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

Quarterly Report
at September 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
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PIRELLI & C. S.p.A.

Board of Directors [1]

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

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

Secretary to the Board	Anna Chiara Svelto

Board of Statutory Auditors [3]

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

General Managers [4]

Operations	Claudio De Conto
Finance and Strategic Planning	Luciano Gobbi

Independent Auditors [5]
PricewaterhouseCoopers S.p.A.

Manager responsible for financial reporting [6]
Claudio De Conto

1 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.
2 Post conferred by the board of directors' meeting held on April 28, 2005.
3 Appointment: April 21, 2006. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2008.
4 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..
5 Appointment conferred by the shareholders' meeting held on April 28, 2005.
6 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

The results of the Group to September 30, 2007 benefited from the positive performance of the tyre and real estate businesses which, during the first nine months of year, continued on the path towards greater international expansion.

A strong increase was posted in consolidated **net sales** on a like-for-like basis (+10.1 percent) and net income (a loss was reported in 2006 due to the writedown of the investment in Olimpia S.p.A.). The **operating profit including earnings from investments** also grew (+13.4 percent), net of nonrecurring components (the gain on the sale of the 38.9 percent stake in Pirelli Tyre) which featured in the prior year.

As for industrial operations, **Pirelli Tyre** recorded an increase in net sales (+8 percent net of the exchange rate effect) and operating profit (+5.5 percent). Profit levels remained constantly at elevated levels in a particularly competitive world market where raw material costs consolidated upward and higher than those of the corresponding period of 2006.

In real estate operations, **Pirelli Real Estate** closed the first nine months of 2007 with double-digit growth in operating profit including earnings from investments (+22 percent net of the DGAG effect) and net income (+14 percent).

Net sales of **Pirelli Broadband Solutions**, although higher in the third quarter of 2007, were hurt in the first nine months by the difficult economic trend of the world market of telecommunications infrastructures.

Net sales of **Pirelli Ambiente**, instead, remained substantially unchanged net of nonrecurring income which marked the previous year.

Olimpia S.p.A., subsequent to the sale agreement signed on May 4, 2007 between Pirelli/Sintonia and Telco S.p.A. (a 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.) and executed on October 25, 2007, qualifies, in accordance with IFRS, as a discontinued operation and contributes solely to the net result after taxes.

The investment in Olimpia S.p.A. is consequently classified in the balance sheet at September 30, 2007 in "non-current assets held for sale", and the economic effects are classified in "income (loss) from discontinued operations" and contributes solely 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.p.A.'s impact on the net result in the first nine months of 2007 is a loss of Euros 54.8 million and relates to the adjustment of the company's value to its sale price (Euros 3,329 million for the 80 percent stake held by Pirelli). The impact of Olimpia S.p.A. on the income in the first nine months of 2006 was a loss of Euros 1,983 million due to the impairment of the investment which was offset in part by the positive change of Euros 127 million generated by accounting for the investment by the equity method.

Consolidated **net sales** of the Pirelli & C. S.p.A. Group in the nine months ended September 30, 2007 amount to Euros 5,234.4 million, with an increase of 44.5 percent compared to Euros 3,623.1 million in the same period of 2006. Excluding the sales relating to the partial deconsolidation of DGAG real estate assets, net sales amount to Euros 3,951.2 million; considering also the exchange rate effect, sales, on a like-for-like basis, increased by 10.1 percent compared to the first nine months of 2006.

Gross operating profit (EBITDA) amounts to Euros 445 million, a decrease of 3.7 percent compared to Euros 462 million in the first nine months of 2006.

Consolidated **operating profit** (EBIT) amounts to Euros 285.2 million (7.2 percent of net sales), with a decrease of 4.8 percent from Euros 299.7 million (8.3 percent of net sales) in the first nine months of 2006. The contribution of the real estate business to consolidated EBIT is lower while a significant increase was reported in earnings from investments. In the first nine months of 2006, EBIT included non-recurring expenses equal to Euros 13.5 million in connection with Pirelli Tyre IPO project.

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 450 million. This is an increase of 13.4 percent compared to the first nine months of 2006 (Euros 396.8 million), net of nonrecurring components of Euros 416.4 million for the gain realized in the third quarter of 2006 on the sale of the 38.9 percent stake in Pirelli Tyre. Including this gain, the operating profit including earnings (losses) from investments in the first nine months of 2006 was Euros 813.2 million.

Income from continuing operations in the first nine months of 2007 is Euros 207.1 million compared to Euros 572.5 million in the first nine months of 2006.

Income (loss) from discontinued operations in the first nine months ended September 30, 2007 is equal to income of Euros 36.2 million and includes the negative effect of the sale of Olimpia S.p.A. (Euros 54.8 million) countered by the gain of Euros 91 million on the sale to Goldman Sachs of the warrants obtained as part of the July 2005 sale agreement for the Energy and Telecommunications businesses and linked to the economic benefits of Prysmian (Lux) S.à.r.l..

The loss of Euros 1,983 million during the same period of 2006 was due to the impairment of the investment in Olimpia S.p.A. (Euros 2,110 million) which was compensated in part by accounting for the investment in Olimpia S.p.A. by the equity method with a positive amount of Euros 127 million.

The **total** net result is **income** of Euros 243.3 million compared to a loss of Euros 1,410.5 million in the first nine months of 2006.
The **income attributable to the equity holders of Pirelli & C. S.p.A.** in the first nine months of 2007 is Euros 129.8 million (0.024 per share) compared to a loss of Euros 1,472.4 million (Euros –0.276 per share) in the first nine months of 2006.

Total consolidated **equity** at September 30, 2007 is Euros 4,665.1 million compared to Euros 4,686.6 million at December 31, 2006.
Equity attributable to the equity holders of Pirelli & C. S.p.A. at September 30, 2007 is Euros 3,858.3 million (Euros 0.719 per share) compared to Euros 3,879.6 million (Euros 0.723 per share) at December 31, 2006.

The **net financial position** of the Group at September 30, 2007 is a net financial debt position of Euros 2,328.8 million compared to Euros 1,979.6 million at December 31, 2006.
The figure does not include the receipt of the sale price on the disposal of Olimpia S.p.A. (Euros 3,329 million), executed on October 25, 2007, while it does comprise the effect of the nearly complete DGAG deconsolidation process.
DGAG's impact on the net financial position of Pirelli Real Estate at September 30, 2007 is a negative Euros 93.2 million.

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

The net result of Pirelli & C. S.p.A. in the first nine months ended September 30, 2007 is income of Euros 124.9 million compared to a loss of Euros 1,712.3 million in the same period of 2006. The first nine months of 2006 included the impairment of the investment in Olimpia S.p.A. for Euros 1,827 million.

