



PIRELLI & C.
Società per Azioni

Share capital Euros 2,791,311,344.64 fully paid-in
Registered office in Milan, Via G. Negri 10
Milan Companies Register No. 00860340157

INFORMATION MEMORANDUM

relevant to the

**SALE OF THE WHOLE SHAREHOLDING HELD
IN THE STOCK OF OLIMPIA S.p.A.
BY PIRELLI & C. S.p.A.**

Drawn up in accordance with art. 71 of the Regulation of Issuers approved by Consob under Resolution no. 11971 of 14 May 1999

Information Memorandum filed at the head office of the Company and at Borsa Italiana S.p.A.
on November 7, 2007

INTRODUCTION

This information memorandum (the “**Information Memorandum**”) has been drawn up by Pirelli & C. S.p.A. (“**Pirelli & C.**” or the “**Company**”) in accordance with article 71 of the Rules approved by Consob Resolution 11971 dated May 14, 1999, as amended and supplemented (the “**Rules of Issuers**”).

The Information Memorandum contains information relevant to the sale of the whole shareholding held by the Company in the stock of Olimpia S.p.A. (“**Olimpia**”), equal to 80% of the share capital of the latter (the “**Sale**”). Olimpia, in turn, directly holds a shareholding of approximately 18% in the stock of Telecom Italia S.p.A.. (“**Telecom Italia**”) represented by ordinary shares, corresponding to a shareholding of approximately 12.40% of the entire share capital. Telecom Italia, whose shares are traded on the Mercato Telematico Azionario (MTA) of the Italian Stock Exchange organized and operated by Borsa Italiana S.p.A., is the holding company of the Telecom Italia Group (the “**Telecom Group**”).

The Sale is part of the transaction for selling the whole shareholding held in Olimpia, while the remaining 20% was sold by Sintonia S.p.A. and Sintonia SA (jointly with the Company, the “**Sellers**”), respectively, for 9.38% and 10.62% (the “**Transaction**”).

The shareholding in Olimpia was sold by Pirelli & C., Sintonia S.p.A. and Sintonia SA to Telco S.r.l., which was later changed to a stock corporation (“**Telco**”), a “vehicle” company incorporated and participated by Telefónica SA (“**Telefónica**”), Assicurazioni Generali S.p.A. (“**Assicurazioni Generali**”), Intesa Sanpaolo S.p.A. (“**Intesa**”), Mediobanca S.p.A. (“**Mediobanca**”) and the Sintonia SA (“**Sintonia SA**”) and, jointly, the “**Investors**”).

The Transaction has been finalized as described in Paragraph 2.1.2 of this Information Memorandum according to an agreement reached and announced to the market on April 28, 2007 and finalized on May 4, 2007. The Transaction was executed on October 25, 2007.

PRO-FORMA CONDENSED CONSOLIDATED DATA AND PER-SHARE INFORMATION OF THE COMPANY FOR THE PERIOD ENDED JUNE 30, 2007

The pro-forma condensed consolidated data and the per-share information of the Company for the period ended June 30, 2007 are listed below; they have been prepared on the basis of the consolidated interim financial statements of the Pirelli & C. Group approved by the Board of Directors on September 11, 2007.

The purpose of the pro-forma data is to show the economic trend and the financial condition of the Pirelli & C. Group for the first half of 2007 excluding the activities of Olimpia, as if the sale of the shareholding had taken place at the beginning of the period to which the pro-forma data refers (see Section 4).

(amounts expressed in millions of euros, unless otherwise indicated)

(in millions of euros)	Interim consolidated financial statements at June 30, 2007 Pirelli & C.	Pro forma adjustments	Pro forma interim consolidated financial statements at June 30, 2007 Pirelli & C.
Income statement			
Revenues from sales and services	1,628		1,628
Operating expenses	(1,414)		(1,414)
Operating profit	214		214
Share of earnings (losses) of associates and joint ventures	61		61
Financial income (expenses)	(15)		(15)
Income before income taxes	260		260
Income from discontinued operations	17	74	91
Income for the period	198	74	272
Income attributable to the equity holders of the company	108	74	182
Balance sheet			
Non-current assets	4,256		4,256
Current assets	4,257	3,316	7,573
Non-current assets held for sale (Olimpia)	3,310	(3,310)	0
Total assets	11,823	6	11,829
Income for the period	198	74	272
Reserves	4,494	(55)	4,439
Total equity	4,692	19	4,711
Non-current liabilities	2,465		2,465
Current liabilities	4,666	(13)	4,653
Total equity and liabilities	11,823	6	11,829
Per share information (in euros)			
Earnings per share attributable to the equity holders of the company	0.037	0.014	0.051
Equity per share attributable to the equity holders of the company	0.719	0.004	0.723
Net cash flow per share	0.060		0.060

