of Euros 11.6 million compared to the prior year. Details are as follows:

	<i>(in millions of euro)</i>	
	<b>1<sup>st</sup> Half 2007</b>	<b>1<sup>st</sup> Half 2006</b>
- Operating income (excluding nonrecurring income)	63.7	64.7
- Operating expenses (excluding nonrecurring expenses)	(71.2)	(77.8)
- Nonrecurring income	2.8	-
- Nonrecurring expenses	-	(3.2)
<b>Total other operating income (expenses)</b>	<b>(4.7)</b>	<b>(16.3)</b>

- The improvement in “**income taxes**” mainly refers to higher income, net, deriving from the national tax consolidation, which was partly offset by higher IRAP income taxes.
  
- “**Income (loss) from discontinued operations**” includes the gain realized on the sale to Goldman Sachs International of the warrants that had been assigned following the sale of the Energy and Telecom Cables and Systems Sectors in July 2005 (Euros 91 million) and the negative effect including the impairment loss and the costs connected with the transaction for the sale of the investment in Olimpia S.p.A. (Euros 179.9 million).

The Board of Directors

Milan, September 11, 2007

**THE GROUP**  
**INTERIM CONSOLIDATED FINANCIAL**  
**STATEMENTS**

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(in thousands of euros)					
<b>CONSOLIDATED BALANCE SHEET</b>		<b>6/30/2007</b>		<b>12/31/2006</b>	
		of which related parties		of which related parties	
3	Property, plant and equipment	1,628,292		1,574,589	
4	Intangible assets	629,558		516,374	
5	Investments in associates and joint ventures	433,643		3,825,928	
6	Available-for-sale financial assets	974,179		1,006,898	
7	Deferred tax assets	77,431		64,230	
9	Other receivables	500,986	334,353	705,828	334,211
	Tax receivables	11,949		10,917	
<b>NON-CURRENT ASSETS</b>		<b>4,256,038</b>		<b>7,704,764</b>	
10	Inventories	1,485,265		715,533	
8	Trade receivables	1,435,625	166,629	999,669	168,125
9	Other receivables	522,617	265,075	356,205	11,888
11	Securities held for trading	140,581		119,174	
12	Cash and cash equivalents	591,146		269,574	
	Tax receivables	40,999		33,432	
21	Financial instruments	40,841		29,147	
<b>CURRENT ASSETS</b>		<b>4,257,074</b>		<b>2,522,734</b>	
13	Non-current assets held for sale (Olimpia)	3,309,862			
<b>TOTAL ASSETS</b>		<b>11,822,974</b>		<b>10,227,498</b>	
14.1	Attributable to the equity holders of the company:	<b>3,859,199</b>		<b>3,879,591</b>	
	Share capital	2,789,950		2,789,950	
	Other reserves	961,008		1,971,026	
	Retained earnings	-		286,057	
	Income (loss) for the period	108,241		(1,167,442)	
14.2	Attributable to the minority interest:	<b>833,072</b>		<b>806,966</b>	
	Reserves	742,971		688,351	
	Income for the period	90,101		118,615	
<b>TOTAL EQUITY</b>		<b>4,692,271</b>		<b>4,686,557</b>	
18	Borrowings from banks and other financial institutions	1,791,250		1,377,426	
20	Other payables	47,243		156,886	
16	Provisions for other liabilities and charges	161,568		145,119	
7	Deferred tax liabilities	63,740		42,931	
17	Employee benefit obligations	385,270		415,850	
	Tax payables	9,985		9,708	
21	Financial instruments	5,842		4,751	
<b>NON-CURRENT LIABILITIES</b>		<b>2,464,898</b>		<b>2,152,671</b>	
18	Borrowings from banks and other financial institutions	2,574,221	311,675	1,562,262	242
19	Trade payables	1,263,751	37,662	1,102,456	25,085
20	Other payables	613,410	6,387	512,896	3,440
16	Provisions for other liabilities and charges	82,066		116,525	
	Tax payables	69,413	688	48,769	688
21	Financial instruments	62,944		45,362	
<b>CURRENT LIABILITIES</b>		<b>4,665,805</b>		<b>3,388,270</b>	
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>11,822,974</b>		<b>10,227,498</b>	

The lines of the financial statements relating to transactions with related parties are described in Note 37.



(in thousands of euros)				
CONSOLIDATED INCOME STATEMENT	1 <sup>st</sup> Half 2007		1 <sup>st</sup> Half 2006	
		of which related parties		of which related parties
23 Revenues from sales and services	3,196,741 *	135,707	2,445,883	169,200
24 Other income	186,950	48,175	137,166	52,000
- <i>of which, nonrecurring events</i>	2,818			
Change in inventories of work in process, semifinished and finished products	26,276		64,017	
Raw materials and consumables used	(1,488,390) *		(946,768)	
25 Personnel costs	(585,573)	(1,642)	(540,999)	(2,096)
- <i>of which, nonrecurring events</i>	5,140			
26 Amortization, depreciation and impairments	(109,131)		(109,052)	
27 Raw materials and consumables used	(1,019,134)	(72,080)	(837,153)	(54,396)
- <i>of which, nonrecurring events</i>			(12,500)	
Increase in property, plant and equipment from internal work	6,381		3,044	
<b>OPERATING PROFIT</b>	<b>214,120</b>		<b>216,138</b>	
28 Financial income	152,843	15,179	202,991	8,122
29 Financial expenses	(171,424)	(32)	(247,669)	
30 Dividends	13,936	6,602	43,259	26,344
31 Gains (losses) from changes in fair value of financial assets	(10,130)		(69,222)	
32 Share of earnings (losses) of associates and joint ventures	61,033	61,033	53,895	53,895
<b>INCOME BEFORE INCOME TAXES</b>	<b>260,378</b>		<b>199,392</b>	
33 Income taxes	(79,149)		(77,468)	
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>181,229</b>		<b>121,924</b>	
34 Income (loss) from discontinued operations	17,115		71,219	
<b>INCOME FOR THE PERIOD</b>	<b>198,344</b>		<b>193,143</b>	
<b>Attributable to:</b>				
equity holders of the company	108,242		153,045	
minority interest	90,102		40,098	
<b>35 EARNINGS PER SHARE (euros per thousand of shares)</b>				
<i>basic earnings per share</i>				
continuing operations	17.02		15.45	
discontinued operations	3.25		13.32	
	<b>20.27</b>		<b>28.77</b>	

\* of which Euros 529.9 million relates to the partial deconsolidation of Pirelli Real Estate's DGAG activities

The lines of the financial statements relating to transactions with related parties are described in Note 37.

## CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES

	<i>(in thousands of euros)</i>	
	<b>6/30/2007</b>	<b>6/30/2006</b>
Differences on translation of foreign currency financial statements	34,407	(63,977)
Fair value adjustment of available-for-sale financial assets	(21,145)	48,979
Net actuarial gains (losses) on employee benefits	13,462	55,085
Fair value adjustment of derivatives designated as cash flow hedges	1,897	28,270
Gains (losses) taken to income upon disposal of available-for-sale financial assets, or impairments	(119,219)	5,058
Tax effect	(6,909)	(7,350)
<b>Income (expenses) recognized directly in equity</b>	<b>(97,507)</b>	<b>66,065</b>
Income (loss) for the period	198,343	193,143
<b>Total income (expenses) recognized in equity</b>	<b>100,836</b>	<b>259,208</b>
<b>Attributable to:</b>		
- equity holders of the company	(15,528)	238,440
- minority interest	116,364	20,767

CONSOLIDATED STATEMENT OF CASH FLOWS		(in thousands of euros)		
		1 <sup>st</sup> Half 2007	1 <sup>st</sup> Half 2006	
		of which related parties	of which related parties	
	Income from continuing operations before taxes	260,378	199,392	
	Amortization, depreciation / impairment losses/reversals of intangible assets and property, plant and equipment	109,131	109,052	
	Financial expenses	171,424	247,203	
	Financial income	(152,843)	(210,235)	
	Dividends	(13,936)	(43,259)	
	Gains (losses) from changes in fair value of financial assets	10,130	76,932	
	Share of earnings (losses) of associates and joint ventures (net of dividends received)	(61,033)	(53,895)	
	Income taxes	(79,149)	(77,468)	
	Change in inventories	(1,433)	(85,180)	
	Change in trade receivables/payables	(126,953)	(61,404)	
	Change in other receivables/payables	88,906	50,720	
	Change in employee benefit obligations/other provisions	(11,064)	28,853	
	Other changes	9,386	7,769	
<b>A</b>	<b>Net cash flows provided by (used for) operating activities</b>	<b>202,944</b>	<b>188,480</b>	
	Investments in property, plant and equipment	(112,291)	(125,651)	
	Disposals of property, plant and equipment including gain/loss	10,477	10,547	
	Investments in intangible assets	(1,333)	(35,335)	
	Disposals of intangible assets including gain/loss	19	105	
	Acquisitions of investments in associates and joint ventures	(57,662)	(38,451)	
	Acquisitions of available-for-sale financial assets	(16,514)	(263,470)	
	Disposals of available-for-sale financial assets	28,860	13,500	13,500
	Dividends received	13,936	43,259	
	Net investment in business combinations	(316,608)		
<b>B</b>	<b>Net cash flows provided by (used for) investing activities</b>	<b>(451,116)</b>	<b>(395,496)</b>	
	Change in share capital and share premium reserve	-	27,254	
	Other changes in equity	4,995	(12,727)	
	Sale of Pirelli Real Estate shares	(16,561)	-	
	Change in financial payables	510,409	1,088,629	
	Change in financial receivables	165,746	(109,976)	
	Financial income/expenses (net of gains on fin. assets avail.-for-sale)	(69,144)	(36,968)	
	Dividends paid	(74,400)	(162,372)	(29,089)
<b>C</b>	<b>Net cash flows provided by (used for) financing activities</b>	<b>521,045</b>	<b>793,840</b>	
	Net cash flows provided by (used for) operating activities	-	-	
	Net cash flows provided by (used for) investing activities	48,862	-	
	Net cash flows provided by (used for) financing activities	-	-	
<b>D</b>	<b>Total cash flows provided by (used for) discontinued operations</b>	<b>48,862</b>	<b>-</b>	
<b>E</b>	<b>Total cash flows provided by (used) during the period (A+B+C+D)</b>	<b>321,735</b>	<b>586,824</b>	
<b>F</b>	<b>Cash and cash equivalents, at beginning of the period</b>	<b>259,389</b>	<b>146,310</b>	
<b>G</b>	Exchange differences on translation of cash and cash equivalents	3,605	(17,476)	
<b>H</b>	<b>Cash and cash equivalents, at end of the period (E+F+G) <sup>(°)</sup></b>	<b>584,729</b>	<b>715,658</b>	
	<sup>(°)</sup> of which:			
	cash	591,146	886,869	
	bank overdrafts	(6,417)	(171,211)	

The consolidated statement of cash flows shows transactions with related parties that cannot be deduced directly from the other statements.

## **NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

### **1. ACCOUNTING POLICIES**

As set forth in article 81 of Consob Regulation 11971 dated May 14, 1999 and subsequent amendments and additions, the Pirelli & C. Group has prepared the interim report for the six months ended June 30, 2007 pursuant to the IAS 34, Interim financial reporting, in a condensed format.

The valuation and measurement of the accounting data for the first six months of 2007 are based upon IFRS in force at June 30, 2007. The IFRS in force at December 31, 2007 could be different from those used in the preparation of these interim financial statements by reason of the future endorsement by the European Commission of new standards, new interpretations and guidelines issued by IFRIC. The consolidated financial statements as at December 31, 2007 could be affected by such changes.

The interim consolidated financial statements at June 30, 2007 have been prepared by applying the same accounting principles that were adopted for the preparation of the consolidated financial statements at December 31, 2006.

*Accounting standards and interpretations in effect since January 1, 2007 but not applicable to the group:*

- IFRIC 7 – Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies

This interpretation, endorsed by the European Union in May 2006 (EC Regulation 708/2006), provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity for the first time identifies the existence of hyperinflation in the economy of its functional currency. Under IFRIC 7, the entity must re-measure the amounts in its financial statements in accordance with IAS 29, as if the economy had always been hyperinflationary.

- IFRIC 8 – Scope of IFRS 2

IFRIC 8, endorsed by the European Union in September 2006 (EC Regulation 1329/2006), clarifies that IFRS 2 also applies to arrangements where an entity makes share-based payments for services for apparently nil or inadequate consideration.

In particular, IFRIC 8 states that where the identifiable consideration given appears lower than the fair value of the equity instrument granted (or liability incurred), this typically indicates that additional consideration has been or will be received.

- IFRIC 9 – Reassessment of Embedded Derivatives

This interpretation, endorsed by the European Union in September 2006 (EC Regulation 1329/2006), requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract, that is, at the time of initial recognition. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the original cash flows.

*Standards in effect since January 1, 2007 which will have impacts on the annual financial statements:*

- IFRS 7 – Financial Instruments: Disclosures

This standard, endorsed by the European Union in January 2006 (EC Regulation 108/2006), supersedes IAS 30 (Disclosures in Financial Statements of Banks and Similar Financial Institutions) and includes the section on disclosures contained in IAS 32 (Financial Instruments: Disclosure and Presentation) with amendments and additions; consequently, the title of IAS 32 has been changed to “Financial Instruments: Presentation”.

- Amendments to IAS 1 – Presentation of Financial Statements – Capital Disclosures

These amendments, endorsed by the European Union in January 2006 (EC Regulation 108/2006), provide that an entity presents disclosures that allow users of the financial statements to evaluate its objectives, policies and procedures for capital management.

- IFRIC 10 – Interim Financial Reporting and Impairment

This interpretation, endorsed by the European Union in June 2007 (EC Regulation 610/2007) deals with the interaction between the requirements of IAS 34 (Interim Financial Reporting) and the impairment loss on goodwill (IAS 36 – Impairment of Assets) and certain financial assets (IAS 39 – Financial instruments: Recognition and Measurement). IFRIC 10 states that where an entity has recognized an impairment loss in an interim period on goodwill or on a financial asset represented by an equity instrument, that impairment cannot be reversed in subsequent interim financial statements nor in the annual financial statements.

### **Financial statement formats**

Compared to the published consolidated financial statements at December 31, 2006, the following captions of the income statement have been redenominated:

- “Valuation of financial assets” has been changed to “Gains/(losses) from changes in fair value of financial assets”;

In the balance sheet, the following captions have been redenominated:

- “Assets held for sale” has been changed to “Non-current assets held for sale”;

“Impairment losses on available-for-sale financial assets” have been reclassified from “Valuation of financial assets” (now called “Gains/(losses) from changes in fair value of financial assets) to “Financial expenses”. The same reclassification was made for the period under comparison for an amount of Euros 1,880 thousand.

The “Gains and losses on disposal of securities held for trading” have been reclassified, respectively, from “Financial income” and “Financial expenses” to “Valuation of financial assets” (now redenominated “Gains/(losses) from changes in fair value of financial assets”).

The same reclassification was made for the period under comparison for amounts, respectively, of Euros 7,244 thousand and Euros 1,414 thousand.

Moreover, the company has applied Consob resolution 15519 dated July 27, 2006 with regard to financial statement formats and Consob Communication 6064293 dated July 28, 2006 with regard to disclosures.

In accordance with art. 5, paragraph 2 of Legislative Decree 38 dated February 28, 2005, these interim financial statements are expressed in euros, the functional currency.

**Non-current assets held for sale**

With regard to the investment in **Olimpia S.p.A.**, on April 28, 2007 an agreement was reached for the sale of the entire investment by Pirelli and Sintonia to leading institutional financial investors and industrial parties.

The investment was consequently classified in the balance sheet at June 30, 2007 in “Non-current assets held for sale”, and the economic effects are classified in “Income (loss) from discontinued operations”. For purposes of comparison, this treatment was also adopted for the presentation of Olimpia’s economic data for the first half of 2006.

**Seasonal factors affecting revenues**

Revenues are not significantly affected by seasonal factors.







### 3. PROPERTY, PLANT AND EQUIPMENT

The composition and movements in property, plant and equipment are as follows:

*(in thousands of euros)*

	6/30/2007			12/31/2006		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Gross carrying amount	Accumulated depreciation	Net carrying amount
Land	84,279	-	84,279	83,186	-	83,186
Buildings	659,640	(293,994)	365,646	636,276	(279,337)	356,939
Plant and machinery	2,588,780	(1,589,397)	999,383	2,453,970	(1,502,184)	951,786
Industrial and commercial equipment	555,570	(430,868)	124,702	530,971	(405,094)	125,877
Other property, plant and equipment	244,770	(190,488)	54,282	238,999	(182,198)	56,801
	<b>4,133,039</b>	<b>(2,504,747)</b>	<b>1,628,292</b>	<b>3,943,402</b>	<b>(2,368,813)</b>	<b>1,574,589</b>

*(in thousands of euros)*

Movements in gross carrying amount							
	12/31/2006	Exchange differences	Increase	Decrease	Reclassifications	Other	6/30/2007
Land	83,186	1,877	-	(810)	39	(13)	84,279
Buildings	636,276	13,281	13,581	(1,028)	(6,630)	4,160	659,640
Plant and machinery	2,453,970	64,334	79,699	(11,575)	(3,269)	5,621	2,588,780
Industrial and commercial equipment	530,971	13,828	14,563	(6,143)	3,361	(1,010)	555,570
Other property, plant and equipment	238,999	2,644	7,636	(14,447)	6,499	3,439	244,770
<b>Total</b>	<b>3,943,402</b>	<b>95,964</b>	<b>115,479</b>	<b>(34,003)</b>	<b>-</b>	<b>12,197</b>	<b>4,133,039</b>

*(in thousands of euros)*

Movements in accumulated depreciation							
	12/31/2006	Exchange differences	Reclassifications	Decrease	Depreciation / impairments	Other	6/30/2007
Buildings	(279,337)	(5,287)	(346)	1,522	(10,665)	119	(293,994)
Plant and machinery	(1,502,184)	(35,249)	1,810	9,638	(61,395)	(2,017)	(1,589,397)
Industrial and commercial equipment	(405,094)	(10,658)	1,182	4,340	(20,779)	141	(430,868)
Other property, plant and equipment	(182,198)	(2,141)	(2,646)	8,026	(8,261)	(3,268)	(190,488)
	<b>(2,368,813)</b>	<b>(53,335)</b>	<b>-</b>	<b>23,526</b>	<b>(101,100)</b>	<b>(5,025)</b>	<b>(2,504,747)</b>

*(in thousands of euros)*

Movements in net carrying amount								
	12/31/2006	Exchange differences	Increase	Decrease	Reclassifications	Depreciation / impairments	Other	6/30/2007
Land	83,186	1,877	-	(810)	39	-	(13)	84,279
Buildings	356,939	7,994	13,581	494	(6,976)	(10,665)	4,279	365,646
Plant and machinery	951,786	29,085	79,699	(1,937)	(1,459)	(61,395)	3,604	999,383
Industrial and commercial equipment	125,877	3,170	14,563	(1,803)	4,543	(20,779)	(869)	124,702
Other property, plant and equipment	56,801	503	7,636	(6,421)	3,853	(8,261)	171	54,282
	<b>1,574,589</b>	<b>42,629</b>	<b>115,479</b>	<b>(10,477)</b>	<b>-</b>	<b>(101,100)</b>	<b>7,172</b>	<b>1,628,292</b>

#### **4. INTANGIBLE ASSETS**

The composition and movements in intangible assets are as follows:

*(in thousands of euros)*

	12/31/2006	Exchange differences	Increase	Decrease	Amortization /impairments	Other	6/30/2007
Patents and intellectual property rights	777	-	-	-	(100)	(5)	672
Concessions, licenses and trademarks	24,188	7	971	-	(4,695)	1,164	21,635
Goodwill	479,734	(22)	122,346	(3,844)	-	9	598,223
Software	10,117	15	518	(7)	(3,038)	316	7,921
Other intangible assets	1,558	15	345	(12)	(198)	(601)	1,107
<b>Total</b>	<b>516,374</b>	<b>15</b>	<b>124,180</b>	<b>(3,863)</b>	<b>(8,031)</b>	<b>883</b>	<b>629,558</b>

The increase in “goodwill” mainly refers to the Facility cash generating unit as a result of the acquisition of the investment in Ingest Facility S.p.A. from Business Solutions (Fiat Group), finalized on February 28, 2007 (Euros 51,321 thousand), and the acquisition of the platform of services in Germany through the purchase of the DGAG Group, Deutsche Grundvermogen (Euros 71,000 thousand), whose attribution to the individual cash-generating units will be made when the goodwill is definitively determined.

