

Good afternoon, ladies and gentlemen, welcome to Pirelli conference call, in which our Chairman, Mr. Marco Tronchetti Provera, will release full-year 2006 group results. I remind you that a Q&A session will follow after the presentation and that you can find the presentation slides and the audio streaming of the event in the investors relation section of the Pirelli website. Now, let me introduce you to Mr. Marco Tronchetti Provera.

Good evening, ladies and gentlemen, thank you for joining our conference call, and sorry for the delay, but, unfortunately, we had to delay the... the Board meeting, and so we kept you waiting. Sorry again, today we are disclosing Pirelli's group full-year 2006 results. I'll give you an overview of them, then Mr. Gori will show you some insights of Pirelli Tire results, Mr. De Conto will develop more on Pirelli Broadband Solution, and, finally, Mr. Puri will show Pirelli Ambiente and Pirelli Real Estate results. After the presentation, a Q&A session will be held. Before going through Pirelli group's results, I'd like to open the presentation giving an overview of the group, starting from its structure; on slide number 2, you can have a look at the group's structure. I'd like to remind you that our main shareholders' agreement, the group's 46.2% of ordinary share capital, has been renewed on 19th January 2007, up until... April 2010.

Coming to Pirelli group's mission, on slide 3; this is based on four pillars: the dynamic handsome management of leading companies with solid organic growth and a sound cash generation, driven by an effective corporate governance, new ideas coming from PLabs innovation, a reliable and skilled management team with an international culture strongly committed to the business.

In 2006, Pirelli car is on the start, enhancing presence and the production platform in Brazil, Rumania, and China, for a total of 24 plants of tires in twelve countries, as you can see on slide 4. In addition, Pirelli Real Estate has strengthened its European presence ultimately, with German Degag acquisition. In 2006, Pirelli counted 28,617 employees, including 112 scientists of Pirelli Labs. Revenues amounted to 4.8 billion, with 171 million of R&D expenditures, around 3%; 82% of revenues came from Pirelli Tire, 13% from Pirelli Real Estate, 3% from PBS, and 1% from Pirelli Ambiente. With the following geographical distribution: 28% Italy; 32% the rest of Europe; 7% North America; 21% Central and South America; 12% Asia, Africa, and Pacific.

In the next slide, you will find also the key events of the year. Let me just remark that these are the key that have contributed to the group's international development and to its current financial structure, which is sound.

Now let's see the full-year 2006 financial results. In brief, 2006, as you can see on slide number 6, reported a growth in all operating figures, in particular group sales were 4.8 billion, an increase of 6.5% from December 05; EBIT was 401.4, with an increase of 13.1% year-on-year, thanks to the business results. Net financial position: below 2 billion, in line with the targets; distributable net income was negative, for approximately 1.1 billion, due to the write-off of Olympia and Pirelli's books, TI shares in transparency from 4 to 3 euro, partially offset by plusvalue realized on Capitalia 2015 million and Pirelli Tire for 115 million; the transaction... the Pirelli tire transaction was 416 million of plusvalue. Consequently, Pirelli's Board will not propose to the shareholders on the meeting the dividend distribution on 2006 results. The fully detailed PNL table is available in the appendix section.

I'd like to show you EBIT and net financial position variations more in detail, starting from EBIT: on slide 7, as you can see, the EBIT growth was driven and supported by the positive contribution, in particular of 20.9 million coming from the tire business, and an increase of 19.8 million coming from Pirelli Real Estate; so, it was partially impacted because of the 13.2 million of tire IPO costs.

As regarding group net financial position, on page 8... on slide 8, which, at the end of December 2006, was below 2 billion; the main effects have been: the positive impact of 103.5 million on net cash-flow from ordinary activities, the positive impact of 715.8 million of net income from the disposal of the 38.9 stake of Pirelli Tire, the purchase of 201 million of TI ordinary shares, and of 38.2 million of Capitalia shares, for a total amount of 239.2 million; the purchase of 497.7 million of Olympia shares from HOPA; the banks' put-option on Olympia's stake effect for 1 billion.

Next slide gives the market asset value of Pirelli group. On slide 9, Pirelli group market asset value is currently around 5.5 billion, versus 1.3 billion of corporate net debt at 2006 year-end. Now I'll give the floor to Mr. Gori, the CEO of Pirelli Tire. Please, Mr. Gori.

