

Consolidated
financial
statement

CONSOLIDATED BALANCE SHEET (in thousands of euros)

	12/31/2008		12/31/2007	
		of which related parties		of which related parties
8 Property, plant and equipment	1,598,046		1,650,485	
9 Intangible assets	1,046,108		672,540	
10 Investments in associates and joint ventures	515,300		534,194	
11 Other financial assets	505,899		958,272	
12 Deferred tax assets	72,426		58,524	
14 Other receivables	723,004	565,152	672,894	520,827
15 Tax receivables	10,264		12,278	
27 Derivative financial instruments	3,161		3,849	
Non-current assets	4,474,208		4,563,036	
16 Inventories	921,110		776,474	
13 Trade receivables	787,951	77,096	1,098,927	123,668
14 Other receivables	239,956	23,917	241,475	22,072
17 Securities held for trading	115,800		114,039	
18 Cash and cash equivalents	253,905		2,057,682	
15 Tax receivables	46,246		43,281	
27 Derivative financial instruments	94,042		58,326	
Current assets	2,459,010		4,390,204	
Total assets	6,933,218		8,953,240	
19.1 Attributable to the equity holders of the company:	2,171,804		2,980,231	
- Share capital	1,554,269		1,555,934	
- Reserves	965,037		1,259,746	
- Income (loss) for the year	(347,502)		164,551	
19.2 Attributable to the minority interest:	202,558		823,840	
- Reserves	267,582		664,799	
- Income (loss) for the year	(65,024)		159,041	
Total equity	2,374,362		3,804,071	
24 Borrowings from banks and other financial institutions	1,375,747		905,296	
26 Other payables	48,472		23,300	
22 Provisions for other liabilities and charges	141,191		146,331	
12 Deferred tax liabilities	38,372		44,625	
23 Employee benefit obligations	366,535		349,142	
21 Tax payables	9,706		11,211	
27 Derivative financial instruments	2,139		6,782	
Non-current liabilities	1,982,162		1,486,687	
24 Borrowings from banks and other financial institutions	695,561	5,209	754,661	2,869
25 Trade payables	1,108,573	23,843	1,323,588	29,148
26 Other payables	482,401	7,699	1,394,673	21,522
22 Provisions for other liabilities and charges	135,650		71,340	
21 Tax payables	44,036	1,051	45,707	
27 Derivative financial instruments	110,473		72,513	
Current liabilities	2,576,694		3,662,482	
Total equity and liabilities	6,933,218		8,953,240	

Related party transactions in respect of the individual line items in the financial statements are presented in Note 44.

CONSOLIDATED INCOME STATEMENT (in thousands of euros)

	2008		2007	
		of which related parties		of which related parties
29 Revenues from sales and services	4,660,175	138,093	6,075,597	195,930
30 Other income	175,928		274,939	72,720
- of which, nonrecurring events	17,000		2,818	
Change in inventories of work in process, semifinished and finished products	115,372		29,921	
Raw materials and consumables used (net of change in inventories)	(1,832,699)		(3,009,099)	
31 Personnel costs	(1,174,851)	(3,097)	(1,095,945)	(14,504)
- of which, nonrecurring events	(132,352)		5,186	
32 Amortization, depreciation and impairments	(218,555)		(213,546)	
- of which, nonrecurring events	(7,100)		-	
33 Other expenses	(1,687,569)	(42,862)	(1,703,857)	(88,931)
- of which, nonrecurring events	(4,764)		-	
Increase in property, plant and equipment from internal work	5,454		5,990	
Operating profit	43,255		364,000	
34 Financial income	577,337	34,064	295,289	31,203
- of which, nonrecurring events	48,691		11,234	
35 Financial expenses	(603,452)	(164)	(377,176)	(4,474)
36 Impairment losses on investments	(275,262)		(34,137)	
37 Dividends	31,268		34,459	6,600
38 Gains (losses) from changes in fair value of financial assets	(796)		(20,097)	
39 Share of earnings (losses) of associates and joint ventures	(175,677)	(175,677)	116,543	116,543
Income (loss) before income taxes	(403,327)		378,881	
40 Income taxes	(72,620)		(123,028)	
Income (loss) from continuing operations	(475,947)		255,853	
41 Income (loss) from discontinued operations	63,421	32,646	67,737	67,666
Income (loss) for the year	(412,526)		323,590	
Attributable to:				
Equity holders of the company	(347,502)		164,549	
Minority interest	(65,024)		159,041	
42 Earnings per share (Euros per thousand of shares)				
basic earnings per share				
- continuing operations	(70.65)		22.09	
- discontinued operations	5.74		8.60	
	(64.91)		30.69	

Related party transactions in respect of the individual line items in the financial statements are presented in Note 44.

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES (in thousands of euros)

	2008	2007
A Income (loss) for the year	(412,526)	323,590
Differences on translation transferred to the income statement, previously recognized in equity	-	(70,455) ^a
(Gains) losses on cash flow hedges transferred to the income statement, previously recognized in equity	1,848	(48,653) ^a
(Gains) losses transferred to the income statement on available-for-sale financial assets, previously recognized in equity	1,995	1,019
(Gains) losses transferred to the income statement, previously recognized in equity	3,843	(118,089)
Differences on translation of foreign currency financial statements	(136,630)	7,679
Changes in fair value on available-for-sale financial assets	(136,408)	(96,535)
Net actuarial gains (losses) on employee benefits	(85,058)	2,589
Changes in fair value on derivatives designated as cash flow hedges	(59,863)	(5,535)
Reversal of reserve for reclassification of investments from available-for-sale financial assets to associates	15,419	-
Tax effect	11,281	(2,856)
B Income (expenses) recognized directly in equity	(387,416)	(212,747)
A+B Total income (expenses) recognized in equity	(799,942)	110,843
Attributable to:		
- Equity holders of the company	(703,993)	(54,739)
- Minority interest	(95,949)	165,582

^a Referring to the sale of Olimpia S.p.A.

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of euros)

	2008		2007	
		of which related parties		of which related parties
Income (loss) from continuing operations before taxes	(403,327)		378,881	
Income (loss) from discontinued operations	63,421		67,737	
Amortization, depreciation / impairment (losses) reversals of intangible assets and property, plant and equipment	221,535		218,678	
Gain from discontinued operations	(72,543)		(41,417)	
Reversal financial income and expenses	30,170		41,618	
Reversal loss of value of participations	275,262		34,137	
Reversal dividends	(31,268)		(34,459)	
Reversal Gains (losses) from changes in fair value of financial assets	679		20,179	
Share of earnings (losses) of associates and joint ventures (net of dividends received)	204,745		45,845	
Income taxes	(72,620)		(123,028)	
Change in inventories	(144,636)		25,302	
Change in trade receivables/payables	95,961		(85,366)	
Change in other receivables/payables	(79,065)		105,217	
Change in employee benefit obligations and other provisions	(28,650)		(108,987)	
Other changes	16,016		10,045	
A Net cash flows provided by (used for) operating activities	75,680		554,382	
Investments in property, plant and equipment	(310,724)		(286,709)	
Disposals of property, plant and equipment	33,800		14,911	
Investments in intangible assets	(25,783)		(17,037)	
Disposals of intangible assets	94,533		4,764	
Acquisitions of investments in associates and joint ventures	(171,220)		(262,727)	
Disposals of investments in associates and joint ventures	30,841		3,354,789	
Acquisition of Speed S.p.A.	(434,361)		-	
Net cash flow from discontinued operations	69,600		38,075	
Acquisitions of other financial assets	(96,052)		(155,906)	
Disposal of other financial assets	32,285		16,849	
Dividends received	31,268		34,459	
Net investment in business combinations	(1,338)		(385,933)	
B Net cash flows provided by (used for) investing activities	(747,151)		2,355,535	
Change in share capital and share premium reserve	13,400		7,499	
Other changes in equity	-		(54,289)	
Change in financial payables	(408,747)	(218,922)	(1,287,705)	
Change in financial receivables	(65,625)		(51,509)	
Change in financial payables/receivables for acquisitions	(401,100)		395,302	
Financial income/expenses (net of gains on avail.-for-sale fin. assets)	(53,606)		(96,911)	
Dividends paid	(167,889)	(22,746)	(74,400)	
C Net cash flows provided by (used for) financing activities	(1,083,567)		(1,162,013)	
D Total cash flows provided by (used for) during the year (A+B+C)	(1,755,038)		1,747,904	
E Cash and cash equivalents, at beginning of the year	2,010,475		259,389	
F Exchange differences on translation of cash and cash equivalents	(28,360)		3,182	
G Cash and cash equivalents, at end of the year (D+E+F)	227,077		2,010,475	
(^o) Of which:				
- cash	253,205		2,057,682	
- bank overdrafts	(26,828)		(47,207)	

The consolidated statement of cash flows shows transactions with related parties only in the event they cannot be directly inferred from the other statements. Related party transactions in respect of the individual line items in the financial statements are presented in Note 44

Notes to the consolidated financial statements

1. General information

Pirelli & C. S.p.A. is a corporation organized under the laws of the Republic of Italy.

Founded in 1872 and listed on the Milan Stock Exchange, Pirelli & C. S.p.A. is a holding company which manages, coordinates and finances the operations of its subsidiaries.

At the balance sheet date, the Group's operations are principally represented by investments in:

- Pirelli Tyre S.p.A. – a company operating in the tyre sector – 100 percent stake in share capital.
- Pirelli & C. Eco Technology S.p.A. – a company active in the field of technologies for reducing emissions – 51 percent stake in share capital.
- Pirelli & C. Real Estate S.p.A. – a listed company operating in the real estate sector – 56.45 percent stake in share capital.
- Pirelli Broadband Solutions S.p.A. – a company operating in the field of telecommunications components, equipment and systems – 100 percent stake in share capital.
- Pirelli & C. Ambiente S.p.A. – a company operating in the field of renewable sources of energy – 51 percent stake in share capital.

The head office of the company is located in Milan, Italy.

The consolidated financial statements are audited by Reconta Ernst & Young S.p.A., pursuant to art. 159 of Legislative Decree 58 dated February 24, 1998 and taking into account the Consob recommendation dated February 20, 1997, in execution of the resolution passed by the shareholders on April 29, 2008 which engaged the audit firm for the period 2008-2016.

The consolidated financial statements were approved by the board of directors held on March 10, 2009.

2. Basis of presentation

Although the challenging economic and financial picture has triggered a slowdown of the world economy that has had a particularly sharp impact on the automotive and real estate sectors and, consequently, has negatively affected the consolidated results for the year 2008, there are no significant doubts about the continuity of the company as a going concern.

Disclosure as to major uncertainties is summarized in the report on operations.

The market scenario facing the Group has nevertheless driven it to review its strategies and devise a decisive action plan aimed at ensuring maximum efficiency and competitiveness. The main strategic courses of action, the measures adopted and the correlated sources of available financial resources for their implementation were announced when the 2009-2011 Industrial Plan was presented to the financial community.

Accordingly, the consolidated financial statements have been prepared using accounting principles on a going concern basis.