The main features of the above business combination transactions are as follows:

- during January 2007, Pirelli & C. Real Estate S.p.A. finalized the purchase, indirectly through the subsidiary TIGOTAN Vermögensverwaltungsgesellschaft mbH, of the following:
  - 99.27 percent of the share capital of B&L Immobilien AG (now DGAG Deutsche Grundvermogen AG), a company which holds, directly and indirectly, 62 percent of the share capital of DGAG Deutsche Grundvermogen AG;
  - a further 38 percent of the share capital of DGAG Deutsche Grundvermogen AG (now Pirelli DGAG Deutsche Grundvermogen GmbH).

At June 30, 2007, the Pirelli RE Group has an approximate 99.4 percent stake in DGAG Deutsche Grundvermogen AG (formerly B&L Immobilien AG). The provisional purchase price was set at approximately Euros 475 million (including the costs directly attributable to the business combination of about Euros 12 million). Pirelli & C. Real Estate S.p.A. has already started a complex reorganization of the company and the activities of the DGAG Group aimed at adapting the DGAG Group to Pirelli RE's business model, a process begun at the end of March by means of the deconsolidation of the commercial properties and a part of the residential properties.

Specifically:

- the residential portfolio of the DGAG Group at June 30, 2007 is held indirectly by Jamesmail B.V. and Solaia B.V., two Dutch-registered companies in which, respectively, 100 percent and 35 percent stakes are held by Pirelli & C. Real Estate S.p.A. and the remaining 65 percent stake by RREEF Global Opportunities Fund II, LLC. Moreover, the assets of the company Jamesmail B.V. are also expected to be subsequently deconsolidated;
- the commercial portfolio was sold in part directly and in part through the sale of investments in real estate companies to Mistral Real Estate B.V., a Dutch-registered company in which Pirelli & C. Real Estate S.p.A. has a 35 percent stake and MSREF VI Pasha B.V. a 65 percent stake;
- the service provider activities of the DGAG Group are held by Pirelli & C. Real Estate Deutschland GmbH, a wholly-owned subsidiary of Pirelli & C. Real Estate S.p.A..

Initial accounting of this business combination, determined provisionally at June 30, 2007 since the purchase price, subject to a price adjustment based on the 2006 financial statements, has not yet been calculated, led to the provisional recognition of goodwill of approximately Euros 71 million which was allocated to the services platform purchased. The contribution made by the acquired investment to consolidated net sales and consolidated income from the date of acquisition to June 30, 2007 amounts, respectively, to Euros 596.3 million and a loss of Euros 2.4 million.

- On February 28, 2007, Pirelli & C. Real Estate Facility Management S.p.A. finalized the acquisition of a 100 percent stake in Ingest Facility S.p.A. from Business Solutions (Fiat Group). The purchase price, subject to price adjustment, was set at about Euros 50.3 million. Initial accounting of this business combination, determined provisionally at June 30, 2007 since the process for the measurement of the fair value of the acquired assets and liabilities has not yet been concluded, led to the recognition of provisional goodwill of about Euros 51 million. The contribution made by the acquired investment to consolidated net sales and consolidated income from the date of acquisition to June 30, 2007 amounts, respectively, to Euros 79.7 million and a loss of Euros 0.8 million.

Furthermore, on June 27, 2007, the sale of a 49 percent stake in Pirelli RE Integrated Facility Management B.V. to Intesa Sanpaolo was finalized. Prior to that sale, under the framework agreement sealed with Intesa Sanpaolo, Pirelli & C. Real Estate S.p.A. sold the entire investment in Newco RE 2 S.r.l., to which the full investment in Pirelli & C. Real Estate Facility Management S.p.A. was sold previously, to Pirelli RE Integrated Facility Management B.V..

## **5. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES**

Investments in associates and joint ventures total Euros 433,643 thousand compared to Euros 3,825,928 thousand at December 31, 2006.

Movements during the period are as follows:

	<i>(in thousands of euros)</i>	
	<b>6/30/2007</b>	<b>12/31/2006</b>
Beginning amount	3,825,928	4,542,902
Acquisition/change in share capital and reserves	115,216	1,228,115
Distribution of dividends	(57,093)	(87,188)
Disposals and wind-ups	(23,300)	(50,972)
Share of earnings	61,033	(1,836,411)
Reclassifications	(3,487,855) *	(1,206)
Other	(286)	30,688
	<b>433,643</b>	<b>3,825,928</b>

\* Non-current assets held for sale (Olimpia)

The following table details the movements in investments in associates:

	<i>(in thousands of euros)</i>							
	12/31/2006	Acquisition/ change in share capital and reserves/other	Distribution of dividends/ reserves	Disposals and wind-ups	Share of earnings (losses)	Reclassifications	Other	6/30/2007
Dixia S.r.l.	5,589	(19)	-	-	175	-	-	5,745
Orione Immobiliare Prima S.p.A.	1,712	-	-	-	(1,277)	-	-	435
Sci Roev Texas Partners L.P.	2,224	-	-	-	(1,023)	-	-	1,201
Spazio Investment N.V.	47,564	13,453	(553)	-	4,585	-	-	65,049
Turismo e Immobiliare S.p.A.	4,147	400	-	-	(163)	-	-	4,384
Eurostazioni S.p.A.	53,616	-	(1,675)	-	943	-	-	52,884
Other	(343)	(154)	-	(85)	(501)	-	(286)	(1,369)
<b>Total investments in associates</b>	<b>114,509</b>	<b>13,680</b>	<b>(2,228)</b>	<b>(85)</b>	<b>2,739</b>	<b>-</b>	<b>(286)</b>	<b>128,329</b>

The following table details the movements in investments in joint ventures:

	<i>(in thousands of euros)</i>							
	12/31/2006	Acquisition/ change in share capital and reserves/other	Distribution of dividends/ reserves	Disposals and wind-ups	Share of earnings (losses)	Reclassifications	Other	6/30/2007
Afrodite S.à.r.l.	3,843	-	-	-	1,794	-	-	5,637
Alceo B.V.	-	-	-	-	1,149	-	-	1,149
Alimede Luxembourg S.à.r.l.	54	155	-	-	1,343	-	-	1,552
Alnitak S.à.r.l.	2,106	-	-	-	193	-	-	2,299
Altair Zander Italia S.r.l.	70	-	-	-	56	-	-	126
Aree Urbane S.r.l.	7,920	-	-	-	(206)	-	-	7,714
Artemide S.à.r.l.	2,417	-	-	-	1,084	-	-	3,501
Austin S.à.r.l.	3,790	-	(2,083)	-	4,079	-	-	5,786
Beteiligungsgesellschaft Einkaufszentrum Mülheim GmbH	-	11	-	-	-	-	-	11
Capitol Immobiliare S.r.l.	39	100	-	-	(53)	-	-	86
Castello S.r.l.	144	-	-	-	6	-	-	150
Colombo S.à.r.l.	5,530	-	(924)	-	13,326	-	-	17,932
Consorzio ARP	53	-	-	-	-	-	-	53
Consorzio G6 Advisor	22	-	-	-	-	-	-	22
Continuum S.r.l.	4,688	(85)	-	-	(941)	-	-	3,662
Dallas S.à.r.l.	3,790	-	(2,083)	-	4,028	-	-	5,735
Delamain S.à.r.l.	-	563	-	-	(1)	-	-	562
Dolcetto Otto S.r.l.	11	30	-	-	(8)	-	-	33
Domogest S.r.l. (in liquidation)	1,025	(32)	-	(993)	-	-	-	-
Doria S.à.r.l.	5,422	-	(918)	-	13,325	-	-	17,829
Elle Dieci S.c.a.r.l.	40	-	-	-	-	-	-	40
Elle Tre S.c.a.r.l.	40	-	-	-	-	-	-	40
Erice S.r.l.	1,251	173	-	-	38	-	-	1,462
Espelha - Serviços de Consultadoria L.d.A.	39,222	-	-	-	3,070	-	-	42,292
European NPL S.A.	9,196	2,723	-	-	2,107	-	-	14,026
Fattoria Medicea S.r.l.	525	-	-	-	(17)	-	-	508
Galatea S.r.l.	-	-	-	-	13	-	-	13
Gamma RE B.V.	-	77,934	-	(19,899)	(491)	-	-	57,544
Gestioni Immobiliari 2003 S.r.l.	98	140	-	-	(78)	-	-	160
Golfo Aranci S.p.A. - Società di trasformazione urbana	1,378	793	-	-	(13)	-	-	2,158
H&L Geschäftsführung GmbH	-	13	-	-	-	-	-	13
H&L Immobilien GmbH & Co.KG	-	829	-	-	-	-	-	829
Kurpromenade 12 Timmendorfer Strand GG KG	-	6,195	-	-	-	-	-	6,195
Immobiliare Prizia S.r.l.	6,351	(33)	-	-	(997)	-	-	5,321
IN Holdings I S.à.r.l.	407	-	-	-	(43)	-	-	364
Induxia S.r.l.	1,806	-	-	-	(341)	-	-	1,465
Inimm Due S.à.r.l.	3,959	(41)	-	-	405	-	-	4,323
Iniziativa Immobiliari S.r.l.	7,385	-	(2,659)	-	(572)	-	-	4,154
Localto ReoCo S.r.l.	4	-	-	-	(1)	-	-	3
Maro S.r.l.	42	144	-	-	(44)	-	-	142
Masaccio S.r.l.	195	-	-	-	1	-	-	196
Massetto I B.V.	18,467	(13)	(13,560)	-	2,019	-	-	6,913
Max B.V.	5,134	73	-	-	1,154	-	-	6,361
Mistral Real Estate B.V.	-	2,796	-	-	(789)	-	-	2,007
M.S.M.C. Italy Holding B.V.	12,527	(218)	(2,957)	-	(279)	-	-	9,073
Möller & Company GmbH & Co. KG	-	40	-	-	-	-	-	40
Möller & Company GmbH	-	9	-	-	-	-	-	9
MP Facility S.p.A.	1,237	155	-	-	155	-	-	1,547
Nashville S.à.r.l.	3,791	-	(2,083)	-	4,079	-	-	5,787
Polish Investments Real Estate Holding B.V.	2,416	(19)	-	-	(178)	-	-	2,219
Polish Investments Real Estate Holding II B.V.	-	39	-	-	(8)	-	-	31
Popoy Holding B.V.	16,008	(11)	(11,196)	-	3,397	-	-	8,198
Progetto Bicocca La Piazza S.r.l.	372	198	-	-	152	-	-	722
Progetto Nuovo Sant'Anna S.r.l.	1,458	1,487	-	(1,485)	(57)	-	-	1,403
Progetto Gioberti S.r.l.	358	-	-	-	(210)	-	-	148
Quadrioglio Milano S.p.A.	5,374	(65)	-	-	(129)	-	-	5,180
Resi S.r.l. (formerly Dolcetto Cinque S.r.l.)	8	-	-	-	(2)	-	-	6
Resident Baltic GmbH	-	263	-	-	2	-	-	265
Resident Berlin 1 P&K GmbH	3,855	-	-	-	13	-	-	3,868
Resident Brandenburg GmbH	-	1	-	-	-	-	-	1
Resident Sachsen P&K GmbH	-	134	-	-	2	-	-	136
Resident West GmbH	-	209	-	-	1	-	-	210
Rinascente/Upim S.r.l.	4,645	313	-	-	(2,036)	-	-	2,922
Riva dei Ronchi S.r.l.	719	-	-	-	(62)	-	-	657
Roca S.r.l.	341	487	-	-	(169)	-	-	659
S.A.N.CO S.c.a.r.l.	2	-	-	-	-	-	-	2
SCM Finanzierungsberatungsgesellschaft mbH	-	13	-	-	-	-	-	13
S.I.MA.GEST2 S.c.a.r.l.	-	15	-	-	-	-	-	15
Sicily Investments S.à.r.l.	5	507	-	-	484	-	-	996
Solaia Real Estate B.V.	-	1,120	-	-	(237)	-	-	883
Solaris S.r.l.	4,308	-	-	-	(3,593)	-	-	715
S.I. Real Estate Holding B.V.	4,502	-	(3,000)	-	(279)	-	-	1,223
S.I.G. RE B.V.	-	3,285	-	-	(7)	-	-	3,278
Tamerice Immobiliare S.r.l.	14,783	(3)	(12,478)	-	(652)	-	-	1,650
Tizian Wohnen 1 GmbH	2,764	345	-	(617)	(16)	-	-	2,476
Tizian Wohnen 2 GmbH	1,148	114	-	(221)	26	-	-	1,067
Trinacria Capital S.à.r.l.	5	593	-	-	575	-	-	1,173
Trinoro S.à.r.l.	3	-	-	-	(2)	-	-	1
Trixia S.r.l.	798	-	-	-	(604)	-	-	194
Verwaltung City Center Mülheim GmbH	-	11	-	-	-	-	-	11
Verwaltung Büro- und Lichtspielhaus GmbH	-	15	-	-	-	-	-	15
Verwaltung Kurpromenade 12 Timmendorfer Strand GG mbH	-	22	-	-	-	-	-	22
Verwaltung Mercado Ottensen Grundstücksgesellschaft mbH	-	10	-	-	-	-	-	10
Vespucci S.à.r.l.	5,529	-	(924)	-	13,336	-	-	17,941
Vesta Finance S.r.l.	12	-	-	-	-	-	-	12
Waterfront Flegreo S.p.A.	172	(1)	-	-	(3)	-	-	168
Olimpia S.p.A.	3,487,855	-	-	-	-	(3,487,855)	-	-
<b>Total investments in joint ventures</b>	<b>3,711,419</b>	<b>101,536</b>	<b>(54,865)</b>	<b>(23,215)</b>	<b>58,294</b>	<b>(3,487,855)</b>	<b>-</b>	<b>305,314</b>
<b>TOTAL INVESTMENTS IN ASSOCIATES AND JOINT VENTURES</b>	<b>3,825,928</b>	<b>115,216</b>	<b>(57,093)</b>	<b>(23,300)</b>	<b>61,033</b>	<b>(3,487,855)</b>	<b>(286)</b>	<b>433,643</b>



The reclassification of Euros 3,487,855 thousand refers to the value of the investment in Olimpia S.p.A. at December 31, 2006, reclassified to “non-current assets held for sale”.

As regards the share of earnings, reference should be made to the note in the income statement “share of earnings (losses) of associates and joint ventures”.

## **6. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

Available-for-sale financial assets amount to Euros 974,179 thousand compared to Euros 1,006,898 thousand at December 31, 2006.

Movements during the period are as follows:

	<i>(in thousands of euros)</i>	
	<b>6/30/2007</b>	<b>12/31/2006</b>
Beginning amount	1,006,898	1,032,317
Increase	16,920	251,139
Decrease	(22,482)	(161,889)
Impairments	-	(13,376)
Gains/(losses) taken to income upon disposal of available-for-sale financial assets, or impairments, previously recorded in equity	(111)	(126,797)
Fair value adjustment gains/(losses) recognized in equity	(27,012)	23,842
Reclassifications	-	1,206
Other	(34)	456
	<b>974,179</b>	<b>1,006,898</b>

The increase mainly refers to the Banca Leonardo S.p.A. shares subscribed to for Euros 3,628 thousand, the allocation of RCS Mediagroup S.p.A. bonus ordinary shares for Euros 2,814 thousand and the purchase of closed-end Olinda Fondo Shops real estate investment fund shares for Euros 7,170 thousand.

The decrease principally regards the disposal of the investments in Intek S.p.A. for Euros 6,800 thousand, KME Group S.p.A. for Euros 1,793 thousand and the forward share transaction put into place with Banca Caboto on April 19, 2007 on 134,957,885 Telecom Italia ordinary shares held by Pirelli Finance Luxembourg S.A. (Euros 12,582 thousand). The shares were sold at the spot price per share of Euros 2.3275 for a total of Euros 314.1 million (realizing a gain of Euros 2.1 million) and were later purchased on the forward date of July 24, 2007 at a price per share of Euros 2.2187 for a total of Euros 299.4 million.

## **7. DEFERRED TAX ASSETS AND LIABILITIES**

These are composed as follows:

	<i>(in thousands of euros)</i>	
	<b>6/30/2007</b>	<b>12/31/2006</b>
Deferred tax assets	77,431	64,230
Deferred tax liabilities	(63,740)	(42,931)
	<b>13,691</b>	<b>21,299</b>

The tax effect of income and expenses recognized directly in equity is an expense of Euros 5,527 thousand (an expense of Euros 6,935 thousand at December 31, 2006) and is shown in the statement of recognized income and expenses. These movements are mainly due to the tax effect on actuarial gains/losses on employee benefits and the fair value adjustment of available-for-sale financial assets.

## **8. TRADE RECEIVABLES**

Trade receivables are analyzed as follows:

	6/30/2007			12/31/2006		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures	97,842	-	97,842	115,450	-	115,450
Third parties	1,329,702	-	1,329,702	879,824	-	879,824
Receivables on construction contracts	8,151	-	8,151	4,395	-	4,395
	<b>1,435,695</b>	<b>-</b>	<b>1,435,695</b>	<b>999,669</b>	<b>-</b>	<b>999,669</b>

The increase in trade receivables from third parties is mainly due to the temporary inclusion in the scope of consolidation (since the process to adapt the companies to the usual Pirelli Real Estate model has not yet been completed) of the companies in the DGAG Group controlled by Jamesmail B.V. (for Euros 114,139 thousand) and Pirelli & C. Real Estate Deutschland GmbH (for Euros 75,623 thousand), in addition to the companies in the Ingest Facility Group (Euros 69,690 thousand).

## **9. OTHER RECEIVABLES**

Other receivables can be analyzed as follows:

	June 30, 2007			December 31, 2006		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures						
- financial receivables	574,828	333,849	240,979	333,804	333,561	243
- other receivables	24,816	715	24,101	11,108	169	10,939
Financial receivables from third parties	117,168	80,660	36,508	246,896	219,935	26,961
Trade and other accrued income and prepaid expenses/third parties	22,421	15	22,406	18,949	249	18,700
Financial accrued income and prepaid expenses	4,503	1,458	3,045	13,542	7,999	5,543
Receivables from employees	9,366	3,573	5,793	6,882	3,373	3,509
Receivables from social security agencies	4,346	-	4,346	2,856	-	2,856
Receivables from tax authorities	65,777	9,613	56,164	74,592	10,348	64,244
Receivables for junior notes	11,106	11,106	-	94,177	94,177	-
Other receivables	189,272	59,997	129,275	259,227	36,017	223,210
	<b>1,023,603</b>	<b>500,986</b>	<b>522,617</b>	<b>1,062,033</b>	<b>705,828</b>	<b>356,205</b>

Non-current financial receivables from associates and joint ventures, equal to Euros 333,849 thousand, refer to the real estate sector and are classified as non-current since the collection times, connected with the plans for the disposal of properties held directly and indirectly by the companies, will be concluded over a period between two and five years.

These loans are made at rates in line with those applied by the major market operators except for non-interest bearing loans made to certain non-operating companies or companies in a stage of transition for a total amount of Euros 21,395 thousand at June 30, 2007 (Euros 20,276 thousand at December 31, 2006).

The increase in current financial receivables from associates and joint ventures of Euros 240,736 thousand, compared to December 31, 2006, can be attributed to the temporary inclusion of the companies of DGAG Group in the scope of consolidation.