SIGNIFICANT EVENTS IN THE THIRD QUARTER

Corporate

- On July 12, 2007, Pirelli & C. S.p.A. purchased 1,911,372 RCS Mediagroup S.p.A. ordinary shares from Gemina S.p.A. for Euros 8.1 million. After this purchase, Pirelli & C. S.p.A. holds 37,847,703 RCS Mediagroup S.p.A. ordinary shares, equal to 5.17 percent of the voting shares.

- On July 27, 2007, Pirelli & C. S.p.A. purchased 859,741 Pirelli & C. Real Estate S.p.A. shares, equal to approximately 2 percent of share capital, from a leading institutional investor for approximately Euros 34.4 million.
  During September, 435,110 Pirelli & C. Real Estate S.p.A. shares, equal to about 1 percent of share capital, were purchased on the market for approximately Euros 15.1 million. On September 30, 2007, the investment held directly by Pirelli & C. S.p.A. was equal to 53.34 percent of share capital.
  Subsequently, on September 30, 2007, Pirelli & C. S.p.A. purchased another 140,000 Pirelli & C. Real Estate S.p.A. shares on the market for approximately Euros 4.8 million, bringing its investment holding to 53.67 percent.

Tyres Sector

- 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 set in motion joint projects in the fields of research and technological innovation.

- 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 in the country. Pirelli's new base in Romania is composed of 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.

Real Estate Sector

- On July 5, 2007, the takeover bid, launched by Gamma RE, a Morgan Stanley Real Estate Special Situations Fund (51 percent) and Pirelli RE (49 percent) joint venture, for the shares of the Tecla Fund closed, 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. The takeover bid launched by Gamma RE for the shares of the Berenice fund, which closed on July 2, 2007, 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 August 8, 2007, Gamma RE tendered 49,544 Berenice fund shares to the public purchase offer launched by Zwinger Opco 6 BV for Euros 45 million, realizing a gross gain of Euros 17.7 million.

- 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. 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 a value of approximately Euros 1,650 million. Pirelli RE will also control 100 percent of the platform which manages about 52,000 property units (including those that will be owned by Pirelli RE-RREEF), for a value of about Euros 43 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 Tiriac Bank, one of the most important credit institutions in Romania, and Pirelli RE Bulgaria, 75 percent-owned by Pirelli RE and 25 percent by UniCredit Bulbank, the largest financial institution in Bulgaria.

- On August 7, 2007, Quadrifoglio Milano, 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 urban 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 estimated value of the project is approximately Euros 250 million.

- On September 28, 2007, the company Pirelli RE Netherlands B.V. sold 20 percent of the share capital of the German-registered company Mertus achtunddreißigste GmbH to HSH Real Estate AG. As a result of this deal, the Pirelli & C. Real Estate Group formed a partnership with HSH Nordbank, one of the top banks active in the real estate sector in Germany, for the purpose of achieving a leadership position in asset management also on the German market. The company manages residential and commercial real estate assets located mainly in the north of Germany (Lubbock, Berlin, Kiel, Hannover, Frankfurt and Hamburg).

- Pirelli RE and GE have an exclusive period, which is currently in progress, for the purchase of a non-performing loan portfolio from Banca Antonveneta up to a gross book value of approximately Euros 5.1 billion, after having been awarded, at the end of 2006, a mortgage and corporate loan portfolio originating from Banca Antonveneta and the subsidiary Interbanca with a gross book value of Euros 1 billion.

Pirelli Ambiente

- On July 3, 2007, Pirelli Ambiente, a company 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 Euros 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 20 years under the Energy Decree issued on February 19, 2007.

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.

  Changes in the fair value of available-for-sale financial assets which 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 section "Interim financial statements and notes" presents 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 nine months ended September 30, 2007 can be summarized as follows:

(in millions of euros)

	3rd Quarter 2007	3rd Quarter 2006	**9 months to 9/30/2007**	**9 months to 9/30/2006**	Year 2006
. Net sales	**2,037.7**	1,177.2	**5,234.4** *	3,623.1	4,841.2
. Net sales (excluding DGAG deconsolidation)	**1,284.4**	1,177.2	**3,951.2**	3,623.1	4,841.2
. Gross operating profit	**125.3**	137.8	**445.0**	462.0	614.1
% of net sales (excluding DGAG deconsolidation)	**9.8%**	11.7%	**11.3%**	12.8%	12.7%
. Operating profit	**71.1**	83.6	**285.2**	299.7	401.4
% of net sales (excluding DGAG deconsolidation)	**5.5%**	7.1%	**7.2%**	8.3%	8.3%
. Earnings (losses) from investments	**37.3**	419.5	**164.8**	513.5	790.7
. Operating profit incl. earnings (losses) from investments	**108.4**	503.1	**450.0**	813.2	1,192.1
. Financial income (expenses)	**(52.1)**	(18.6)	**(133.3)**	(129.3)	(143.1)
. Income taxes	**(30.4)**	(33.9)	**(109.6)**	(111.4)	(127.8)
. Income from continuing operations	**25.9**	450.6	**207.1**	572.5	921.2
% of net sales (excluding DGAG deconsolidation)	**2.0%**	n.s.	**5.2%**	15.8%	19.0%
. Income (loss) from discontinued operations	19.1	(2,054.2)	**36.2**	(1,983.0)	(1,970.0)
. Total income (loss)	**45.0**	(1,603.6)	**243.3**	(1,410.5)	(1,048.8)
. Income (loss) attributable to the equity holders of Pirelli & C. S.p.A.			***129.8***	*(1,472.4)*	*(1,167.4)*
. Earnings (loss) per share (in euros)			***0.024***	*(0.276)*	*(0.217)*
. Fixed assets			7,130.1	6,378.0	6,923.8
. Net working capital			533.6	199.2	462.8
. Net capital invested			**7,663.7**	6,577.2	7,386.6
. Total equity			**4,665.1**	4,426.7	4,686.6
. Provisions			669.8	719.7	720.4
. Net financial (liquidity)/debt position			**2,328.8** **	1,430.8	1,979.6
. Equity attributable to the equity holders of Pirelli & C. S.p.A.			***3,858.3***	*5,342.0*	*3,879.6*
. Equity per share (in euros)			*0.719*	*0.995*	*0.723*
. R&D expenditures			**130**	131	171
. Employees (number at period-end)			**31,502**	28,645	28,617
. Factories			**24**	24	24
Pirelli & C. shares outstanding					
. 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, effect of partial DGAG deconsolidation is Euros 1,283.2 million

