

## Chairman's letter



To the Shareholders,

2007 was a positive year for Pirelli. From the standpoint of economic results, thanks to the performance of the tyre and real estate sectors, the company returned to a profit position and will distribute dividends after reporting a loss in 2006 as a result of the writedown of Olimpia. Consolidated revenues, net of the sale of DGAG's real estate assets in Germany, exceeded Euros 5 billion, while the operating profit including earnings from investments was slightly higher than the 2006 figure, net of nonrecurring items.

The disposal of the stake in Olimpia, which was completed during the year, generating proceeds of about Euros 3.3 billion, enabled the Group to achieve zero-debt, to implement a plan to distribute extraordinary dividends to the shareholders and to optimize its equity structure.

In 2007, Pirelli continued to pursue a path of growth and international expansion, especially in the two main areas of business. Pirelli Tyre opened a new car tyre production facility in China and expanded and consolidated its new industrial hub in Romania. In Italy, significant progress was made with a view to creating a new, competitive industrial and technological center in Settimo Torinese, in a project that confirms our propensity towards innovation and cooperation with local institutions and leading research institutes. Now, to develop the business further, we are approaching new markets, such as Russia and India.

Pirelli RE also continued to grow in Central and Eastern Europe, thanks to the acquisition of BauBeCon in Germany, after that of DGAG, and the launch of activities in Romania and Bulgaria. Foreign expansion and the search for new opportunities will also be the aim of activities associated with broadband Internet access and second-generation photonics, as well as Pirelli's business in the sphere of the environment.

The focus on the Group's core business areas, which was announced parallel to the Group divestiture of its investment in Telecom Italia, will be the cornerstone of Pirelli's development strategy in 2008 and in the years to come. With this in mind, at the beginning of the year, we made an important step forward, by re-acquiring the minority stake in Pirelli Tyre which had been sold to a group of banks in August 2006. As a result of this transaction, we have decided to invest in ourselves, to wager once again on our industrial expertise and our ideas for growth. We shall continue to strive to achieve results that will last, fully aware that our intuitions and the efforts we make today will build the Pirelli of tomorrow.

As a result, our Group is embarking on its 136th year with growing assets and a solid equity and financial structure. We are ready to take up new challenges, albeit in a macroeconomic and market context that is far from easy.

As always, our desire to create value will be accompanied by constant attention to sustainability and our relationship with all the stakeholders. From this point of view, too, as can be seen in Pirelli & C. S.p.A.'s third Sustainability Report, 2007 was an important year. I wish to cite as an example the consolidation of the Equal Opportunities project, begun in 2005 with the aim of exploiting the many different talents that co-exist in a multinational Group like Pirelli. The first results were comforting, for example the 8% increase in the number of women occupying staff positions compared to 2006. Our efforts are also aimed at the external community, as in the case of the projects now in progress at Slatina (in Romania) in collaboration with F.C. Internazionale Milano and the Niguarda Hospital, and the many other cultural initiatives in the Milan area and further afield.

Our company's leadership position in the world's most authoritative tables evaluating corporate social responsibility is a source of pride and, at the same time, an incentive to do better. The marriage of profitability and sustainability in business practices is now an integral part of our culture.