1.	NOTICE.....	5
2.	INFORMATION DESCRIBING THE TRANSACTION OF SALE	6
	2.1 Brief description of the manner and terms of the Sale	6
	2.1.1 <i>Description of the company involved in the Sale</i>	6
	2.1.2 <i>Terms and conditions of the Transaction</i>	8
	2.1.3 <i>Destination of the funds received from the Sale</i>	10
	2.2 Purpose of the Sale.....	10
	2.3 Transactions with Olimpia and with the parties to which it was sold	10
	2.3.1 <i>Transactions by the Company with Olimpia</i>	10
	2.3.2 <i>Significant transactions and agreements between Pirelli & C., the executives and directors of Pirelli & C. and the parties to which Olimpia was sold</i>	11
	2.4 Documents available to the public.	12
3.	SIGNIFICANT EFFECTS OF THE SALE	13
	3.1 Description of the significant effects of the Transaction on the key factors that influence and characterize the activities of the Company as well as the type of business conducted by the Company	13
	3.2 Implications of the Transaction on the strategic guidelines relating to transactions of a commercial and financial nature and the rendering of centralized services among the companies of the group.....	13
4.	PRO-FORMA FINANCIAL INFORMATION OF THE COMPANY	14
	4.1 Description of the pro-forma effects of the Transaction.....	14
	4.2 Pro-forma per share information of the Company	17
	4.2.1 <i>Comments on significant changes in the per share data</i>	18
	4.3 Report of the independent auditors on the pro-forma financial information.....	18
5.	OUTLOOK OF THE COMPANY AND THE PIRELLI GROUP	19
	5.1 Forecast for the current year	19
	APPENDICES	21

1. NOTICE

The Sale does not bring risks or uncertainties which could significantly have effects on the business of the Company as the transaction aimed at capitalizing the shareholding indirectly held in Telecom Italia through Olimpia, and at the Company's consequent release from the telecommunications sector.

The Sale of Olimpia, in fact, generates a positive impact on the net financial position of Pirelli & C. owing to the liquidity from the sale and will enable the Pirelli group (the "**Pirelli Group**") to develop its activities in the traditional core businesses (tyres, real estate, broadband and environment) considering new investment opportunities in those sectors.

2. INFORMATION DESCRIBING THE TRANSACTION OF SALE

2.1 Brief description of the manner and terms of the Sale

2.1.1 Description of the company involved in the Sale

Olimpia, a stock company incorporated under the laws of Italy, is an investment holding company which holds the relative majority shareholding in the stock of Telecom Italia, represented by a shareholding of approximately 18% of the share capital consisting of ordinary shares, equal to approximately 12.40% of the entire share capital.

The main asset of Olimpia is represented by the shareholding in Telecom Italia, the parent company of the Telecom Group. The Telecom Group operates mainly in Europe, the Mediterranean basin and South America. Its business is directed to the communications sector, in particular to the telephone and data services on fixed networks for final customers (retail) and other national operators (wholesale), development of fiber optic networks for wholesale customers, innovative broadband services, Internet services, national and international mobile telecommunications sectors (especially in Brazil), the television sector using analog and digital terrestrial technology and the office products segment. The Telecom Group is composed of various Italian and foreign companies and, at June 30, 2007, the Telecom Group employed more than 60,000 people throughout the world.

The data highlights of Olimpia as at December 31, 2006 are listed below. These are the most recent data prepared in accordance with International Financial Reporting Standards (IFRS) and used for purposes of consolidation under the equity method in the consolidated financial statements of Pirelli & C.. Subsequent to December 31, 2006, in fact, the classification of Olimpia in the consolidated financial statements of Pirelli & C. was changed from "Investments in joint ventures" to "Non-current assets held for sale" and the criteria used for the valuation of the shareholding was consequently amended (see paragraph 4.1, note 3).

<i>(in millions of euros)</i>	
Non-current assets (<i>Telecom Italia shares</i>)	7,491
Current assets	86
Total assets	7,577
Non-current liabilities	(3,216)
Current liabilities	(1)
Total liabilities	(3,217)
Total equity	(4,360)
Revenues	429
Costs	(3,146)
Loss	(2,717)

At December 31, 2006, the shareholding held by Olimpia in Telecom Italia was stated in the financial statements at a book value equal to Euros 7,491 million, compared to a valuation equal to approximately Euros 3 per share after the devaluation of the shareholding in Telecom Italia.

The amendment was necessary since there were indications of the impairment of certain market parameters during the course of 2006. The main indicators of the impairment of the recoverable value which arose during the 2006 can be ascribed to:

- a) the price of Telecom Italia shares which showed a relative negative performance against European sector indexes and compared to the expectations of Olimpia;
- b) the target prices set by the analysts who follow Telecom Italia shares, which registered a reduction that was higher than that recorded by the price of the shares.

Having ascertained the actual existence of a loss as a result of the reduction in the value of the shareholding, in order to determine the amount of the loss itself, the recoverable value of Telecom Italia shares was calculated by reference to national accounting principles supplemented by international standards as regards the valuation methods used. The estimate criteria used lead to recoverable values included between Euros 3 and Euros 3.2. Olimpia, therefore, deemed it necessary to adjust the book value of the shareholding to an amount of approximately Euros 3 per Telecom Italia ordinary share.

At December 31, 2006, the shareholding in Telecom Italia was financed by own equity for Euros 4,360 million and by loans for the remaining amount.