** of which, effect of DGAG acquisition is Euros 93.2 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.

(in millions of euros)	9 months to 9/30/2007 Tyre	Broadband	Ambiente	Real Estate		Other	TOTAL	
. Net sales	3,191.8	91.9	50.7	1,895.7	*	4.3	**5,234.4**	
. Net sales (excluding DGAG)				612.5			**3,951.2**	
. Gross operating profit (loss)	430.6	(8.4)	(4.5)	33.3		(6.0)	**445.0**	
. Operating profit (loss)	286.2	(10.1)	(5.0)	26.1		(12.0)	**285.2**	
. Earnings (losses) from investments	0.4	-	-	137.9		26.5	**164.8**	
. Operating profit (loss) incl. earnings (losses) from investments	286.6	(10.1)	(5.0)	164.0		14.5	**450.0**	
. Financial income (expenses)	(43.2)	(2.5)	(0.3)	(40.5)		(46.8)	**(133.3)**	
. Income taxes	(83.4)	0.0	-	(21.0)		(5.2)	**(109.6)**	
. Income (loss) from continuing operations	160.0	(12.6)	(5.3)	102.5		(37.5)	**207.1**	
. Net financial (liquidity)/debt position	687.0	46.0	12.8	337.4	(:)	1,245.6	**2,328.8**	(:

* including Euros 1,283.2 million from partial DGAG deconsolidation
(:) of which, DGAG effect is Euros 93.2 million

(in millions of euros)	9 months to 9/30/2006 Tyre	Broadband	Ambiente	Real Estate	Other	TOTAL
. Net sales	2,990.6	102.6	54.5	464.4	11.0	**3,623.1**
. Gross operating profit (loss)	418.1	(0.1)	1.5	58.9	(16.4)	**462.0**
. Operating profit (loss)	271.4	(1.0)	0.9	52.3	(23.9)	**299.7**
. Earnings (losses) from investments	0.3	-	-	63.3	449.9	**513.5**
. Operating profit (loss) incl. earnings (losses) from investments	271.7	(1.0)	0.9	115.6	426.0	**813.2**
. Financial income (expenses)	(42.3)	(1.0)	0.0	(1.0)	(85.0)	**(129.3)**
. Income taxes	(75.8)	(0.5)	(0.4)	(29.2)	(5.5)	**(111.4)**
. Income (loss) from continuing operations	153.6	(2.5)	0.5	85.4	335.5	**572.5**
. Net financial (liquidity)/debt position	783.3	9.0	(0.3)	94.9	543.9	**1,430.8**

Net sales

Net sales in the nine months ending September 30, 2007 amount to Euros 5,234.4 million, with an increase, on a like-for-like basis (excluding sales relating to the DGAG deconsolidation and net of the exchange rate effect) of 10.1 percent compared to the corresponding period of the prior year.

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

	9 months to 9/30/2007	9 months to 9/30/2006
Pirelli Tyre	80.8%	82.5%
Pirelli Broadband Solutions	2.3%	2.8%
Pirelli Ambiente	1.3%	1.5%
Pirelli Real Estate	15.5%	12.8%
Other	0.1%	0.4%

Net sales in the third quarter of 2007 amount to Euros 2,037.7 million (Euros 1,284.4 million excluding DGAG) compared to Euros 1,177.2 million in the third quarter of 2006.

Operating profit

Operating profit in the nine months to September 30, 2007 amounts to Euros 285.2 million (7.2 percent of net sales) compared to Euros 299.7 million in the first nine months of 2006 (8.3 percent of net sales).

Operating profit in the third quarter of 2007 amounts to Euros 71.1 million compared to Euros 83.6 million in the third quarter of 2006.

Earnings (losses) from investments

Earnings (losses) from investments in the first nine months of 2007 amount to earnings of Euros 164.8 million compared to earnings of Euros 513.5 million in the same period of 2006.

The first nine months of 2007 mainly include the earnings of the companies in the real estate sector accounted for by the equity method for Euros 79.7 million (Euros 63.3 million in the first nine months of 2006), the gain realized on the sale of 49 percent of the Facility business by Pirelli Real Estate for Euros 42.1 million, the gain for Euros 11.3 million realized by Pirelli Real Estate on the sale of 20 percent of the German-registered company Pirelli Real Estate Asset Management Deutschland GmbH and dividends received for Euros 19.3 million (Euros 51.4 million in the first nine months of 2006).

The earnings (loss) from investments in the first nine months of 2006 included the gain realized on the sale of the 38.9 percent stake in Pirelli Tyre S.p.A. for Euros 416.4 million.

Operating profit including earnings (losses) from investments

Operating profit including earnings (losses) from investments in the nine months to September 30, 2007 is Euros 450.0 million compared to Euros 813.2 million in the nine months to September 30, 2006 (which included the gain realized on the sale of the 38.9 percent stake in Pirelli Tyre S.p.A. for Euros 416.4 million).

The change in the operating profit including earnings (losses) from investments by activity is presented as follows (in millions of euros):

Operating profit incl. earnings (losses) from investments - 9 months to 9/30/2006		**813.2**
. Pirelli Tyre	14.9	
. Pirelli Broadband Solutions	(9.1)	
. Pirelli Ambiente	(5.9)	
. Pirelli Real Estate	48.4	
. Other	4.9	
. Gain in 2006 on sale of 38.9% stake in Pirelli Tyre	(416.4)	
		(363.2)
Operating profit incl. earnings (losses) from investments - 9 months to 9/30/2007		**450.0**

Financial income (expenses)

Financial income (expenses) in the nine months ending September 30, 2007 is a net financial expense balance of Euros 133.3 million compared to Euros 129.3 million in the same period of 2006.
The first nine months of the prior year included financial expenses of Euros 50.4 million connected with the measurement of derivatives on Telecom Italia shares. The increase from last year is largely due to the temporary worsening of the net financial position of Pirelli Real Estate following the acquisition of DGAG.

Income

Income from continuing operations in the nine months ended September 30, 2007 is Euros 207.1 million compared to Euros 572.5 million in the first nine months of 2006.

Income from discontinued operations in the first nine months ended September 30, 2007 is Euros 36.2 million and includes the negative effect of Olimpia (Euros 54.8 million) as a result of the writedown adjusting the investment held by Pirelli & C. S.p.A. (80 percent) to its sale price and the gain of Euros 91 million on the disposal of the warrants on Prysmian (Lux) S.à.r.l. to Goldman Sachs.
The loss of Euros 1,983 million in the first nine months to September 30, 2006 was mainly due to accounting for Olimpia S.p.A. using the equity method (income of Euros 127 million) and the writedown of this same holding (Euros 2,110 million) to adjust its carrying amount to Euros 3 per Telecom Italia S.p.A. ordinary share.

Total income in the first nine months of 2007 is Euros 243.3 million compared to a loss of Euros 1,410.5 million in the same period of 2006.

Income attributable to the equity holders of Pirelli & C. S.p.A. in the first nine months ended September 30, 2007 is Euros 129.8 million (Euros 0.024 per share) compared to a loss of Euros 1,472.4 million in the first nine months ended September 30, 2006 (Euros –0.276 per share).