The decrease in non-current financial receivables from third parties of Euros 139,275 thousand compared to December 31, 2006 is due mainly to the sale of the vendor loan to Goldman Sachs International Bank following the agreement reached on July 28, 2005 between Pirelli and Goldman Sachs Capital Partners for the sale of the Pirelli Energy and Telecom Cables and Systems business (Euros 145,742 thousand).

The decrease in “receivables for junior notes” compared to December 31, 2006 is due, for Euros 83,464 thousand, to the sale of the Class E junior notes and DPP from the securitization of a non-performing loan portfolio of the former Banco di Sicilia purchased during the prior year.

The decrease in “other current receivables” is due, for Euros 140,000 thousand, to the utilization of the advances made at the end of 2006 for the purchase of Deutsche Grundvermogen AG (DGAG).

**10. INVENTORIES**

	<i>(in thousands of euros)</i>	
	<b>6/30/2007</b>	<b>12/31/2006</b>
Pirelli Tyre	586,045	590,925
Pirelli Real Estate	890,326	120,642
Other	8,894	3,966
	<b>1,485,265</b>	<b>715,533</b>

	<i>(in thousands of euros)</i>	
	<b>6/30/2007</b>	<b>12/31/2006</b>
Raw materials, auxiliaries and consumables	142,509	133,294
Sundry materials	385	1,774
Trading properties held for sale	747,138	56,807
Work in process and semifinished products	67,090	66,629
Finished products	160,159	195,073
Merchandise purchased for resale	234,950	216,811
Land to be developed	128,793	37,795
Advances	4,241	7,350
	<b>1,485,265</b>	<b>715,533</b>

The increase in Pirelli Real Estate's inventories of trading properties held for sale, equal to Euros 690,331 thousand, is mainly connected to the temporary inclusion in the scope of consolidation of the German companies of the DGAG Group controlled by Jamesmail B.V., which hold primarily residential properties located in the north of Germany.

The increase in land to be developed is due, for Euros 55,672 thousand, to the consolidation of certain companies of the German DGAG Group and the land purchased from Iniziative Immobiliari 3. S.r.l. by Progetto Corsico S.r.l. and Progetto Lainate S.r.l..

The impairment losses on inventories recognized during the first half are equal to Euros 9,576 thousand and the reversal of previous impairment losses amounts to Euros 8,126 thousand.

## **11. SECURITIES HELD FOR TRADING**

These are securities, mainly bonds issued and guaranteed by governments and banking institutions, classified as held for trading.

## **12. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are concentrated in the financial companies, the holding companies and the subholding companies of the group. They are mainly invested in the short-term deposits market at leading banking counterparts primarily at interest rates reflecting market rates.

For purposes of the statement of cash flows, the balance of cash and cash equivalents is shown net of bank overdrafts, equal to Euros 6,417 thousand at June 30, 2007 and Euros 171,211 thousand at June 30, 2006.

## **13. NON-CURRENT ASSETS HELD FOR SALE**

The amount of Euros 3,309,862 thousand refers to the investment in Olimpia S.p.A. (Euros 3,487,855 thousand at December 31, 2006). At the end of 2006, this investment was classified as “Investments in associates and joint ventures”. The decrease of Euros 177,993 thousand, compared to December 31, 2006, refers to the adjustment made to bring the value of the investment in line with the estimated sale price.

## 14. EQUITY

Changes in equity are as follows:

*(in millions of euros)*

	Share capital	Share premium reserve	Legal reserve	Reserve for translation differences	Other reserves / Retained earnings	Total attributable to equity holders of company	Minority interest	Total
<b>Balance at 12/31/2005</b>	<b>2,763</b>	<b>759</b>	<b>82</b>	<b>198</b>	<b>1,403</b>	<b>5,205</b>	<b>409</b>	<b>5,614</b>
Total income and expenses recognized directly in equity	-	-	-	(45)	130	85	(19)	66
Income for the first half					153	153	40	193
Appropriation of income as per resolution of 4/21/2006:								
- legal reserve			7		(7)	-		-
- dividend payment					(114)	(114)		(114)
Other dividends paid to third parties						-	(49)	(49)
Exercise of warrants 2003-2006	27					27		27
Movements in Pirelli & C. Real Estate S.p.A. treasury shares					(14)	(14)	(11)	(25)
PRE stock options exercised in the period						-	12	12
Acquisition of interests from minority interest						-	(8)	(8)
Other						-	(1)	(1)
<b>Balance at 6/30/2006</b>	<b>2,790</b>	<b>759</b>	<b>89</b>	<b>153</b>	<b>1,551</b>	<b>5,342</b>	<b>373</b>	<b>5,715</b>
Total income and expenses recognized directly in equity	-	-	-	(34)	(150)	(184)	3	(181)
Income (loss) for the second half					(1,320)	(1,320)	78	(1,242)
Movements in Pirelli & C. Real Estate S.p.A. treasury shares					39	39	34	73
P. Tyre minority interest stake sold by private placement						-	295	295
PRE stock options exercised in the period					2	2	17	19
Acquisition of interests from minority interest						-	(7)	(7)
Minority interest share capital increase						-	15	15
Other					1	1	(1)	-
<b>Balance at 12/31/2006</b>	<b>2,790</b>	<b>759</b>	<b>89</b>	<b>119</b>	<b>123</b>	<b>3,880</b>	<b>807</b>	<b>4,687</b>
Total income and expenses recognized directly in equity	-	-	-	18	(142)	(124)	26	(98)
Income for the first half					108	108	90	198
Appropriation of result as per resolution of 4/23/2007:								
- absorption of loss		(748)			748	-		-
- dividend payment						-		-
Other dividends paid to third parties						-	(74)	(74)
Movements in Pirelli & C. Real Estate S.p.A. treasury shares					(8)	(8)	(8)	(16)
PRE stock options exercised in the period					1	1	1	2
Acquisition of interests from minority interest						-	(8)	(8)
Other					2	2	(1)	1
<b>Balance at 6/30/2007</b>	<b>2,790</b>	<b>11</b>	<b>89</b>	<b>137</b>	<b>832</b>	<b>3,859</b>	<b>833</b>	<b>4,692</b>

## **14.1 EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY**

Share capital amounts to Euros 2,789,950 thousand at June 30, 2007 and consists of 5,233,142,003 ordinary shares and 134,764,429 savings shares, all with a par value of Euros 0.52 per share and normal dividend rights.

The changes in share capital are detailed below:

	Number of ordinary shares (thousands) *	Number of savings shares (thousands)	Ordinary shares (€ thousands)	Savings shares (€ thousands)	Total (€ thousands)
Balance at December 31, 2006	5,230,524	134,764	2,719,873	70,077	2,789,950
Changes	-	-	-	-	-
Balance at June 30, 2007	5,230,524	134,764	2,719,873	70,077	2,789,950

\* net of 2,617,500 treasury shares in portfolio

## **14.2 EQUITY ATTRIBUTABLE TO THE MINORITY INTEREST**

The minority interest in equity went from Euros 806,966 thousand at December 31, 2006 to Euros 833,072 thousand at June 30, 2007. The change is mainly due to the balance between the income for the first half of 2007, the payment of dividends referring to the prior year and the impact of the translation of foreign currency financial statements to euros.



The major percentages of investments held by minority interests are as follows:

	6/30/2007	12/31/2006
Shared Service Center s.c.a r.l. (Italy)	50.00%	50.00%
Drahtcord Saar Gmbh & Co. K.G.	50.00%	50.00%
Celikord A.S. (Turkey)	49.00%	49.00%
Pirelli & C. Ambiente S.p.A. (Italy)	49.00%	49.00%
Pirelli & C. Real Estate S.p.A. (Italy)	49.03%	49.42%
Euro Driver Car S.L. (Spain)	48.85%	49.00%
Driver Italy S.p.A. (Italy)	40.61%	26.93%
Pirelli Tyre Co. Ltd (China)	40.00%	40.00%
Pirelli Tyre S.p.A. (Italy)	38.94%	38.94%
Turk Pirelli Lastikleri A.S. (Turkey)	30.41%	34.41%
S.C. Cord Romania S.R.L (Romania)	20.00%	20.00%
Alexandria Tire Co. S.A.E. (Egypt)	10.90%	10.90%
Pirelli de Venezuela C.A. (Venezuela)	3.78%	3.78%

## **15. STOCK OPTION PLANS**

### *Pirelli & C. S.p.A*

Pirelli & C. S.p.A. has two stock option plans in place for senior executives and staff of Pirelli & C. S.p.A. and other companies of the group which were granted option rights, not transferable to third parties, for the subscription/purchase of Pirelli & C. S.p.A. ordinary shares.

IFRS 2 “Share-based payment” has not been applied to these plans, since the option rights were awarded prior to November 7, 2002.

The following disclosure is provided on the above-mentioned plans called *Pirelli to People* and *Group Senior Executives*.

	<i>Pirelli to People</i>	<i>Group Senior Executives</i>
<b>Features of the plan</b>	Option rights granted, non-transferable to third parties, for the subscription of future new issues of Pirelli & C. ordinary shares or, as decided by the latter, for the purchase of treasury shares of Pirelli & C..	Option rights granted, non-transferable to third parties, for the subscription of future new issues of Pirelli & C. ordinary shares or, as decided by the latter, for the purchase of treasury shares of Pirelli & C..
<b>Participants at June 30, 2007</b>	278 employees (senior executives, cadres, key employees) of the companies of the group. Originally 725 persons at the date of approval of the plan.	27 senior executives of the companies of the group. Originally 51 persons at the date of approval of the plan.
<b>Conditions for exercising options</b>	Continuance of employment.	(a) continuance of employment, and (b) the reaching, in the two-year period 2001-2002, of specific targets, assigned to each recipient.
<b>Subscription/purchase price per share</b>	Each option right granted gives the right to subscribe/purchase one Pirelli & C. ordinary share at the price of Euros 1.150 <sup>(1)</sup> .	Each option right granted gives the right to subscribe/purchase one Pirelli & C. ordinary share at the price of Euros 1.150 <sup>(1)</sup> .
<b>Vesting period of options</b>	Up to nine years from the date the options are granted (which took place on November 5, 2001), but not before one year has passed from that date for 50 percent of the options granted, two years for another 25 percent and three years for the remaining 25 percent.	As regards the options granted on November 5, 2001, up to nine years from the date the options are granted, but not before one year has passed from that date for 50 percent of the options, two years for another 25 percent and three years for the remaining 25 percent. For the options granted definitively on May 10, 2002, up to May 31, 2009 but not before June 1, 2002 for 50 percent of the options and not before January 1, 2003 for the remaining 50 percent..
<b>Maximum number of options for which the offer was open at December 31, 2006</b>	20,389,204 options equal to about 0.39 percent of outstanding ordinary shares destined for 288 participants.	12,397,548 options equal to about 0.24 percent of outstanding ordinary shares destined for 28 participants.
<b>Maximum number of options for which the offer was open at June 30, 2007</b>	19,614,538 options equal to about 0.37 percent of outstanding ordinary shares destined for 278 participants.	12,221,548 options equal to about 0.23 percent of outstanding ordinary shares destined for 27 participants.
<b>Options forfeit during 2007 as a result of persons leaving the group</b>	774,666	176,000
<b>Shares issued during the period</b>	None	None

<sup>(1)</sup> This amount was changed (from Euros 1.284) on the basis of the adjustment factor established by AIAF on February 7, 2005 following the capital increase approved by the special shareholders' meeting held on January 21, 2005, in accordance with the Regulations of those Stock Option Plans in the event of transactions involving share capital.

## **16. PROVISIONS FOR OTHER LIABILITIES AND CHARGES**

The movements during the period in provisions for other liabilities and charges are presented in the following table:

<i>(in thousands of euros)</i>	
<b>Provisions for other liabilities and charges - non-current</b>	
<b>Beginning balance at 12/31/2006</b>	<b>145,119</b>
Exchange differences	6,335
Change in scope of consolidation (DGAG)	2,233
Increase	5,960
Utilization/Release	(5,605)
Reclassification	7,526
<b>Ending balance at 6/30/2007</b>	<b>161,568</b>
<i>(in thousands of euros)</i>	
<b>Provisions for other liabilities and charges - current</b>	
<b>Beginning balance at 12/31/2006</b>	<b>116,525</b>
Exchange differences	(48)
Change in scope of consolidation (DGAG)	5,992
Increase	15,007
Utilization/Release	(47,884)
Reclassification	(7,526)
<b>Ending balance at 6/30/2007</b>	<b>82,066</b>

The non-current portion mainly includes:

- accruals for the legal and tax disputes of the subsidiary Pirelli Pneus S.A. with headquarters in Brazil for Euros 83,122 thousand;
- accruals for risks of a fiscal nature of the parent Pirelli & C S.p.A. for Euros 32,689 thousand;
- for accruals for risks on contractual commitments, disputes, pending litigation, guarantees and other risks of the Pirelli Real Estate Group for Euros 36,732 thousand.

The current portion primarily refers to:

- accruals to cover guarantees provided on the sale of Pirelli's operations in the Energy and Telecom Cables and Systems sectors to Goldman Sachs Capital Partners in July 2005 for Euros 26,145 thousand (Euros 66,000 thousand at December 31, 2006). The provision at December 31, 2006 also included, besides guarantees provided, the part referring to the process for the price adjustment, which was paid during the first half (Euro 39,855 thousand utilized);
- accruals for litigations, claims and industrial risks, product warranties and other risks for Euros 55,921 thousand.

## **17. EMPLOYEE BENEFIT OBLIGATIONS**

These include:

	<i>(in thousands of euros)</i>	
	<b>6/30/2007</b>	<b>12/31/2006</b>
Pension funds:		
- funded	125,037	156,271
- unfunded	96,848	99,887
Employees' leaving indemnity (Italian companies)	95,510	96,824
Medical care plans	24,623	28,362
Other benefits	43,252	34,506
	<b>385,270</b>	<b>415,850</b>

### **- Pension funds**

The composition of pension funds, at June 30, 2007, is as follows:

	<i>(in thousands of euros)</i>					
						<b>6/30/2007</b>
	<b>Germany</b>	<b>Total unfunded pension funds</b>	<b>USA</b>	<b>UK</b>	<b>Other countries</b>	<b>Total funded pension funds</b>
<b>Funded</b>						
Present value of funded obligations			135,813	969,086	2,777	1,107,676
Fair value of plan assets			(119,956)	(860,502)	(2,181)	(982,639)
<b>Unfunded</b>						
Present value of unfunded obligations	96,848	96,848				
<b>Net liability in the balance sheet</b>	<b>96,848</b>	<b>96,848</b>	<b>15,857</b>	<b>108,584</b>	<b>596</b>	<b>125,037</b>
of which:						
- Tyres	93,070	93,070	15,857	67,175	596	83,628
- Real Estate	3,778	3,778				
- Other				41,409		41,409

The composition of pension funds, at December 31, 2006, was as follows:

<i>(in thousands of euros)</i>					
	Germany	Total unfunded pension funds	USA	UK	6/30/2006 Total funded pension funds
<b>Funded</b>					
Present value of funded obligations			146,708	947,160	1,093,868
Fair value of plan assets			(113,136)	(824,461)	(937,597)
<b>Unfunded</b>					
Present value of unfunded obligations	99,887	99,887			
<b>Net liability in the balance sheet</b>	<b>99,887</b>	<b>99,887</b>	<b>33,572</b>	<b>122,699</b>	<b>156,271</b>
of which:					
- Tyres	99,887	99,887	33,572	62,071	95,643
- Other				60,628	60,628

The changes during the period in the present value of the liabilities for pension funds (funded and unfunded) are as follows:

<i>(in thousands of euros)</i>	
	6/30/2007
<b>Beginning balance</b>	<b>1,193,755</b>
Change in scope of consolidation	2,740
Exchange differences	(7,183)
Movements through the income statement	33,585
Actuarial (gains) losses recognized in equity	10,319
Employee contribution	895
Benefits paid	(29,639)
Other	51
<b>Closing balance</b>	<b>1,204,523</b>

The changes during the period in the fair value of the pension plan assets are as follows:

<i>(in thousands of euros)</i>	
<b>6/30/2007</b>	
<b>Beginning balance</b>	<b>(937,597)</b>
Exchange differences	5,893
Movements through the income statement	(34,170)
Actuarial (gains) losses recognized in equity	(21,389)
Employer contribution	(20,994)
Employee contribution	(895)
Benefits paid	26,514
<b>Closing balance</b>	<b>(982,638)</b>

The amounts recognized in the income statement for pension plans are the following:

<i>(in thousands of euros)</i>		
	<b>6/30/2007</b>	<b>6/30/2006</b>
Current service costs	3,702	2,336
Interest cost	29,883	28,090
Expected return on plan assets	(34,171)	(29,130)
	<b>(586)</b>	<b>1,296</b>

The amounts recognized in the income statement are included in "Personnel costs".

**- Employees' leaving indemnity (TFR) – Italian companies**

The changes in employees' leaving indemnity during the first half of 2007 are as follows:

	<i>(in thousands of euros)</i>
	<b>6/30/2007</b>
<b>Beginning balance</b>	<b>96,824</b>
Change in scope of consolidation	7,472
Movements through the income statement (excluding curtailment)	8,380
Curtailment	(5,140)
Actuarial (gains)/losses recognized in equity	(1,721)
Payments/advances	(7,932)
Transfers	(1,734)
Other	(639)
<b>Closing balance</b>	<b>95,510</b>

The Italian Finance Bill 2007 and the relative decrees implementing it introduced changes regarding employees' leaving indemnity which include allowing the employee to choose the destination of his/her indemnity that is accruing from January 1, 2007. During the first half of 2007, the employees had to choose whether to direct the future flows of the indemnity to pre-chosen pension schemes or to keep them with the company (in which case, the company will pay the employees' leaving indemnity contributions to a treasury account set up at INPS).

Based on recent interpretations, the employees' leaving indemnity accruing from January 1, 2007 has been considered as a defined contribution plan in the interim financial statements at June 30, 2007 regardless of whether the option chosen was the supplementary pension scheme or the treasury fund with INPS. The indemnity accrued up to December 31, 2006 will remain a defined benefit plan and will consequently be subjected to periodical actuarial calculations.



IAS 19 states that when the terms of a defined benefit plan are amended such so that a material element of future service by current employees will no longer qualify for benefits, the company must recognize any changes in the present value of the obligations caused by this event (curtailment) at the same time it records the accruals in the income statement.

The curtailment can thus be defined as the difference between the liability for employees' leaving indemnity calculated before the change in the law, that is, considering the component relating to future accruals, and that resulting after the event, which excludes the component relating to future accruals.

The economic effect of the curtailment on the interim financial statements at June 30, 2007 is a gain of Euros 5,140 thousand and has been calculated using a simplified method that considers the overall and not the individual positions. At December 31, 2007, a full evaluation of employees' leaving indemnity will be calculated which could result in a different, but not significant, amount from the one recorded at June 30, 2007.

Movements through the income statement are recorded in "Personnel costs".

### **- Medical care plans**

The composition of medical care plans is as follows:

	<i>(in thousands of euros)</i>
	<b>USA</b>
Liability in the balance sheet at June 30, 2007	24,623
Liability in the balance sheet at December 31, 2006	28,362

The medical care plan in the United States refers almost entirely to retirees.

The changes during the period in the liabilities recognized in the financial statements for medical care plans are the following:

<i>(in thousands of euros)</i>	
<b>6/30/2007</b>	
<b>Beginning balance</b>	<b>28,362</b>
Exchange differences	(715)
Movements through the income statement	747
Actuarial (gains)/losses recognized in equity	(887)
Benefits paid	(1,246)
Other	(1,638)
<b>Closing balance</b>	<b>24,623</b>

The amounts recognized in the income statement relating to medical care plans are as follows:

<i>(in thousands of euros)</i>		
	<b>6/30/2007</b>	<b>6/30/2006</b>
Current service costs	5	4
Interest cost	742	810
	<b>747</b>	<b>814</b>

The amounts recognized in the income statement are included in "Personnel costs".