ACCOUNTING STANDARDS ADOPTED

In accordance with Regulation 1606 issued by the European Parliament and by the Council of the European Union in July 2002, the consolidated financial statements of the Pirelli & C. Group have been prepared in accordance with International Financial Reporting Standards (IFRS) in force issued by the International Accounting Standards Board (IASB) and endorsed by the European Union as at December 31, 2008, as well as the measures emanated for the implementation of art. 9 of Legislative Decree 38/2005. The designation IFRS also includes all effective revised International Accounting Standards (IAS) and all Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly named the Standing Interpretations Committee (SIC).

The consolidated financial statements have been prepared under the historical cost convention except for investment property (held by companies in the Real Estate sector, accounted for by the equity method), derivative financial instruments, financial assets designated at fair value and available-for-sale financial assets, which are measured at fair value.

ACCOUNTING STANDARDS AND INTERPRETATIONS ENDORSED AND IN FORCE AS FROM JANUARY 1, 2008

Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”: reclassification of financial assets

The purpose of these amendments is to allow – in certain rare circumstances – some financial instruments to be reclassified outside the category “at fair value through profit or loss” to another category, depending on the type of financial asset, that is:

- financial assets held to maturity, measured at amortized cost;
- loans and receivables, measured at amortized cost;
- available-for-sale financial assets, measured at fair value with fair value changes recognized in equity and not through profit or loss.

Reclassification is not permitted for:

- derivatives of any kind;
- financial assets measured at fair value through profit or loss designated at initial recognition.

Such amendments were endorsed by the European Union in October 2008 (EC Regulation 1004/2008). The next document issued by the IASB in November 2008 (“Reclassification of Financial Assets – Effective Date and Transition”) clarifies that the effects of the reclassifications made from July 1, 2008 to October 31, 2008 are applicable beginning from July 1, 2008, whereas the effects of the reclassifications made from November 1, 2008 and thereafter are applicable starting from the date of the reclassification.

The application of these amendments did not have any impact on the consolidated financial statements.

ACCOUNTING STANDARDS AND/OR INTERPRETATIONS ISSUED BUT NOT YET IN FORCE AND/OR NOT ENDORSED

As required by IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, new Standards or Interpretations issued but not yet in force or not yet endorsed by the European Union and therefore not applicable are summarized and briefly described below. The Group did not elect the early adoption of any of these Standards or Interpretations.

IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions

This interpretation, endorsed by the European Union in June 2007 (EC Regulation 611/2007), provides guidance on the application of IFRS 2 “Share-based Payment” to certain types of plans that involve different units of the Group. IFRIC 11 is applicable from January 1, 2009. The application of this interpretation is not expected to have a material impact on the consolidated financial statements.

IFRIC 12 – Service Concession Arrangements

IFRIC 12 addresses private sector operators contracted for the supply of typical public sector services (e.g. roads, airports and energy and water distribution under concession arrangements). Under these arrangements, the assets are not necessarily controlled by the private operators which, however, are responsible for constructing, operating or maintaining the public sector infrastructure. Assets under these arrangements could possibly not be recorded as property, plant and equipment in the financial statements of the private operators but rather as financial assets and/or intangible assets depending on the type of service concession arrangement. IFRIC 12, not yet endorsed by the European Union, is applicable to the Group but is not expected to have a material impact on the consolidated financial statements.

IFRIC 13 – Customer Loyalty Programmes

IFRIC 13 addresses the accounting treatment that must be adopted by entities that grant loyalty award credits to customers who buy goods or services. It establishes that the fair value of the obligations connected with the loyalty awards must be separated from sales revenues and deferred until the entity has fulfilled its obligation to the customers. IFRIC 13 was endorsed by the European Union in December 2008 (EC Regulation 1262/2008). The Group decided to apply this interpretation beginning January 1, 2009 but it is not expected to have a material impact on the consolidated financial statements.

IFRIC 14 – IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IAS 19 “Employee Benefits” establishes a limit on the assets of a defined benefit plan which can be recognized in the balance sheet. This interpretation provides guidance on how to assess this limit and clarifies the impact on the assets and liabilities relating to a defined benefit plan when minimum contractual or statutory funding requirements exist.

IFRIC 14 was endorsed by the European Union in December 2008 (EC Regulation 1263/2008). The Group decided to apply this interpretation beginning January 1, 2009 but it is not expected to have a material impact on the consolidated financial statements.

IFRIC 15 - Agreements for the Construction of Real Estate

This interpretation provides guidelines on determining whether an agreement for the construction of real estate units is within the scope of IAS 11 “Construction Contracts” or IAS 18 “Revenue”, defining the point in time in which revenues should be recognized.

In light of this interpretation, residential development activity falls under the scope of IAS 18 “Revenue”, requiring recognition of revenues when the deed of sale is drawn up; commercial development activity, if conducted on the basis of the technical specifications of the buyer, falls under the scope of IAS 11 “Construction Contracts”.

IFRIC 15 is not yet endorsed by the European Union. The future application of this interpretation is not expected to have a material impact on the financial statements since the Group’s accounting treatment is already in line with the above changes.

IFRIC 16 - Hedges of a Net Investment in a Foreign Operation

This interpretation clarifies certain issues relating to the accounting treatment, in consolidated financial statements, of hedges of net investments in foreign operations, explaining which types of risks have the requisites for the application of hedge accounting. IFRIC 16 specifically establishes that hedge accounting is only applicable to exchange rate differences arising between the functional currency of the foreign operation and the functional currency of the parent, and not between the functional currency of the foreign operation and the presentation currency of the consolidated financial statements.

IFRIC 16 is not yet endorsed by the European Union. The application of this interpretation is not expected to have an impact on the financial statements.

IFRIC 17 – Distribution of Non-cash Assets to Owners

This interpretation clarifies that:

- dividends payable should be recognized when the dividends are appropriately authorized and are no longer at the discretion of the entity;
- dividends payable should be measured at the fair value of the net assets to be distributed;
- the difference between dividends paid and the carrying amount of the net assets distributed should be recognized in profit or loss.

This interpretation is not yet endorsed by the European Union. The future application of this interpretation is not expected to have a material impact on the consolidated financial statements.

IFRIC 18 – Transfers of Assets from Customers

This interpretation, issued in January 2009, particularly applies to companies operating in the utilities sector. It clarifies the requirements which should be followed for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, water or gas).

This interpretation is not yet endorsed by the European Union. The future application of this interpretation is not expected to have an impact on the consolidated financial statements.

IFRS 8 – Operating Segments

This standard, endorsed by the European Union in November 2007 (EC Regulation 1358/2007), supersedes IAS 14 (Segment Reporting) and aligns segment disclosure with the requisites of US GAAP (SFAS 131 Disclosures about Segments of an Enterprise and Related Information), introducing the approach whereby the segments are identified in the same way they are identified in internal reports for management.

IFRS 8 is applicable from January 1, 2009. The application of this standard is not expected to have a material impact on the Group's disclosures in the financial statements.

Amendments to IAS 23 “Borrowing Costs”

These amendments, which are part of the project for convergence with US GAAP (SFAS 34 Capitalization of Interest Cost), remove the option of immediately expensing borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Therefore, borrowing costs are required to be capitalized as part of the cost of that asset.

These amendments, endorsed by the European Union in December 2008 (EC Regulation 1260/2008), are applicable from January 1, 2009. The application of these amendments is not expected to have an impact on the consolidated financial statements since the Group does not avail itself of the option that was eliminated.

Revision to IAS 1 “Presentation of Financial Statements”

IAS 1 has undergone a revision which is not one of substance but requires a change in the name of some of the statements forming the full set of financial statements and the introduction of a new statement (“statement of changes in equity”). The information in this statement had previously been disclosed in the notes. The amendments of the new IAS 1 also apply to comparative figures presented together with the period financial statements.

These amendments, endorsed by the European Union in December 2008 (EC Regulation 1274/2008), are applicable from January 1, 2009. The application of these amendments is not expected to have a material impact on the consolidated financial statements.

Amendments to IFRS 2 “Share-based Payment: vesting conditions and cancellations”

The amendments to IFRS 2 aim to clarify the following aspects that are not explicitly dealt with in the current standard:

- vesting conditions: vesting conditions refer only to service conditions (whereby a party should complete a specific period of service) and performance conditions (whereby it is necessary to reach specific targets). Other conditions, on which the current standard makes no explicit statements, should not be considered vesting conditions;
- cancellations: all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The current IFRS 2 describes the accounting treatment in the

case of cancellation by the entity but does not provide any indication in the case of cancellation by parties other than the entity.

These amendments, endorsed by the European Union in December 2008 (EC Regulation 1261/2008), are applicable from January 1, 2009. The application of the amendments is not expected to have a material impact on the consolidated financial statements.

Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements”: puttable instruments and obligations arising on liquidation.

These amendments refer to the accounting treatment of certain particular types of financial instruments which have characteristics similar to ordinary shares, but are currently classified as financial liabilities, since they give the holder of the instrument the right to request redemption by the issuer.

In accordance with these amendments, the following types of financial instruments must be classified as equity instruments on condition that they have particular characteristics and satisfy specific conditions:

- puttable financial instruments (financial instruments redeemable upon the request of the holder), for example certain types of shares issued by cooperative companies;
- instruments which give rise to an obligation for the entity to deliver to another party a pro-rata share of the net assets of the entity only on liquidation – for example certain partnerships and certain types of shares issued by limited duration companies.

These amendments, endorsed by the European Union in January 2009 (EC Regulation 53/2009), are applicable from January 1, 2009. The application of these amendments is not expected to have an impact on the financial statements.

Revision of IFRS 3 “Business Combinations”

This revision is also part of the project for convergence with US GAAP and has the purpose of aligning the accounting treatment of business combinations. The main changes over the previous version refer to:

- recognition in the income statement – when incurred – of the expenses relating to business combination transactions (legal, advisory, valuation and audit fees and professional fees in general);
- the option of recognizing minority interests at fair value (full goodwill); this option can be elected for each single business combination transaction;
- specific rules for the recognition of step acquisitions: in the case of the acquisition of control of a company in which a minority interest is already held, the previously held investment must be measured at fair value, recognizing the effects of this adjustment in the income statement;
- contingent consideration, that is, the obligations of the acquirer to transfer additional assets or shares to the seller in the case certain future events or specific conditions arise, must be recognized and measured at fair value at the date of acquisition. Subsequent changes in the fair value of such agreements are normally recognized in the income statement.

These revisions are not yet endorsed by the European Union. The impact on the financial statements in the year of first-time application of the new standard cannot be determined at this time.

Amendments to IAS 27 “Consolidated and Separate Financial Statements”

The revision of IFRS 3 “Business Combinations” also required amendments to IAS 27 “Consolidated and Separate Financial Statements”, which can be summarized as follows:

- changes in the equity interests of a subsidiary, which do not entail the loss of control, qualify as equity transactions. In other words, the difference between the price paid/received and the share of net assets acquired/sold must be recognized in equity;
- in the event of the loss of control, but where an interest is retained, such interest must be measured at fair value at the date in which the loss of control is established.