Thank you, and good evening to everybody. Pirelli Tire net sales increased to 3.9 billion from 3.6 billion in full-year 2005, +8.7%; more in detail, organic top-line growth +7%, was higher than overall market trends, volumes up 3.9% including full-year impact of new Chinese operations; and price mix up 3.1%, not fully compensating a strong increase of raw materials and energy costs. Industrial efficiencies, contributed to EBIT improvement in a contracted industry scenario. Net income was euro 199.3 substantially in line with euro 198.4 of 2005.

Next slide. Slide12 shows further details of Pirelli Tire. As you are aware of: consumer segment includes both car and motorcycle tires, while for industrial we mean truck tires plus steelcord. As you can see, consumer sales were up by 8.4%, thanks to higher winter sales in Europe, 2-digit growth in both Northern and Southern America, as well in motorcycles sales, worldwide. Consumer return on sales was up to 9%, before IPO costs, thanks to volumes and price mix improvements. Coming to industrial, sales were up by 9.5%, there including full-year new Chinese operations, contributing 50% to such growth. Industrial return on sales was down to 8.6%, before IPO costs, driven by increases in the matter of rubber prices and startup costs of truck tire new operations in China.

I would like now to remind you Pirelli Tire key events. Next slide. First of all, international press and dealer presentation in Dubai, of our new PZERO, a new UHP Pirelli Tire already approved by major top car manufactures. Again in 2007, the 100-year motor-sports celebration has been strengthened by the achievement of WRC 2008-2010 and GRAND-AM 2008-2010 tenders, as well as by the series of 2007 national rally and GT championships. As mentioned in the first slide, this indication of 675 million euro revolved in credit line was successfully included.

In finally, Pirelli Tire outlook. The reduced volatility on raw material prices, currently stable on high levels, is still requiring further price increase. Top-line organic growth in both Consumer and Industrial segments is expected to continue, thus allowing further improvements on bottom line. Now I'll give the flow to Mr. De Conto for Pirelli Broadband Solution results.

Thank you Mr. Gori, and good evening to everybody.

For Pirelli Broadband Solution, Net sales for 129.4 million, +15.3% from December 2005. We reached breakeven at EBIT level as previously announced, with a positive EBITDA. I would like to remind you that in the results, we supported 15 million of R&D cost fully charged to the PNL.

On slide number 6, I'd like to point out the main achievement of PBS by segments. Photonic sales improved very significantly to 14.6 million from 5.8 million thanks to the CWDM products. EBIT was still negative by 8.5 million, due to startup activity. Broadband sales were 114.8 million from 106, +8%. Broadband access EBIT grew to 8 million, +53%, from the 6 million of 2005, with a 7% return on sales, against the 5.6 in 2005.

I would like to give you an update of the main fields of Pirelli Broadband Solution activity on the next slide. As regards broadband, we will leveraging on new products and on new costumers. As far as the products are concerned, the dual mode phone, that we launched in last quarter 2006, will increase in sales, in the meanwhile, we have started to sell the new SET-TOP-BOX.

Coming to Photonics, the CWDM City 8TM will be enhanced to 10 Gbits and we will start selling the Dynamic Tunable Laser. During 2007, we have also set a target in order to be able to launch a transponder in the market, which is a combination of laser and modulator. As you can see from the slide, our client base has enlarged and we have to continue in this way.

Outlook for 2007 sees a double-digit growth on a year-on-year basis. The (...) of the growth taking place in the second half of 2007.

Now I'll give the floor to Mr. Carlo Puri for Pirelli Ambiente and Pirelli Real Estate results and targets.

Thank you and good evening to everybody. First of all, let me remind you that the environment business is the second startup of Pirelli Group, and it's characterized by the 3 main divisions: Pirelli Ambiente Eco Technology, for the production of white diesel Gecam and of diesel particulate filters, for the reduction of the emissions of diesel engines; Pirelli Ambiente Renewable Energy, which develops solutions for the use of renewable energy, for instance from the recovery of municipal solid waste; and Pirelli Ambiente Site Remediation, dealing with environment reclamation and requalification of contaminated sites.