Equity

Equity went from Euros 4,686.6 million at December 31, 2006 to Euros 4,665.1 million at September 30, 2007, with a decrease that can be summarized as follows:

(in millions of euros)

Translation differences		28.9
Income for the period		243.3
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 buybacks/sales		(45.1)
Effect of Pirelli & C. Real Estate share purchases		(21.4)
Fair value adjustment of available-for-sale financial assets		(34.3)
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 Tyre from third parties		(7.7)
Other changes		(4.8)
		(21.5)

The equity attributable to the equity holders of Pirelli & C. S.p.A. at September 30, 2007 is equal to Euros 3,858.3 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 consolidated net financial position went from a debt position of Euros 1,979.6 million at December 31, 2006 (of which Euros 140 million relates to the DGAG deal) to Euros 2,328.8 million at September 30, 2007 (of which Euros 93.2 million relates to the DGAG deal).

The change during the period is summarized as follows:

(in millions of euros)

. Cash flows provided by ordinary activities	43.3
. Financial and income tax income (expenses)	(242.9)
. DGAG deconsolidation - Pirelli & C. Real Estate	46.8
. Receipts on sale of Prysmian warrants	91.0
. Purchase of RCS shares	(8.1)
. Purchase of Pirelli & C. Real Estate shares	(49.5)
. Investments in funds and Baubecon - Pirelli & C. Real Estate	(110.3)
. Buyback/sale of Pirelli & C. Real Estate treasury shares	(45.1)
. Dividends paid	(74.4)
Change in net financial position	**(349.2)**

Research & Development expenditures

R&D expenditures amount to Euros 130 million (3.3 percent of net sales excluding the effect of the deconsolidation of DGAG assets), in line with Euros 131 million in the first nine months of 2006.

Employees

At September 30, 2007, there are 31,502 employees (including 4,095 with temporary contracts) compared to 28,617 (including 3,479 with temporary contracts) at December 31, 2006. The increase is largely due to the expansion of the tyres and real estate businesses.

RELATED PARTY DISCLOSURES

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

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

Transactions with associates and joint ventures:

(in millions of euros)

Revenues for goods and services	131	These mainly refer to the supply of services to the associates and joint ventures of Pirelli & C. Real Estate
Other expenses	38	These refer mainly to amounts recharged for various reasons, connected among other things with consortium expenses, of Pirelli & C. Real Estate
Financial income	24	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	75	This refers to the earnings or losses of the investments accounted for by the equity method
Financial expenses	5	
Trade receivables	146	These mainly refer to receivables for services rendered from associates and joint ventures of Pirelli & C. Real Estate
Non-current other receivables	1	
Non-current financial receivables	589	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	5	
Current financial receivables	46	These mainly refer to the temporary inclusion of the companies of the DGAG Group in the scope of consolidation
Current trade payables	19	These refer mainly to amounts recharged for various reasons, connected among other things with consortium expenses, of Pirelli & C. Real Estate
Current other payables	54	These refer mainly to amounts recharged for various reasons, connected among other things with consortium expenses, of Pirelli & C. Real Estate
Current borrowings from banks and other financial institutions	54	

<u>Transactions with related parties of Pirelli through the directors</u>:

(in millions of euros)

Revenues from goods and services	98	These refer to services rendered by Pirelli & C. S.p.A. and Pirelli & C. Real Estate S.p.A. to the Telecom Italia group (Euros 94 million); services rendered by Pirelli & C. Ambiente Tecnologie S.p.A. to the Camfin group (Euros 2 million) and services rendered to F.C. Internazionale Milano S.p.A. (Euros 2 million)
Other income	73	These refer to services rendered by Shared Service Center s.c.r.l. to the Telecom Italia group
Other expenses	57	These refer to telephone, computer and power services by the Telecom Italia group (Euros 18 million); the supply of natural gas by the Camfin group (Euros 33 million) and costs for the sponsorship of F.C. Internazionale Milano S.p.A. (Euros 6 million)
Dividends	7	Dividends received from Telecom Italia S.p.A.
Current trade receivables	75	These refer to receivables for the supply of the above services (to the Telecom Italia group Euros 73 million, the Camfin group Euros 1 million and F.C. Internazionale Milano S.p.A. Euros 1 million)
Current trade payables	16	These refer to payables for the supply of the above services (to the Telecom Italia group Euros 7 million, the Camfin group Euros 6 million and F.C. Internazionale Milano S.p.A. Euros 3 million)

Furthermore, it should be pointed out that, following the dissolution of the partnership existing with Telecom Italia in the company Shared Service Center (SSC), on October 1, 2007, the latter conferred, to another company of the group, (Pirelli Sistemi Informativi S.p.A.), the business segment consisting of the persons and the structures which to date were dedicated to systems and computer services for the group. By the end of the year, Pirelli will no longer be a shareholder of SSC.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE THIRD QUARTER

- On October 15, 2007, Politecnico University of Turin and Pirelli signed a five-year framework agreement to conduct research in the tyre sector. The agreements calls for collaboration with the Politecnico research structures for the purpose of further expanding on breakthrough production processes and products developed using Pirelli technology. In processes, particularly, work will be directed to the future generation of MIRS™ (Modular Integrated Robotized System), the revolutionary robotized manufacturing system patented by Pirelli, and CCM™ (Continuous Compound Mixing), the highly developed production method for continuous compound mixing. On the product front, Pirelli and Politecnico University of Turin will focus on the development of the Cyber Tyre, the intelligent tyre able to "communicate" with the vehicle and designed to increase driving safety.

- On October 15, 2007, Olinda Fondo Shops, a seeded real estate investment fund managed by Pirelli RE SGR, purchased a commercial real estate portfolio for Euros 60 million. The deal was approved by the Consulting Committee of the Fund and the board of directors of Pirelli RE SGR and is part of the management strategy which calls for identifying investments in retail & entertainment real estate properties to be purchased by reinvesting the resources generated by the global management of the fund.

  The portfolio purchased from Erice S.r.l. (in which Deutsche Bank has a 60 percent stake and Pirelli RE a 40 percent stake) is made up of six properties located in North Italy, specifically in Nichelino (TO), Burolo (TO), Vado Ligure (SV), Turin, Reggio Emilia and Novara, leased to the Carrefour Group which runs commercial wholesale operations under the "Docks Market" brand.

- On October 25, 2007, Pirelli & C. S.p.A., Sintonia S.p.A. and Sintonia S.A. executed the agreement for the sale of 100 percent of Olimpia S.p.A. to Telco S.p.A., a 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 final sale price is Euros 4,161 million. The deal will have a positive effect on the net financial position of Pirelli of Euros 3,329 million.

- On October 29, 2007, the Pirelli Group signed an agreement with Alcatel-Lucent for the purchase of a 12.4 percent stake in Avanex Corporation (a company listed on the Nasdaq) held by Alcatel-Lucent at a market price of approximately Euros 33.4 million. As part of the deal, Alcatel-Lucent sealed a supply contracts with Pirelli and Avanex in the optical components sectors.

OUTLOOK FOR THE CURRENT YEAR

The good trend of the major businesses in the first nine months of the year 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.