These amendments are not yet endorsed by the European Union. The impacts on the financial statements in the year of first-time application of the new standard cannot be determined at this time.

“Improvements” to IFRS

Under the project begun in 2007, the IASB has issued a series of amendments to IFRS in force. The amendments bring about accounting changes for presentation, recognition and measurement and also terminology changes. Such amendments are not yet endorsed by the European Union. The future application of these amendments is not expected to have a material impact on the financial statements.

Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” and IAS 27 “Consolidated and Separate Financial Statements” – Cost of an investment in a subsidiary, jointly controlled entity or associate

The amendments establish that at the date of the first-time adoption of IFRS in its separate financial statements, an entity may choose to use a deemed cost option to account for the cost of an investment in a subsidiary, jointly controlled entity or associate.

At the date of transition to IFRS, the deemed cost can be the fair value – measured in accordance with IAS 39 – or the previous GAAP carrying amount.

Moreover, any distribution by the subsidiary, associate or joint venture is allowed to be recognized as income in the separate financial statements whether the distribution is from pre-acquisition or post-acquisition reserves.

These amendments, endorsed by the European Union in January 2009 (EC Regulation 69/2009), are applicable from January 1, 2009. The application of these amendments is not expected to have a material impact on the financial statements.

Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” – eligible hedged items

This amendment provides clarification on what can be designated as a hedged item in certain particular situations:

- designation of a one-sided risk item as a hedged item, that is, when only the changes in the cash flows or fair value of a hedged item above or below a specified value, instead of the total change, are designated as a hedged item;
- designation of inflation as a hedged item.

These amendments are not yet endorsed by the European Union. The future application of these amendments is not expected to have a material impact on the financial statements.

In conformity with the provisions of art. 5, paragraph 2, of Legislative Decree 38 dated February 28, 2005, these consolidated financial statements have been prepared in euros, the presentation currency.

FINANCIAL STATEMENT FORMATS

The company has applied the provisions of Consob Resolution 15519 dated July 27, 2006 with regard to the formats of the financial statements and Consob Communication 6064293 of July 28, 2006 in respect of corporate disclosure.

The consolidated financial statements consist of the balance sheet, the income statement, the statement of recognized income and expense, the statement of cash flows and the notes, together with the report on operations by the directors on the operating performance.

The format adopted for the balance sheet classifies assets and liabilities between current and non-current.

The income statement applies the classification of costs by nature.

The format for the changes in equity is entitled “Statement of recognized income and expense” and includes the result for the year and, by homogeneous categories, the income and expenses which, under IFRS, are recognized directly in equity. The amounts of transactions with equity holders and movements during the year in the earnings reserves are presented in the notes.

In the statement of cash flows, cash flows from operating activities are presented using the indirect method where the income or loss for the year is adjusted by the effect of non-monetary transactions, by any deferral or accrual of previous or future operating collections or payments and by revenues or costs connected with cash flows from investing or financing activities.

Compared to the published consolidated financial statements at December 31, 2007, the caption of the line item in the income statement “Raw materials and consumables used” has been changed to “Raw materials and consumables used (net of change in inventories)” and the caption of the line item “Financial instruments” has been changed to “Derivative financial instruments”.

The consolidated financial statements show the comparative figures of the previous year. Compared to the published balance sheet at December 31, 2007, the amount of Euros 117,098 thousand has been reclassified from “Current borrowings from banks and other financial institutions” to “Non current borrowings from banks and other financial institutions”. This reclassification has no effect on the result for the year or equity.

In the income statement for the year ended December 31, 2008 and in the comparative figures for the year ended December 31, 2007, the income or loss from discontinued operations, in reference to the sale of the INTEGRA FM B.V. Group (formerly Pirelli RE Integrated Facility Management B.V.) and PGT Photonics S.p.A., is shown separately from the results from continuing operations. Accordingly, the income statement data presented in the consolidated financial statements for the year ended December 31, 2007 have been reclassified.

Lastly, the cash flows from discontinued operations (and the corresponding amounts for the prior year) are disclosed in the notes, whereas in the consolidated financial statements at December 31, 2007, such cash flows were reported in the statement of cash flows.

SCOPE OF CONSOLIDATION

The scope of consolidation includes the subsidiaries, the associates and the investments in joint ventures.

Subsidiaries are considered all the companies and entities in which the Group has the power to determine the financial and operating policies; this circumstance is generally considered to occur when more than half of the voting rights is held. The financial statements of subsidiaries are included in the consolidated financial statements from when control over such subsidiaries commences until the date that control ceases. The equity and income (loss) attributable to the

minority interests are shown separately, respectively, in the consolidated balance sheet and consolidated income statement.

Associates are considered all the companies in which the Group exercises a significant influence as defined by IAS 28 – Investments in associates. Such influence is presumed to exist when the Group holds a percentage of voting rights between 20 and 50 percent, or when – even with a lower percentage of voting rights – it has the power to participate to the determination of the financial and operating policies by virtue of specific legal relationships for example, participation in shareholders' agreements combined with other forms of exercising a significant influence over governance rights. Joint ventures are considered those companies in which, under a contractual agreement or in accordance with the bylaws, two or more parties undertake an economic activity subject to joint control.

The main changes in the scope of consolidation during 2008 refer to the sale of INTEGRA FM B.V. group (formerly Pirelli Real Estate Integrated Facility Management B.V.) and PGT Photonics S.p.A. to the United States registered company CyOptics, an associated company of the Group.

Consolidation

For consolidation purposes, the financial statements used are those of the companies included in the scope of consolidation, prepared at the reporting date and adjusted, where necessary, to conform to IAS/IFRS as applied by the Group.

The financial statements expressed in foreign currencies have been translated into euros at rates prevailing at the year-end for the balance sheet and at the average exchange rates for the income statement.

The differences arising from the translation of opening equity at year-end exchange rates have been recorded in the reserve for translation differences, together with the difference between the result for the year translated at the year-end rate compared to the average rate. The reserve for translation differences is recognized in the income statement upon the disposal of the company that generated the reserve.

The consolidation principles can be summarized as follows:

- Subsidiaries are consolidated on a line-by-line basis according to which:
 - the assets and liabilities and revenues and costs of the financial statements of the subsidiaries are assumed in full, regardless of the percentage of ownership;
 - the carrying amount of the investments is eliminated against the underlying share of equity;
 - the balance sheet and income statement transactions between companies consolidated line-by-line, including dividends distributed within the Group, are eliminated;
 - the equity or income (loss) attributable to the minority interest is presented separately in equity and in the income statement;
- investments in associates and joint ventures are accounted for by the equity method on the basis of which the carrying amount of the investments is adjusted by:
 - the share of the post-acquisition results of the associate or joint venture;
 - the adjustments from movements in equity that were not recognized in the income statement, in accordance with benchmark principles;
 - dividends paid by the associate or joint venture;
 - when the group's share, if any, of the losses of the associate exceeds the carrying amount of the investment in the financial statements, the carrying amount of the investment is reduced to nil and the share of any further losses is recognized in the "Provisions for other risks and charges" to the extent that the Group has a binding obligation to cover the losses;
- unrealized gains on sales transactions made by subsidiaries to joint ventures or associates are eliminated to the extent of the Group's interest in the joint ventures and associates;

- gains arising on sale transactions of properties made by one joint venture to other joint ventures or associates are recognized to the extent of the lower of the Group’s interest in the buyer company compared to that of the seller company, that is, only to the extent of the gain realized with third parties;
- gains arising on sales transactions of properties from associates to other associates are recognized to the extent of the gain realized with third parties;
- at the time of acquisition of subsidiaries, associates or joint ventures, the price paid is allocated according to the purchase method in the manner described below:
 - determining the cost of acquisition in accordance with IFRS 3;
 - determining the fair value of the assets and liabilities acquired (both actual and contingent);
 - allocating the price paid to the fair value of the assets acquired and liabilities assumed;
 - recognizing any residual amount in goodwill, consisting of the excess of the cost of acquisition over the net fair value of the Group’s share of the identifiable/assumed net assets and liabilities;
 - immediately recognizing the negative goodwill, if any, directly in the income statement if the fair value of the net assets acquired exceeds the cost of acquisition.

3. Accounting policies

INTANGIBLE ASSETS

Intangible assets with a finite useful life are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization starts when the asset is available for use or is able to function as management intends, and ceases on the date on which the asset is classified as held for sale or is derecognized. The gains or losses from the sale or disposal of an intangible asset are determined as the difference between the net proceeds from the sale and the carrying amount of the asset.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group’s interest in the identifiable assets and liabilities acquired as of the date of acquisition.

Any negative difference (negative goodwill) is recognized in the income statement at the date of acquisition. In the absence of a standard or a specific interpretation on the subject, in the event of the acquisition of minority interests in companies already controlled, the difference between the acquisition cost and the carrying amount of assets and liabilities acquired is recognized as goodwill, according to the “Parent entity extension method”. Any negative difference is recognized in the income statement.

Goodwill is tested for impairment in order to identify any impairment losses at least annually or whenever there are indications of an impairment loss, and is allocated to cash-generating units for this purpose.

Upon the disposal of a part or the whole of a previously acquired company to which goodwill has been allocated, the corresponding residual amount of goodwill is taken into account in the determination of the gain or loss on sale.

Trademarks and licenses

Trademarks and licenses are stated at cost less accumulated amortization and accumulated impairment losses. Cost is amortized over the contract period or the useful lives of the assets, whichever is sooner.

Software

Software license costs, including direct incidental costs, are capitalized and recorded in the balance sheet less accumulated amortization and accumulated impairment losses. Software is amortized over its useful life on a straight-line basis.

Research and development

Research expenditures for new products and/or processes are expensed when incurred. There are no developments costs which meet the conditions for capitalization under IAS 38.

The useful lives of intangible assets are the following:

Trademarks and licenses	5 years
Software	from 1 to 3 years

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at the cost of acquisition or production, including directly attributable incidental expenses.

Subsequent expenditures and the cost of replacing some parts of property, plant and equipment are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures are expensed as incurred. When the cost of replacing some parts is capitalized, the carrying amount of the part replaced is recognized in the income statement.

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, except for land, which is not depreciated and is stated at cost less accumulated impairment losses.

Depreciation is accounted for starting from the month in which the asset is available for use, or is potentially able to provide the economic benefits associated with it.

Depreciation is charged monthly using the straight-line method at rates designed to write-off the assets to the end of their residual useful lives or, for disposals, until the last month of use. Depreciation rates are as follows:

Buildings	3% - 10%
Plant	7% - 20%
Machinery	5% - 20%
Equipment	10% - 33%
Furniture	10% - 33%
Motor vehicles	10% - 25%

Government investment grants relating to property, plant and equipment are recorded as deferred income and credited to the income statement over the period of depreciation of the relative assets.

Borrowing costs incurred for the purchase of an asset are expensed unless they are directly attributable to the purchase, construction or production of a qualifying asset, in which case they are capitalized. A qualifying asset is one that takes a substantial period of time to get ready for

use. The capitalization of borrowing costs ceases when substantially all the work necessary to render the qualifying asset available for use has been completed.