### **- Other information**

Net actuarial gains referring to the first half of 2007 recognized directly in equity amount to Euros 13,462 thousand (net gains of Euros 51,081 thousand at December 31, 2006).

The cumulative amount at June 30, 2007, equal to a net loss of Euros 51,760 thousand (net loss of Euros 65,286 thousand at December 31, 2006), is made up as follows:

<i>(in thousands of euros)</i>						
<b>cumulative at 6/30/2007</b>						
	<b>Italy</b>	<b>Germany</b>	<b>USA</b>	<b>UK</b>	<b>Other countries</b>	<b>Total</b>
Pension funds	-	1,267	(4,582)	(58,118)	(596)	(62,029)
Medical care plans	-	-	(1,363)	-	-	(1,363)
Employees' leaving indemnity	11,632	-	-	-	-	11,632
<b>Total actuarial gains (losses) recognized in equity</b>	<b>11,632</b>	<b>1,267</b>	<b>(5,945)</b>	<b>(58,118)</b>	<b>(596)</b>	<b>(51,760)</b>

The main actuarial assumptions used to determine the net liability in the interim financial statements at June 30, 2007 are as follows:

	<b>Italy</b>	<b>Germany</b>	<b>UK</b>	<b>USA</b>
Discount rate	5.25%	5.25%	5.60%	6.15%
Inflation rate	2.00%	2.00%	3.10%	-
Expected return on plan assets	-	-	7.31%	7.50%
Expected remuneration increase rate	2% - 4.30%	2.50%	3.10%	-

The main actuarial assumptions used at December 31, 2006 to determine the net liability in the financial statements were as follows:

	<b>Italy</b>	<b>Germany</b>	<b>UK</b>	<b>USA</b>
Discount rate	4.50%	4.50%	5.10%	5.75%
Inflation rate	2.00%	2.00%	2.80%	-
Expected return on plan assets	-	-	7.31%	7.50%
Expected remuneration increase rate	2% - 4.30%	2.50%	2.80%	-
Medical care cost trend rate - initial	-	-	-	9.00%
Medical care cost trend rate - final	-	-	-	4.50%

## **18. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS**

The analysis of borrowings from banks and other financial institutions is as follows:

*(in thousands of euros)*

	June 30, 2007			December 31, 2006		
	Total	Non-current	Current	Total	Non-current	Current
Bonds	650,000	650,000	-	1,150,000	650,000	500,000
Borrowings from banks	3,207,459	997,354	2,210,105	1,668,780	658,881	1,009,899
Borrowing from other financial institutions	117,687	108,389	9,298	31,756	31,115	641
Finance lease payables	37,459	34,132	3,327	39,223	35,949	3,274
Financial accrued liabilities and deferred income	29,832	439	29,393	40,669	-	40,669
Other financial payables	323,034	936	322,098	9,260	1,481	7,779
	<b>4,365,471</b>	<b>1,791,250</b>	<b>2,574,221</b>	<b>2,939,688</b>	<b>1,377,426</b>	<b>1,562,262</b>

The bonds refer to: 1998-2008 bonds of Euros 500,000 thousand issued by Pirelli & C. S.p.A. on October 21, 1998, 4.875 percent interest, repayable in a one-time payment on October 21, 2008; bonds of Euros 150,000 thousand issued by Pirelli & C. S.p.A. in 1999, 5.125 percent interest, maturing April 7, 2009; bonds of Euros 500,000 thousand issued by the subsidiary Pirelli Finance (Luxembourg) S.A. in 2002 was repaid on April 4, 2007.

These bonds do not contain either financial covenants or clauses which could cause the early repayment of the bonds due to events other than insolvency.

With regard to negative pledge clauses, there is a commitment on these bonds requiring that real guarantees are not to be provided on relevant debt (bonds and similar securities destined for listing) with the exception for real guarantees on existing debt and, in the first case, for relevant debt below the floor of Euros 100 million.

The increase in borrowings from banks (Euros 1,538,679 thousand) is mainly due to:

- for Euros 640,948 thousand, the increase in non-recourse loans connected with the temporary inclusion in the scope of consolidation of the DGAG companies that are part of the Jamesmail B.V. Group and the Pirelli & C. Real Estate Deutschland GmbH Group, as well as the 6-month loan made by Bayerische Hypo-und Vereinsbank AG Milan Branch (Unicredit Group) and IntesaSanPaolo S.p.A. on June 27, 2007 for a total nominal amount of Euros 120,000 thousand to Newco RE 2 S.r.l. and Pirelli & C. Real Estate Facility Management S.p.A.. This loan was secured to partially refinance the corporate credit lines of Pirelli & C. Real Estate S.p.A.;
- the opening of the 5-year syndicated multi-currency revolving credit line for Euros 675 million of Pirelli Tyre (drawn down for Euros 623.9 million at June 30, 2007). The contract was signed by the company with BNP Paribas and Banca Monte dei Paschi di Siena, which acted as the mandated lead arrangers, and a syndicate of leading Italian and international banks (Akbank, Bank of America, Banca Carige, Banco do Brasil, Banca Popolare dell'Emilia Romagna, Banco Santander Central Hispano, Banco Itau Europa, Mizuho, Natixis and Royal Bank of Canada). The loan bears initial interest at the Euribor + 40 basis points.

With regard to the financial covenants on the agreed credit lines, the following should be noted:

- on the Syndicated Line of Pirelli & C. Real Estate S.p.A. in which 19 banks participate for a total of Euros 750 million (Euros 450 million at December 31, 2006), the company is obliged not to exceed a certain value in the ratio of the adjusted financial position (expressed gross of the loans made by shareholders to the companies in which minority interests are held) to the operating result including earnings (losses) and financial income from investment holdings;

- on the credit line granted by Banca Monte dei Paschi di Siena, Pirelli & C. Real Estate S.p.A. is obliged not to exceed a certain value in the ratio of the adjusted financial position (expressed gross of the loans made by shareholders to the companies in which minority interests are held) to equity.

At June 30, 2007, both of these covenants were within the limits.

On the Syndicated Line, there is also a negative pledge clause on the shares and on the receivables of the services companies.

The other financial payables are not covered by financial covenants or clauses which could cause the early repayment of the loans due to events other than insolvency; moreover, there are no significant negative pledge clauses.

The increase in “current other financial payables”, equal to Euros 314,319 thousand, refers mainly to payables to joint ventures of the DGAG companies that are part of the Jamesmail B.V. Group.

## **19. TRADE PAYABLES**

The analysis of trade payables is as follows:

*(in thousands of euros)*

	June 30, 2007			December 31, 2006		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures	22,181	-	22,181	8,366	-	8,366
Third parties	1,130,700	-	1,130,700	991,137	-	991,137
Notes payable	110,870	-	110,870	102,953	-	102,953
	<b>1,263,751</b>	<b>-</b>	<b>1,263,751</b>	<b>1,102,456</b>	<b>-</b>	<b>1,102,456</b>

The increase in trade payables to third parties is due to the temporary inclusion in the scope of consolidation of the DGAG companies in the Jamesmail B.V. Group in addition to Pirelli & C. Real Estate Deutschland GmbH and Ingest Facility S.p.A..

## **20. OTHER PAYABLES**

The analysis of other payables is as follows:

*(in thousands of euros)*

	June 30, 2007			December 31, 2006		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures	6,395	-	6,395	3,263	-	3,263
Trade and other accrued liabilities and deferred income	144,733	5,397	139,336	150,002	38,932	111,070
Tax payables	88,002	3,837	84,165	92,955	3,409	89,546
Payables to employees	141,609	-	141,609	123,059	73	122,986
Payables to social security agencies	44,804	2,542	42,262	48,148	2,064	46,084
Payables for stock options	360	-	360	1,609	-	1,609
Dividends payable	1,665	-	1,665	2,196	-	2,196
Advances from customers	40,074	-	40,074	3,796	7	3,789
Other payables	193,011	35,467	157,544	244,754	112,401	132,353
	<b>660,653</b>	<b>47,243</b>	<b>613,410</b>	<b>669,782</b>	<b>156,886</b>	<b>512,896</b>

The increase in advances from customers compared to December 31, 2006 (Euros 36,278 thousand) is due to the temporary inclusion in the scope of consolidation of the German DGAG companies in the Jamesmail B.V. Group.

The decrease in non-current other payables compared to December 31, 2006 (Euros 76,935 thousand) is largely (Euros 78,489 thousand) owing to the junior notes connected with a non-performing loan portfolio of the former Banco di Sicilia sold to the joint venture Sagrantino B.V..

## **21. FINANCIAL INSTRUMENTS**

	<b>6/30/2007</b>		<b>12/31/2006</b>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Non-current financial instruments	-	5,842	-	4,751
Current financial instruments	40,841	62,944	29,147	45,362

The current assets comprise:

- Euros 25,594 thousand relating to the fair value measurement of forward currency purchases and sales in place at June 30, 2007. These are derivative transactions which, although used for hedging purposes, are not designated as such under IFRS. The fair value is determined by using the forward exchange rate at the balance sheet date;
- Euros 15,247 thousand relating to the fair value measurement of interest rate derivatives.

The current liabilities comprise:

- Euros 59,958 thousand relating to the fair value measurement of forward currency purchases and sales in place at June 30, 2007;
- Euros 2,986 thousand relating to the fair value measurement of interest rate derivatives.

The non-current liabilities refer entirely to the fair value measurement of forward currency purchases and sales in place at June 30, 2007.



## **22. COMMITMENTS AND CONTINGENCIES**

### **Commitments for purchases of investments / shares of funds**

- the put option granted to Sintonia S.A. (formerly Edizione Finance International S.A.) / Sintonia S.p.A. (which took the place of Edizione Holding S.p.A.) (“Sintonia”) on the investment held in Olimpia S.p.A., under the shareholders’ agreement signed on August 7, 2001, and subsequently amended.

This put option can be exercised in the case of a (I) deadlock situation among the shareholders, (II) withdrawal on the part of Pirelli & C. S.p.A. from the shareholders’ agreements and (III) the occurrence of a substantial change in the controlling structure of Pirelli & C. S.p.A., by which is meant the exercise by parties other than those currently holding the determining power to nominate the majority of the members of the management board, with a consequent potential modification of the strategic guidelines.

The exercise price of the put option is equal, respectively, under assumption (I) to the price equal to the value of the economic capital of Olimpia S.p.A. increased by a premium (the “Price”), in the case of (II) to the Price increased by an amount equal to 50 percent of the Price and in the case of (III) to the Price increased by an amount equal to 200 percent of the Price. In this case, however, there is no provision for a Floor or Cap.

The pact between Pirelli & C. S.p.A. and Sintonia will be dissolved with effect from the execution date of the sale of the investment held by the company in Olimpia S.p.A.;

- the commitment undertaken by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. to subscribe shares of the closed-end real estate Fund “Fondo Abitare Sociale 1 – Fondo Comune Chiuso di Investimento Immobiliare Etico Riservato ad Investitori Qualificati”, for a total amount of Euros 2,422 thousand.

## **Personal guarantees**

### **Sureties**

Sureties were provided to guarantee loans made by credit institutions to associates and joint ventures for a total of Euros 22,209 thousand consisting of the shares of the associates and joint ventures pledged for an amount of Euros 44,608 thousand.

Various sureties were provided by banking institutions and insurance companies to third parties and in the interests of Pirelli & C. Real Estate S.p.A. mainly to fulfill contractual obligations of the Pirelli & C. Real Estate S.p.A. Group for a total of Euros 312,341 thousand.

### **Other guarantees**

Other guarantees refer to:

- guarantees provided for property purchase transactions effected by joint ventures for the fulfillment of their payment obligations of Euros 5,250 thousand;
- guarantees provided for securitization transactions conducted by vehicle companies for the correct and precise fulfillment of payment obligations for a total of Euros 61,435 thousand;
- guarantees provided for the sale of junior notes relating to a non-performing loan portfolio of the former Banco di Sicilia on behalf of the joint venture to third parties. These guarantees, counterguaranteed by the partner in the venture, involves a net exposure for Pirelli & C. Real Estate S.p.A. of Euros 25,394 thousand.

As part of an initiative for the purchase of a non-performing loan portfolio with deferred payment, Pirelli & C. Real Estate S.p.A. provided a counterguarantee to the partner in the venture for Euros 27,859 thousand.

Moreover, in the process for the acquisition of the DGAG Group, Pirelli & C. Real Estate S.p.A. provided guarantees mainly in respect of bank loans made to the vehicle company. Pirelli & C. Real Estate S.p.A.'s exposure for such guarantees is net of the counterguarantees provided by the partner in the venture, quantified in Euros 35,883 thousand.

In addition, Pirelli & C. Real Estate S.p.A. has a commitment to cover its proportionate share of any negative difference between the flows from rental income and interest expense due to the lender banks by Tiglio I S.r.l. on their credit lines expiring in 2009. At the moment, on the basis of available information, the projected revenue flows are higher than the estimated interest expense.

### **Commitments for purchases of properties**

Commitments for the purchase of properties refer to:

- the commitment undertaken by Pirelli & C. Real Estate S.p.A. to purchase certain buildings if they remain unsold, owned by Imser 60 S.r.l., for a maximum amount of Euros 320,000 thousand. The purchase price of these buildings is established by contract at about 20 percent of their market value. This option may be exercised by the counterpart up to May 31, 2022;
- the commitment undertaken by Pirelli & C. Real Estate Agency S.p.A. with Pirelli & C. Real Estate Opportunities Società di Gestione del Risparmio S.p.A. to purchase a building located in Segrate at the price of Euros 9,100 thousand if the building is not sold by December 22, 2007.

**Commitments for purchases of property, plant and equipment**

Commitments for the purchase of property, plant and equipment refer to the Tyres Sector and total Euros 117.6 million, mainly in reference to the companies in China (Euros 39.6 million), Romania (Euros 29.9 million) and Brazil (Euros 13.9 million).

### **23. REVENUES FROM SALES AND SERVICES**

Revenues from sales and services can be analyzed as follows:

	<i>(in thousands of euros)</i>	
	<b>1<sup>st</sup> Half 2007</b>	<b>1<sup>st</sup> Half 2006</b>
Revenues from sales of products	2,807,917	2,168,737
Revenues from services	383,517	273,781
Revenues on construction contracts	5,307	3,365
	<b>3,196,741</b>	<b>2,445,883</b>

### **24. OTHER INCOME**

“Other income” amounts to Euros 186,950 thousand compared to Euros 137,166 thousand for the first half ended June 30, 2006 and includes rent income, commissions, royalties, compensation, insurance refunds and other minor items.

Other income includes income from non-recurring events in the amount of Euros 2,818 thousand. Non-recurring events include the compensation for the expropriation of land located in Settimo Torinese for Euros 1,746 thousand and the refund of the tax on events for the periods it was not due for Euros 1,072 thousand. The percentage of income from non-recurring events to total other income is equal to 1.5%.

## **25. PERSONNEL COSTS**

Personnel costs consist of the following:

	<i>(in thousands of euros)</i>	
	<b>1<sup>st</sup> Half 2007</b>	<b>1<sup>st</sup> Half 2006</b>
Salaries and wages	447,330	405,248
Stock option costs	1,831	3,672
Social security costs	101,166	94,618
Leaving indemnity and similar costs (*)	14,258	19,298
Defined contribution pension fund costs	6,397	4,538
Defined benefit pension fund costs	(586)	1,296
Defined benefit medical care plan costs	747	814
Long-service bonus costs	1,081	646
Defined contribution medical care plan costs	9,705	8,634
Other costs	3,644	2,235
	<b>585,573</b>	<b>540,999</b>

\* includes Italian and foreign companies

Leaving indemnity and similar costs include the positive effect of the curtailment relating to the provision for employees' leaving indemnity, equal to Euros 5,140 thousand, which qualifies as a non-recurring event, and which represents 0.9 percent of total "Personnel costs" (reference should also be made to the preceding note on the "Provision for employees' leaving indemnity").

## **26. AMORTIZATION, DEPRECIATION AND IMPAIRMENTS**

Amortization, depreciation and impairments are as follows:

	<i>(in thousands of euros)</i>	
	<b>1<sup>st</sup> Half 2007</b>	<b>1<sup>st</sup> Half 2006</b>
Amortization of intangible assets	4,498	5,382
Depreciation of property, plant and equipment	101,090	102,670
Impairment loss on property, plant and equipment/intangible assets	3,543	1,000
	<b>109,131</b>	<b>109,052</b>

## **27. OTHER EXPENSES**

“Other expenses” amount to Euros 1,019,134 thousand (Euros 837,153 thousand for the first six months ended June 30, 2006) and can be analyzed as follows:

	<i>(in thousands of euros)</i>	
	<b>1<sup>st</sup> Half 2007</b>	<b>1<sup>st</sup> Half 2006</b>
Selling expenses	155,662	153,440
Utilities and power	93,994	75,383
Maintenance	91,831	43,192
Consulting fees	81,956	63,821
Advertising expenses	68,462	70,561
Commissioned work by third parties	60,978	26,880
Purchases of merchandise for resale	57,780	99,547
Rent and hires	38,995	29,751
Cleaning expenses	23,869	21,427
Contractual work expenses	23,505	14,423
Traveling expenses	24,294	20,598
Software and information services expenses	19,997	17,903
Other accruals	18,874	14,945
Insurance	16,115	16,324
Outside work on construction contracts	15,314	4,815
Revenues stamps, duties and local taxes	13,160	11,560
Receivables writedown	8,739	6,554
Operating lease payments	4,228	3,564
Other	201,381	142,465
	<b>1,019,134</b>	<b>837,153</b>

The increase is mainly due to the growth of the Pirelli Real Estate Group and the internationalization process currently underway, which led to the line-by-line consolidation of certain companies of the Jamesmail B.V. Group and the Pirelli & C. Real Estate Deutschland GmbH Group, which have not yet been converted to the group’s present business model.

In the six months ended June 30, 2006, other expenses included Euros 12,500 thousand (1.5 percent of the total) relating to the costs incurred for the Pirelli Tyre S.p.A. IPO which qualifies as a non-recurring events.

Research expenses went from Euros 87 million in the first six months of 2006 (3.6 percent of sales) to Euros 88 million in the first half of 2007 (3.3 percent of sales). They are entirely expensed to income.

## **28. FINANCIAL INCOME**

Financial income includes the following:

	<i>(in thousands of euros)</i>	
	<b>1<sup>st</sup> Half 2007</b>	<b>1<sup>st</sup> Half 2006</b>
Interest	36,018	36,231
Other financial income	7,352	22,828
Gains on exchange	58,904	141,235
Gains on disposal of available-for-sale financial assets	8,508	2,697
Gains on disposal of investments in subsidiaries	42,061	-
	<b>152,843</b>	<b>202,991</b>

Gains on exchange, equal to Euros 58,904 thousand, include the adjustment to the period-end exchange rates of open items at the balance sheet date expressed in currencies other than the functional currency and the gains realized on closed positions. Gains on exchange show a significant reduction compared to the first half of 2006 due mainly to lower fluctuations of the U.S. dollar against the Euro and Brazilian Real.

Gains on the disposal of available-for-sale financial assets mainly refer to the sale of Servizio Titoli S.p.A. ordinary shares (Euros 4,022 thousand), Intek S.p.A. ordinary shares (Euros 1,463 thousand) and Telecom Italia S.p.A. (Euros 2,100 thousand, as disclosed in the note on available-for-sale financial assets).

The gains on the disposal of investments in subsidiaries, equal to Euros 42,061 thousand in the first six months ended June 30, 2007, refer to the sale of a 49 percent stake in Pirelli RE Integrated Facility Management B.V. to Intesa Sanpaolo, finalized on June 27, 2007.

Prior to that sale, under the framework agreement sealed with Intesa Sanpaolo, Pirelli & C. Real Estate S.p.A. sold the entire investment in Newco RE 2 S.r.l., to which the full investment in Pirelli & C. Real Estate Facility Management S.p.A. was previously sold, to Pirelli RE Integrated Facility Management B.V..