The following table shows the highlights of the Telecom Group extracted from the First-half 2007 Report at June 30, 2007, communicated to the market on September 7, 2007:

Consolidated Operating and Financial Data (in millions of euros)	1st Half 2007	1st Half 2006
Revenues	15,470	15,335
EBTDA	6,294	6,518
EBIT	3,449	3,801
Income from continuing operations before taxes	2,524	2,732
Net income from continuing operations	1,506	1,427
Net income (loss) from discontinued operations/assets held for sale	(4)	46
Net income for the period	1,502	1,473
Net income attributable to the equity holders of the company	1,500	1,496
Capital expenditures:		
Industrial	2,474	2,216
Financial	669	1

Consolidated Balance Sheet Data (in millions of euros)	6/30/2007	12/31/2006
Total assets	86,210	89,457
Total equity	26,101	27,098
- attributable to the equity holders of the company	25,029	26,018
- attributable to the minority interest	1,072	1,080
Total liabilities	60,109	62,359
Total equity and liabilities	86,210	89,457
Share capital	10,605	10,605
Net financial debt	39,175	37,301
Debt ratio (net financial debt/net invested capital)	60.0%	57.9%
Headcount	83,812	83,209

Consolidated Profit Ratios	1 st Half	1 st Half
	2007	2006
EBTDA/Revenues	40.7%	42.5%
EBIT/Revenues (ROS)	22.3%	24.8%

2.1.2 Terms and conditions of the Transaction

On April 28, 2007, the Boards of Directors of Pirelli & C. and Sintonia S.p.A. and the competent boards of Sintonia SA approved the Transaction. On the same date, the Sellers informed the market that they had reached an agreement for the sale to Telefónica, Assicurazioni Generali, Intesa, Mediobanca and the same Sintonia SA of 100% of the share capital of Olimpia (the “**Shareholding**”), of which 80% was sold by Pirelli & C., 10.62% by Sintonia SA and 9.38% by Sintonia S.p.A..

The agreement, governed by Italian law and covering the sale of the Shareholding, was subsequently finalized among the parties on May 4, 2007 (the “**Sale Agreement**”).

The effect of the Sale Agreement was subject to obtaining the necessary authorizations from the competent European Antitrust authorities. Following to the obtaining the nonsuit judgment issued by the Directorate General – Competition of the European Commission on June 12, 2007 and the authorization from the German competition authorities (*Bundeskartellamt*) on July 6, 2007 – the Investors requested, under their right granted by the Sale Agreement, to postpone the date of the execution of the contract in order to take into account the antitrust and regulatory proceedings that were still pending in other countries, including, in particular, Brazil. On October 23, 2007, the Brazilian Telecommunications Authority (*Anatel*) gave its authorization. The Sale Agreement was executed on October 25, 2007 (the “**Execution Date**”).

On the Execution Date, in accordance with the clauses of the Sale Agreement, the Shareholding was transferred to Telco, a “vehicle” company set up and capitalized for that purpose by the Investors and in which interests are held by those investors for the percentages indicated in the following table:

Shareholder	% of Telco share capital held
Telefónica	42.3%
Assicurazioni Generali	28.1%
Intesa Sanpaolo	10.6%
Mediobanca	10.6%
Sintonia SA	8.4%
TOTAL	100.0%

The total consideration paid to the Sellers at the Execution Date was Euros 4,161 million (the “**Consideration**”).

This amount was determined on the basis of a valuation of the Telecom Italia shares held by Olimpia equal to Euros 2.82 per share, therefore, by multiplying the number of Telecom Italia shares held by Olimpia, equal to 2,407,345,359, by Euros 2.82 and subtracting from this value Euros 2.628 million, that is, the estimated net debt of Olimpia at the Execution Date, as defined and calculated according to the clauses of the Sale Agreement (the “**Net Financial Debt**”).

The determination of the reference value of the Telecom Italia ordinary shares held by Olimpia, in order to identify the sale price of Olimpia, is supported by a fairness opinion, attached to the Information Memorandum as Appendix 1, issued by Credit Suisse Securities (Europe) Limited on April 28, 2007 and addressed to the Board of Directors of Pirelli & C..

The Consideration was paid by the Investors for Euros 3,329 million to Pirelli & C., Euros 442 million to Sintonia SA and the remaining Euros 390 million to Sintonia S.p.A..

The Sale Agreement provides that within 45 days of the Execution Date, Telco shall inform the Sellers of its determination of the Net Financial Debt and the Consideration calculated on the basis of such determination. Assuming that the Sellers do not notify their disagreement with the determination made by Telco within 20 business days following the receipt of the above communication, the sale price as determined by Telco shall be considered the final Consideration for the Transaction and binding for all parties ("**Final Consideration**"). In the event of disagreement by the Sellers, the Sale Agreement provides for mechanisms – typical for this type of transaction – aimed at reaching an agreement among the parties for the determination of the Final Consideration. Should the Final Consideration be higher or lower than the Consideration, Telco or the Sellers, as the case may be, will have to pay the relative difference each for its own share.

At the date of this Information Memorandum there are no circumstances which would indicate that the Final Consideration will be different from the Consideration paid by Telco to the Sellers at the Execution Date.

The Sale Agreement contains clauses in line with market practices for similar transactions, including, in particular, clauses for guarantees and compensation to the Investors and Telco with reference – among other things – to the ownership of the shareholdings sold, the ownership of the ordinary shares held by Olimpia in the share capital of Telecom Italia, the management of Olimpia and relating to agreements, acts or omissions of Olimpia up to the Execution Date. The period of the guarantees is 12 months, except for certain guarantees relating to (i) the issue and ownership of the shareholding sold and the ordinary shares held by Olimpia in the share capital of Telecom Italia and (ii) the absence of prior period expenses of a fiscal nature in addition to those noted in the Net Financial Debt, which shall be reported by Telco within the timeframe established in the Sale Agreement.

All the obligations of the Sellers arising from the Sale Agreement, including the obligation of compensation, shall be undertaken without any joint and several obligation and in proportion to the respective share of the shareholding in the stock of Olimpia.