Leasehold improvements are classified as property, plant and equipment, consistently with the nature of the cost incurred. The depreciation period corresponds to the remaining useful life of the asset or the residual period of the lease contract, whichever is sooner.

Spare parts of a significant amount are capitalized and depreciated over the estimated useful life of the assets to which they refer.

Dismantling costs, if any, are estimated and added to the cost of property, plant and equipment with a corresponding entry to a provision account for other liabilities and charges. They are then depreciated over the remaining useful life of the assets to which they refer.

Assets acquired under finance lease contracts, in which substantially all the risks and rewards of ownership are transferred to the Group, are recorded in property, plant and equipment at their fair value or, if lower, at the present value of the minimum lease payments, with a corresponding entry to the relative financial payable. The lease payment is allocated between interest expense, recorded in the income statement, and the principal repayment, recorded as a reduction of the financial payable.

Leases in which the lessor maintains substantially all the risks and rewards of ownership are classified as operating leases. The costs referring to an operating lease are recognized as an expense in the income statement over the lease term on a straight-line basis.

Property, plant and equipment are eliminated from the balance sheet at the time of disposal or upon retirement of the asset from use and, consequently, future benefits are not expected from their sale or use.

Gains or losses from the sale or disposal of property, plant and equipment are determined as the difference between the recoverable amount and the carrying amount of the asset.

INVESTMENT PROPERTY (HELD BY COMPANIES IN THE REAL ESTATE SECTOR ACCOUNTED FOR BY THE EQUITY METHOD)

Investment property is defined as property held to earn rent or for capital appreciation or both.

Investment property is initially recognized at cost, including transaction costs, and subsequently re-measured at fair value. The changes in the fair value of investment property are recorded in the income statement.

The fair value of an investment property reflects the market value at the balance sheet date and represents the amount at which the investment property could be exchanged between knowledgeable and willing parties in an arm's length transaction and after the outcome of adequate sales negotiations based on the principle of reciprocal independence.

Each single property is measured and takes into consideration the future rental income and, where significant, the relative costs, discounted by applying a discount rate that reflects the risks specific to the cash flows generated by the asset.

The income or expense representing changes in the fair value of the investment property is recorded in the income statement in the year in which the change occurs.

The gain or loss on the disposal of investment property is calculated as the difference between the net proceeds from disposal and the carrying amount of the asset, and is recorded in the income statement in the year of sale.

When there is a change in use of an investment property from inventories to investment property, the difference between the fair value at the balance sheet date and the previous carrying amount is recorded in the income statement.

When there is a change in use from investment property to owner-occupied property, the fair value at the date of the change in use is considered the cost of the property under its new classification.

IMPAIRMENT OF ASSETS

Property, plant and equipment and intangible assets

Whenever there are specific indicators of an impairment, and at least annually for intangible assets with an indefinite life, including goodwill, the property, plant and equipment and intangible assets should be tested for impairment.

The test consists of an estimate of the recoverable amount of the asset and a comparison with its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, where value in use is the present value of expected future cash flows originating from the use of the asset and those deriving from its disposal at the end of its useful life excluding income taxes, and applying a discount rate which should be the pre-tax rate which reflects the current market assessment of the time value of money and the risks specific to the asset.

If the recoverable amount is lower than the asset's carrying amount, the carrying amount is reduced to the recoverable amount. This reduction constitutes an impairment loss which is recognized in the income statement.

To test for impairment, assets are allocated to the lowest level at which independent cash flows are separately identifiable (cash-generating unit). Specifically, goodwill must be allocated to the cash-generating unit or group of cash-generating units which must never be at a higher level than the business segment.

When there are indications that an impairment loss recognized in prior years and relating to property, plant and equipment or intangible assets, other than goodwill, may no longer exist or can be reduced, the recoverable amount is estimated again and if it is higher than the net carrying amount, then the net carrying amount should be increased to the revised estimate of its recoverable amount. The reversal of an impairment loss may not exceed the carrying amount that would have been recorded (net of writedowns and depreciation and amortization) had no impairment loss been recognized in prior years.

The reversal of an impairment loss, other than on goodwill, is recognized in the income statement.

An impairment loss recognized on goodwill cannot be reversed in subsequent years.

An impairment loss recognized in the half-year financial statements on goodwill cannot be reversed in the following annual period.

Investments in associates and joint ventures

In order to test for impairment, the value of investments in associates and joint ventures accounted for by the equity method must be compared with the recoverable amount. The recoverable amount corresponds to the higher of the fair value, less costs to sell, and the value in use. It is not necessary to estimate both amounts since it is sufficient to verify that one of the two amounts is higher than the carrying amount in order to establish the absence of an impairment.

In keeping with recent interpretations, for purposes of impairment testing, the fair value of an investment in an associate or joint venture with shares listed on an active market is always equal to its market value, irrespective of the percentage of ownership.

In order to determine the value in use of an associate or joint venture accounted for by the equity method, the following estimates should be made alternatively:

- a) the share of the present value of estimated future cash flows that will be generated by the associate or joint venture, including cash flows generated by the operating activities of the associate or joint venture and the consideration that will be received on the final disposal of the investment, taking into account also the higher implicit values relating to the real estate portfolios held (known as the Discounted Cash Flow – asset side criterion);
- b) the present value of estimated future cash flows that will be generated by dividends to be received and the final disposal of the investment (known as the Dividend Discount model – equity side criterion).

When there are indications that an impairment loss recognized in prior years and relating to investments in associates and joint ventures no longer exists or can be reduced, the recoverable amount of the investment is estimated again and if it is higher than the amount of the investment, then the latter amount should be increased to the revised estimate of the recoverable amount. The reversal of an impairment loss may not exceed the amount of the investment that would have been recorded (net of writedowns) had no impairment loss been recognized in prior years. The reversal of an impairment loss on investments in associates and joint ventures is recognized in the income statement.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets include investments in other companies and other securities not held for trading. They are included in “Other financial assets”.

They are measured at fair value. The gains and losses from changes in fair value are recognized in a specific equity reserve.

In case of impairment, the losses recognized up to that time in equity are reversed to the income statement. A prolonged (more than 12 months) or significant (more than one-third) reduction in the fair value of equity securities compared to cost is considered as an indicator that the securities are impaired. In any case, before recognizing an impairment loss in the income statement, the investment should be measured specifically.

In the event of disposal, the gains and losses recognized up to that time in equity are reversed to the income statement.

Any impairment losses recognized on available-for-sale financial assets in the income statement cannot be reversed through the income statement.

Impairment losses recognized in the half-year financial statements on equity securities classified as available-for-sale cannot be reversed to the income statement in the following annual period.

Purchases and sales of available-for sale financial assets are recognized on settlement date.

Other financial assets, whether debt or equity securities, for which fair value is not available, are accounted for at cost, reduced by any impairment losses based on the best market information available at the balance sheet date.

INVENTORIES

Tyre Sector

Inventories are stated at the lower of cost, using the FIFO method, and estimated realizable value.

Inventories include direct costs of materials and labor and indirect overheads. Provisions are calculated for obsolete and slow moving inventories and take into account their expected future use and estimated realizable value. Net realizable value is the estimated selling price, net of all costs estimated to complete the asset and selling and distribution costs that will be incurred.

Cost includes incremental expenses and borrowing costs qualifying for capitalization, similarly to what is described for property, plant and equipment.

Real Estate Sector

Inventories consist of land to be developed, properties for renovation, properties under construction/renovation, completed properties for sale, trading properties and consumables.

Land to be developed is recognized at the lower of cost and estimated realizable value, net of direct selling costs. Cost includes incremental expenses and borrowing costs qualifying for capitalization, similarly to what is described for property, plant and equipment.

Properties under construction and/or renovation are valued at the lower of cost, including incremental expenses and borrowing costs qualifying for capitalization, and estimated realizable value, net of direct selling costs.

Trading properties are recognized at the lower of cost and estimated realizable value, which is normally taken as market value, inferred from sales of comparable properties in terms of location and type.

Cost is increased by any incremental expenses incurred up to the time of sale.

Classification of real estate portfolio: Inventories (IAS 2) – Investment Property (IAS 40)

In accordance with the business model prevalent within the Real Estate sector, the majority of property assets are classified in inventories insofar as they are held for the purpose of trading and are in any case intended for sale during the course of the normal operating cycle of the companies included in the scope of consolidation.

CONSTRUCTION CONTRACTS

A construction contract is a contract specifically negotiated for the construction of an asset, based on the instructions of a principal who, as a preliminary step, designs the plans and the technical characteristics.

Contract revenues include the consideration initially agreed with the customer, in addition to changes in the construction work and price variations envisaged by the contract that can be determined reliably.

When the outcome of a contract can be estimated reliably, the contract is measured using the percentage of completion method. The stage of completion is measured by reference to the costs incurred up to the balance sheet date as a percentage of the total estimated costs for each contract.

Costs incurred during the year in connection with future activities on a contract are excluded from contract costs when determining the stage of completion, and are recognized as inventories.

When it is probable that total contract costs will exceed total contract revenues, the expected loss is immediately recognized as an expense.

The gross amount due from customers for contract work for all the contracts in progress and for which the costs incurred plus recognized profit (or less recognized loss) exceed progress billings is recognized as a receivable in the line item “trade receivables”.

The gross amount due to customers for contract work for all the contracts in progress for which the progress billings exceed the costs incurred plus recognized profit (or less recognized loss) is recognized as a payable in the line item “trade payables”.

RECEIVABLES

Receivables are initially recorded at their fair value, generally represented by the agreed consideration or the present value of the amount that will be collected.

They are subsequently measured at amortized cost, less provision for impairment.

Amortized cost is calculated using the effective interest rate method, which is equivalent to the discount rate which, applied to future cash flows, renders the present value of such flows equal to the initial fair value.

In the event of an impairment loss, the carrying amount of the receivables is reduced indirectly by recognition of a provision account. When the conditions that gave rise to the impairment of the receivables no longer exist, the impairment losses recorded in previous periods are reversed by a credit to the income statement up to the amortized cost that would have been recorded had no impairment loss been recognized.

Receivables in currencies other than the functional currency of the individual companies are adjusted to the year-end exchange rates with a corresponding entry to the income statement.

Receivables are derecognized when the right to receive cash flows is extinguished, when substantially all the risks and rewards connected with holding the receivable have been transferred or in the case the receivable is considered definitively irrecoverable after all the necessary recovery procedures have been completed. When the receivable is derecognized, the relative provision is also derecognized if the receivable had previously been written down.

Junior notes and non-performing loans

Junior notes generated by transactions for the securitization of non-performing loans (found in the Real Estate sector) as well as non-performing receivables (deep discount receivables purchased at prices significantly below the carrying amounts) are classified as loans and receivables and initially recorded at fair value, generally represented by the price paid.