## **29. FINANCIAL EXPENSES**

Financial expenses include the following:

	<i>(in thousands of euros)</i>	
	<b>1<sup>st</sup> Half 2007</b>	<b>1<sup>st</sup> Half 2006</b>
Bank interest	107,409	71,644
Other financial expenses	21,287	27,653
Losses on exchange	42,728	140,758
Losses on disposal of available-for-sale financial assets	-	5,734
Impairment loss on available-for-sale financial assets	-	1,880
	<b>171,424</b>	<b>247,669</b>

Losses on exchange, equal to Euros 42,728 thousand, include the adjustment to the period-end exchange rates of open items at the balance sheet date expressed in currencies other than the functional currency and losses realized on closed positions. Losses on exchange show a significant reduction compared to the first half of 2006 due mainly to lower fluctuations of the U.S. dollar against the Euro and Brazilian Real.

## **30. DIVIDENDS**

The amount of Euros 13,936 thousand in the first half of 2007 primarily refers to dividends received from RCS Mediagroup S.p.A. for Euros 3,871 thousand, Telecom Italia S.p.A. for Euros 6,602 thousand and Servizio Titoli S.r.l. for Euros 873 thousand.

The amount of Euros 43,259 thousand in the first half of 2006 primarily included dividends received from Telecom Italia S.p.A. (Euros 26,344 thousand), Capitalia S.p.A. (Euros 9,938 thousand) and RCS MediaGroup S.p.A. (Euros 3,875 thousand).

### **31. GAINS/(LOSSES) FROM CHANGES IN FAIR VALUE OF FINANCIAL ASSETS**

The gains/(losses) from changes in fair value of financial assets include:

	<i>(in thousands of euros)</i>	
	<b>1<sup>st</sup> Half 2007</b>	<b>1<sup>st</sup> Half 2006</b>
Measurement of securities held for trading at fair value	1,273	6,620
Measurement of currency derivatives at fair value	(21,002)	(10,425)
Measurement of other derivatives at fair value	9,599	(65,417)
	<b>(10,130)</b>	<b>(69,222)</b>

The “Measurement of currency derivatives at fair value” refers to transactions for forward currency purchases and sales. For open positions at June 30, 2007, the fair value is determined using the exchange rate at June 30, 2007.

The “Measurement of other derivative instruments at fair value”, a positive amount of Euros 9,599 thousand, almost entirely refers to the measurement at fair value of derivatives associated with interest rate risks.

The negative amount of Euros 65,417 thousand for the first half of 2006 referred to the valuation at fair value of options on Telecom Italia S.p.A. shares/convertible bonds, closed during 2006.

### **32. SHARE OF EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES**

The share of earnings/(losses) of associates and joint ventures accounted for using the equity method is Euros 61,033 thousand of earnings (53,895 thousand of earnings in the first half of 2006).

In particular, this line includes the earnings of the investments in the real estate sector accounted for using the equity method, equal to Euros 60,035 thousand (Euros 52,824 thousand in the first half of 2006). This amount includes the positive effect of Euros 46.2 million arising from the transfer from “Inventories” to “Investment properties” and the consequent measurement at fair value of the real estate investments held by the closed-end speculative real estate investment fund “Fondo Patrimonio Uffici – Fondo comune di investimento immobiliare speculativo di tipo chiuso” and by the unlisted reserved closed-end speculative real estate investment fund “Pirelli RE Fund – Raissa Fondo comune di investimento immobiliare speculativo di tipo chiuso non quotato riservato” since these Funds are destined to be transferred to a common investment platform for office properties. The results of these Funds are recognized through the equity method valuation of the joint ventures which hold the relative shares.

In the first half of 2006, the long-term appreciation of investment properties held through the associate Spazio Investment N.V. had a positive fair value measurement effect of Euros 32.8 million.

### **33. INCOME TAXES**

Income taxes for the period are composed as follows:

	<i>(in thousands of euros)</i>	
	<b>1<sup>st</sup> Half 2007</b>	<b>1<sup>st</sup> Half 2006</b>
Current income taxes	66,451	73,408
Deferred income taxes	12,698	4,060
	<b>79,149</b>	<b>77,468</b>

### **34. INCOME (LOSS) FROM DISCONTINUED OPERATIONS**

The income from discontinued operations in the first half ended June 30, 2007 amounts to Euros 17,115 thousand and includes the estimate to adjust the value of Olimpia S.p.A. to the sales prices following the aforementioned agreement reached with leading financial institutional investors and industrial operators (a negative Euros 73,885 thousand, without taking into account the share of the result for the period), and the gain of Euros 91,000 thousand on the sale to Goldman Sachs of the warrants obtained as part of the July 2005 agreement for the sale of the Energy and Telecom Cables and Systems activities and linked to the economic benefits on Prysmian (Lux) S.à.r.l..

The income from discontinued operations in the first half of 2006 was Euros 71,219 thousand and entirely referred to the valuation of the investment in Olimpia S.p.A. using the equity method.

### **35. EARNINGS PER SHARE**

**Basic earnings per share** is calculated by dividing the income attributable to the equity holders of the company (adjusted for the minimum dividends due to savings shares) by the weighted average number of outstanding ordinary shares during the year, excluding ordinary treasury shares.

	<b>1<sup>st</sup> Half 2007</b>	<b>1<sup>st</sup> Half 2006</b>
Income from <b>continuing operations</b> for the period attributable to the equity holders of the company	91	82
Result attributable to savings shares considering the extra 2% *	(2)	(2)
Income from <b>adjusted continuing operations</b> for the period attributable to the equity holders of the company	<u>89</u>	<u>80</u>
Weighted average number of outstanding ordinary shares (in thousands)	5,230,525	5,179,338
Basic earnings per ordinary share from <b>continuing operations</b> (in euros per thousands of shares)	<u><b>17.02</b></u>	<u><b>15.45</b></u>
	<b>1<sup>st</sup> Half 2007</b>	<b>1<sup>st</sup> Half 2006</b>
Income from <b>discontinued operations</b> for the period attributable to the equity holders of the company	17	71
Result attributable to savings shares considering the extra 2% *	-	(2)
Income from <b>discontinued operations</b> for the period attributable to the equity holders of the company	<u>17</u>	<u>69</u>
Weighted average number of outstanding ordinary shares (in thousands)	5,230,525	5,179,338
Basic earnings per ordinary share from <b>discontinued operations</b> (in euros per thousands of shares)	<u><b>3.25</b></u>	<u><b>13.32</b></u>

\* This right will be cumulative with that of 2006, which ended in a loss

**Diluted earnings per share** has not been calculated since the company, at both June 30, 2007 and June 30, 2006, has only one category of potential dilutive ordinary shares: shares from exercising stock options. However, since the price to exercise the stock options is higher than market value, the stock options have not been considered as exercised.

### **36. DIVIDENDS PER SHARE**

The company has not distributed dividends.

### **37. RELATED PARTY DISCLOSURES**

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

The following table summarizes the balance sheet and income statement captions which include related party transactions and the relative percentage of the total:

*(in millions of euros)*

	Total in interim financial statements at 6/30/2007	of which related parties	% of total	Total in financial statements at 12/31/2006	of which related parties	% of total
<b>Balance sheet</b>						
<u>Non-current assets</u>						
Other receivables	501.0	334.4	66.7%	705.8	334.2	47.4%
<u>Current assets</u>						
Trade receivables	1,435.6	166.6	11.6%	999.7	168.1	16.8%
Other receivables	522.6	265.1	50.7%	356.2	11.9	3.3%
<u>Current liabilities</u>						
Borrowings from banks and other financial institutions	2,574.2	311.7	12.1%	1,562.3	0.2	0.0%
Trade payables	1,263.8	37.7	3.0%	1,102.5	25.1	2.3%
Other payables	613.4	6.4	1.0%	512.9	3.4	0.7%
Tax payables	69.4	0.7	1.0%	48.8	0.7	1.4%
<b>Income statement</b>						
Revenues from sales and services	3,196.7	135.7	4.2%	2,445.9	169.2	6.9%
Other income	187.0	48.2	25.8%	137.2	52.0	37.9%
Personnel costs	(585.6)	(1.6)	0.3%	(541.0)	(2.1)	0.4%
Other expenses	(1,019.1)	(72.1)	7.1%	(837.2)	(54.4)	6.5%
Financial income	152.8	15.2	9.9%	203.0	8.1	4.0%
Dividends	13.9	6.6	47.4%	43.3	26.3	60.9%
Share of earnings/(losses) of associates and joint ventures	61.0	61.0	100.0%	53.9	53.9	100.0%

The income statement and balance sheet effect of transactions with related parties on the interim consolidated financial statements of the Pirelli & C. Group at June 30, 2007 are as follows.

Transactions with associates and joint ventures:

<i>(in millions of euros)</i>		
Revenues for goods and services	74	These mainly refer to the supply of services to associates and joint ventures of Pirelli & C. Real Estate
Other expenses	25	These principally refer to recharged amounts of Pirelli & C. Real Estate for various reasons connected, among other things, also with consortium expenses
Financial income	15	This includes mainly interest income relating to financial receivables from associates and joint ventures of Pirelli & C. Real Estate
Share of earnings (losses) of associates and joint ventures	61	This refers to the earnings or losses of the investments accounted for by the equity method
Trade receivables	98	These mainly refer to receivables from associates and joint ventures of Pirelli & C. Real Estate
Non-current other receivables	1	These refer to the receivables of Pirelli & C. Real Estate
Non-current financial receivables	334	These mainly refer to loans made for real estate initiatives managed by the individual companies of the Pirelli & C. Real Estate Group
Current other receivables	24	These refer to Pirelli & C. Real Estate and mainly include a receivable from the Mistral B.V. Group (Euro 18 million) and receivables for dividends declared to be collected (Euro 5 million)
Current financial receivables	241	These mainly refer to the temporary inclusion of the companies of the DGAG Group in the scope of consolidation
Current trade payables	22	These refer mainly to amounts recharged for various reasons, connected among other things with consortium expenses, of Pirelli & C. Real Estate
Current other payables	6	These mainly include payables of Pirelli & C. Real Estate to the DGAG group for the purchase of investments
Current borrowings from banks and other financial institutions	312	They mainly include the liability balances on the intercompany current accounts between Jamesmail B.V., Pirelli & C. Real Estate Deutschland GmbH and the companies in which those companies have holdings
Tax payables	1	These refer to payables of Pirelli & C. Real Estate to Trixia S.r.l. for expenses arising from the latter's adherence to the transparent tax system under art. 115 of the Tax Code, by virtue of which the taxable income or loss of the company will be allocated to the shareholders



Transactions with parties related to Pirelli through directors:

*(in millions of euros)*

Revenues for goods and services	61	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 (Euros 58 million); services rendered by Pirelli Ambiente Eco Technology S.p.A. to the Camfin group (Euros 2 million) and services rendered to F.C. Internazionale Milano S.p.A. (Euro 1 million)
Other income	48	These refer to services rendered by Shared Service Center s.c.r.l. to the Telecom Italia group
Other expenses	41	These refer to telephone, computer and power services by the Telecom Italia group (Euros 13 million); the supply of natural gas by the Camfin group (Euros 24 million) and costs for the sponsorship of F.C. Internazionale Milano S.p.A. (Euros 4 million)
Dividends	7	Dividends received from Telecom Italia S.p.A.
Current trade receivables	69	These refer to receivables for the supply of the above services (to the Telecom Italia group Euros 66 million, to the Camfin group Euros 1 million and FC Internazionale S.p.A. Euros 2 million)
Current trade payables	15	These refer to payables for the supply of the above services (to the Telecom Italia group Euros 3 million, the Camfin group Euros 8 million and FC Internazionale S.p.A. Euros 4 million)

For purposes of full disclosure, during the first half of 2007, the Pirelli & C. Real Estate Group disposed of investments to the related parties Gruppo Partecipazioni Industriali S.p.A. and Roev Italia S.p.A.. Specifically, on March 22, 2007, Pirelli RE Netherlands B.V. sold a 31.6 percent stake in the company S.I.G. RE B.V. to Gruppo Partecipazioni Industriali S.p.A. and a 15.8 percent stake to Roev Italia S.p.A..

On March 31, 2007, S.I.G. RE B.V. purchased 94.8 percent of the share capital of the German-registered company Resident Baltic GmbH, of which a 90 percent interest was acquired from Pirelli RE Residential Investments GmbH (formerly P&K Real Estate GmbH). Again on March 31, 2007, S.I.G. RE B.V. purchased 94.8 percent of the share capital of the German-registered company Resident Sachsen P&K GmbH, of which a 79.8 percent interest was acquired from Pirelli RE Residential Investments GmbH (formerly P&K Real Estate GmbH). At the time of the purchase, the two companies held a total of about Euros 7 million in real estate assets in German residential property purchased during the previous months.

At June 30, 2007, there were no balance sheet or income statement positions recorded in the interim consolidated financial statements relating to the above.

**Benefits to key executives**

In the first half ended June 30, 2007, the compensation to key executives, that are, those who have the power and the responsibility, directly or indirectly, for the planning, direction and control of the activities of Pirelli & C. S.p.A., including executive and non-executive directors, amounts to Euros 7,808 thousand (Euros 7,242 thousand in the first half ended June 30, 2006). The part relating to the payment of employee benefits was charged to the income statement in “Personnel costs” for Euros 1,642 thousand (Euros 2,096 thousand in the first half ended June 30, 2006), of which the part relating to employees’ leaving indemnity amounts to Euros 197 thousand (Euros 238 thousand in the first half ended June 30, 2006), and the part relating to the compensation to directors was charged to the income statement in “Other expenses” for Euros 6,166 thousand (Euros 5,146 thousand in the first half ended June 30, 2006).

### **38. SIGNIFICANT SUBSEQUENT EVENTS**

- On July 3, 2007, Pirelli Ambiente, a company of the Pirelli & C. Group active in the sector of renewable energy, and Global Cleantech Capital (GCC), a private equity fund specializing in clean energy investments, signed an agreement to establish Solar Utility S.p.A., a joint venture in the photovoltaic energy sector. Pirelli Ambiente and GCC will each hold a 50% stake in Solar Utility S.p.A.. Over the next 5 years, the new joint venture expects to invest approximately Euro 24 million to install integrated photovoltaic systems in buildings in Italy, with the aim of producing about 50MW of clean electricity. Solar Utility will actually install and remain the owner of the photovoltaic systems destined for owners of commercial and industrial buildings and, in exchange, will supply them with clean energy at competitive prices. Furthermore, the joint venture will be able to sell complete projects for producing photovoltaic energy to investors who are interested in stable yields in the long term, since these are guaranteed by the set of incentives offered for the next 20 years under the Energy Decree issued on February 19, 2007.
- On July 5, 2007, the takeover bid for the shares of the Tecla Fund launched by Gamma RE, a Morgan Stanley Real Estate Special Situations Fund (51 percent) and Pirelli RE (49 percent) joint venture, closed after reaching more than 86 percent of the shares with voting rights. The company confirmed its intention to set up an accumulation platform for investments in the offices sector to which the Tecla shares could be contributed together with other real estate portfolios and development initiatives in the same sector. As for the public tender offer launched by Gamma RE for the shares of the Berenice fund, which closed on July 2, 2007, the takeover bid was not finalized since the condition for the acquisition of shares equal to at least a majority of the shares issued was not met.

- On July 17, 2007 Pirelli RE and RREEF (Deutsche Bank Group) real estate investment funds sealed a binding agreement for the purchase from Cerberus of 100% of BauBeCon, an important German real estate group mainly operating in the residential segment. The deal was concluded on July 27, 2007 and Pirelli RE (40 percent) and RREEF (60 percent) acquired the real estate assets intended mainly for residential use for Euros 1,647 million. Pirelli RE also purchased 100 percent of the platform which manages about 52,000 property units (including those that will become the property of Pirelli RE-RREEF) for an amount of approximately Euros 43 million.
- On July 27, 2007, Pirelli & C. S.p.A. purchased 859,741 Pirelli & C. Real Estate S.p.A. shares from a leading institutional investor. The shares represent about 2 percent of the share capital of the company and were purchased for an approximate equivalent amount of Euros 34.4 million, bringing its direct holding to 52.3 percent.
- On August 8, 2007, Gamma RE, a joint venture between Morgan Stanley Real Estate Special Situations Fund (51 percent) and Pirelli RE (49 percent), announced that it had tendered 49,544 Berenice fund shares, for an equivalent amount of Euros 45,233,672, to the public tender offer launched by Zwinger Opco 6 B.V., realizing a gain of about Euros 17.7 million. After the offering was closed on August 9, 2007, Zwinger Opco announced that it will come to hold about 90.69% of the total of the issued shares of the fund.

### **39. OTHER INFORMATION**

#### **Exchange rates**

The main exchange rates used for consolidation purposes are as follows:

	(local currency against euros)					
	Period-end		Change in	Average		Change in
	6/30/2007	12/31/2006	%	1 <sup>st</sup> Half 2007	1 <sup>st</sup> Half 2006	%
British pound	0.6740	0.6715	0.37%	0.6748	0.6871	(1.79%)
Swiss franc	1.6553	1.6069	3.01%	1.6319	1.5612	4.53%
Slovakian koruna	28.7180	34.4350	(16.60%)	28.1491	37.5667	(25.07%)
American dollar	1.3505	1.3170	2.54%	1.3294	1.2297	8.11%
Canadian dollar	1.4245	1.5281	(6.78%)	1.5084	1.3999	7.75%
Brazilian real	2.6013	2.8158	(7.62%)	2.7190	2.6963	0.84%
Venezuela bolivar	2,903.5750	2,831.5500	2.54%	2,858.2960	2,643.7690	8.11%
Argentinean peso	4.1771	4.0327	3.58%	4.1078	3.7705	8.95%
Australian dollar	1.5885	1.6691	(4.83%)	1.6444	1.6554	(0.66%)
Chinese renminbi	10.2787	10.2812	(0.02%)	10.2599	9.8730	3.92%
Singapore dollar	2.0664	2.0202	2.29%	2.0316	1.9769	2.76%
Egyptian pound	7.6776	7.5135	2.18%	7.5631	7.0577	7.16%
Turkish lira	1.7585	1.8515	(5.02%)	1.8183	1.7980	1.13%

**Net financial position**  
**(non-GAAP measures)**

The composition of the net financial position is as follows:

	<i>(in millions of euro)</i>			
	<b>6/30/2007</b>	<b>of which related parties</b>	<b>12/31/2006</b>	<b>of which related parties</b>
Borrowings from banks and other financial institutions - current	2,545	312	1,522	
Financial accrued liabilities and deferred income - current	61		60	
Cash and cash equivalents	(591)		(270)	
Securities held for trading	(141)		(119)	
Financial receivables - current	(277)	(241)	(27)	
Financial accrued income and prepaid expenses - current	(8)		(7)	
Borrowings from banks and other financial institutions - non-current	1,796		1,382	
<b>Net financial debt</b>	<b>3,385</b>		<b>2,541</b>	
Financial receivables - non-current	(415)	(334)	(553)	(333)
Financial accrued income and prepaid expenses - non-current	(1)		(8)	
<b>Total net financial (liquidity)/debt position</b>	<b>2,969</b>		<b>1,980</b>	

The change during the period is due mainly to the temporary effects of the acquisition of the German company DGAG by Pirelli & C. Real Estate for Euros 979 million (Euros 140 million at December 31, 2006).