PIRELLI TYRE

The highlights can be summarized as follows:

(in millions of euros)

	3rd Quarter 2007	3rd Quarter 2006	**9 months to 9/30/2007**	**9 months to 9/30/2006**	Year 2006
. Net sales	**1,040.4**	972.2	**3,191.8**	2,990.6	3,949.5
. Gross operating profit	**128.9**	125.5	**430.6**	418.1	533.7
% of net sales	**12.4%**	12.9%	**13.5%**	14.0%	13.5%
. Operating profit	**79.9**	76.8	**286.2**	271.4	342.3
% of net sales	**7.7%**	7.9%	**9.0%**	9.1%	8.7%
. Earnings (losses) from investments	**-**	(0.1)	**0.4**	0.3	(2.4)
. Operating profit incl. earnings (losses) from investments	**79.9**	76.7	**286.6**	271.7	339.9
. Financial income (expenses)	**(14.9)**	(17.7)	**(43.2)**	(42.3)	(54.1)
. Income taxes	**(22.4)**	(23.7)	**(83.4)**	(75.8)	(86.5)
. Income	**42.6**	35.3	**160.0**	153.6	199.3
% of net sales	**4.1%**	3.6%	**5.0%**	5.1%	5.0%
. Net financial (liquidity)/debt position			**687.0**	783.3	601.5
. R&D expenditures			**113**	112	147
. Employees (number at period-end)			**27,138**	25,396	25,169
. Factories (number)			**24**	24	24

Net sales in the first nine months of 2007 amount to Euros 3,191.8 million, with an increase of 6.7 percent compared to the corresponding period of the prior year. Excluding the exchange rate effect, net sales rose by 8 percent.

The change can be summarized as follows:

• Volumes	+	3.5%
• Prices/mix	+	4.5%
Change on like-for-like basis	**+**	**8.0%**
• Exchange rate effect	-	1.3%
Total change	**+**	**6.7%**

Net sales in the third quarter of 2007 amount to Euros 1,040.4 million, with an increase of 7 percent compared to the corresponding period of 2006.

Operating profit in the nine months ending September 30, 2007 is Euros 286.2 million and grew by 5.5 percent compared to the same period of the prior year.
As a percentage of net sales, operating profit is 9.0 percent, in line with the first nine months of 2006.
The change can be summarized as follows (in millions of euros):

Operating profit - 9 months to 9/30/2006		**271.4**
. Exchange rate effect	(5.7)	
. Prices/mix	63.2	
. Volumes	36.8	
. Production factors per unit cost	(74.8)	
. Efficiencies	13.4	
. Depreciation and other	(18.1)	
		14.8
Operating profit - 9 months to 9/30/2007		**286.2**

Operating profit in the third quarter of 2007 is Euros 79.9 million and compares to Euros 76.8 million in the same period of 2006.

Income in the nine months to September 30, 2007 is Euros 160.0 million (after financial expenses of Euros 43.2 million and income tax expenses of Euros 83.4 million). This is an increase of 4.2 percent compared to Euros 153.6 million in the first nine months of 2006 (after financial expenses of Euros 42.3 million and income tax expenses of Euros 75.8 million).

The **net financial position** at September 30, 2007 is a net debt position of Euros 687.0 million compared to Euros 601.5 million at December 31, 2006 after the payment of dividends by Pirelli Tyre S.p.A. to shareholders (Euros 42.7 million to Pirelli & C. S.p.A. and Euros 27.2 million to Speed S.p.A.).

At September 30, 2007, there are 27,138 **employees** (14 percent of whom have temporary contracts) compared to 25,169 (13 percent of whom have temporary contracts) at December 31, 2006. The increase is due to the growth of operations in South America and, above all, the new industrial installations in Romania and China.

Consumer market

The first nine months of the year showed an 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 2,212 million (+6.8 percent) while the operating result from ordinary operations is Euros 201.8 million (+6.9 percent) with a ROS of 9.1 percent.
In the **Car/Light Truck** segment, Pirelli reported double-digit growth in North America despite a steady demand for replacements and a decline in original equipment, whereas the segment benefited from higher demand in South America where growth was particularly evident in the original equipment segment.
In Europe, as well, volumes increased in original equipment.
During the year 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 numerous 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.

During the third quarter, the new Golf GTI Pirelli was launched which, 25 years from the debut of its progenitor, solidly proves the consolidated partnership between Pirelli and the main car companies in the high performance models.

In the **Motorcycle** segment, there was an improvement in demand in all markets, especially in North America, where Pirelli and Metzeler have increased their market shares. In Europe, sales recovered after an initial contraction in the first quarter, settling at the levels recorded in the same period of 2006. Sales in the Motorcycle segment increased compared to the previous year, in both the Pirelli and Metzeler brands in all the main markets.

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 KAWASAKI ZX 10 R and the MV F4 312, respectively fitted with the Diablo Corsa III and the Dragon Supercorsa PRO, the Ducati Hypermotard S equipped with the Diablo Corsa III, the Aprilia Mana 850 with the Scorpion Sync, the Buell 1125R fitted with the Diablo Corsa III, and the scooters Gilera GP800, Gilera Fuoco 500 and Honda SH 300.

Metzeler obtained motorcycle homologations for the Honda Transalp 700 fitted with the Tourance, the Guzzi Bellagio 940 equipped with the Roadtec Z6, the Aprilia Chiver 750 with the Sportec M3, and the Benelli TRE-K Amazzonas 1100 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 again claimed victory in the World Motocross Championship in the MX1 class and the European MX3 Championship. Metzeler won the World Enduro Championship, for the third consecutive year, in all the classes E1, E2 and E3. Pirelli achieved outstanding results in Road Racing in the European National and Extra-European Championships. 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 nine months ended with sales of Euros 980 million (+6.6 percent). The operating result from ordinary operations is Euros 84.4 million and is slightly higher than the first nine months of 2006 despite increases in cost factors, natural rubber and energy. ROS was 8.6 percent.

In the segment of tyres for **trucks**, Pirelli's sales increased in China and its reference markets (the Mediterranean and South America), while the **Steelcord** operations reported an increase in volumes compared to the same period of the prior year, thanks to a continuous growth in production capacity in the low-cost countries.