Coming to Pirelli Ambiente results: sales were 69 million, 12.2% from last year, that was 61.5; EBIT almost at breakeven, at 0.2 million negative, improved from 3.6 million in 2005; net income was negative for 0.8 million, from 3.4 million of December 2005. I would also like to point out the sales consolidation of Gecam and startup business anti-particulate filters for industrial vehicle diesel engines, the production of a high-quality fuel through a company related to I.D.E.A. Granda. In the first quarter 2006 we reported the effect of the agreement with Pirelli RE Energy for patent and possible JV in the UK market, with a positive impact of 2.8 million. Engineering services, due diligence and project management are mainly captive.

Now, I will go through Pirelli RE 2006 results. We already gave these results to the analysts, and so I will go quite fast. First of all, we have achieved a growth in EBIT including income from equity participation of 15%, the higher end of our 2006-2008 three-year plan target range. We have completed acquisitions for 3.6 billion, increasing by 12% the portfolio over 2005. There are four total assets under management, reaching 14.5 billion of which Pirelli RE directly owns approximately 21%, equal to 3 billion. We have started a significant expansion abroad, even higher than our expectation,

mainly in Germany and Poland, where the Company intends to replicate its business model. In Germany, after the 1.4 billion acquisition of the DGAG, we are now perceived as a local player. In Poland we are operating through Pirelli Pekao Real Estate, a JV with Bank Pekao, part of the Unicredit Group; and we are focused on developing new residential products, reaching around 300.000 square-meters of (...) land, in major cities like Warsaw, Krakow and (...) and making the Company very profitable at EBIT level, for around 6 million. We are increasing investments through funds, which now represents 60% of real estate assets under management, for a total of 7.6 billion with a 25% increase over last year. We have now 16 funds, 9 core, core plus, and 7 opportunistic value-added. Additional 7 funds are already approved by the Bank of Italy. We have completed significant acquisition in NPL business, reaching a portfolio of 1.9 billion net book value, and gaining a leadership position in the Italian market. During 2006 and at the beginning 2007, we have continued to invest in the asset management and service platform, for a total around of 100 million for the acquisition of the remaining stake in NPL asset management and credit servicing company from Morgan Stanley and for the acquisition of Ingest Facility from the Fiat group. These transactions make the company a market leader in the facility management in Italy with a performable revenue for 2007 estimated over 400 million and a pro forma EBITDA around 26 million. As regarding 2006 profit and loss, we have increased pro-quota aggregate revenue of 12%, reaching more than 1.5 billion. As mentioned, our EBIT including income from equity participation has increased by 15%: from 186 million in 2005, to 214.4 million in 2006. The net income has grown by 10%, from 145.4 million euro to 159.5 million euro.

The Board of Directors has made a proposal for a dividend of 2.06 per share, around 9% year-on-year, corresponding to a payout of approximately 55%, in line with the already announced dividend policy.

As regarding the balance sheet, we have increased our investment in participated companies to around 426 million euro versus around 303 million euro of last year. Our net financial position has increased with respect to 2005 for around 96 million euro, from 30 million euro in 2005, due to the significant acquisitions completed during the year. Also the "adjusted" net financial position, not including shareholders loans, has also increased, from 293 to 431 million, leading to a gearing of 0.61%, that is better than what we have given in our three-year plan to the markets.

Now let me focus on the key guidelines that will drive our activity in 2007. First of all, our target growth of EBIT including income from equity participation is above 10-15% CAGR of 2006-2008 plan targets. We have planned to complete a significant volume of acquisition amounting to around 4.3-5 billion euro at book value, and sales for around 2.4-2.8 billion euro at market value; as a result, we plan to increase our asset under management from euro 12.8 billion, book value, that correspond to 14.5 at market value of 2006 to approximately 15 billion euro in 2007; we intend to continue growth in assets under management abroad that are expected to reach around 25% of the total, well above the three-year plan target of 20% at the end of 2008. We intend to increase the asset under management through funds in Italy, from around 70% to around 80% of total assets. We will keep gearing under control in a 0.8-0.9 range despite our acquisition plan.

7, finally: we look for a higher integration of the services with the aim of increasing efficiency and improving services provided to clients. The facility management activity of the DGAG in Germany and Pirelli Pekao Real Estate in Poland will be also integrated and where we will continue on looking for new growth opportunities aiming at creating a leading player in Central Eastern Europe.

Now I'll leave the floor back to Mr. Tronchetti, thank you very much.

Thank you Carlo. To sum up, we confirm 2007 increase in all operating results with a sound financial structure, and we will call a Pirelli Technology Day in September 07. So, thank you for your attention, and now let's start with the Q&A session.