## LIST OF COMPANIES

## Companies consolidated line-by-line

Company	Business	Headquarters	Share	Capital	% holding	% voting rights	Held by
<b>Europe</b>							
<b>Austria</b>							
ECOI-Immobilien Gmbh	Real Estate	Vienna	Euro	35.000	100,00%		Pirelli RE Residential Investments Gmbh (ex- P&K Real Estate Gmbh)
Pirelli Gesellschaft mbh	Tyres	Vienna	Euro	726.728	100,00%		Pirelli Tyre (Europe) S.A.
<b>Belgium</b>							
Pirelli Tyres Belux S.A.	Tyres	Brussels	Euro	700.000	100,00%		Pirelli Tyre (Europe) S.A.
<b>France</b>							
Facility Management France S.a.S.	Real Estate	Trappes	Euro	37.000	100,00%		Pirelli & C. Real Estate Facility Management S.p.A.
Gecam France S.a.S	Environment	Paris	Euro	750.000	70,00%		Pirelli & C. Environment Eco Technology S.p.A.
Pirelli Broadband Solutions France S a r.l.	Environment	Roissy en France	Euro	10.000	99,00%	1,00%	Pirelli Broadband Solutions S.p.A. Maristel S.p.A.
Pneus Pirelli S.a.S	Tyres	Roissy en France	Euro	1.515.858	100,00%		Pirelli Tyre (Europe) S.A.
<b>Germany</b>							
B&L Beteiligungsgesellschaft mbh	Real Estate	Hamburg	Euro	5.139.000	100,00%		DGAG Deutsche Grundvermögen AG (ex- B&L Immobilien AG)
Deutsche Pirelli Reifen Holding Gmbh	Financial	Breuberg/Odenwald	Euro	7.694.943	100,00%		Pirelli Tyre Holland N.V.
DGAG Deutsche Grundvermögen Management Services Gmbh	Real Estate	Hamburg	Euro	25.000	100,00%		Pirelli & C. Real Estate Deutschland Gmbh (ex- Pirelli & C. Real Estate Deutschland II Gmbh)
DGAG Deutsche Grundvermögen AG (ex- B&L Immobilien AG)	Real Estate	Hamburg	Euro	55.000.000	99,42%		Tigotan Vermögensverwaltungsgesellschaft mbh
DGAG Grundstücksbeteiligung Gmbh	Real Estate	Kiel	Euro	25.000	100,00%		Pirelli & C. Real Estate Deutschland Gmbh (ex- Pirelli & C. Real Estate Deutschland II Gmbh)
DGAG Hausmeister Service Gmbh	Real Estate	Kiel	Euro	25.000	100,00%		Pirelli & C. Real Estate Deutschland Gmbh (ex- Pirelli & C. Real Estate Deutschland II Gmbh)
DGAG Immobilien Management Gmbh	Real Estate	Hamburg	Euro	5.150.000	100,00%		Pirelli & C. Real Estate Deutschland Gmbh (ex- Pirelli & C. Real Estate Deutschland II Gmbh)
DGAG Shopping Immobilien Gmbh	Real Estate	Hamburg	Euro	153.400	100,00%		Pirelli & C. Real Estate Deutschland Gmbh (ex- Pirelli & C. Real Estate Deutschland II Gmbh)
DGAG Wohnimmobilien Gmbh	Real Estate	Kiel	Euro	25.000	100,00%		Pirelli & C. Real Estate Deutschland Gmbh (ex- Pirelli & C. Real Estate Deutschland II Gmbh)
DGAG Wohnungsbau Gmbh	Real Estate	Hamburg	Euro	300.000	100,00%		Pirelli & C. Real Estate Deutschland Gmbh (ex- Pirelli & C. Real Estate Deutschland II Gmbh)
Drahtoord Saar Geschaefsführungs Gmbh	Tyres	Merzig	Deut. Mark	60.000	50,00%		Pirelli Deutschland Gmbh
Drahtoord Saar GmbH & Co. K.G.	Tyres	Merzig	Deut. Mark	30.000.000	50,00%		Pirelli Deutschland Gmbh
Driver Fleet Solution Gmbh	Tyres	Breuberg/Odenwald	Euro	26.000	100,00%		Deutsche Pirelli Reifen Holding Gmbh
Gesellschaft fuer Wohnungsbau Luebeck mbh	Real Estate	Lübeck	Euro	900.000	94,90%	1,78%	Pirelli DGAG Deutsche Grundvermögen Gmbh (ex- DGAG Deutsche Grundvermögen AG) Pirelli & C. Real Estate S.p.A.
GWK Braunschweig Gmbh	Real Estate	Braunschweig	Euro	1.050.000	92,50%	2,62%	Pirelli DGAG Deutsche Grundvermögen Gmbh (ex- DGAG Deutsche Grundvermögen AG) Pirelli & C. Real Estate S.p.A.
GWL Wohnungsbetreuungsgesellschaft mbh	Real Estate	Hamburg	Euro	26.000	94,81%	1,73%	Pirelli DGAG Deutsche Grundvermögen Gmbh (ex- DGAG Deutsche Grundvermögen AG) Pirelli & C. Real Estate S.p.A.
Landgesellschaft Schleswig Holstein mbh	Real Estate	Hamburg	Euro	27.500.000	48,12%	46,78%	DGAG Grundstücksbeteiligung Gmbh Landgesellschaft Schleswig Holstein mbh
LEG Beteiligungsgesellschaft Gmbh	Real Estate	Hamburg	Euro	100.000	100,00%		Pirelli DGAG Deutsche Grundvermögen AG (ex- B&L Immobilien AG)
Mertus Achtunddreissigste Gmbh	Real Estate	Frankfurt	Euro	25.000	100,00%		Pirelli RE Netherlands B.V.
Pirelli & C. Real Estate Deutschland Gmbh (ex- Pirelli & C. Real Estate Deutschland II Gmbh)	Real Estate	Hamburg	Euro	5.000.000	100,00%		Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Residential Gmbh (ex- Pirelli & C. Real Estate Deutschland Gmbh )	Real Estate	Berlin	Euro	25.000	100,00%		Jamesmail B.V.
Pirelli Deutschland Gmbh	Tyres	Breuberg/Odenwald	Euro	26.334.100	100,00%		Deutsche Pirelli Reifen Holding Gmbh
Pirelli DGAG Deutsche Grundvermögen Gmbh (ex- DGAG Deutsche Grundvermögen AG)	Real Estate	Kiel	Euro	35.367.100	32,90%	25,71% 25,28% 11,02%	Tigotan Vermögensverwaltungsgesellschaft mbh DGAG Deutsche Grundvermögen AG (ex- B&L Immobilien AG) LEG Beteiligungs Gmbh
Pirelli Personal Service Gmbh	Tyres	Breuberg/Odenwald	Euro	25.000	100,00%	5,10%	B&L Beteiligungsgesellschaft mbh Projekt Northwind Gmbh & Co. K.G.
Pirelli RE Aquarius Real Estate Gmbh & Co. KG	Real Estate	Hamburg	Euro	2.000	100,00%		Deutsche Pirelli Reifen Holding Gmbh
Pirelli RE Asset Management Gmbh (ex- Apts.252.Gmbh)	Real Estate	Berlin	Euro	25.000	100,00%		Pirelli DGAG Deutsche Grundvermögen Gmbh (ex- DGAG Deutsche Grundvermögen AG) Pirelli & C. Real Estate Deutschland Gmbh (ex- Pirelli & C. Real Estate Deutschland II Gmbh)
Pirelli RE Capricorn Real Estate Gmbh & Co. KG	Real Estate	Hamburg	Euro	2.000	100,00%		Pirelli DGAG Deutsche Grundvermögen Gmbh (ex- DGAG Deutsche Grundvermögen AG)
Pirelli RE Cassiopea Real Estate Gmbh & Co. KG	Real Estate	Hamburg	Euro	2.000	100,00%		Pirelli DGAG Deutsche Grundvermögen Gmbh (ex- DGAG Deutsche Grundvermögen AG)
Pirelli RE Cefeo Real Estate Gmbh & Co. KG	Real Estate	Braunschweig	Euro	2.000	100,00%		GWK Braunschweig GmbH
Pirelli RE Centaurus Real Estate Gmbh & Co. KG	Real Estate	Hamburg	Euro	2.000	100,00%		Pirelli DGAG Deutsche Grundvermögen Gmbh (ex- DGAG Deutsche Grundvermögen AG)
Pirelli RE Dorado Real Estate Gmbh & Co. KG	Real Estate	Braunschweig	Euro	2.000	100,00%		GWK Braunschweig GmbH
Pirelli RE Pegasus Real Estate Gmbh & Co. KG	Real Estate	Hamburg	Euro	2.000	100,00%		Pirelli DGAG Deutsche Grundvermögen Gmbh (ex- DGAG Deutsche Grundvermögen AG)
Pirelli RE Residential Investments Gmbh (ex- P&K Real Estate Gmbh)	Real Estate	Hamburg	Euro	570.000	100,00%		Pirelli & C. Real Estate S.p.A.
Pirelli RE Scorpio Real Estate Gmbh & Co. KG	Real Estate	Hamburg	Euro	2.000	100,00%		Pirelli DGAG Deutsche Grundvermögen Gmbh (ex- DGAG Deutsche Grundvermögen AG)

Company	Business	Headquarters	Share Capital	% holding	% voting rights	Held by
Pirelli RE Taurus Real Estate Gmbh & Co. KG	Real Estate	Braunschweig	Euro	2.000	100,00%	GWK Braunschweig Gmbh
PK Grundstückverwaltung Gmbh	Tyres	Hoechst/Odenwald	Euro	26.000	100,00%	Deutsche Pirelli Reifen Holding Gmbh
Pneumobil Gmbh	Tyres	Breuberg/Odenwald	Euro	259.225	100,00%	Deutsche Pirelli Reifen Holding Gmbh
PRE Aquarius Real Estate Gmbh (ex- Patux 256. Gmbh)	Real Estate	Berlin	Euro	25.000	100,00%	Pirelli DGAG Deutsche Grundvermögen Gmbh (ex- DGAG Deutsche Grundvermögen AG)
PRE Capricorn Real Estate Gmbh (ex- Patux 259. Gmbh)	Real Estate	Berlin	Euro	25.000	100,00%	Pirelli DGAG Deutsche Grundvermögen Gmbh (ex- DGAG Deutsche Grundvermögen AG)
PRE Cassiopcia Real Estate Gmbh (ex- Aptus 267. Gmbh)	Real Estate	Berlin	Euro	25.000	100,00%	Pirelli DGAG Deutsche Grundvermögen Gmbh (ex- DGAG Deutsche Grundvermögen AG)
PRE Cefco Real Estate Gmbh	Real Estate	Frankfurt	Euro	25.000	100,00%	GWK Braunschweig Gmbh
PRE Centaurus Real Estate Gmbh (ex- Gatus 274. Gmbh)	Real Estate	Berlin	Euro	25.000	100,00%	Pirelli DGAG Deutsche Grundvermögen Gmbh (ex- DGAG Deutsche Grundvermögen AG)
PRE Dorado Real Estate Gmbh	Real Estate	Frankfurt	Euro	25.000	100,00%	GWK Braunschweig Gmbh
PRE Pegasus Real Estate Gmbh (ex- Gatus 275. Gmbh)	Real Estate	Berlin	Euro	25.000	100,00%	Pirelli DGAG Deutsche Grundvermögen Gmbh (ex- DGAG Deutsche Grundvermögen AG)
PRE Scorpio Real Estate Gmbh (ex- Aptus 277. Gmbh)	Real Estate	Berlin	Euro	25.000	100,00%	Pirelli DGAG Deutsche Grundvermögen Gmbh (ex- DGAG Deutsche Grundvermögen AG)
PRE Taurus Real Estate Gmbh	Real Estate	Frankfurt	Euro	25.000	100,00%	GWK Braunschweig Gmbh
Projekt Bahnhof Hamburg-Altona Verwaltungen Gmbh	Real Estate	Hamburg	Euro	25.000	100,00%	Projektentwicklung Bahnhof Hamburg-Altona Gmbh & Co. KG
Projekt Northwind Gmbh & Co. K.G.	Real Estate	Hamburg	Euro	1.000	94,90%	Pirelli & C. Real Estate Residential Gmbh (ex- Pirelli & C. Real Estate Deutschland Gmbh )
Projektentwicklung Bahnhof Hamburg-Altona Gmbh & Co. KG	Real Estate	Hamburg	Euro	8.000.000	74,90%	Pirelli & C. Real Estate Deutschland Gmbh (ex- Pirelli & C. Real Estate Deutschland II Gmbh)
PSG Parkhaus Service Gmbh	Real Estate	Hamburg	Euro	25.600	100,00%	Pirelli & C. Real Estate Deutschland Gmbh (ex- Pirelli & C. Real Estate Deutschland II Gmbh)
Resident Berlin Zwei P&K Gmbh	Real Estate	Berlin	Euro	100.000	94,90%	Pirelli RE Residential Investments Gmbh (ex- P&K Real Estate Gmbh)
Sechste Kajen 12 Verwaltungsgesellschaft mbh	Real Estate	Hamburg	Euro	25.000	100,00%	Pirelli & C. Real Estate Deutschland Gmbh (ex- Pirelli & C. Real Estate Deutschland II Gmbh)
Tigotan Vermögensverwaltungsgesellschaft mbh	Real Estate	Hamburg	Euro	25.000	100,00%	Pirelli & C. Real Estate Residential Gmbh (ex- Pirelli & C. Real Estate Deutschland Gmbh )
Tortuga Vermögensverwaltungsgesellschaft mbh	Real Estate	Hamburg	Euro	25.000	100,00%	Pirelli & C. Real Estate Residential Gmbh (ex- Pirelli & C. Real Estate Deutschland Gmbh )
WOB AU Wohnungsverwaltung Gmbh	Real Estate	Kiel	Euro	25.000	100,00%	Pirelli & C. Real Estate Deutschland Gmbh (ex- Pirelli & C. Real Estate Deutschland II Gmbh)
XENDA Vermögensverwaltungsgesellschaft	Real Estate	Hamburg	Euro	25.000	100,00%	Pirelli & C. Real Estate Deutschland Gmbh (ex- Pirelli & C. Real Estate Deutschland II Gmbh)
<b>Greece</b>				97.161.278		
Elastika Pirelli S.A.	Tyres	Athens	Euro	1.192.000	99,90%	Pirelli Tyre (Europe) S.A.
Pirelli Hellas S.A. (in liquidation)	Commercial	Athens	US \$	22.050.000	79,86%	Pirelli Tyre S.p.A
						Pirelli Holding N.V. (ex- Pirelli Tyre Holding N.V.)
<b>Hungary</b>						
Pirelli Hungary Tyre Trading and Services Ltd	Tyres	Budapest	Hun. forint	3.000.000	100,00%	Pirelli Tyre (Europe) S.A.
<b>Ireland</b>						
Pirelli Reinsurance Company Ltd	Re-insurance	Dublin	US \$	7.150.000	100,00%	Pirelli Finance (Luxembourg) S.A.
<b>Italy</b>						
Acquario S.r.l. (in liquidation)	Real Estate	Genoa	Euro	255.000	100,00%	Pirelli & C. Real Estate S.p.A.
Alfa S.r.l.	Real Estate	Milan	Euro	2.600.000	100,00%	Pirelli & C. Real Estate S.p.A.
Asset Management NPL S.r.l.	Real Estate	Milan	Euro	10.000	100,00%	Pirelli & C. Real Estate S.p.A.
Beta S.r.l.	Real Estate	Milan	Euro	26.000	100,00%	Pirelli & C. Real Estate S.p.A.
Botticino S.r.l.	Real Estate	Milan	Euro	10.000	100,00%	Pirelli & C. Real Estate S.p.A.
Buildig Services S.r.l.	Real Estate	Turin	Euro	90.000	51,00%	Ingest Facility S.p.A.
Casaclick S.p.A.	Real Estate	Milan	Euro	299.000	100,00%	Pirelli & C. Real Estate Agency S.p.A.
Centrale Real Estate S.p.A.	Real Estate	Milan	Euro	5.200.000	100,00%	Pirelli & C. Real Estate S.p.A.
Centro Services Amministrativi Pirelli S.r.l.	Services	Milan	Euro	51.000	34,00%	Pirelli & C. S.p.A.
					33,00%	Pirelli Tyre S.p.A
					33,00%	Pirelli & C. Real Estate S.p.A
CFT Financial S.p.A.	Real Estate	Florence	Euro	10.010.000	100,00%	Pirelli & C. Real Estate S.p.A.
Consorzio Sermagest - Services Manutentivi Gestionali	Real Estate	Turin	Euro	16.108	60,00%	Ingest Facility S.p.A.
Consorzio Stabile Pirelli RE Services (in liquidation)	Real Estate	Milan	Euro	200.000	100,00%	Pirelli & C. Real Estate Facility Management S.p.A.
Dolcetto sei S.r.l.	Real Estate	Milan	Euro	10.000	100,00%	Pirelli & C. Real Estate S.p.A.
Driver Italia S.p.A.	Commercial	Milan	Euro	350.000	73,07%	Pirelli Tyre S.p.A
Edilnord Gestioni S.p.A.	Real Estate	Milan	Euro	517.000	100,00%	Pirelli & C. Real Estate S.p.A.
Elle Uno Società Consortile a r.l.	Real Estate	Milan	Euro	100.000	80,00%	Edilnord Gestioni S.p.A.
Eratto Finance S.r.l.	Real Estate	Milan	Euro	600.000	53,85%	Pirelli & C. Real Estate S.p.A.
Geolidro S.p.A.	Real Estate	Naples	Euro	3.099.096	100,00%	Centrale Real Estate S.p.A.
Ingest Facility S.p.A.	Real Estate	Turin	Euro	1.700.000	100,00%	Pirelli & C. Real Estate Facility Management S.p.A.
Iniziativa Immobiliari 3 S.r.l.	Real Estate	Milan	Euro	10.000	100,00%	Iniziativa Immobiliari 3 B.V.
Lambda S.r.l.	Real Estate	Milan	Euro	578.760	100,00%	Pirelli & C. Real Estate S.p.A.
Maristel S.p.A.	Telecommunications	Milan	Euro	1.020.000	100,00%	Pirelli Broadband Solutions S.p.A.