PIRELLI BROADBAND SOLUTIONS

The highlights can be summarized as follows:

(in millions of euros)

	3rd Quarter 2007	3rd Quarter 2006	**9 months to 9/30/2007**	**9 months to 9/30/2006**	Year 2006
. Net sales	**36.1**	29.9	**91.9**	102.6	129.4
. Gross operating profit (loss)	**(2.5)**	0.0	**(8.4)**	(0.1)	1.1
. Operating loss	**(3.2)**	(0.4)	**(10.1)**	(1.0)	(0.3)
. Earnings (losses) from investments	**-**	-	**-**	-	(1.0)
. Operating profit (loss) incl. earnings (losses) from investments	**(3.2)**	(0.4)	**(10.1)**	(1.0)	(1.3)
. Financial income (expenses)	**(1.5)**	1.3	**(2.5)**	(1.0)	(1.6)
. Income taxes	**0.0**	(0.1)	**0.0**	(0.5)	(0.4)
. Income (loss)	**(4.7)**	0.8	**(12.6)**	(2.5)	(3.3)
. Net financial (liquidity)/debt position			**46.0**	9.0	13.1
. Employees (number at period-end)			**193**	156	166

Net sales in the nine months ending September 30, 2007 amount to Euros 91.9 million, with a decrease of 10.4 percent compared to Euros 102.6 million in the first nine months of 2006. In the third quarter of 2007, however, net sales of the company recorded an increase of 20.7 percent, compared to the corresponding period of the prior year, reversing the negative trend of the first two quarters. The overall change compared to the first nine months of 2006 is due to the different mix of broadband access products and the temporary slowdown in demand in the world market for telecommunications infrastructures.

The **gross operating result** in the nine months ending September 30, 2007 is a loss of Euros 8.4 million, compared to an approximate breakeven in the first nine months of 2006.

The **operating result in the first nine months of 2007** is a loss of Euros 10.1 million, compared to a loss of Euros 1 million in the same period of 2006. The change in the operating result is not only due to the contraction in net sales and relative margins but also research expenses sustained for the development of new generation photonics products.

The **loss in the nine months ending September 30, 2007** is Euros 12.6 million compared to a loss of Euros 2.5 million in the first nine months of 2006.

The **net financial position** is a net debt position of Euros 46.0 million compared to a net debt position of Euros 13.1 million at December 31, 2006.

At September 30, 2007, there are 193 **employees**, compared to 166 employees at December 31, 2006.

In the **broadband access** business, in the last quarter there was an increase in sales volumes for set-top-boxes. The first nine months of the year were characterized by a consolidation of the product portfolio with the start of set-top-box sales, while the transition to new generation access gateways (ADSL2/2+) was completed. In the **photonics** business, development activities in the first nine months of the year focused mainly on the three major areas: innovative optical components, optical modules and transport systems. With regard to optical systems, there was a contraction in sales due to a slowdown in investments in infrastructures on the part of leading telecommunication operators. In the final part of the year, production volumes for tunable lasers are expected to increase and innovative opto-electronic modules should also be launched on the market. In second generation photonics, after the end of the quarter, the Pirelli Group acquired, from Alcatel-Lucent, 12.4 percent of Avanex, one of the major world players in modules and optical components for telecommunications, with products complementary to those of Pirelli Broadband Solutions. As part of the deal, Pirelli also signed an agreement to supply optical components to Alcatel-Lucent.

PIRELLI & C. REAL ESTATE

During the first nine months of 2007 the operating profit including earnings from investments is Euros 164.0 million compared to Euros 115.6 million in the first nine months of 2006. Net of the DGAG effect, mainly originating from rental income and which was largely concluded at the end of the quarter, operating profit including earnings from investments is equal to Euros 141.2 million, with an increase of 22 percent. The income attributable to the equity holders of the company grew by 14 percent, from Euros 84.0 million in the first nine months of 2006 to Euros 95.8 million in the nine months ended September 30, 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 euros)	**9 months to 9/30/2007**	**9 months to 9/30/2006**
Share of aggregate revenues (1)	**1,071.9**	**915.1**
Consolidated revenues (2)	1,895.7	464.4
Consolidated revenues excluding DGAG (3)	612.5	464.4
Operating profit including earnings from investments (4)	**164.0**	**115.6**
Income attributable to the equity holders of the company	**95.8**	**84.0**

(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
The amount for the nine months to September 30, 2007 is net of the DGAG deconsolidation of Euros 1,283.2 million
(2) The amount for the nine months to September 30, 2007 is gross of the component relating to the DGAG deconsolidation
(3) The amount for the nine months to September 30, 2007 is gross of the component relating to the DGAG deconsolidation
(4) Operating profit including earnings from investments comprises the operating profit (Euros 26.1 million) in addition to the share of earnings of companies accounted for by the equity method (Euros 73.6 million), dividends from holdings (Euros 1.9 million), income from real estate investment funds (Euros 9 million) and the gain on the sale of investments (Euros 53.4 million)

The **share of aggregate revenues** amounts to Euros 1,071.9 million, an increase of 17 percent compared to Euros 915.1 million in the first nine months of 2006.

Consolidated revenues amount to Euros 1,895.7 million compared to Euros 464.4 million in the first nine months of 2006. Excluding the component relating to the first stage of the deconsolidation of DGAG, equal to Euros 1,283.2 million, consolidated revenues amount to Euros 612.5 million (+32 percent). The deconsolidation, begun at the end of March and almost entirely completed during the third quarter of 2007, refers to both commercial and residential properties.

Operating profit including earnings from investments is Euros 164.0 million. Excluding the DGAG effect, mainly originating from rental income and which was largely concluded at the end of September, this result is equal to Euros 141.2 million, with an increase of 22 percent compared to Euros 115.6 million in the same period of the prior year.
The operating profit including earnings from investments of the Investment and Asset Management business, in particular, recorded an increase from Euros 93.5 million in the first nine months of 2006 to Euros 130.4 million in the nine months ended September 30, 2007, benefiting from the DGAG effect amounting to Euros 22.8 million. Instead, a determining factor of the strong growth in the operating profit including earnings from investments of the Services business (+46 percent) is decisively attributable to the increase in value (Euros 42 million) of the Facility business as a result of the entry of a 49 percent partner (Intesa Sanpaolo) in the first half of the year and aimed at the development of the sector from a European prospective.

Income attributable to the equity holders of the company is Euros 95.8 million compared to Euros 84.0 million in the first nine months of 2006, an increase of 14 percent.

Balance sheet and financial review

(in millions of euros)	9/30/2007	12/31/2006
Fixed assets	**855.4**	**581.7**
. including investments in funds and investment companies (1)	*569.1*	*426.1*
Net working capital	**256.1**	**283.3**
Net invested capital	**1,111.5**	**865.0**
Equity	**687.8**	**708.7**
. of which attributable to the equity holders of the company	*684.6*	*700.3*
Provisions	**86.3**	**59.9**
Net financial (liquidity)/debt position	**337.4**	**96.4**
. of which shareholder loans	*(589.5)*	*(334.1)*
Total net invested capital financed	**1,111.5**	**865.0**
Net financial (liquidity)/debt position before shareholder loans	**926.9**	**430.5**
Gearing ratio (2)	**1.35**	**0.61**
Net financial (liquidity)/debt position before shareholder loans post-deconsolidation of DGAG	**795.9**	
Gearing ratio, post-deconsolidation of DGAG	**1.16**	

(1) This item includes investments in associates and joint ventures (Euros 448.7 million), investments in real estate investment funds (Euros 109.1 million included in the consolidated balance sheet under "other financial assets") and junior notes (Euros 11.3 million included in the consolidated balance sheet under "other receivables")

(2) 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 September 30, 2007 is Euros 684.6 million compared to Euros 700.3 million at December 31, 2006, with a decrease of Euros 15.7 million. The change is due to the income for the period (+ Euros 95.8 million), the distribution of dividends (-Euros 87.0 million) and other equity movements (-Euros 24.5 million) largely in reference to the buyback of treasury shares.