Q&A session:

1. Mr. Martino De Ambrogi from Euromobiliare SIM:

Good evening to everybody. We read many things on the newspapers, so an inevitable question is on Telefonica negotiation: and in your press release you said that negotiations are temporarily suspended. What do you mean by temporarily suspended? Are there things that have to be agreed before going on? And do you already plan a new start for negotiations? That's my first question. My second question is always on Olympia: we read, I don't know if it's true or not, but you have negotiations also with Russian and Indian financial investors; and, my question is: are these negotiations still going on? And the last one, always on the same subject, I'm sorry: is it true that there is a financial pool of financial investors, Italian financial investors that could be interested in Olympia? Thank you very much.

First question about Telefonica: I think the answer has been given by the Chairman of TI, who said that he will have contacts in the next few weeks. On our side, we don't have any news.. on Olympia's side, we don't have any ongoing negotiations with Russian companies. We have contacts, but there are no negotiations going on. And we don't have... we have not been contacted by any pool of banks.

Okay. Thank you. And, if I may...

We have heard... we... we've read on the newspapers... so we did a number of things.

Okay. We too. And, one more question on the industrial side: for the tires' division, you mentioned... Mr. Gori mentioned, some growth, organic growth for the current year; is it possible to have some rough range of specific guidance?

Mr. Gori.

Thank you. The growth has been... as I mentioned, mainly coming from the dollar area, North and South America, both growing... in dollars, US dollars, by 2-digits; and then, of course, we grew also in Europe, thanks to winter sales, again strong sales, even though, the rest of the market, the summer-time market was not so positive as overall demand. So, a one-digit growth in Europe; and then, I would say that the remaining growth is coming from the addition of China that, in year 2005 only, contributed to the sales for months from August to December while in 2006 it has been contributing for twelve months.

Thank you. And for the current year, an idea of margin improvement?

Yes, of course. 2007 will maintain the same growth trends of 2006 hopefully, with the exception of winter tires: we do not expect a strong winter season, hopefully a zero-growth in the market, because of the weather conditions in 2006. But nothing dramatic, overall.

Okay. Thank you.

2. Mr. Daniele Benatoff from Goldman Sachs:

Good evening. Just a very quick question following the TI Board meeting: my understanding was that in occasion of the Board meeting all the representatives did not vote unanimously and, more specifically, pertaining to the representatives of the Benetton universe versus the Pirelli representation, there was no cohesion in voting, and I believe that there was a problem under your shareholders' agreement. Is that the case? Thank you.

No, I think that's a misinterpretation. There has been, as far as I know... as far as my colleagues told me, and as far as I read on the newspapers, there has been a large discussion... and then some of the Board members... not enthusiastically they have voted for... some of them including the independent... independent elected by minorities have abstained; so I think that there has been no conflict of opinions about... between Pirelli and Benetton. So, I can say more than this: there has been no... no conflict or different opinions between Pirelli and Benetton. We are absolutely in line.

Thank you.

Thank you.

3. Ms. **Monica Bosio** from **Caboto Intesa San Paolo**:

Yes. Good evening. The first question is regarding the tire business: you gave us the contribution in terms of top-line growth from China. Could you give us also the contribution in terms of EBIT growth and some guidelines for the next years? And the second question is still regarding the tire segment: Mr. Gori said that he's not expecting any revenue growth in winter tires because of the weather conditions; does this mean that we are expecting a slight deterioration in the business mix for the tire segment? And the third and last question is regarding Olympia: Pirelli... does Pirelli... could begin to complete disposal of its stake in Olympia? Thank you.

I'm Francesco Gori. So, about China: in 2006 China was basically starting up, so it did not contribute to the... EBIT generation was slightly negative, but very marginally. In 2007, we expect China to start contributing, of course we had the beginning of a long history. In 2007 we are also realizing important investments in a new factory closed by the existing truck tire factory for the production of car and light truck tires; so, we'll have positive results on the truck tire business, while having some startup costs for the car tires' new factory. As far as winter business is concerned, I mentioned... and I gave a guideline about the market; I do not expect market demand to be growing in 2007, at least this is, if you want, a conservative forecast, but it's always better to be a bit conservative. As far as we are concerned, because also in the winter business, we focus on the higher products, on the value-added products, on the higher segments, which are growing, within the overall winter business, again, nicely; also in 2007 we target a growth in the top-line.