They are subsequently measured at amortized cost. Amortized cost is calculated using the effective interest rate method, which is equivalent to the discount rate which, applied to future cash flows, resulting from the first business plan prepared subsequent to purchase, renders the present value of such flows equal to the cost of purchase including any transaction costs.

The carrying amount is adjusted, whenever there is a change in the estimate of expected cash flows, to the amount resulting from discounting future cash flows at the original effective interest rate. Any differences, whether positive or negative, are recognized in the income statement.

Shareholders' loans to associates and joint ventures

Financial receivables representative of loans to associates and joint ventures are initially recorded at their fair value, corresponding to the present value of future cash flows.

Loans by shareholders made at non-market conditions are discounted over the term of the loan at a rate representative of a loan having similar characteristics.

Any difference between the nominal amount of the loan and the fair value re-measured as previously described is recognized, by the lender, as an increase in the carrying amount of the investment, net of any tax effects. The beneficiary of the loan, in its financial statements prepared in accordance with Group principles and used for valuation of the investment by the equity method, recognizes the same difference as a reduction of its financial payables and as an increase, net of the tax effect, of equity.

After initial recognition, shareholders' loans are measured at amortized cost.

PAYABLES

Payables are initially recorded at their fair value, generally represented by the agreed consideration or the present value of the amount that will be paid.

They are subsequently measured at amortized cost.

Amortized cost is calculated using the effective interest rate method, which is equivalent to the discount rate which, applied to future cash flows, renders the present value of such flows equal to the initial fair value.

Payables in currencies other than the functional currency of the individual companies are adjusted to the year-end exchange rates with a corresponding entry to the income statement.

Payables are derecognized when the specific contractual obligation is extinguished.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This category of financial assets includes securities purchased principally for resale in the short term and classified in current assets in "securities held for trading". They also comprise financial assets which at the time of initial recognition are designated at fair value through profit or loss and classified in "other financial assets".

They are measured at fair value with a corresponding entry to the income statement. Transaction costs are expensed to the income statement.

Purchases and sales of such financial assets are recognized on settlement date.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include bank and postal deposits and cash and valuables on hand.

PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Provisions for other liabilities and charges include accruals for current obligations (legal or constructive) deriving from a past event, for the fulfillment of which an outflow of resources will probably be necessary, the amount of which can be estimated in a reliable manner.

Changes in estimates are recognized in the income statement in the period in which the change occurs.

If the effect of discounting is material, provisions are presented at their present value.

EMPLOYEE BENEFIT OBLIGATIONS

Employee benefit obligations paid subsequent to the termination of the employment relationship under defined benefit plans and other long-term benefits are subject to actuarial calculations. The liability recorded in the financial statements is the present value of the Group's obligation, net of any plan assets.

With regard to defined benefit plans, the Pirelli & C. Group elected the option allowed by IAS 19 under which actuarial gains and losses are recognized in equity in full in the year in which they arise.

For other long-term benefits, actuarial gains and losses are recognized immediately in the income statement.

The interest cost and the expected return on plan assets are classified in personnel costs.

The costs relating to defined contribution plans are recognized in the income statement when incurred.

Up to December 31, 2006, the provision for the employees' leaving indemnity of the Italian companies (TFR) was considered a defined benefit plan. The rules regarding this provision were changed by Law 297 dated December 27, 2006 (Italian Budget Law 2007) and subsequent Decrees and Regu-

lations issued in the early months of 2007. In light of these changes, particularly with reference to Group companies with more than 50 employees, the provision is now considered a defined benefit plan for the portion accrued prior to January 1, 2007 (and not yet paid at the balance sheet date), whereas subsequent to that date, it is considered a defined contribution plan.

STOCK OPTION

The Group offers additional benefits to some of its senior executives and employees in the form of equity compensation plans (stock option plans).

Stock options are divided into two types which require different accounting treatments according to the features of the plan:

- *equity-settled*: are plans in which the grantee has the right to purchase shares of the company at a fixed price whenever specific conditions are met. In such cases, the fair value of the option, determined at the grant date, is recognized as an expense over the period of the plan with a corresponding entry increasing the reserves in equity;
- *cash-settled*: are plans which provide for put options on behalf of the recipient, combined with call options on behalf of the issuer, or plans in which the recipient directly receives the monetary equivalent amount of the benefit originating from the exercise of the stock option. The fair value of the option, re-measured at the end of every reporting period, is recognized in the income statement over the vesting period of the plan, with a corresponding entry to a liability in the balance sheet. The changes in the fair value of the liability subsequent to the vesting period are recognized in the income statement.

The Group has applied the transitional provisions of IFRS 2 and has therefore applied the standard to all stock option plans granted after November 7, 2002 and not yet vested at the date IFRS 2 came into force (January 1, 2005).

Detailed disclosure is also provided on the plans granted prior to that date.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are recognized initially at fair value with a corresponding entry in the income statement and subsequent re-measurement is always at fair value. Fair value gains or losses are recognized in the income statement except for derivatives designated as cash flow hedges.

In all cases in which derivatives are designated as hedging instruments under IAS 39, at the inception of the transaction, the Group formally documents the relationship between the hedging instrument and the hedged item, its risk management objectives and the strategy followed in effecting the hedge transaction.

Beginning in 2008, for purposes of the application of cash flow hedges, in the companies accounted for by the equity method, the Real Estate sector has implemented dynamic type hedging relationships between the derivatives portfolio and existing loans. This approach makes it possible to review and redefine, on a quarterly basis, the hedging strategy in relation to loan reimbursement forecasts in strict correlation with the business plan of the various initiatives. The Group also assesses the effectiveness of the hedging instrument in offsetting the variations in the cash flows attributable to the hedged risk. Such assessment is performed at hedge inception and on an ongoing basis for the duration of the hedge.

The effective portion of the change in the fair value of the derivative that was designated and qualifies as a hedging instrument is recognized directly in equity; the gain or loss relating to the ineffective portion is recognized in the income statement.

The amounts recognized directly in equity are reversed to the income statement at the same time the hedged item produces an effect in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity

until the hedged item ultimately produces an effect in the income statement. When the hedged item is no longer expected to produce an effect in the income statement, the cumulative gain or loss that was reported in equity is immediately recognized in the income statement. Purchases and sales of derivatives are recorded at settlement date.

Fair value estimation

The fair value of financial instruments traded in active markets is based on listed market prices at the balance sheet date. The listed market price used for financial assets is the current bid price; the appropriate listed market price for financial liabilities is the current ask price. The fair value of financial instruments that are not traded on an active market is determined by using valuation techniques with a variety of methods and assumptions that are based on market conditions existing at each balance sheet date.

The fair value of interest-rate swaps is calculated as the present value of estimated future cash flows.

The fair value of forward exchange contracts is determined using the forward rate at the balance sheet date.

INCOME TAXES

Current income taxes are determined on the basis of a realistic estimate of the tax expense payable under the current tax laws of the country.

Deferred taxes are calculated on temporary differences arising between the asset and liability amounts in the balance sheet and their tax bases (full liability method) and are classified in non-current assets and liabilities.

Deferred tax assets on tax loss carryforwards, as well as on temporary differences, are only recognized when there is a probability of future recovery.

Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and there is a legally enforceable right of offset. Deferred tax assets and liabilities are determined based on enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, with reference to the jurisdictions where the Group operates.

Deferred taxes are not discounted.

Deferred tax assets and liabilities are credited or debited to equity if they refer to items that have been credited or debited directly to equity in the period or in previous periods.

EQUITY

Treasury shares

Treasury shares are classified as a deduction from equity.

In the event of sale, re-issue or cancellation, the gains and losses as a result thereof are classified in equity.

Costs of equity transactions

Costs directly attributable to equity transactions of the parent are recognized as a deduction from equity.

RECOGNITION OF REVENUES

Revenues are measured at the fair value of the consideration received for the sale of products or the rendering of services.

Sales of products

Revenues from sales of products are recognized when all the following conditions are met:

- the significant risks and the rewards of ownership of the goods are transferred to the buyer;
- the effective control over the goods has ceased;
- the amount of revenues is determined in a reliable manner;
- it is probable that the economic benefits deriving from the sale will be enjoyed by the enterprise;
- the costs incurred or to be incurred are determined in a reliable manner.

With specific reference to sales of properties, revenues are generally recognized at the time of transfer of ownership to the buyer which corresponds to the date of the deed of sale. If the nature and degree of involvement of the seller are such as to cause that the risks and rewards of ownership are not in fact transferred, then the recognition date of the revenues is deferred until such time as the transfer can be considered to have taken place.

Rendering of services

Revenues from rendering of services are recognized only when the results of the transaction can be measured reliably, by reference to the stage of completion of the transaction at the balance sheet date. The results of a transaction can be measured reliably only when the following conditions are met:

- the amount of the revenues can be determined reliably;
- it is probable that the company will enjoy economic benefits from the transaction;
- the stage of completion of the transaction at the balance sheet date can be measured reliably;
- the costs incurred for the transaction and the costs to be incurred to complete the transaction can be determined in a reliable manner.

Interest income

Interest income is recognized on a time-proportion basis which considers the effective return of the asset or liability.

Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreement.

Dividend income

Dividend income is recognized when the right to receive payment is established, which normally corresponds to the resolution passed by the shareholders' meeting for the distribution of dividends.

EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the income attributable to the equity holders of the company by the weighted average number of outstanding ordinary shares during the year. To calculate diluted earnings per share, the weighted average number of outstanding shares is adjusted by assuming the conversion of all shares with a potentially dilutive effect.

SEGMENT INFORMATION

The business segment (primary reporting segment) is a distinctly identifiable part of the Group which supplies a single product or service or an aggregate of related products and services and is subject to risks and rewards different from those of the other business segments of the Group. The geographical segment (secondary reporting segment) is a distinctly identifiable part of the Group which supplies a single product or service or an aggregate of related products and services and is subject to risks and rewards different from those relating to components which operate in other economic environments.

4. Financial risk management policies

Financial risk management is an integral part of the management of the Group's operations. Risk management is carried out centrally using policies defined by the General Management. Such policies define the categories of risk and specify the procedures and operating limits for each type of transaction and/or instrument. In accordance with these policies, the Group uses derivative contracts in relation to underlying financial assets or liabilities or future transactions. Financial risk management is centralized at the Sector Treasuries which have the task of evaluating the risks and putting into place the relative hedges under the coordination of Group Treasury. The Sector Treasuries operate directly in the market on behalf of the Operating Units and, where they cannot operate directly because of external restrictions, they coordinate the activities of Local Treasury Units.

TYPES OF FINANCIAL RISKS

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk. This risk is managed by the Sector Treasuries and coordinated by Group Treasury.

The Operating Units are responsible for gathering all the information inherent to the positions subject to foreign exchange risk which are managed by forward contracts negotiated with the Sector Treasuries. The positions subject to exchange risk are mainly represented by sales and purchases invoices.

The Sector Treasuries are responsible for assessing and managing the net position for every currency, in accordance with policies and pre-set limits, by negotiating derivative contracts on the market, generally forward contracts.

As a result, a change in exchange rates will not generate any significant effect on the income statement.