After the Sale there are no transactions of an economic nature in force between the Company and Olimpia.

In execution of the commitments undertaken in the Sale Agreement, Olimpia waived the pre-emptive right on Telecom Italia ordinary shares held by Holinvest S.p.A., as a result of which all the rights and obligations deriving from the relative agreement signed with Holinvest S.p.A. on July 12, 2006 cease to exist.

Lastly, the Sale Agreement provided for the cancellation of the shareholders agreements in force relating to Olimpia and Telecom Italia in which the Sellers were part. Accordingly, the following have been canceled: (i) the shareholders agreement signed by Pirelli & C. (which succeeded to Pirelli S.p.A.), by Sintonia S.p.A. (which succeeded to Edizione Holding S.p.A.) and Sintonia SA (formerly Edizione Finance International SA) on August 7, 2001, as subsequently amended, covering the rules relating to the reciprocal relationships as shareholders of Olimpia and (ii) the shareholders agreement signed on October 18, 2006 by Pirelli & C., Sintonia S.p.A., Sintonia SA, Olimpia, Assicurazioni Generali and Mediobanca in order to ensure the continuity and stability of the shareholder base and governance of the Telecom Group.

The above shareholders agreements, together with the pre-emptive agreement, have been cancelled as of the Execution Date, with effect immediately prior to the finalization of the Transaction.

As a result of the commitments undertaken by the Sellers in the Sale Agreement, the directors of Telecom Italia Luciano Gobbi, Carlo Alessandro Puri Negri and Claudio De Conto have resigned from their office in the board of directors of Telecom Italia: the first one on July 6, 2007, while the other two on October 25, 2007.

A copy of the Sale Agreement is available in electronic format on the web site of the Company at www.pirelli.com.

2.1.3 Destination of the funds received from the Sale

The Sale produced a positive impact on the net financial position of the Pirelli & C. Group of Euros 3.3 billion.

The liquidity from the Sale will be used to reduce debt and, to the extent necessary, take advantage of any investment opportunities in the strategic sectors of the Pirelli Group.

2.2 Purpose of the Sale

The Sale is the result of a plan begun in 2006 in order to give value to the shareholding held indirectly in Telecom Italia by seeking strategic alliances with important global industrial partners which would have allowed to expand the strategies and the scope of the telephone company's geographical locations and businesses.

In March 2007, Pirelli & C. granted to the Chairman of the Board of Directors a mandate to explore all possible options, with the aim of achieving the best strategic exploitation of the shareholding in Olimpia in the interests of all the shareholders, not excluding its total disposal. The disposal decision, moreover, was influenced by the uncertainty surrounding the telecommunications market which had already led the Company to adjust the book value of the shareholding in Olimpia in November 2006 (see paragraph 2.1.1).

In execution of the mandate granted by the Board, in April 2007 negotiations were begun for the sale of a significant shareholding in the stock of Olimpia with the telecommunications operators AT&T (from U.S.A.) and America Mòvil (from Mexico) which had submitted their tenders for acquiring a total of two-thirds of the stock of Olimpia from the Sellers. These negotiations produced no results. Instead, the negotiations begun afterwards with the Investors led to a positive outcome and were concluded with the Sale of Olimpia.

The Sale, which has a positive impact on the net financial position of Pirelli & C. equal to approximately Euros 3.3 billion will enable the Pirelli Group to develop its activities in the traditional core businesses (tyres, real estate, broadband and environment) considering new opportunities for investment in these sectors.

2.3 Transactions with Olimpia and with the parties to which it was sold

2.3.1 Transactions by the Company with Olimpia

At the Execution Date of the Transaction and at the date of this Information Memorandum, there did and do not exist transactions between the Company, directly or indirectly through subsidiaries, with Olimpia.

In accordance with the Sale Agreement, at the Execution Date and with effect immediately prior to the finalization of the Sale, the contract signed in 2001 to supply administrative, accounting and legal assistance services by the Company to Olimpia was cancelled. This constituted the sole transaction in force at that date between the Company and Olimpia.

In order to complete the information, it should be noted that at the date of this Information Memorandum, Pirelli & C. holds, directly and indirectly, a shareholding in the stock of Telecom Italia equal to approximately 1.36% of the ordinary share capital of the latter.

Finally, at the date of this Information Memorandum, there are transactions in force between Pirelli & C. and its subsidiaries and the companies of the Telecom Group regarding various types of commercial sales and purchases transactions, mainly including contracts to supply goods and services and consulting agreements. These transactions, when not governed by standard terms or by specific laws are regulated by market

conditions. For additional information in this respect, reference should be made to the Six-month Report of Pirelli & C. at June 30, 2007 published in accordance with the law.

2.3.2 Significant transactions and agreements between Pirelli & C., the executives and directors of Pirelli & C. and the parties to which Olimpia was sold

A description of significant transactions and agreements existing at the Execution Date of the Transaction and at the date of this Information Memorandum between Pirelli & C. – directly or indirectly through subsidiaries – and the executives and directors of Pirelli & C. with Telco and/or the Investors is listed below.

2.3.2.1 Significant transactions and agreements between Pirelli & C. and Telco or the Investors

At the date of this Information Memorandum, the Company holds a shareholding of approximately 1.8% in the stock of Mediobanca that has been entirely conferred to the Mediobanca shareholders agreement, signed on July 1, 2001, as subsequently amended. The purpose of the agreement is to ensure the stability of the Mediobanca shareholder base, as well as representation on the corporate boards (the Mediobanca Shareholders Agreement), and it will be in force up to December 31, 2009.