Okay.

So, now going to Olympia: the Board gave me a mandate to explore all the possible options, without excluding the sale of the holding, in order to bring out the best strategic value of the asset, that has been written in the... in our press release, that is in the interest of all shareholders. So, no decision has been taken. I will explore, and then, together with the Board members, we will take a decision.

Okay. Thank you.

Thank you.

4. Mr. **Luca Orsini** from **One Investment**:

Hallo. Good evening. Just going back to the... to what happened at the Telecom Italia strategy... and, well, essentially, you voted in a different way from Benetton, and then you're telling us that there's no disagreement between you and Benetton. And I... I mean... I just don't understand how you can vote differently from your partner in such an important thing such as, you know, the strategic plan? And then say that there is no divergence. This is the first question. The second question is related to the tire business: and, you mentioned this problem on the winter tires, because of the weather: have you seen that in the sense that the sell-in has exceeded the sell-out, and therefore there has been no reorders or there has been very weak reorders in 2007? Is that what makes you... Mr. Gori, not very optimistic for 07? And lastly, can you make some comment on raw materials? And whether you made some kind of hedging in... and even if that is... that is possible to an extent? And... that's it for the moment. Thanks very much.

First of all, I want to underline that we... so the Pirelli representatives, and one of the Board members, an independent one elected by minorities, voted... didn't vote against, they abstained. And

the others voted for, including Benetton. And many of them expressed the same opinion of the three that abstained. So, I don't think that that means that we have a different view from Benetton, and you can also ask Benetton. So, I can confirm this because I met him in the Board meeting of today, so we... we are absolutely...

On such an important...

...in line... and what you read in the... in our press release, is agreed with Benetton and the other Board members. It's approved that we are 100% in line.

Okay. But you are such an important shareholder. Why abstain? In such an important decision. It's a bit strange; you should agree on that, Mr. Tronchetti.

I think probably you read the analysts' comments the day after, so I think there was a good reason for some Board members to express their vote the way they did.

Okay, thanks very much.

Thank you.

Okay. Winter business again: 2006 sell-in was probably higher than sell-out. And we know that overall dealers, tire dealers, carry a slightly higher stock of winter tires than 2006, beginning of 2006. So, even though assuming that the demand will be slightly higher, the sales of tire manufactures will be probably on par with 2006. Nevertheless, as Pirelli plays in the 50% of the market that is, let me see, premium or high-performance also in the winter segment, we believe that we are not going to suffer from these higher stocks existing at the dealers' level, that are mainly on the commodity segments. Concerning raw materials: we expect raw materials to be in line with 2006 already high levels, and we are not covering as, because they are fluctuating, so there's no reason to do so. And it's not our policy to do such a thing. So, we are neutral with them.

Okay. Thank you.

5. Mr. Giuseppe Puglisi from Intermonte:

Good evening to everybody. Just one question on Olympia: you are saying that you are, for the first time taking into consideration the possibility to sell your entire participation in Olympia. My question is: do you have a time frame in order to take a decision? And, secondly, the price: in case of sale, can it be lower than the book value of TI in Pirelli? Thanks very much.

So, we didn't take any decision about time and price. As you... as you have seen in the press release, I have a mandate to explore; so, it's up to the others to show if there is an interest, and at which price there is an interest. And then, we will take into account if it's convenient for us or if it's more convenient to have another strategy. So...

Okay. But... but what is the rationale of taking into consideration the possibility to sell the entire stake in Olympia? Why? This... how are you taking into consideration this possibility?

Because... because we heard rumors about the will of buying, from many sides... and so the Board discussed it, and we have to create the best possible value, and so we have to take into account if there is the real will to buy and, as I mentioned before, if it's convenient for us to sell or to go ahead.

So, if I understand well, you are saying that there is the possibility that someone will buy your stake. And so... has the willingness to buy the entire stake in Telecom Italia.

I read on the newspaper that there are a number of possible buyers, and...

Yes, but you do not take such a decision only if you read something on the newspaper. I mean, there is a concrete possibility of the...

But... the newspapers they write because they talk with someone.

Okay. Okay. Thanks a lot.

No more questions.

Thank you very much to everybody.

Ladies and gentlemen, the conference call is over. Thank you very much for your attention.