Company	Business	Headquarters	Share Capital	% holding	% voting rights	Held by
NewCo RE 1 S.r.l.	Real Estate	Milan	Euro	30.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 2 S.r.l.	Real Estate	Milan	Euro	10.000	100,00%	Pirelli RE Facility Management Netherlands B.V.
NewCo RE 4 S.r.l.	Real Estate	Milan	Euro	10.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 5 S.r.l.	Real Estate	Milan	Euro	40.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 6 S.r.l.	Real Estate	Milan	Euro	40.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 7 S.r.l.	Real Estate	Milan	Euro	40.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 8 S.r.l.	Real Estate	Milan	Euro	40.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 9 S.r.l.	Real Estate	Milan	Euro	40.000	100,00%	Pirelli & C. Real Estate S.p.A.
P.I.T. - Promozione Imprese e Territorio S.C.r.l.	Real Estate	Pozzaoli (Na)	Euro	25.823	100,00%	Pirelli & C. Real Estate Facility Management S.p.A.
Parcheggi Bicocca S.r.l.	Real Estate	Milan	Euro	1.500.000	75,00%	Pirelli & C. Real Estate S.p.A.
PBS S.C.a.r.l.	Real Estate	Milan	Euro	100.000	60,00%	Edinord Gestioni S.p.A.
Pirelli & C. Environment Eco Technology S.p.A.	Environment	Pero (Mi)	Euro	18.079.984	100,00%	Pirelli & C. Environment S.p.A.
Pirelli & C. Environment Renewable Energy S.p.A.	Environment	Milan	Euro	3.060.000	100,00%	Pirelli & C. Environment S.p.A.
Pirelli & C. Environment S.p.A.	Environment	Milan	Euro	40.000.000	51,00%	Pirelli & C. S.p.A.
Pirelli & C. Environment Site Remediation S.p.A.	Environment	Milan	Euro	155.700	100,00%	Pirelli & C. Environment S.p.A.
Pirelli & C. Opere Generali S.p.A.	Real Estate	Milan	Euro	104.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Agency S.p.A.	Real Estate	Milan	Euro	832.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Energy S.p.A.	Real Estate	Milan	Euro	120.000	100,00%	Pirelli & C. Real Estate Facility Management S.p.A.
Pirelli & C. Real Estate Facility Management S.p.A.	Real Estate	Milan	Euro	5.561.000	100,00%	NewCo RE 2 S.r.l.
Pirelli & C. Real Estate Franchising Holding S.r.l.	Real Estate	Milan	Euro	120.000	80,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Franchising S.p.A.	Real Estate	Milan	Euro	500.000	100,00%	Pirelli & C. Real Estate Franchising Holding S.r.l.
Pirelli & C. Real Estate Franchising Services Finanziari S.r.l.	Real Estate	Milan	Euro	10.000	100,00%	Pirelli & C. Real Estate Franchising Holding S.r.l.
Pirelli & C. Real Estate Opportunities Società di Gestione del Risparmio S.p.A.	Real Estate	Milan	Euro	1.000.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Property Management S.p.A.	Real Estate	Milan	Euro	114.400	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate S.p.A.	Real Estate	Milan	Euro	21.274.678	50,50%	Pirelli & C. S.p.A.
				0,56%	0,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A.	Real Estate	Milan	Euro	24.458.763	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli Broadband Solutions S.p.A.	Telecommunications	Milan	Euro	10.120.000	100,00%	Pirelli & C. S.p.A.
Pirelli Cultura S.p.A.	Sundry	Milan	Euro	1.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Labs S.p.A.	R&D	Milan	Euro	10.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Nastri Tecnici S.p.A. (in liquidation)	Sundry	Milan	Euro	384.642	100,00%	Pirelli & C. S.p.A.
Pirelli RE Credit Servicing S.p.A.	Real Estate	Milan	Euro	1.809.500	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli Services Finanziari S.p.A.	Financial	Milan	Euro	1.976.000	100,00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Tyres	Milan	Euro	256.820.000	61,06%	Pirelli & C. S.p.A.
Polo Viaggi S.r.l.	Travel agency	Milan	Euro	46.800	100,00%	Pirelli & C. S.p.A.
Progetto Bicocca Università S.r.l.	Real Estate	Milan	Euro	50.360	50,50%	Pirelli & C. Real Estate S.p.A.
Progetto Lainate S.r.l.	Real Estate	Milan	Euro	26.000	100,00%	Pirelli & C. Real Estate S.p.A.
Progetto Perugia S.r.l.	Real Estate	Perugia	Euro	100.000	100,00%	Pirelli & C. Real Estate S.p.A.
Progetto Vallata S.r.l.	Real Estate	Milan	Euro	1.500.000	80,00%	Pirelli & C. Real Estate S.p.A.
				9,00%		Pirelli & C. Real Estate Facility Management S.p.A.
Pzero S.r.l.	Sundry	Milan	Euro	10.000	100,00%	Pirelli & C. S.p.A.
S.A.N.G.E.S.c.a.r.l.	Real Estate	Milan	Euro	10.000	63,50%	Pirelli & C. Real Estate Facility Management S.p.A.
Services Amministrativi Real Estate S.p.A.	Real Estate	Milan	Euro	520.000	100,00%	Pirelli & C. Real Estate S.p.A.
Services Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104.000	95,00%	Pirelli & C. S.p.A.
				2,00%		Pirelli Tyre S.p.A.
				1,00%		Polo Viaggi S.r.l.
				2,00%		Pirelli & C. Real Estate S.p.A.
Services Immobiliari Banche S.r.l.	Real Estate	Milan	Euro	10.100	100,00%	Pirelli RE Credit Servicing S.p.A.
Shared Service Center S.c.a.r.l.	Information systems	Milan	Euro	1.756.612	50,00%	Pirelli & C. S.p.A.
Vindex S.r.l.	Real Estate	Brescia	Euro	12.000	68,00%	CFT Financial S.p.A.
				32,00%		Pirelli & C. Real Estate S.p.A.
<b>Luxembourg</b>						
Pirelli Finance (Luxembourg) S.A.	Financial	Luxembourg	Euro	270.228.168	100,00%	Pirelli & C. S.p.A.
<b>Poland</b>						
Driver Polska Sp.ZO.O.	Tyres	Warsaw	Pol. zloty	100.000	73,50%	Pirelli Polska Sp.ZO.O.
Ingest Facility Polska Sp.ZO.O.	Real Estate	Grazynskiogio	Pol. zloty	500.000	100,00%	Ingest Facility S.p.A.
Pirelli Pekaio Real Estate Sp.ZO.O.	Real Estate	Warsaw	Pol. zloty	35.430	75,00%	Pirelli & C. Real Estate S.p.A.
Pirelli Polska Sp.ZO.O.	Tyres	Warsaw	Pol. zloty	625.771	100,00%	Pirelli Tyre (Europe) S.A.
<b>Romania</b>						
S.C. Cord Romania S.R.L.	Tyres	Slatina	Rom. leu	24.990.100	80,00%	Pirelli Tyre Holland N.V.
S.C. Pirelli Tyres Romania S.R.L.	Tyres	Slatina	Rom. leu	77.169.800	95,00%	Pirelli Tyre Holland N.V.
				5,00%		Pirelli Tyre S.p.A.

Company	Business	Headquarters	Share Capital	% holding	% voting rights	Held by
<b>Russia</b>						
OOO Pirelli Tyre Russia	Commercial	Moscow	Russ. rouble	950.000	95,00% 5,00%	Pirelli Tyre (Europe) S.A. Pirelli Tyre Holland N.V.
<b>Slovak Republic</b>						
Pirelli Slovakia S.R.O.	Tyres	Bratislava	Slov. koruna	200.000	100,00%	Pirelli Tyre (Europe) S.A.
<b>Spain</b>						
Euro Driver Car S.L.	Tyres	Barcelona	Euro	780.000	25,00% 26,15%	Pirelli Neumaticos S.A. Proneus S.L.
Omnia Motor S.A.	Tyres	Barcelona	Euro	1.502.530	100,00%	Pirelli Neumaticos S.A.
Pirelli Neumaticos S.A.	Tyres	Barcelona	Euro	45.075.908	100,00%	Pirelli Tyre Holland N.V.
Proneus S.L.	Tyres	Barcelona	Euro	3.005	100,00%	Pirelli Neumaticos S.A.
Tyre & Fleet S.L.	Tyres	Barcelona	Euro	20.000	100,00%	Pirelli Neumaticos S.A.
<b>Sweden</b>						
Pirelli Tyre Nordic A.B.	Tyres	Bromma	Swed. krona	950.000	100,00%	Pirelli Tyre (Europe) S.A.
<b>Switzerland</b>						
Agom S.A.	Tyres	Comthey	Swiss fr.	50.000	80,00%	Pirelli Tyre (Europe) S.A.
Agom S.A. Bioggio	Tyres	Bioggio	Swiss fr.	590.000	100,00%	Pirelli Tyre (Europe) S.A.
Pirelli Société de Services S.à r.l.	Financial	Basel	Swiss fr.	50.000	100,00%	Pirelli Tyre (Europe) S.A.
Pirelli Société Générale S.A.	Financial	Basel	Swiss fr.	28.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Tyre (Europe) S.A.	Tyres	Basel	Swiss fr.	1.000.000	100,00%	Pirelli Tyre Holland N.V.
<b>The Netherlands</b>						
Aida RE B.V.	Real Estate	Amsterdam	Euro	18.000	100,00%	Pirelli RE Netherlands B.V.
Iniziativa immobiliari 3 B.V.	Real Estate	Amsterdam	Euro	4.500.000	100,00%	Pirelli & C. Real Estate S.p.A.
Jamesmail B.V.	Real Estate	Amsterdam	Euro	18.000	100,00%	Pirelli & C. Real Estate S.p.A.
Nabucco RE B.V.	Real Estate	Amsterdam	Euro	18.000	100,00%	Pirelli RE Netherlands B.V.
P.A.E.T. B.V.	Environment	Amsterdam	Euro	18.000	100,00%	Pirelli & C. Environment Eco Technology S.p.A.
Pirelli China Tyre N.V.	Tyres	Heineoord	Euro	8.045.000	100,00%	Pirelli Tyre Holland N.V.
Pirelli RE Facility Management Netherlands B.V.	Real Estate	Amsterdam	Euro	18.000	51,00%	Pirelli & C. Real Estate S.p.A.
Pirelli RE Netherlands B.V.	Real Estate	Amsterdam	Euro	21.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli Holding N.V. (ex- Pirelli Tyre Holding N.V.)	Holding	Heineoord	Euro	250.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Tyre Holland N.V.	Tyres	Heineoord	Euro	3.045.000	100,00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyres	Heineoord	Euro	18.152	100,00%	Pirelli Tyre (Europe) S.A.
Spir Finance N.V.	Financial	Heineoord	Euro	13.021.222	100,00%	Pirelli & C. S.p.A.
Valeratofin B.V.	Real Estate	Amsterdam	Euro	18.000	100,00%	Pirelli RE Netherlands B.V.
<b>Turkey</b>						
Celikord A.S.	Tyres	Istanbul	Turk. lira/mil.	29.000.000	50,733% 0,27%	Pirelli Tyre Holland N.V. Pirelli Tyre S.p.A.
Turk-Pirelli Lastikleri A.S. (*)	Tyres	Istanbul	Turk. lira/mil.	140.000.000	65,44% 0,15%	Pirelli Tyre Holland N.V. Pirelli Tyre S.p.A.
<b>United Kingdom</b>						
Central Tyre Ltd	Tyres	London	British pound	100.000	100,00%	Pirelli UK Tyres Ltd
CPK Auto Products Ltd	Tyres	London	British pound	10.000	100,00%	Pirelli UK Tyres Ltd
CTC 1994 Ltd	Tyres	London	British pound	984	100,00%	Central Tyre Ltd
Pirelli International Ltd	Financial	London	Euro	250.000.000	75,00% 25,00%	Pirelli UK Tyre Holding Ltd Pirelli Tyre S.p.A.
Pirelli Tyres Ltd	Tyres	London	British pound	16.000.000	100,00%	Pirelli UK Tyres Ltd
Pirelli UK Finance Ltd	Financial	London	British pound	6.969.280	100,00%	Pirelli UK Ltd
Pirelli UK Ltd	Holding Financial	London	British pound	97.161.278	88,03% 11,97%	Pirelli Holding N.V. (ex- Pirelli Tyre Holding N.V.) Pirelli & C. S.p.A.
Pirelli UK Tyre Holding Ltd	Holding	London	British pound	96.331.000	100,00%	Pirelli Tyre Holland N.V.
Pirelli UK Tyres Ltd	Tyres	London	British pound	85.000.000	75,00% 25,00%	Pirelli UK Tyre Holding Ltd Pirelli Tyre S.p.A.

(\*) 69.44% holding for IAS purposes

Company	Business	Headquarters	Share Capital	% holding	% voting rights	Held by
<b>North America</b>						
<b>Canada</b>						
Pirelli Tire Inc.	Tyres	Frederic Town (New Brunswick)	Can. \$	6.000.000	100,00%	Pirelli Tyre (Europe) S.A.
<b>U.S.A.</b>						
Pirelli Broadband Solutions North America Inc.	Telecommunications	Wilmington (Delaware)	US \$	1	100,00%	Pirelli Broadband Solutions S.p.A.
Pirelli North America Inc.	Tyres	Atlanta	US \$	10	100,00%	Pirelli Tyre Holland N.V.
Pirelli Tire LLC	Tyres	Wilmington (Delaware)	US \$	1	100,00%	Pirelli North America Inc.
<b>Central/South America</b>						
<b>Argentina</b>						
Pirelli Argentina de Mandatos S.A.	Services	Buenos Aires	Arg. peso	3.030.009	59,41% 40,59%	Pirelli & C. S.p.A. Pirelli Société Générale S.A.
Pirelli Neumaticos S.A.I.C.	Tyres	Buenos Aires	Arg. peso	101.325.176	95,00% 5,00%	Pirelli Tyre Holland N.V. Pirelli Tyre S.p.A.
<b>Brazil</b>						
Cord Brasil - Indústria e Comercio de Cordas para Pneumaticos Ltda (ex- Muriae Ltda)	Financial	Santo André	Bra. real	80.000.000	100,00%	Pirelli Pneus S.A.
Novacorp Consultora e Serviços Corporativos Ltda	Holding	Santo André	Bra. real	6.000	99,98%	Pirelli S.A.
Pirelli & C. Real Estate Ltda	Real Estate	Santo André	Bra. real	2.000.000	100,00%	Pirelli S.A.
Pirelli Pneus Nordeste Ltda	Tyres	Feira de Santana	Bra. real	29.991.402	100,00%	Pirelli Pneus S.A.
Pirelli Pneus S.A.	Tyres	Feira de Santana	Bra. real	342.085.095	99,73% 99,57%	Pirelli Tyre S.p.A.
Pirelli S.A.	Financial	Sao Paulo	Bra. real	49.189.271	100,00%	Pirelli & C. S.p.A.
Pneuae Comercial e Importadora Ltda	Tyres	Sao Paulo	Bra. real	12.913.526	100,00%	Pirelli Pneus S.A.
<b>Chile</b>						
Pirelli Neumaticos Chile Limitada	Tyres	Santiago	Chil. peso	1.918.451	99,98% 0,02%	Pirelli Pneus S.A. Pneuae Comercial e Importadora Ltda
<b>Colombia</b>						
Pirelli de Colombia S.A.	Tyres	Santa Fe De Bogota	Col. peso/000	3.315.069	92,91% 2,28% 1,60% 1,60% 1,60%	Pirelli Pneus S.A. Pirelli de Venezuela C.A. Cord Brasil - Indústria e Comercio de Cordas para Pneumaticos Ltda (ex- Muriae Ltda) Pirelli Pneus Nordeste Ltda Pneuae Comercial e Importadora Ltda
<b>Mexico</b>						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyres	Mexico City	Mex. peso	35.098.400	99,98% 0,02%	Pirelli Pneus S.A. Pneuae Comercial e Importadora Ltda
Servicios Pirelli Mexico S.A. de C.V.	Tyres	Mexico City	Mex. peso	50.000	99,00% 1,00%	Pirelli Pneus S.A. Pneuae Comercial e Importadora Ltda
<b>Venezuela</b>						
Pirelli de Venezuela C.A.	Tyres	Valencia	Ven. bolivar/000	20.062.679	96,22%	Pirelli Tyre Holland N.V.
<b>Africa</b>						
<b>Egypt</b>						
Alexandria Tire Company S.A.E.	Tyres	Alessandria	Egy. pound	393.000.000	89,08% 0,03%	Pirelli Tyre S.p.A. Pirelli Tyre (Europe) S.A.
International Tire Company Ltd	Tyres	Alessandria	Egy. pound	50.000	99,80%	Alexandria Tire Company S.A.E.
<b>South Africa</b>						
Pirelli Tyre (Py) Ltd	Tyres	Sandton	S.A. rand	1	100,00%	Pirelli Tyre (Europe) S.A.

Company	Business	Headquarters	Share Capital	% holding	% voting rights	Held by
<b>Oceania</b>						
<b>Australia</b>						
Pirelli Tyres Australia Pty Ltd	Tyres	Pymble - N.S.W.	Aus. \$	150.000	100,00%	Pirelli Tyre (Europe) S.A.
<b>New Zealand</b>						
Pirelli Tyres (NZ) Ltd	Tyres	Wellington	N.Z. \$	100	100,00%	Pirelli Tyres Australia Pty Ltd
<b>Asia</b>						
<b>China</b>						
Pirelli Scientific and Technological Consulting (Shanghai) Co. Ltd	Tyres	Shanghai	US \$	200.000	100,00%	Pirelli China Tyre N.V.
Pirelli Tyre Co. Ltd	Tyres	Yanzhou	Renminbi	800.000.000	60,00%	Pirelli China Tyre N.V.
<b>Japan</b>						
Pirelli Japan Kabushiki Kaisha	Tyres	Tokyo	Yen	2.700.000.000	100,00%	Pirelli Tyre Holland N.V.
<b>Singapore</b>						
Pirelli Asia Pte Ltd	Tyres	Singapore	\$ Sing.	2	100,00%	Pirelli Tyre (Europe) S.A.