Some of the Investors are shareholders of the Company and have signed the agreement which ensure stability in its shareholder base and a sole policy in the management of the Company (the Pirelli Shareholders Agreement), up to April 15, 2010 (the “**Agreement**”).

The following table presents the shareholding conferred to the Agreement by some of the Investors or by parties related to the Investors, resulting from the information available to the Company and the public.

Participants in the Agreement	% of ordinary share capital of the Company conferred to the Agreement (*)
Edizione Holding S.p.A. (**)	4.45
Assicurazioni Generali Group	4.26
Intesa	1.56
Mediobanca	4.45
Total	14.72

(*) The Pirelli & C. ordinary shares conferred in total by all the participants in the Agreement represent 46.20% of the ordinary share capital of the Company

(**) Company controlled by Ragione S.p.a di G. Benetton & C. which, in turn, controls Sintonia S.p.A.

At the date of this Information Memorandum, moreover, there are no significant transactions of either a commercial or financial nature between the Company, directly or indirectly through subsidiaries, and the Investors. However, in order to complete the information, the existence of the following transactions, among others, are noted below:

- loan granted by Mediobanca to Pirelli & C. maturing on March 1, 2010 for a total of Euros 200 million at December 31, 2006;
- joint venture finalized on June 27, 2007 between Pirelli & C. Real Estate S.p.A., a subsidiary of Pirelli & C. (“**Pirelli RE**”), and Intesa for the incorporation of a Dutch-registered company operating in Europe in the facility and project management sectors. Under the transaction, Intesa acquired a 49% interest in Pirelli RE Integrated Facility from Pirelli RE, which still holds a 51% stake;

- 6-month loan for a total nominal amount of Euros 120 million granted to the Pirelli RE and Intesa joint venture mentioned in the preceding point by Bayerische Hypo-und Vereinsbank AG Milan Branch (Unicredit Group) and Intesa, for a 50% share each;
- bilateral credit line for Euros 65 million granted by Intesa to Pirelli RE until canceled;
- Intesa Sanpaolo S.p.A. and Mediobanca S.p.A. each hold a 19% stake in the capital of Speed S.p.A., a company which in turn has an approximate 39% holding in the capital of Pirelli Tyre S.p.A., a subsidiary of Pirelli & C..

Reference should be made to paragraph 2.1.2 for information concerning the shareholders agreements cancelled as at the Execution Date, with effect immediately prior to the finalization of the Sale.

At the Execution Date of the Transaction and at the date of this Information Memorandum, there do not exist significant transactions or agreements (excluding those relating to the Transaction) between Pirelli & C. – directly or indirectly and through subsidiaries – and Telco.

2.3.2.2 Significant transactions and agreements between the executives and directors of Pirelli & C. and Telco or the Investors

At the date of this Information Memorandum, some members of the Board of Directors of Pirelli & C. hold offices in the boards of some of the Investors.

In particular, Marco Tronchetti Provera, chairman of the Board of Directors of the Company and holder (through Camfin S.p.A.) of an indirect shareholding in the stock of Pirelli & C. equal to 25.5% of the ordinary share capital, and Gilberto Benetton, member of the Board of Directors of the Company, are both members of the Supervisory Board of Mediobanca.

Gabriele Galateri di Genola and Giovanni Perissinotto, members of the Board of Directors of the Company, are respectively the deputy chairman and chief executive officer of Assicurazioni Generali. Mr. Perissinotto is also a member of the Management Board of Intesa.

2.4 Documents available to the public

A copy of this Information Memorandum, together with the relative appendices, is available to the public at the head office of Pirelli & C. in Milan, Via G. Negri 10, and at the office of Borsa Italiana S.p.A. in Milan at Piazza Affari 6. This Information Memorandum is also available on the web site of the Company at www.pirelli.com.

3. SIGNIFICANT EFFECTS OF THE SALE

3.1 Description of the significant effects of the Transaction on the key factors that influence and characterize the activities of the Company as well as the type of business conducted by the Company

The Sale generated a positive impact on the net financial position of the Pirelli & C. Group of Euros 3.3 billion and will enable the Pirelli Group to develop its activities in the traditional core businesses (tyres, real estate, broadband and environment) considering new investment opportunities in those sectors.

3.2 Implications of the Sale on the strategic guidelines inherent to transactions of a commercial and financial nature and the rendering of centralized services among the companies of the group

The Sale does not have any significant effects on the strategic guidelines relevant to transactions of commercial and financial nature and the supply of centralized services among the companies of the Pirelli Group.

4. PRO FORMA FINANCIAL INFORMATION OF THE COMPANY

4.1 Description of the pro forma effects of the Transaction

The pro-forma condensed interim income statement and balance sheet at June 30, 2007 are presented below and have been prepared on the basis of the interim consolidated financial statements for the six months ending June 30, 2007 of the Pirelli & C. group approved by the Board of Directors on September 11, 2007.

The purpose of the pro-forma data is to show the economic trend and the financial condition of the Pirelli & C. group for the first half of 2007 excluding the activities of Olimpia, as if the sale of the investment had taken place at the beginning of the period to which the pro-forma data refers.