Forward contracts between the Operating Units and the Sector Treasuries as well as those among the Sector Treasuries and the market are not designated as hedging instruments as defined by IAS 39 although they are in place for the purpose of managing risks.

Currency translation risk

The Group holds controlling investments in companies which prepare their financial statements in currencies other than the euro, which is the presentation currency of the Group. This exposes the Group to risk from currency translations since fluctuations in the exchange rates of certain foreign currencies against the presentation currency (euro) can cause changes in the amount of consolidated equity.

The principal exposures to currency translation risk are monitored but it is not the Group's policy to hedge this exposure.

About 61 percent (about 73 percent at December 31, 2007) of total consolidated equity at December 31, 2008 is expressed in Euro. The most important currencies for the Group other than the Euro are the Brazilian real (14 percent; 11 percent at December 31, 2007) and the Turkish lira (8 percent; 6 percent at December 31, 2007).

The effect on total consolidated equity resulting from a hypothetical increase or decrease in the value of the above currencies against the Euro – all other conditions being equal, is as follows:

(in thousands of euros)

	10% increase in value		10% decrease in value	
	12/31/2008	12/31/2007	12/31/2008	12/31/2007
Brazilian real	36,633	45,744	(29,973)	(37,427)
Turkish lira	20,578	27,333	(16,836)	(22,364)
Total effect on consolidated equity	57,211	73,077	(46,809)	(59,791)

Interest rate risk

The Group's policy is to tend to maintain a correct balance between fixed-rate debt and floating-rate debt with the aim being fixed-rate debt at about 60 percent of total financial debt.

The Group manages the risk of an increase in floating-rate debt interest rates by compensation with floating-rate receivables and by the use of derivative contracts. The designation of such derivatives as hedging instruments under IAS 39 is decided case by case and authorized by the General Management.

The effects on the results for the year and directly on total equity resulting from an increase or decrease of 0.50 percent in the level of interest rates of all the currencies to which the Group is exposed – all other conditions being equal, are the following:

(in thousands of euros)

	+0.50% increase		-0.50% decrease	
	12/31/2008	12/31/2007	12/31/2008	12/31/2007
Effect on the result for the year:				
- companies consolidated line-by-line	(3,850)	39	2,634	1,276
- companies accounted for using the equity method	(1,484)	7,052	3,045	670
Total effect on the result for the year	(5,334)	7,091	5,679	1,946
Direct effect on equity:				
- companies consolidated line-by-line	1,195	836	(1,970)	(838)
- companies accounted for using the equity method	8,472	8,924	(8,749)	(9,169)
Total direct effect on equity	9,667	9,760	(10,719)	(10,007)

The impact on the result for the year includes the effect on:

- financial income and expenses of floating-rate receivables and payables;
- liquidated income and expenses of interest rate derivatives;
- change in fair value of interest rate derivatives.

The direct impact on equity is connected with the change in fair value of cash flow hedge derivatives.

Price risk associated with financial assets

The Group is exposed to price risk to the extent of the volatility of financial assets such as listed and unlisted equity shares and bonds, listed real estate investment funds and unlisted closed-end real estate investment funds for an amount equal to about 9 percent of total consolidated assets at December 31, 2008 (12 percent at December 31, 2007); the change in fair value of these financial assets is recognized in equity or in the income statement in accordance with IAS 39.

Listed equity shares and listed real estate investment funds, whose change in fair value is recognized in equity, represent 59 percent of total financial assets subject to price risk (77 percent at December 31, 2007). A change of 1 percent in these listed securities, all other conditions being equal, would cause a change of Euros 3,641 thousand (Euros 8,233 thousand at December 31, 2007) in the equity of the Group.

Financial assets, whose change in fair value is recognized through profit or loss, refer to unlisted closed-end real estate investment funds, whose fair value is arrived by reference to a basket of similarly listed securities. A change in the reference index relating to listed closed-end real estate funds of 1 percent, all other conditions being equal, would cause an impact on the result for the year of Euros 296 thousand (Euros 319 thousand at December 31, 2007).

Credit risk

Credit risk represents the Group's exposure to potential losses due to the non-fulfillment of obligations undertaken by commercial and financial counterparts.

The Group does have significant concentrations of credit risk.

In order to limit this risk with commercial counterparts, the Group has put into place procedures to assess the potential and financial creditworthiness of the customers in order to monitor flows of estimated collections and for recovery actions, if any.

The aim of these procedures is to define the customer credit limits which, if exceeded, will activate the rule causing supplies to be blocked.

In some cases the client is asked to furnish guarantees; these will mainly be bank guarantees provided by high-credit standing banks or personal guarantees. Mortgages are requested less frequently.

Another tool used to manage commercial credit risk are insurance policies taken out to forestall the risk of non-payment through a meticulous selection of the customer portfolio made together with the insurance company, which undertakes to guarantee compensation in the case of insolvency.

As for financial counterparts, for the management of temporary excess resources or for the negotiation of derivatives, the Group only uses high-credit worthy counterparts.

Receivables for shareholders' loans are evaluated together with the interest invested in the capital of the investment holding, using an analysis of cash flows generated by the relative underlying real estate projects.

The carrying amount of junior notes and non-performing loans is adjusted each time there is a change in the estimate of discounted cash flows expected and, in the case of impairment, is indirectly reduced through recognition of a specific provision account. In some cases, the customers are asked to furnish guarantees; these are mainly bank guarantees provided by high-credit standing banks, personal guarantees or mortgages.

Impairment losses on receivables are calculated on the basis of the risk of non-fulfillment by the counterpart determined by considering the information available on the solvency of the counterpart and historical experience. The carrying amount of receivables is indirectly reduced through recognition of a provision account.

Single significant positions, for which there is an objective condition of partial or total uncollectibility are written down individually. The amount of the impairment loss takes into account the estimate of future recoverable flows and the relative date of collection, recovery costs and expenses and the fair value of the guarantees, if any.

The positions which are not written down individually are included in groups with similar characteristics from the standpoint of credit risk and written down on a collective basis according to a percentage that increases as the overdue period increases. The collective impairment procedure also applies to receivables not yet due.

The writedown percentages are determined on the basis of historical experience and statistical data.

Liquidity risk

Liquidity risk represents the risk that available financial resources will not be sufficient to meet financial and commercial obligations within the prescribed time and due dates. The main instruments used by the Group to manage liquidity risk are three-year and annual financial plans and treasury plans that enable the Group to fully and correctly recognize and measure incoming and outgoing monetary flows. Variances between the plans and the actual figures are constantly analyzed.

Prudent liquidity risk management implies maintaining sufficient cash and/or short-term securities that can be readily converted into cash, the availability of funding through an adequate amount of committed credit facilities and/or the ability to close out market positions. Due to the dynamic nature of the businesses in which it operates, the Group aims to maintain flexibility in funding by using committed credit lines.

In order to optimize the management of financial resources and thus the liquidity risk, the Group has implemented a centralized system for managing collection and payment flows while respecting the different local currency and tax laws. The negotiation and management of banking relations is conducted centrally so that short-term and medium-term financial requirements are assured of coverage at the lowest cost possible. Even the funding of medium/long-term resources on the capital market is optimized by using centralized management.

At December 31, 2008, in addition to liquidity and securities held for trading, equal to Euros 369,705 thousand, the Group has unused committed credit facilities of Euros 785,000 thousand (Euros 2,672,000 thousand at December 31, 2007), with the following expiration dates:

(in thousands of euros)

2010	10.000
2011	136.000
2012	639.000
	785.000

The maturities of financial liabilities at December 31, 2008 can be summarized as follows:

(in thousands of euros)

	within 1 year	between 1 and 2 years	between 2 and 5 years	beyond 5 years	Total
Trade payables	1,108,573	-	-	-	1,108,573
Other payables	482,401	29,706	15,006	3,760	530,873
Derivative financial instruments	110,473	2,139	-	-	112,612
Borrowings from banks and other financial institutions	695,561	312,427	1,057,320	6,000	2,071,308
	2,397,008	344,272	1,072,326	9,760	3,823,366

The maturities of financial liabilities at December 31, 2007 can be summarized as follows:

(in thousands of euros)

	within 1 year	between 1 and 2 years	between 2 and 5 years	beyond 5 years	Total
Trade payables	1,323,588	-	-	-	1,323,588
Other payables	1,394,673	2,058	17,504	3,738	1,417,973
Derivative financial instruments	72,513	262	6,520	-	79,295
Borrowings from banks and other financial institutions	754,661	289,526	465,488	150,282	1,659,957
	3,545,435	291,846	489,512	154,020	4,480,813

Additional information: categories of financial assets and liabilities

The carrying amounts for every category of financial assets and liabilities identified in IAS 39 are reported as follows:

(in thousands of euros)

	Note	Carrying amount at December 31, 2008	Carrying amount at December 31, 2007
FINANCIAL ASSETS			
Financial assets at fair value through profit or loss			
- designated at the time of initial recognition			
Other financial assets - non-current	11	29,599	31,910
- held for trading			
Securities held for trading	17	115,800	114,039
Derivative financial instruments - non-current	27	3,161	3,849
Derivative financial instruments - current	27	92,108	56,116
Loans and receivables			
Other receivables - non-current	14	723,004	672,894
Trade receivables - current	13	787,951	1,098,927
Other receivables - current	14	239,956	241,475
Cash and cash equivalents	18	253,905	2,057,682
Available-for-sale financial assets			
Other financial assets - non-current	11	476,300	926,362
Hedging financial instruments			
Derivative financial instruments - current	27	1,934	2,210
Total financial assets		2,723,718	5,205,464
FINANCIAL LIABILITIES			
Financial liabilities at fair value through profit or loss			
- held for trading			
Derivative financial instruments - non-current	27	2,139	6,782
Derivative financial instruments - current	27	105,217	72,513
Financial liabilities measured at amortized cost			
Borrowings from bank and other financial institutions - non-current	24	1,375,747	905,296
Other payables - non-current	26	48,472	23,300
Borrowings from bank and other financial institutions - current	24	695,561	754,661
Trade payables - current	25	1,108,573	1,323,588
Other payables - current	26	482,401	1,394,673
Hedging financial instruments			
Derivative financial instruments - current	27	5,256	-
Total financial liabilities		3,823,366	4,480,813

5. Capital management policies

The objective of the Group is to maximize the return on net invested capital, maintaining the ability to operate over time and guaranteeing adequate returns for the shareholders and benefits for the other stakeholders, with a sustainable financial structure.

In order to achieve these objectives, in addition to pursuing satisfactory economic results and generating cash flows, the Group can take action on the dividend policy and the configuration of the Company's capital.

The main indicators used by the Group to manage capital are the following:

1. Ratio between operating profit, including earnings (losses) from investments and average net invested capital: the indicator represents the capacity of the company's results to remunerate net invested capital, this being understood as the sum of fixed assets and net working capital. The earnings (losses) of investments is included in the calculation as it is the most important measure representing the performance of the Real Estate sector. The objective of the Group is that this ratio should be higher than the average cost of capital (WACC);
2. Gearing: this is calculated as the ratio of net financial position and equity. It is an indicator of the sustainability of the debt to equity ratio, which takes into account the market situation and the trend of the cost of capital and debt at different times;
3. R.O.E (Return on equity): this is calculated as the ratio between the result for the year and average equity. It is an indicator representing the capacity of the Group to remunerate its shareholders. The objective is that the indicator should assume a value that is significantly higher than the rate of return on a risk-free investment, correlated to the nature of the businesses managed.