## Investments accounted for by the equity method

Company	Business	Headquarters	Share	Capital	% holding	% voting rights	Held by
<b>Europe</b>							
<b>Germany</b>							
Beteiligungsgesellschaft Einkaufszentrum Mülheim GmbH	Real Estate	Hamburg	Euro	31.000	41,18%		Pirelli & C. Real Estate Deutschland GmbH (ex- Pirelli & C. Real Estate Deutschland II GmbH)
City Center Mülheim Grundstücksgesellschaft mbh & Co. KG	Real Estate	Hamburg	Euro	25.684.000	41,18%		Pirelli & C. Real Estate Deutschland GmbH (ex- Pirelli & C. Real Estate Deutschland II GmbH)
Einkaufszentrum Mülheim KG	Real Estate	Hamburg	Euro	18.884.000	41,18%		Pirelli & C. Real Estate Deutschland GmbH (ex- Pirelli & C. Real Estate Deutschland II GmbH)
Eilflorenz Hotelgesellschaft mbh & Co. KG	Real Estate	Hamburg	Euro	28.223.312	19,00%		Pirelli & C. Real Estate Deutschland GmbH (ex- Pirelli & C. Real Estate Deutschland II GmbH)
Grundstücksgesellschaft Merkur Hansaallee mbh & Co. KG	Real Estate	Hamburg	Euro	22.906.000	33,75%		Pirelli & C. Real Estate Deutschland GmbH (ex- Pirelli & C. Real Estate Deutschland II GmbH)
H&L Geschäftsführung GmbH	Real Estate	Hamburg	Euro	25.000	50,00%		Pirelli & C. Real Estate Deutschland GmbH (ex- Pirelli & C. Real Estate Deutschland II GmbH)
H&L Immobilien GmbH & Co.KG	Real Estate	Hamburg	Euro	100.000	50,00%		Pirelli & C. Real Estate Deutschland GmbH (ex- Pirelli & C. Real Estate Deutschland II GmbH)
Industriekraftwerk Breuberg GmbH	Co-generation	Hochst/Odenwald	Euro	1.533.876	26,00%		Pirelli Deutschland GmbH
Kupromenade 12 Timmendorfer Strand Grundstücksgesellschaft mbh & Co. KG	Real Estate	Hamburg	Euro	6.237.761	50,00%		Pirelli & C. Real Estate Deutschland GmbH (ex- Pirelli & C. Real Estate Deutschland II GmbH)
Möller & Company GmbH & Co. KG	Real Estate	Hamburg	Euro	20.000	40,00%		Pirelli & C. Real Estate Deutschland GmbH (ex- Pirelli & C. Real Estate Deutschland II GmbH)
Möller & Company Verwaltungsgesellschaft mbh	Real Estate	Hamburg	Euro	25.000	40,00%		Pirelli & C. Real Estate Deutschland GmbH (ex- Pirelli & C. Real Estate Deutschland II GmbH)
Resident Berlin 1 P&K GmbH	Real Estate	Berlin	Euro	125.000	40,00%		Pirelli RE Residential Investments GmbH (ex- P&K Real Estate GmbH)
SCM Finanzierungsberatungsgesellschaft mbh	Real Estate	Hamburg	Euro	25.000	50,00%		Pirelli & C. Real Estate Deutschland GmbH (ex- Pirelli & C. Real Estate Deutschland II GmbH)
Tizian Wohnen 1 GmbH	Real Estate	Berlin	Euro	1.114.400	40,00%		Pirelli RE Residential Investments GmbH (ex- P&K Real Estate GmbH)
Tizian Wohnen 2 GmbH	Real Estate	Berlin	Euro	347.450	40,00%		Pirelli RE Residential Investments GmbH (ex- P&K Real Estate GmbH)
Verwaltung Büro- und Lichtspielhaus GmbH	Real Estate	Hamburg	Euro	26.000	27,00%		Pirelli & C. Real Estate Deutschland GmbH (ex- Pirelli & C. Real Estate Deutschland II GmbH)
					20,00%		Grundstücksgesellschaft Merkur Hansaallee mbh & Co. KG
Verwaltung City Center Mülheim Grundstücksgesellschaft mbh	Real Estate	Hamburg	Euro	31.000	41,18%		Pirelli & C. Real Estate Deutschland GmbH (ex- Pirelli & C. Real Estate Deutschland II GmbH)
Verwaltung Kupromenade 12 Timmendorfer Strand Grundstücksgesellschaft mbh & Co. KG	Real Estate	Hamburg	Euro	25.565	50,00%		Pirelli & C. Real Estate Deutschland GmbH (ex- Pirelli & C. Real Estate Deutschland II GmbH)
Verwaltung Mercado Ottensen Grundstücksgesellschaft mbh	Real Estate	Hamburg	Euro	25.565	44,00%		Pirelli RE Netherlands B.V.
					50,00%		Mistral Real Estate B.V.
<b>Italy</b>							
Agorà S.r.l. (in liquidation)	Real Estate	Milan	Euro	10.000	40,00%		Pirelli & C. Real Estate S.p.A.
Altair Zander Italia S.r.l.	Real Estate	Milan	Euro	100.000	50,00%		Pirelli & C. Real Estate Facility Management S.p.A.
Aree Urbane S.r.l.	Real Estate	Milan	Euro	307.717	34,60%		Pirelli & C. Real Estate S.p.A.
					0,28%		Pirelli & C. S.p.A.
Cairoli Finance S.r.l.	Real Estate	Milan	Euro	10.000	35,00%		Pirelli & C. Real Estate S.p.A.
Capitol Immobiliare S.r.l.	Real Estate	Milan	Euro	10.000	33,00%		Pirelli & C. Real Estate S.p.A.
Castello S.r.l.	Real Estate	Milan	Euro	1.170.000	49,10%		Pirelli & C. Real Estate S.p.A.
Consorzio ARP (in liquidation)	Real Estate	Rome	Euro	130.000	41,30%		Pirelli & C. Real Estate Property Management S.p.A.
Continuum S.r.l.	Real Estate	Milan	Euro	500.000	40,00%		Pirelli & C. Real Estate S.p.A.
Dixia S.r.l.	Real Estate	Milan	Euro	2.500.000	30,00%		Pirelli & C. Real Estate S.p.A.
Dolcetto 8 S.r.l.	Real Estate	Milan	Euro	10.000	50,00%		Pirelli & C. Real Estate S.p.A.
Domogest S.r.l.	Real Estate	Florence	Euro	1.050.000	50,00%		Centrale Immobiliare S.p.A.
Elle Dieci Società Consortile a.r.l.	Real Estate	Milan	Euro	100.000	40,00%		Pirelli & C. Real Estate Property Management S.p.A.
Elle Nove Società Consortile a.r.l.	Real Estate	Milan	Euro	100.000	34,90%		Edlnord Gestioni S.p.A.
Elle Tre Società Consortile a.r.l.	Real Estate	Milan	Euro	100.000	40,00%		Pirelli & C. Real Estate Property Management S.p.A.
Erice S.r.l.	Real Estate	Milan	Euro	10.000	40,00%		Pirelli & C. Real Estate S.p.A.
Eurostazioni S.p.A.	Holding	Rome	Euro	160.000.000	32,71%		Pirelli & C. S.p.A.
Fattoria Medicea S.r.l.	Real Estate	Prato (Fi)	Euro	100.000	40,00%		Pirelli & C. Real Estate S.p.A.
G6 Advisor	Real Estate	Milan	Euro	50.000	42,30%		Pirelli & C. Real Estate Agency S.p.A.
Galatea S.r.l.	Real Estate	Milan	Euro	10.000	30,00%		Pirelli & C. Real Estate S.p.A.
Gestioni Immobiliari 2003 S.r.l.	Real Estate	Milan	Euro	20.000	50,00%		Pirelli & C. Real Estate S.p.A.
Golfo Aranci S.p.A. - Società di Trasformazione Urbana	Real Estate	Milan	Euro	1.000.000	43,80%		Pirelli & C. Real Estate S.p.A.
					1,20%		Pirelli & C. Real Estate Facility Management S.p.A.
					5,00%		Centrale Immobiliare S.p.A.
Idea Granda Società Consortile r.l.	Environment	Cuneo	Euro	1.292.500	49,00%		Pirelli & C. Ambiente Renewable Energy S.p.A.
Immobiliare Priza S.r.l.	Real Estate	Milan	Euro	469.000	36,00%		Pirelli & C. Real Estate S.p.A.
Induxia S.r.l.	Real Estate	Milan	Euro	836.300	18,00%		Pirelli & C. Real Estate S.p.A.
Iniziative Immobiliari S.r.l.	Real Estate	Gavirate (Va)	Euro	5.000.000	49,46%		Pirelli & C. Real Estate S.p.A.
Le Case di Capalbio S.r.l.	Real Estate	Milan	Euro	10.000	20,00%		Pirelli & C. Real Estate S.p.A.
Localto ReoCo S.r.l.	Real Estate	Milan	Euro	10.000	35,00%		Pirelli & C. Real Estate S.p.A.
Malaspina Energy S.c. a.r.l.	Real Estate	Milan	Euro	100.000	50,00%		Pirelli & C. Real Estate Facility Management S.p.A.
Maro S.r.l.	Real Estate	Milan	Euro	20.000	25,00%		Pirelli & C. Real Estate S.p.A.
Massaccio S.r.l.	Real Estate	Milan	Euro	100.000	40,00%		Pirelli & C. Real Estate S.p.A.
MP Facility S.p.A.	Real Estate	Milan	Euro	1.000.000	50,00%		Pirelli & C. Real Estate Facility Management S.p.A.
Orione Immobiliare Prima S.p.A.	Real Estate	Milan	Euro	104.000	40,10%		Pirelli & C. Real Estate S.p.A.
Perseo S.r.l.	Services	Milan	Euro	20.000	50,00%		Pirelli & C. S.p.A.
Progetto Bicoeca la Piazza S.r.l.	Real Estate	Milan	Euro	3.151.800	26,00%		Pirelli & C. Real Estate S.p.A.
Progetto Corsico S.r.l.	Real Estate	Milan	Euro	100.000	49,00%		Pirelli & C. Real Estate S.p.A.
Progetto Fontana S.r.l. (in liquidation)	Real Estate	Milan	Euro	10.000	23,00%		Pirelli & C. Real Estate S.p.A.
Progetto Gioberetti S.r.l.	Real Estate	Milan	Euro	100.000	50,00%		Pirelli & C. Real Estate S.p.A.
Progetto Nuovo Sant'Anna S.r.l.	Real Estate	Milan	Euro	3.000.000	49,50%		Consorzio Stabile Pirelli RE Servizi
Quadrifoglio Milano S.p.A.	Real Estate	Rome	Euro	11.230.000	50,00%		Pirelli & C. Real Estate S.p.A.

Company	Business	Headquarters	Share Capital	% holding	% voting rights	Held by
Resi S.r.l.	Real Estate	Milan	Euro	10.000	25,00%	Pirelli & C. Real Estate S.p.A.
Rinascite/Upim S.r.l.	Real Estate	Rozzano (MI)	Euro	10.000	20,00%	Pirelli & C. Real Estate S.p.A.
Riva dei Ronchi S.r.l.	Real Estate	Carrara	Euro	100.000	35,00%	Pirelli & C. Real Estate S.p.A.
Roca S.r.l.	Real Estate	Milan	Euro	20.000	25,00%	Pirelli & C. Real Estate S.p.A.
S.AN.CO S.c. a r.l.	Real Estate	Milan	Euro	10.000	37,50%	Pirelli & C. Real Estate Facility Management S.p.A.
Setenergy S.r.l.	Environment	Milan	Euro	25.500	50,00%	Pirelli & C. Ambiente Renewable Energy S.p.A.
SI.MA.GEST2 S.c. a r.l.	Real Estate	Milan	Euro	50.000	30,00%	Ingest Facility S.p.A.
Solaris S.r.l.	Real Estate	Milan	Euro	20.000	40,00%	Pirelli & C. Real Estate S.p.A.
Tamerice Immobiliare S.r.l.	Real Estate	Milan	Euro	500.000	20,00%	Pirelli & C. Real Estate S.p.A.
Telepost S.p.A.	Real Estate	Milan	Euro	120.000	20,00%	Pirelli & C. Real Estate Facility Management S.p.A.
Trixia S.r.l.	Real Estate	Milan	Euro	1.209.700	36,00%	Pirelli & C. Real Estate S.p.A.
Turismo e Immobiliare S.p.A.	Real Estate	Milan	Euro	120.000	25,00%	Pirelli & C. Real Estate S.p.A.
Verdi S.r.l. (in liquidation)	Real Estate	Milan	Euro	20.000	43,74%	Pirelli & C. Real Estate S.p.A.
Vesta Finance S.r.l.	Real Estate	Conegliano (TV)	Euro	10.000	35,00%	Pirelli & C. Real Estate S.p.A.
Waterfront Flegreo S.p.A.	Real Estate	Milan	Euro	500.000	35,00%	Pirelli & C. Real Estate S.p.A.
<b>Luxembourg</b>						
Afrodite S.à r.l.	Real Estate	Luxembourg	Euro	4.129.475	40,00%	Pirelli & C. Real Estate S.p.A.
Alimede Luxembourg S.à r.l.	Real Estate	Luxembourg	Euro	12.500	36,25%	Pirelli & C. Real Estate S.p.A.
Alnitak S.à r.l.	Real Estate	Luxembourg	Euro	4.452.500	35,00%	Pirelli & C. Real Estate S.p.A.
Artemide S.à r.l.	Real Estate	Luxembourg	Euro	2.857.050	35,00%	Pirelli & C. Real Estate S.p.A.
Austin S.à r.l.	Real Estate	Luxembourg	Euro	125.000	28,46%	Pirelli & C. Real Estate S.p.A.
Colombo S.à r.l.	Real Estate	Luxembourg	Euro	960.150	35,00%	Pirelli & C. Real Estate S.p.A.
Delaman S.à r.l.	Real Estate	Luxembourg	Euro	12.500	49,00%	Pirelli & C. Real Estate S.p.A.
Dallas S.à r.l.	Real Estate	Luxembourg	Euro	125.000	28,46%	Pirelli & C. Real Estate S.p.A.
Doria S.à r.l.	Real Estate	Luxembourg	Euro	992.850	35,00%	Pirelli & C. Real Estate S.p.A.
European NPL S.A.	Real Estate	Luxembourg	Euro	1.851.126	33,00%	Pirelli & C. Real Estate S.p.A.
IN Holdings I S.à r.l.	Real Estate	Luxembourg	Euro	4.595.725	20,50%	Pirelli & C. Real Estate S.p.A.
Inimm Dae S.à r.l.	Real Estate	Luxembourg	Euro	240.950	25,00%	Pirelli & C. Real Estate S.p.A.
Nashville S.à r.l.	Real Estate	Luxembourg	Euro	125.000	28,46%	Pirelli & C. Real Estate S.p.A.
Sicily Investments S.à r.l.	Real Estate	Luxembourg	Euro	12.500	40,00%	Pirelli & C. Real Estate S.p.A.
Trinacria Capital S.à r.l.	Real Estate	Luxembourg	Euro	12.500	40,00%	Pirelli & C. Real Estate S.p.A.
Trinoro S.à r.l.	Real Estate	Luxembourg	Euro	30.000	35,00%	Pirelli & C. Real Estate S.p.A.
Vespucci S.à r.l.	Real Estate	Luxembourg	Euro	960.150	35,00%	Pirelli & C. Real Estate S.p.A.
<b>Portugal</b>						
Espeha - Serviços de Consultadoria Lda	Real Estate	Madeira	Euro	5.000	49,00%	Pirelli & C. Real Estate S.p.A.
<b>Romania</b>						
Eco Anvelope S.A.	Tyres	Bucharest	Rom. leu	160.000	20,00%	S.C. Pirelli Tyres Romania S.R.L.
<b>Spain</b>						
Signus Escovador S.L.	Tyres	Madrid	Euro	200.000	20,00%	Pireli Neumaticos S.A.
<b>The Netherlands</b>						
Aleco B.V.	Real Estate	Amsterdam	Euro	18.000	33,00%	Pirelli & C. Real Estate S.p.A.
Gamma RE B.V.	Real Estate	Amsterdam	Euro	18.000	49,00%	Pirelli RE Netherlands B.V.
M.S.M.C. Italy Holding B.V.	Holding Real Estate	Amsterdam	Euro	20.000	25,00%	Pirelli & C. Real Estate S.p.A.
Masseto I B.V.	Real Estate	Amsterdam	Euro	19.000	33,00%	Pirelli & C. Real Estate S.p.A.
Max B.V.	Real Estate	Amsterdam	Euro	18.000	45,00%	Pirelli & C. Real Estate S.p.A.
Mistral Real Estate B.V.	Real Estate	Amsterdam	Euro	18.000	35,00%	Pirelli & C. Real Estate S.p.A.
Polish Investments Real Estate Holding B.V.	Holding Real Estate	Amsterdam	Euro	20.000	40,00%	Pirelli & C. Real Estate S.p.A.
Polish Investments Real Estate Holding II B.V.	Holding Real Estate	Amsterdam	Euro	18.000	40,00%	Pirelli & C. Real Estate S.p.A.
Popoy Holding B.V.	Holding Real Estate	Amsterdam	Euro	26.550	25,00%	Pirelli & C. Real Estate S.p.A.
S.I.G. RE B.V.	Real Estate	Amsterdam	Euro	18.000	36,70%	Pirelli RE Netherlands B.V.
SI Real Estate Holding B.V. (ex- Spazio Industriale B.V.)	Holding Real Estate	Amsterdam	Euro	763.077	25,00%	Pirelli & C. Real Estate S.p.A.
Solaia Real Estate B.V.	Real Estate	Amsterdam	Euro	18.000	35,00%	Pirelli & C. Real Estate S.p.A.
<b>North America</b>						
<b>U.S.A.</b>						
Sci Roev Texas Partners L.P.	Real Estate	Dallas	US \$	12.000.000	10,00%	Pirelli & C. Real Estate S.p.A.
<b>Central/South America</b>						
<b>Argentina</b>						
Lineas de Transmision de Buenos Aires S.A. (in liquidation)	Services	Buenos Aires	Arg. peso	12.000	20,00%	Pirelli Argentina de Mandatos S.A.

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**Investments held for sale**

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<b>Company</b>	<b>Business</b>	<b>Headquarters</b>	<b>Share</b>	<b>Capital</b>	<b>% holding</b>	<b>% voting rights</b>	<b>Held by</b>
<b>Italy</b>							
Olimpia S.p.A.	Holding	Milan	Euro	4.630.233.510	80,00%		Pirelli & C. S.p.A.

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**Other relevant investments according to Consob Resolution 11971 dated May 14, 1999**


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Company	Business	Headquarters	Share	Capital	% holding	% voting rights	Held by
<b>Belgium</b>							
Euroqube S.A. (in liquidation)	Services	Brussels	Euro	84.861.116	17,79%		Pirelli & C. S.p.A.
<b>France</b>							
Aliapur S.A.	Tyres	Lyons	Euro	262.500	14,29%		Pirelli Tyre S.p.A.
<b>Germany</b>							
Eibflorenz Hotelgesellschaft mbh & Co. KG	Real Estate	Hamburg	Euro	28.223.312	19,00%		Pirelli & C. Real Estate Deutschland GmbH (ex- Pirelli & C. Real Estate Deutschland II GmbH)
Wervaltung Eibflorenz Hotelgesellschaft mbh	Real Estate	Hamburg	Deut. Mark	60.000	19,00%		Pirelli & C. Real Estate Deutschland GmbH (ex- Pirelli & C. Real Estate Deutschland II GmbH)
<b>Hungary</b>							
HUREC Tyre Recycling Non-Profit Company	Tyres	Budapest	Hun. forint	50.000.000	17,00%		Pirelli Hungary Tyre Trading and Services Ltd
<b>Italy</b>							
Fin. Priv. S.r.l.	Financial	Milan	Euro	20.000	14,29%		Pirelli & C. S.p.A.
Servicoso Titoli S.p.A.	Services	Turin	Euro	126.000	12,38%		Pirelli & C. S.p.A.
Tecnocità S.r.l. (in liquidation)	Real Estate	Milan	Euro	547.612	12,00%		Pirelli & C. Real Estate S.p.A.
<b>Poland</b>							
Centrum Utylizacji Opon Organizacja Odysseu S.A.	Tyres	Warsaw	Pol. zloty	1.008.000	14,28%		Pirelli Polska Sp. Z.O.O.
<b>The Netherlands</b>							
MB Venture Capital Fund I Participating Company G.N.V.	Financial	Amsterdam	Euro	50.000	14,00%		Pirelli Finance (Luxembourg) S.A.
Spazio Investment N.V.	Real Estate	Amsterdam	Euro	6.096.020	13,94%		Pirelli RE Netherlands B.V.
<b>Tunisia</b>							
Société Tunisienne des Industries de Pneumatiques S.A.	Tyres	Tunis	Tun. dinar	42.078.240	15,83%		Pirelli Tyre S.p.A.
<b>United Kingdom</b>							
Tlcom I Ltd Partnership	Financial	London	Euro	1.204	10,39%		Pirelli Finance (Luxembourg) S.A.

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**Declaration in accordance with article 154-bis, section 2  
of Legislative Decree 58 dated February 24, 1998**

The undersigned, Claudio De Conto, general manager of operations, appointed by the board of directors in its meeting held on May 10, 2007 as the manager responsible for financial reporting of Pirelli & C. S.p.A., with registered offices in Milan, Via Gaetano Negri 10, share capital of Euros 2,791,311,344.64, with a tax code number, VAT number and Milan Companies Register number of 00860340157 (the “**Company**”)

**declares**

to attest, in accordance with article 154-bis, section 2, of Legislative Decree 58 dated February 24, 1998 that, to the best of his knowledge, as the manager responsible for financial reporting, the Six-month Report at June 30, 2007 corresponds to the results of the documents, the accounting records and the entries of the company.

Milan, September 11, 2007

*Claudio De Conto  
Manager responsible for financial reporting*

**AUDITORS' REPORT ON THE REVIEW OF INTERIM FINANCIAL REPORT FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2007 PREPARED IN ACCORDANCE WITH ARTICLE 81 OF CONSOB REGULATION APPROVED BY RESOLUTION N° 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS**

To the Shareholders of  
Pirelli & C. SpA

1. We have performed a review of the consolidated interim financial statements and separate interim financial statements consisting of balance sheets, income statements, statements of recognised income and expense, cash flow statements and related explanatory notes of Pirelli & C. SpA included in the interim financial report of Pirelli & C. SpA for the six months period ended 30 June 2007. The interim financial report is the responsibility of Pirelli & C. SpA directors. Our responsibility is to issue this report based on our review. We have also reviewed the directors' report on operations for the sole purpose of verifying the consistency with the remaining part of the interim financial report.
2. Our work was conducted in accordance with the criteria for a review recommended by the National Commission for Companies and the Stock Exchange (CONSOB) with resolution n° 10867 of 31 July 1997. The review mainly consisted of inquiries of company personnel about the information reported in the interim financial statements and about the consistency of the accounting principles used therein as well as the performance of analytical review procedures on the information contained in the interim financial statements. The review excluded certain auditing procedures such as compliance testing and verification and validation tests of assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with generally accepted auditing standards. Accordingly we do not express an audit opinion on the interim financial report.
3. Regarding the comparative information presented, reference should be made to our reports dated 5 April 2007 and 28 September 2006.

4. Based on our review, no significant changes or adjustments came to our attention that should be made to the consolidated and separate interim financial statements of Pirelli & C. SpA, identified in paragraph 1 of this report, in order to make them consistent with the international accounting standard IAS 34 and with the criteria for the preparation of interim financial report established by Article 81 of the CONSOB Regulation approved by Resolution n° 11971 of 14 May 1999 and subsequent amendments.

Milan, 26 September 2007

PricewaterhouseCoopers SpA

*Signed by*

Paolo Caccini  
(Partner)

*(This report has been translated from the original which was issued in accordance with the Italian legislation. References in this report to the interim financial statements refer to the interim financial statements in original Italian and not to their translation)*