	Interim consolidated financial statements at June 30, 2007 Pirelli & C.	Pro forma adjustments	Pro forma interim consolidated financial statements at June 30, 2007 Pirelli & C.
CONSOLIDATED BALANCE SHEET <i>(in millions of euros)</i>			
Property, plant and equipment	1,628		1,628
Intangible assets	630		630
Investments in associates and joint ventures	434		434
Available-for-sale financial assets	974		974
Deferred tax assets	77		77
Other receivables	501		501
Tax receivables	12		12
NON-CURRENT ASSETS	4,256		4,256
			0
Inventories	1,485		1,485
Trade receivables	1,435		1,435
Other receivables	523		523
Securities held for trading	141		141
Cash and cash equivalents	591	3,316	3,907
Tax receivables	41		41
Financial instruments	41		41
CURRENT ASSETS	4,257	3,316	7,573
Non-current assets held for sale (Olimpia)	3,310	(3,310)	0
TOTAL ASSETS	11,823	6	11,829

Attributable to the equity holders of the company:	3,859	19	3,878
Share capital	2,790		2,790
Other reserves	961	(55)	906
Retained earnings	-		0
Income for the period	108	74	182
Attributable to the minority interest:	833		833
Reserves	743		743
Income for the period	90		90
TOTAL EQUITY	4,692	19	4,711
Borrowings from banks and other financial institutions	1,791		1,791
Other payables	47		47
Provisions for other liabilities and charges	162		162
Deferred tax liabilities	64		64
Employee benefit obligations	385		385
Tax payables	10		10
Financial instruments	6		6
NON-CURRENT LIABILITIES	2,465		2,465
Borrowings from banks and other financial institutions	2,574		2,574
Trade payables	1,264		1,264
Other payables	613	(13)	600
Provisions for other liabilities and charges	82		82
Tax payables	70		70
Financial instruments	63		63
CURRENT LIABILITIES	4,666	-13	4,653
TOTAL EQUITY AND LIABILITIES	11,823	6	11,829

CONSOLIDATED INCOME STATEMENT <i>(in millions of euros)</i>	Interim consolidated financial statements at June 30, 2007 Pirelli & C.	Pro forma adjustments	Pro forma interim consolidated financial statements at June 30, 2007 Pirelli & C.
Revenues from sales and services	3,197		3,197
Other income	187		187
Change in inventories of work in process, semifinished and finished products	26		26
Raw materials and consumables used	(1,488)		(1,488)
Personnel costs	(586)		(586)
Amortization, depreciation and impairments	(109)		(109)
Other expenses	(1,019)		(1,019)
Increase in property, plant and equipment from internal work	6		6
OPERATING PROFIT	214		214
Financial income	153		153
Financial expenses	(171)		(171)
Dividends	14		14
Gains (losses) from changes in fair value of financial assets	(10)		(10)
Share of earnings (losses) of associates and joint ventures	60		60
INCOME BEFORE INCOME TAXES	260		260
Income taxes	(79)		(79)
INCOME FROM CONTINUING OPERATIONS	181		181
Income from discontinued operations	17	74	91
INCOME FOR THE PERIOD	198	74	272
Attributable to:			
equity holders of the company	108	74	182
minority interest	90		90

- The column “Interim Consolidated Financial Statements at June 30, 2007” presents the interim consolidated financial statements of the Pirelli & C. group for the first six months ended June 30, 2007.
- The column “Pro Forma Adjustments” presents the effects of the sale, restated to the beginning of the period. The pro-forma adjustments refer to the following:
 1. Non-current assets held for sale (Olimpia): they decrease as a result of a reduction in the book value of the shareholding at June 30, 2007 (Euros 3,310 million). This investment was classified in “Investments in associates and joint ventures” in the financial statements at December 31, 2006. Following the agreement for the total sale of the investment by the Pirelli and Sintonia shareholders to the Investors reached on April 28, 2007, the shareholding in Olimpia was classified in the balance sheet at June 30, 2007 in “Non-current assets held for sale” and the economic effects were classified in the income statement in “Income from discontinued operations”.
 2. Current assets / liabilities: they increase due to the consideration received on the Execution Date (Euros 3,329 million), net of transaction costs incurred for the sale and not yet paid at June 30, 2007 (Euros 13 million).
 3. Income from discontinued operations: it includes the reduction in the book value of Olimpia, from Euros 3,488 million to Euros 3,310 million, to adjust it to the estimated sales price reported in the Six-month Report at June 30, 2007. In addition to this negative adjustment of Euros 178 million, costs incurred for the sale should be added for Euros 15 million, less the income reserves recorded previously directly in equity for Euros 119 million, which in accordance with accounting standards are recorded in the income statement when the investment is sold. Since the final sale price of Euros 3,329 million is higher than that estimated in the Six-month Report at June 30, 2007, the difference of Euros 19 million represents the positive effect of the Sale on equity.

In accordance with the principles used in the preparation of pro-forma data, the financial income which would have been earned in 2007, assuming the Sale and the consequent collection of the price at the beginning of the period for pro-forma purposes, has not been recognized. This treatment agrees with prevailing international practice for the preparation of pro-forma financial statements.

4.2 Pro-forma per share information of the Company

Pro-forma per share information of the Company for the first six months of 2007 are listed in the table below.