The **net financial position,** which was a net debt position of Euros 1,094.8 million at June 30, 2007, fell to Euros 337.4 million at September 30, 2007, thanks almost to the nearly completed deconsolidation of DGAG. At December 31, 2006, the net debt position was Euros 96.4 million.

The **adjusted net financial position** (expressed gross of shareholder loans made to minority-owned companies) is a net debt position of Euros 926.9 million compared to Euros 1,428.4 million at June 30, 2007 (Euros 430.5 million at December 31, 2006). The adjusted net financial position at September 30, 2007 post-completion of the process for the deconsolidation of DGAG is estimated at about Euros 795.9 million.

The **gearing ratio**, post-completion of the process for the deconsolidation of DGAG is estimated at about 1.16, while the gearing ratio at the balance sheet date is 1.35 (0.61 at December 31, 2006). A further reduction is forecast for the end of the year.

Fixed assets total Euros 855.4 million compared to Euros 581.7 million at the end of December 2006, with an increase of Euros 273.7 million. The change is basically due, on the one hand, to investments in the services of Ingest Facility and DGAG (+Euros 124.8 million) and an increase in the value of the investments in associates, joint ventures and funds (+Euros 231.4 million), as well as, on the other hand, to the sale, in the area of non-performing loans, of the securities that came from the ex-Banco di Sicilia transaction (-Euros 83.1 million).

Net working capital is equal to Euros 256.1 million compared to Euros 283.3 million at the end of 2006 (-Euros 27.2 million) due also to the contribution of the inclusion of Ingest Facility in the scope of consolidation.

Outlook for the current year

Taking into account the current economic and financial scenario, the company expects the growth forecast for operating profit including earnings from investments for the full-year 2007 to be in line with 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 euros)

	3rd Quarter 2007	3rd Quarter 2006	9 months to 9/30/2007	9 months to 9/30/2006	Year 2006
. Net sales	**15.7**	15.2	**50.7**	54.5	69.0
. Gross operating profit (loss)	**(1.7)**	(0.4)	**(4.5)**	1.5	0.5
. Operating profit (loss)	**(1.9)**	(0.6)	**(5.0)**	0.9	(0.2)
. Operating profit (loss) incl. earnings (losses) from investments	**(1.9)**	(0.6)	(5.0)	0.9	(0.2)
. Financial income (expenses)	**(0.2)**	-	**(0.3)**	-	(0.1)
. Income taxes	**0.0**	-	-	(0.4)	(0.5)
. Income (loss)	**(2.1)**	(0.6)	**(5.3)**	0.5	(0.8)
. Net financial (liquidity)/debt position			**12.8**	(0.3)	-
. Employees (number at period-end)			**72**	49	52

Net sales in the nine months ending September 30, 2007 amount to Euros 50.7 million and are basically stable compared to Euros 54.5 million in the first nine months of 2006, net of the sales relating to last year's agreement with the British company ReEnergy.

The operating result in the nine months ended September 30, 2007 is a loss of Euros 5 million. This result was impacted by the start-up costs of the new manufacturing and marketing operations for anti-particulate filters. During the first nine months of 2006, an operating profit was reported for Euros 0.9 million mainly as a consequence of the agreement with ReEnergy.

The **net result in the first nine months to September 30, 2007** is a loss of Euros 5.3 million compared to income of Euros 0.5 million in the same period of 2006.

The **net financial position** is a net debt position of Euros 12.8 million, with an increase from December 31, 2006 due mainly to the investment made to set up the Solar Utility S.p.A. joint venture.

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

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

The result of the company in the first nine months of 2007 is a loss of Euros 1.5 million compared to income of Euros 1.3 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 granting of patent rights.

During the first nine months of the year, the company continued to promote negotiations with a view to starting new projects in the field of renewable energy.

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

The consolidated operating result in the first nine months of 2007 is a loss of Euros 2.2 million and deteriorated compared to the same period of the prior year in which a loss of Euros 0.2 million was recorded.

In spite of the positive trend of the emulsion division, the result was impacted by the costs incurred to develop the diesel post-treatment particulate filtering systems and the anti-particulate filter project for OEM.

The net financial position at September 30, 2007 is a net debt position of Euros 9 million (Euros 0.3 million at December 31, 2006).

With regard to emulsions, the decrease in Gecam volumes marketed in Italy, equal to about 10 percent compared to the same period of 2006, is countered by the good trend in volumes marketed in France which increased by 31 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 654 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 of the company in the first nine months of 2007 is a loss of Euros 0.2 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 this period, 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.

The Board of Directors
Milan, November 9, 2007

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AND

NOTES

(in thousands of euros)

CONSOLIDATED BALANCE SHEET	9/30/2007	12/31/2006
Property, plant and equipment	**1,626,089**	1,574,589
Intangible assets	**657,750**	516,374
Investments in associates and joint ventures	**477,045**	3,825,928
Other financial assets	**1,040,253**	1,006,898
Deferred tax assets	**64,632**	64,230
Other receivables	**737,925**	705,828
Tax receivables	**12,046**	10,917
NON-CURRENT ASSETS	**4,615,740**	**7,704,764**
Inventories	**762,380**	715,533
Trade receivables	**1,321,921**	999,669
Other receivables	**274,001**	356,205
Securities held for trading	**124,941**	119,174
Cash and cash equivalents	**314,553**	269,574
Tax receivables	**39,457**	33,432
Financial instruments	**46,815**	29,147
CURRENT ASSETS	**2,884,068**	**2,522,734**
Non-current assets held for sale (Olimpia)	**3,328,952**	**-**
TOTAL ASSETS	**10,828,760**	**10,227,498**
Attributable to the equity holders of the company:	**3,858,319**	3,879,591
Share capital	**2,789,950**	2,789,950
Other reserves	**938,556**	1,971,026
Retained earnings	-	286,057
Income (loss) for the period	**129,813**	(1,167,442)
Attributable to the minority interest:	**806,782**	806,966
Reserves	**693,261**	688,351
Income for the period	**113,521**	118,615
TOTAL EQUITY	**4,665,101**	**4,686,557**
Borrowings from banks and other financial institutions	**1,398,311**	1,377,426
Other payables	**22,711**	156,886
Provisions for other liabilities and charges	**160,894**	145,119
Deferred tax liabilities	**62,263**	42,931
Employee benefit obligations	**368,760**	415,850
Tax payables	**10,012**	9,708
Financial instruments	**6,544**	4,751
NON-CURRENT LIABILITIES	**2,029,495**	**2,152,671**
Borrowings from banks and other financial institutions	**2,066,859**	1,562,262
Trade payables	**1,229,039**	1,102,456
Other payables	**623,775**	512,896
Provisions for other liabilities and charges	**77,818**	116,525
Tax payables	**63,435**	48,769
Financial instruments	**73,238**	45,362
CURRENT LIABILITIES	**4,134,164**	**3,388,270**
TOTAL EQUITY AND LIABILITIES	**10,828,760**	**10,227,498**