Per share information (in euros)	Interim consolidated financial statements at June 30, 2007 Pirelli & C.	Pro forma adjustments	Pro forma interim consolidated financial statements at June 30, 2007 Pirelli & C.
Earnings per share from continuing operations	0.034	-	0.034
Earnings per share from discontinued operations	<u>0.003</u>	<u>0.014</u>	<u>0.017</u>
Earnings per share attributable to the equity holders of the company	0.037	0.014	0.051
Equity per share attributable to the equity holders of the company	0.719	0.004	0.723
Net cash flow per share	0.060	-	0.060

The average number of shares used as the basis for calculation has been determined by calculating the average number of shares in circulation during the first six months of 2007, net of treasury shares held by Pirelli & C., and equal to 5,365,288,932.

4.2.1 *Comments on significant changes in the per-share data*

Earnings per-share increases by Euros 1.4 cents per share following the elimination of the net devaluation of Olimpia for Euros 74 million in the first six months of 2007.

Equity increases by Euros 0.4 cents per share as a result of a total increase of Euros 19 million in shareholders' equity, commented in the preceding paragraph.

The pro-forma net cash flow per share does not show any change compared to the same data per-share calculated using historical data since the sale had no impact on cash flows.

4.3 Report of the independent auditors on the pro-forma financial information

See Appendix 2.

5. OUTLOOK OF THE COMPANY AND THE PIRELLI & C. GROUP

5.1 Forecast 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 six months of 2007 allow to the Pirelli 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.

The Chairman of the Board of Directors

DECLARATION BY THE MANAGER RESPONSIBLE FOR FINANCIAL REPORTING

The manager responsible for financial reporting, Claudio De Conto, declares, in accordance with paragraph 2, section 154 bis of the Consolidated Law on Financial Intermediation (TUF) that the accounting information contained in this Information Memorandum corresponds to the results of the documents, the accounting records and entries.

The manager responsible for financial reporting

APPENDICES

1. Fairness opinion rendered by Credit Suisse Securities (Europe) Limited to the board of directors of Pirelli & C..
2. Report of the independent accountants PricewaterhouseCoopers S.p.A. on the review of the pro forma consolidated financial information at June 30, 2007.

1. Fairness opinion rendered by Credit Suisse Securities (Europe) Limited to the board of directors of Pirelli & C..

28 April 2007

Board of Directors
Pirelli & C. S.p.A.
V.le Sarca, 222
20126 Milano

Dear Sirs:

You have asked us to advise you with respect to the fairness to Pirelli & C. ("Pirelli") from a financial point of view of the consideration to be received pursuant to the terms of the offer (the "Offer") by a consortium consisting of Assicurazioni Generali S.p.A., Intesa San Paolo S.p.A., Mediobanca - Banca di Credito Finanziario S.p.A., Sintonia S.p.A. and Telefónica S.A., or one or more of their affiliates (the "Acquiror"). The Offer provides, amongst other things, for the acquisition (the "Acquisition") of 80% of the outstanding shares of Olimpia S.p.A. (the "Company") by the Acquiror from Pirelli. The consideration to be received by Pirelli pursuant to the Acquisition shall be a cash sum equal to 80% of the value of the shares in Telecom Italia S.p.A. ("Telecom Italia") held by the Company less 80% of the net financial debt of the Company, where each share in Telecom Italia held by the Company is valued at €2.82.

We understand that: (i) the Company owns approximately 18% of the ordinary share capital of Telecom Italia S.p.A. ("Telecom Italia"); (ii) the stake in Telecom Italia is the only material asset of the Company; and (iii) Pirelli owns 80% of the share capital of the Company.

In arriving at our opinion, we have reviewed certain publicly available business and financial information relating to the Company and Telecom Italia. We have been provided with certain historical information concerning the net debt position of the Company, including without limitation, the accounts for the Company for the year ended 31 December 2006, but have not discussed this with the management of either the Company or Pirelli. We have not been provided with and consequently have not reviewed financial forecasts of the Company or Telecom Italia nor have we met with the Company's, Telecom Italia's or Pirelli's management to discuss the business and prospects of the Company and/or Telecom Italia.



We have also considered certain financial and stock market data of the Company and Telecom Italia, and we have compared that data with similar data for other publicly held companies in businesses which we deemed similar to those of the Company and Telecom Italia and we have considered, to the extent publicly available, the financial terms of certain other business combinations and other transactions which have recently been effected or announced. We also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which we deemed relevant.

In connection with our review, we have not assumed any responsibility for independent verification of any of the foregoing information and have relied on its being complete and accurate in all material respects. We have not conducted any due diligence on the Company or Telecom Italia. With respect to the net financial debt of the Company we have assumed, with your consent, that the net financial debt of the Company is as set out in the accounts of the Company for the year ended 31 December 2006 as adjusted for the dividend approved by the annual general meeting of Telecom Italia on 17 April 2007 and due to be distributed to shareholders of Telecom Italia from 26 April 2007. With respect to the publicly available financial forecasts for Telecom Italia referred to above, we have not reviewed and discussed such forecasts with the management of the Company, Telecom Italia or Pirelli. We also have assumed, with your consent, that in the course of obtaining necessary regulatory and third party approvals and consents with respect to Acquisition, no modification, delay, limitation, restriction or condition will be imposed that will have an adverse effect on the Company or the contemplated benefits of the Acquisition, and that the Acquisition will be consummated in accordance with the terms of the Offer, without waiver, modification or amendment of any material term, condition or agreement therein. In addition, we have not been requested to make, and have not made an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of the Company or Telecom Italia, nor have we been furnished with any such evaluations or appraisals. Our opinion addresses only the fairness, from a financial point of view, to Pirelli of the consideration to be paid in the Acquisition and does not address any other aspect or implication of the Acquisition or any other agreement, arrangement or understanding entered into in connection with the acquisition or otherwise. Our opinion is necessarily based upon information made available to us on the date hereof and upon financial, economic, market and other conditions as they exist and can be evaluated on the date hereof. Our opinion does not address the relative merits of the Acquisition as compared to alternative transactions or strategies that might be available to Pirelli, including without limitation

including without limitation any merger of the Company with Telecom Italia or any break-up of Telecom Italia. In connection with our engagement, we have not been requested to and have not approached third parties to solicit indications of interest in a possible acquisition of the Company and held preliminary discussions with certain of these parties prior to the date hereof.

We have acted as financial advisor to Pirelli in connection with the Acquisition and will receive a fee for our services, a significant portion of which is contingent upon the consummation of the Acquisition. We will also receive a fee for rendering this opinion. In addition, Pirelli has agreed to indemnify us for certain liabilities and other items arising out of our engagement. From time to time, we and our affiliates have in the past provided, and in the future we may provide, investment banking and other financial services to the Company, Pirelli Telecom Italia and the Acquiror, for which we have received, and would expect to receive, compensation. We are a full service securities firm engaged in securities trading and brokerage activities as well as providing investment banking and other financial services. In the ordinary course of business, we and our affiliates may acquire, hold or sell, for our and our affiliates own accounts and the accounts of customers, equity, debt and other securities and financial instruments (including bank loans and other obligations) of the Company, Pirelli, Telecom Italia and the Acquiror and any other company that may be involved in the Acquisition, as well as provide investment banking and other financial services to such companies.

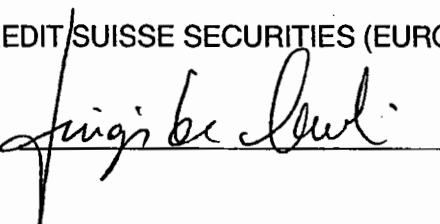
It is understood that this letter is for the information of Board of Directors of Pirelli only in connection with its consideration of the Acquisition and may not be disclosed to any person without our prior written consent and is not to be quoted or referred to, in whole or in part nor shall this letter be used for any other purposes, without our prior written consent.



Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the consideration to be received by Pirelli in the Acquisition is fair to Pirelli from a financial point of view.

Yours faithfully,

CREDIT SUISSE SECURITIES (EUROPE) LIMITED

By: 

2. Report of the independent auditors PricewaterhouseCoopers S.p.A. on the review of the pro-forma consolidated financial information at June 30, 2007.

**REPORT ON THE REVIEW OF PIRELLI & C. SPA
PRO-FORMA FINANCIAL INFORMATION AS OF AND
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2007**

PIRELLI & C. SPA

REPORT ON THE REVIEW OF PIRELLI & C. SPA PRO-FORMA FINANCIAL INFORMATION AS OF AND FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2007

To the board of Directors of
Pirelli & C. SpA

1. We have reviewed the interim consolidated pro-forma balance sheet, income statement and explanatory notes of Pirelli & C. SpA (parent company of Pirelli & C. Group) as of and for the six months period ended 30 June 2007 (hereinafter “pro-forma financial information”), prepared on the basis of the assumptions illustrated in the notes thereto, to reflect retrospectively the effects of the disposal of the investment held in Olimpia SpA (hereinafter “the transaction”).

This pro-forma financial information derives from the consolidated interim financial statements of Pirelli & C. SpA as of and for the six months period ended 30 June 2007 and the related pro-forma adjustments which have been reviewed by us. The consolidated interim financial statements of Pirelli & C. SpA as of and for the six months period ended 30 June 2007 have been reviewed by us; we have issued our review report dated 26 September 2007.

2. The pro-forma financial information has been prepared in accordance with Article 71 of financial market regulation accomplishing the legislative decree n° 58 dated 24 February 1998, adopted by the National Commission for Companies and Stock Exchange (CONSOB) with Resolution n° 11971 of 14 May 1999 and subsequent amendments.

The objective of the pro-forma financial information is to present the effects of the transaction on the financial position of Pirelli & C. Group as if it had taken place on 30 June 2007 and the effects on the group results as if the transaction had taken place at the beginning of the six months period presented. The pro-forma financial information is not necessarily indicative of the results of operations and related effect on the group financial position that would have been attained had the transaction actually occurred earlier.

The pro-forma financial information is the responsibility of Pirelli & C. SpA Directors. Our responsibility is to issue a review report on the reasonableness of the assumptions used and the adequacy of the criteria and accounting principles applied in the preparation of this pro-forma financial information.

3. We conducted our review in accordance with the auditing standards and criteria recommended by CONSOB with resolution n° 1061609 of 9 August 2001 for the review of pro-forma financial information and we carried out such tests and procedures as we considered necessary for the purpose of our engagement.
4. Based on our review, nothing came to our attention that causes us to believe that the underlying assumptions used by Pirelli & C. SpA to prepare the pro-forma financial information as of and for the period ended 30 June 2007 are not reasonable, the methodology used to prepare the pro-forma financial information has not been applied correctly or the accounting principles used for the preparation of the pro-forma financial information are not correct.

Milan, 7 November 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 Pro-forma financial information refer to the Pro-forma financial information in original Italian and not to its translation)