(in thousands of euros)

CONSOLIDATED INCOME STATEMENT	9 months to September 30, 2007	9 months to September 30, 2006
Revenues from sales and services	**5,234,364** *	3,623,053
Other income	**235,186**	202,107
Change in inventories of work in process, semifinished and finished products	**(1,076)**	28,375
Raw materials and consumables used	**(2,593,040)** *	(1,419,000)
Personnel costs	**(875,430)**	(790,812)
Amortization, depreciation and impairments	**(163,513)**	(163,281)
Other expenses	**(1,558,935)**	(1,184,964)
Increase in property, plant and equipment from internal work	**7,636**	4,234
OPERATING PROFIT	**285,192**	**299,712**
Financial income	**238,194**	625,497
Financial expenses	**(283,195)**	(298,471)
Dividends	**19,285**	51,433
Gains (losses) from changes in fair value of financial assets	**(17,347)**	(54,778)
Share of earnings (losses) of associates and joint ventures	**74,616**	60,451
INCOME BEFORE INCOME TAXES	**316,745**	**683,844**
Income taxes	**(109,617)**	(111,348)
INCOME FROM CONTINUING OPERATIONS	**207,128**	**572,496**
Income (loss) from discontinued operations	**36,206**	(1,983,000)
INCOME (LOSS) FOR THE PERIOD	**243,334**	**(1,410,504)**
Attributable to:		
Equity holders of the company	**129,813**	(1,472,431)
Minority interest	**113,521**	61,927

* of which Euros 1,283.2 million relates to the partial deconsolidation of Pirelli Real Estate's DGAG activities

Form and content

The interim consolidated quarterly report is prepared in accordance with art. 82 of Consob Regulation 11971 dated May 14, 1999, as amended and supplemented.

The content and form of the report are consistent with the minimum requirements indicated in attachment 3D “Content of quarterly reports”.

The accounting policies and principles adopted in the preparation of this Quarterly Report are consistent with those used in the preparation of the financial statements at December 31, 2006, to which reference should be made for additional details.

The recognition and measurement of accounting amounts are based upon International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formally endorsed by the European Commission and in force at the time of the approval of this report.

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";
- "Available-for-sale financial assets" have been changed to "Other financial assets": the line now includes available-for-sale financial assets (changes in their fair value are recorded in equity) and also financial assets which at initial measurement are designated at fair value through the income statement. Securities held for trading, the fair value changes of which are also recognized through the income statement, will continue to be presented on a separate line in the balance sheet.

"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.

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.

Sales

Sales in the third quarter of 2007 increased compared to the corresponding period of 2006 and can be analyzed as follows:

. Pirelli Tyre	+	8.0%		
. Pirelli Broadband Solutions	-	10.4%		
. Pirelli Ambiente	-	7.0%		
. Pirelli Real Estate	+	31.9%		
Total group			+	**10.1%**
. Exchange rate effect			-	1.3%
. Change in scope of consolidation			+	35.7%
Total change			+	**44.5%**

The breakdown of sales by geographical area of destination (net of the deconsolidation of DGAG) is the following:

(in millions of euros)

	9 months to 9/302007		**9 months to 9/30/2006**	
Geographical area				
Europe:				
. Italy	1,102.7	27.91%	976.1	26.94%
. Other European countries	1,221.8	30.92%	1,158.7	31.98%
North America	253.8	6.42%	243.5	6.71%
Central and South America	877.6	22.21%	774.1	21.37%
Oceania, Africa and Asia	495.3	12.54%	470.6	12.99%
	3,951.2	**100.00%**	**3,623.1**	**100.00%**

Personnel costs

Personnel costs in the first nine months of 2007 amount to Euros 875.4 million and represent 22.2 percent of sales (excluding DGAG sales) compared to Euros 790.8 million in the first nine months of 2006 (21.8 percent of sales).

Operating profit

Operating profit is Euros 285.2 million (7.2 percent of sales excluding DGAG sales) compared to Euros 299.7 million in the first nine months of 2006 (8.3 percent of sales).

Financial income

Financial income for the nine months ended September 30, 2007 totals Euros 238.2 million (of which Euros 53.4 million refers to gains on the sale of investments held in Pirelli Real Estate subsidiaries) compared to Euros 625.5 million in the first nine months of 2006, which included primarily the gain realized on the sale of the 38.9 percent stake of Pirelli Tyre S.p.A. (Euros 416.4 million).

Income from discontinued operations

Income from discontinued operations totaling Euros 36.2 million for the nine months ended September 30, 2007 includes the gain of Euros 91 million on the sale to Goldman Sachs of the warrants obtained under the July 2005 sales agreement for the Energy and Telecommunications Cables and Systems businesses and linked to the economic benefits of Prysmian (Lux) S.à.r.l. and the loss arising from the adjustment of the valuation of the investment in Olimpia S.p.A. to the final sale price to Telco S.p.A. (Euros 54.8 million).

Net financial position

(non-GAAP measure)

The composition of the net financial position is as follows:

(in millions of euros)

Net financial position	9/30/2007	12/31/2006
. Current borrowings from banks and other financial companies	2,032	1,522
. Current financial accrued liabilities and deferred income	60	60
. Cash and cash equivalents	(315)	(270)
. Securities held for trading	(125)	(119)
. Current financial receivables	(50)	(27)
. Current financial accrued income and prepaid expenses	(6)	(7)
. Non-current borrowings from banks and other financial companies	1,405	1,382
Net financial debt	**3,002**	**2,541**
. Non-current financial receivables	(671)	(553)
. Non-current financial accrued income and prepaid expenses	(1)	(8)
Total net financial (liquidity)/debt position	**2,329**	**1,980**

Statement in accordance with section 2 article 154 bis of Legislative Decree 58 of February 24, 1998

The undersigned, Claudio De Conto, Operations General Manager, appointed by the board of directors in its meeting held on May 10, 2007 as the Manager responsible for the 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, tax code, VAT code and registration number in the Milan Companies Register 00860340157 (the "**Company**")

states

as the Manager responsible for the financial reporting of the Company, in accordance with section 2 article 154 bis of the Consolidated Law on Financial Intermediation, that the financial information included in the Quarterly Report at September 30, 2007 agrees with the company's accounting records.

Milan, November 9, 2007

Claudio De Conto
Manager responsible for financial reporting