The amounts for the years 2008, 2007 and 2006 are as follows:

	2008	2007	2006
1 Ratio between operating profit, including earnings (losses) from investments and average net invested capital	(7.89%)	8.92%	15.93%
2 Gearing ratio	0.43	n/a *	0.42
3 R.O.E. (Return on Equity)	(13.35%)	7.61%	(20.37%)

* Not applicable as there is a positive net financial position

6. Estimates and assumptions

The preparation of the consolidated financial statements requires management to make estimates and assumptions which, in some circumstances, are based on difficult and subjective judgments and estimates derived from historical experience and assumptions which, each time, are believed to be reasonable and realistic under the circumstances. Actual results could therefore differ from those estimates. Estimates and assumptions are periodically reviewed and the effect of each change made to them is reflected in the income statement in the period in which the estimate review is carried out if the review only has an effect on that period, or also in successive periods if the review has an effect on both the current and future periods.

With this in mind, it should be noted that the situation triggered by the current economic and financial crisis has prompted assumptions to be made about a future featuring a high degree of uncertainty. Therefore, it is not to be excluded that, next year, results could be different from estimates. As a result, even material adjustments to the carrying amounts of assets and liabilities might be required which today clearly cannot be either estimated or foreseen. Such

estimates affect the reported amounts of some assets and liabilities, costs and revenues, as well as the disclosure of contingent assets and liabilities at the balance sheet date.

The estimates and assumptions will generally refer to the measurement of the recoverable amounts of intangible assets, the definition of the useful lives of property, plant and equipment, the recoverability of receivables and the recognition and measurement of provisions. The estimates and assumptions are based upon data which reflects the current state of available knowledge.

ACCOUNTING POLICIES OF PARTICULAR IMPORTANCE REQUIRING A HIGHER DEGREE OF JUDGMENT

A brief description is provided below of the accounting policies which require a higher degree of subjective assumptions and judgments by management in making estimates and for which a change in the conditions underlying the assumptions could have a significant impact on the consolidated financial statements or for which there is the risk of material adjustment to the carrying amount of assets and liabilities in the year subsequent to the balance sheet date.

Goodwill

In accordance with the accounting policies applied in the preparation of the financial statements, goodwill is tested annually in order to assess whether there is an impairment that should be recorded in the income statement. In particular, the test involves the allocation of goodwill to cash-generating units and the determination of the relative recoverable amount, understood as being the higher of fair value and the value in use.

If the value in use is lower than the carrying amount of the cash-generating units, an impairment on the goodwill allocated to them should be recognized. The allocation of goodwill to cash-generating units and the determination of their value in use involves estimates which depend on subjective valuations as well as on factors which could change over time with consequent and possibly material effects compared to the assessments made by management.

Impairment of property, plant and equipment and intangible assets

In accordance with the accounting policies applied, property, plant and equipment and intangible assets are tested to ascertain if there is an impairment, which should be recognized, when there are indications that would imply difficulties in recovering the net carrying amount through the use of the asset. The verification of the existence of these indications requires management to make subjective judgments based on available internal or external information and historical experience. Moreover, when it has been determined that there could be a potential impairment, that impairment must be determined by reference to suitable valuation techniques. The proper identification of elements indicating the existence of a potential impairment and the estimates used to determine it depend on subjective judgments and factors which can vary over time and influence the assessments and estimates made by management.

In that context, for purposes of preparing the consolidated financial statements at December 31, 2008, and most particularly in conducting the impairment test, the various sectors of the Group took into account the estimated trends for 2009. The assumptions and results are consistent with those announced to the financial community upon presentation of the three-year 2009-2011 Industrial Plan. Based on the plan data as modified, there was no need to recognize an impairment loss.

Pension plans and other post-employment benefits

The companies of the Group have pension plans and medicare plans for its employees in various countries.

The main defined benefits plans of the Group are in the United States, the United Kingdom and Italy.

Management uses different actuarial assumptions to calculate the liability and the expected return on plan assets. The actuarial assumptions of financial nature refer to the discount rate, the expected return on plan assets, the rate of future compensation increases and the trend of medicare costs.

The actuarial assumptions of demographic nature mainly refer to mortality, disability and resignation rates.

With particular regard to the discount rates, in 2008, the rate curves showed high volatility as a consequence of the financial crisis and the relative effects on the return of high-quality corporate securities.

The Group identified discount rates which it deemed balanced, in view of the market context.

Deferred income taxes

The recognition of deferred tax assets is made on the basis of expectations of future income. The measurement of future income for purposes of recognizing deferred income taxes depends on factors which can vary over time and determine significant effects on the measurement of deferred tax assets.

In the determination of deferred taxes, budget results and plans consistent with those used for impairment testing and described in the previous paragraph in relation to the recoverable amount of non-current assets have been taken into account. It is also believed that the deferred taxes are congruous and cover the risk of a further worsening of the plan assumptions, considering that the net deferred tax assets recognized refer to temporary differences and tax losses which, to a significant degree, may be recovered over a very long period of time, therefore compatible with a scenario that shows that the crisis and economic recovery would extend beyond the time frame implicit in the above plans.

Provisions for other liabilities and charges

Accruals are made for legal and fiscal liabilities and charges that will probably require an outflow of resources. The amount of the provisions recorded in the financial statements relating to such liabilities and charges represents the best estimate at that time made by management for legal and tax actions covering various types of cases which are under the jurisdiction of different countries. This estimate involves assumptions which depend on factors which can change over time and which could therefore have material effects on the current estimates made by management in the preparation of the consolidated financial statements.

7. Segment information

For the Pirelli & C. Group, the business segment constitutes the primary segment whereas the geographical segment represents the secondary segment.

PRIMARY REPORTING FORMAT – BUSINESS SEGMENT

At December 31, 2008, continuing operations of the group are divided into the following segments:

- Tyre
- Real Estate
- Broadband Access
- Other Business

The remaining part comprises financial companies (including the Parent) and other service companies. None of these constitutes a reportable segment.

Segment results for the year ending December 31, 2008 are as follows:

(in thousands of euros)

	Tyre	Real Estate	Broadband Access	Other Businesses	Other	Total 2008
Sales to third parties	4,099,717	364,358	124,555	70,930	615	4,660,175
Sales to the Group	481	740	-	632	(1,853)	-
Total sales	4,100,198	365,098	124,555	71,562	(1,238)	4,660,175
Depreciation of property, plant and equipment/amortization of intangible assets	(190,452)	(9,415)	(896)	(1,063)	(6,854)	(208,680)
Impairment losses of property, plant and equipment/intangible assets	(9,815)	(60)	-	-	-	(9,875)
Operating profit (loss)	150,736	(71,237)	3,871	(18,372)	(21,743)	43,255
Share of earnings (losses) of companies accounted for by the equity method	481	(177,019)	-	(909)	1,770	(175,677)
Financial income (expenses)						(26,115)
Impairment losses on investments						(275,262)
Dividends						31,268
Gains (losses) from changes in fair value of financial assets						(796)
Loss before income taxes						(403,327)
Income taxes						(72,620)
Loss from continuing operations						(475,947)
Income (loss) from discontinued operations	-	74,628	(10,935)	-	(272)	63,421
Loss for the year						(412,526)

Segment results for the year ending December 31, 2007 were as follows:

(in thousands of euros)

	Tyre	Real Estate	Broadband Access	Other Businesses	Other	Total 2007
Sales to third parties	4,160,899	1,724,024	112,410	68,410	9,854	6,075,597
Sales to the Group	819	351	-	3,028	(4,198)	-
Total sales	4,161,718	1,724,375	112,410	71,438	5,656	6,075,597
Depreciation of property, plant and equipment/amortization of intangible assets	(190,465)	(7,646)	(1,048)	(883)	(8,870)	(208,912)
Impairment losses of property, plant and equipment/intangible assets	(811)	(3,823)	-	-	-	(4,634)
Operating profit (loss)	358,090	33,120	852	(8,497)	(19,565)	364,000
Share of earnings (losses) of companies accounted for by the equity method	159	114,977	-	-	1,407	116,543
Financial income (expenses)						(81,887)
Impairment losses on investments						(34,137)
Dividends						34,459
Gains (losses) from changes in fair value of financial assets						(20,097)
Income before income taxes						378,881
Income taxes						(123,028)
Income from continuing operations						255,853
Income (loss) from discontinued operations		49,455	(14,788)		33,070	67,737
Income for the year						323,590

Sales between business segments are carried out at market value.

Segment assets, liabilities and capital expenditures at December 31, 2008 are as follows:

(in thousands of euros)

	Tyre	Real Estate	Broadband Access	Other Businesses	Other	Total 12/31/2008
Segment assets	3,727,998	568,827	57,895	64,199	124,909	4,543,828
Investments in associates and joint ventures	911	357,868	-	6,493	150,028	515,300
Total allocated assets	3,728,909	926,695	57,895	70,692	274,937	5,059,128
Unallocated assets						1,874,090
Total assets						6,933,218
Segment liabilities	1,628,707	355,252	58,864	26,640	158,450	2,227,913
Unallocated liabilities						2,330,943
Total liabilities						4,558,856
Capital expenditures - property, plant and equipment	285,415	6,101	1,892	15,837	1,479	310,724
Capital expenditures - intangible assets	459,777	13,702	164	75	2,986	476,704

Segment assets, liabilities and capital expenditures at December 31, 2007 were as follows:

(in thousands of euros)

	Tyre	Real Estate	Broadband Access	Other Businesses	Other	Total 12/31/2007
Segment assets	3,256,011	905,832	55,803	43,520	107,839	4,369,005
Investments in associates and joint ventures	718	480,341	-	2,410	50,725	534,194
Total allocated assets	3,256,729	1,386,173	55,803	45,930	158,564	4,903,199
Unallocated assets						4,050,041
Total assets						8,953,240
Segment liabilities	1,564,238	518,999	61,686	24,152	213,613	2,382,688
Unallocated liabilities						2,766,481
Total liabilities						5,149,169
Capital expenditures - property, plant and equipment	262,378	6,469	4,093	9,709	4,060	286,709
Capital expenditures - intangible assets	7,089	168,093	308	980	1,966	178,436

Segment assets mainly consist of property, plant and equipment, intangible assets, assets under finance leases, inventories, trade receivables and other receivables. They exclude financial receivables, cash and cash equivalents, other financial assets, securities held for trading and current and deferred tax assets.

Segment liabilities mainly include trade payables and other payables, advances from customers, provisions for other liabilities and charges and employee benefit obligations. They exclude financial payables and current and deferred tax liabilities.

Capital expenditures mainly refer to the purchase of plant and machinery.

SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENT

Sales by geographical area, allocated on the basis of the country in which the customer resides, are as follows:

(in millions of Euro)

	2008		2007 (*)	
Europe:				
- Italy	810.4	17.39%	829.4	13.65%
- Other European countries (*)	1,586.1	34.03%	3,077.9	50.66%
North America	287.5	6.17%	329.5	5.42%
Central and South America	1,323.8	28.41%	1,187.7	19.55%
Oceania, Africa and Asia	652.4	14.00%	651.1	10.72%
	4,660.2	100.00%	6,075.6	100.00%

* In 2007, this line included the effect of the deconsolidation of DGAG activities for an amount of Euros 1,295.6 million.

Assets by geographical area, allocated on the basis of the country in which the assets are located, are as follows:

(in thousands of euros)

	12/31/2008		12/31/2007	
Europe				
- Italy	2,438,070	35.16%	2,253,776	25.17%
- Other European countries	1,170,704	16.89%	1,216,412	13.59%
North America	142,676	2.06%	124,665	1.39%
Central and South America	788,841	11.38%	816,790	9.12%
Oceania, Africa and Asia	518,837	7.48%	491,556	5.49%
Total allocated assets	5,059,128	72.97%	4,903,199	54.76%
Unallocated assets	1,874,090	27.03%	4,050,041	45.24%
	6,933,218	100.00%	8,953,240	100.00%

Capital expenditures by geographical area, allocated on the basis of the country in which the factories are located, are as follows.

(in thousands of euros)

	12/31/2008		12/31/2007	
Europe				
- Italy	45,960	14.79%	43,530	15.18%
- Other European countries	121,585	39.13%	134,910	47.05%
North America	4,205	1.35%	2,746	0.97%
Central and South America	68,163	21.94%	40,607	14.16%
Oceania, Africa and Asia	70,811	22.79%	64,916	22.64%
	310,724	100.00%	286,709	100.00%

8. Property, plant and equipment

At December 31, 2008, the composition and movements in property, plant and equipment are as follows:

(in thousands of euros)

	12/31/2008			12/31/2007		
	Gross carrying amount	Accumulated depreciation	Net carrying amount	Gross carrying amount	Accumulated depreciation	Net carrying amount
Land	83,456	-	83,456	83,511	-	83,511
Buildings	625,712	(296,474)	329,238	658,310	(301,584)	356,726
Plant and machinery	2,549,392	(1,537,876)	1,011,516	2,652,755	(1,624,730)	1,028,025
Industrial and commercial equipment	525,374	(410,590)	114,784	574,675	(448,876)	125,799
Other property, plant and equipment	226,136	(167,084)	59,052	236,540	(180,116)	56,424
	4,010,070	(2,412,024)	1,598,046	4,205,791	(2,555,306)	1,650,485

MOVEMENTS IN GROSS CARRYING AMOUNT (in thousands of euros)

	12/31/2007	Discontinued operations	Exchange differences	Increase	Decrease	Reclass.	Other	12/31/2008
Land	83,511	-	(7,077)	8,910	(4,496)	2,608	-	83,456
Buildings	658,310	(7,679)	(42,084)	26,014	(11,975)	3,119	7	625,712
Plant and machinery	2,652,755	(28,166)	(237,116)	205,862	(29,232)	(12,706)	(2,005)	2,549,392
Industrial and commercial equipment	574,675	(25,151)	(54,071)	37,938	(17,501)	9,180	304	525,374
Other property, plant and equipment	236,540	(12,031)	(16,265)	32,000	(13,135)	(2,201)	1,228	226,136
	4.205.791	(73.027)	(356.613)	310.724	(76.339)	-	(466)	4.010.070

MOVEMENTS IN ACCUMULATED DEPRECIATION (in thousands of euros)

	12/31/2007	Discontinued operations	Exchange difference	Reclass.	Decrease	Depreciation	Other	12/31/2008
Land	(301,584)	4,324	20,123	-	2,497	(21,041)	(793)	(296,474)
Plant and machinery	(1,624,730)	10,952	170,495	7,430	19,798	(122,152)	332	(1,537,876)
Industrial and commercial equipment	(448,876)	18,233	46,490	37	16,236	(41,187)	(1,523)	(410,590)
Other property, plant and equipment	(180,116)	9,235	13,925	(7,467)	11,345	(14,362)	356	(167,084)
	(2,555,306)	42,744	251,033	-	49,875	(198,742)	(1,628)	(2,412,024)

MOVEMENTS IN NET CARRYING AMOUNT (in thousands of euros)

	31/12/2007	Attività cedute	Diff. da conv.	Incr.	Decr.	Riclass.	Amm.ti	Altro	31/12/2008
Land	83,511	-	(7,077)	8,910	(4,496)	2,608	-	-	83,456
Buildings	356,726	(3,355)	(21,961)	26,014	(9,478)	3,119	(21,041)	(786)	329,238
Plant and machinery	1,028,025	(17,214)	(66,621)	205,862	(9,434)	(5,276)	(122,152)	(1,673)	1,011,517
Industrial and commercial equipment	125,799	(6,918)	(7,581)	37,938	(1,265)	9,217	(41,187)	(1,219)	114,784
Other property, plant and equipment	56,424	(2,796)	(2,340)	32,000	(1,791)	(9,668)	(14,362)	1,584	59,051
	1,650,485	(30,283)	(105,580)	310,724	(26,464)	-	(198,742)	(2,095)	1,598,046

At December 31, 2007, the movements in property, plant and equipment were as follows:

MOVEMENTS IN GROSS CARRYING AMOUNT (in thousands of euros)

	12/31/2006	Exchange differences	Increase	Decrease	Reclass.	Other	12/31/2007
Land	83,186	1,294	412	(1,544)	177	(14)	83,511
Buildings	636,102	1,989	18,208	(2,775)	4,528	258	658,310
Plant and machinery	2,449,874	36,890	198,458	(27,182)	(6,013)	728	2,652,755
Industrial and commercial equipment	530,916	9,413	32,568	(8,231)	11,202	(1,193)	574,675
Other property, plant and equipment	238,643	(685)	37,063	(23,203)	(9,894)	(5,384)	236,540
	3,938,721	48,901	286,709	(62,935)	-	(5,605)	4,205,791

MOVEMENTS IN ACCUMULATED DEPRECIATION (in thousands of euros)

	12/31/2006	Exchange difference	Reclass.	Decrease	Depreciation	Other	12/31/2007
Buildings	(279,163)	(2,964)	145	2,443	(21,753)	(292)	(301,584)
Plant and machinery	(1,498,088)	(24,864)	980	19,080	(122,206)	368	(1,624,730)
Industrial and commercial equipment	(405,039)	(7,706)	1,743	5,572	(43,377)	(69)	(448,876)
Other property, plant and equipment	(181,842)	574	(2,868)	15,682	(16,209)	4,547	(180,116)
	(2,364,132)	(34,960)	-	42,777	(203,545)	4,554	(2,555,306)

MOVEMENTS IN NET CARRYING AMOUNT (in thousands of euros)

	12/31/2007	Exchange differences	Increase	Decrease	Reclass.	Depreciation	Other	12/31/2008
Land	83,186	1,294	412	(1,544)	177	-	(14)	83,511
Buildings	356,939	(975)	18,208	(332)	4,673	(21,753)	(34)	356,726
Plant and machinery	951,786	12,026	198,458	(8,102)	(5,033)	(122,206)	1,096	1,028,025
Industrial and commercial equipment	125,877	1,707	32,568	(2,659)	12,945	(43,377)	(1,262)	125,799
Other property, plant and equipment	56,801	(111)	37,063	(7,521)	(12,762)	(16,209)	(837)	56,424
	1,574,589	13,941	286,708	(20,158)	-	(203,545)	(1,051)	1,650,485

Increases during the year 2008 mainly refer to additions in the Tyre sector, particularly the new operating units in Romania, China and Brazil.
The ratio of additions in 2008 to depreciation is 1.56.

Assets under construction at December 31, 2008 amount to Euros 115,454 thousand (Euros 72,828 thousand at December 31, 2007).

Impairment losses in 2008, included in the column “decrease” in the above table, amount to Euros 9,815 thousand (Euros 811 thousand in 2007) and are recognized in the income statement under “Amortization, depreciation and impairments” (Note 32).

Discontinued operations refer to the deconsolidation of the companies Integra FM B.V. group (formerly Pirelli RE Integrated Facility Management B.V.) and PGT Photonics S.p.A., following the sale of the stakes held to third parties.

Restrictions on the ownership of assets are as follow:

- the subsidiary Pirelli Tyres Alexandria Co. is using plant and machinery as collateral for an equivalent amount of Euros 10,844 thousand (Euros 11,679 thousand at December 31, 2007);
- the subsidiary Pirelli Pneus S.A. is using machinery and land as collateral for a total of Euros 50,248 thousand (Euros 78,958 thousand at December 31, 2007).

There were no borrowing costs capitalized to property, plant and equipment.

8.1. FINANCE LEASES

Land, buildings, plant, machinery and other assets purchased by the Group using finance leases are included in the respective categories of property, plant and equipment.

Details are as follows:

(in thousands of euros)

	12/31/2008			12/31/2007		
	Capitalized cost	Accumulated depreciation	Net carrying amount	Capitalized cost	Accumulated depreciation	Net carrying amount
Land leased	11,187	-	11,187	11,187	-	11,187
Buildings leased	61,842	(13,832)	48,010	63,469	(12,559)	50,910
Other property, plant and equipment leased	17,389	(7,623)	9,766	984	(574)	410
Plant and machinery leased	86	(86)	-	1,791	(846)	945
	90,504	(21,541)	68,963	77,431	(13,979)	63,452

Details of the most important contracts regarding land and buildings leased are as follows:

- Pirelli & C. S.p.A. has a lease contract with a syndicate of banks (DEUTSCHE BANK LEASING S.p.A. - now SG LEASING S.p.A. - Franfinance Leasing Italia; SOGELEASE ITALIA S.p.A. - now SG LEASING S.p.A. - Franfinance Leasing Italia; LOCAT S.p.A.) on the building which houses the structures and the R&D activities of the Tyre sector.
The contract, signed in May 2000, has a term of 13 years and a purchase option at expiration. The net book amount of the building is Euros 40,244 thousand (Euros 41,904 thousand at December 31, 2007) and that of the land is Euros 10,184 thousand (unchanged at December 31, 2007);
- the subsidiary Pirelli Deutschland GmbH has a lease contract with the company DAL-Florenta on the distribution warehouse located in Breuberg. The contract is divided into two terms: the first is for 15 years from January 1, 1995 to December 31, 2009 and the second is for another 7.5 years. The contract has a purchase option;
- the subsidiary Pneumobil GmbH has five lease contracts with the company DAL-Florenta on the buildings of five points of sale in Germany. The terms of the contracts are between 20 and 25 years and all of the contracts expire by 2010.

The net carrying amounts of the buildings of the German companies total Euros 6,785 thousand (Euros 7,250 thousand at December 31, 2007) and that of the related land is Euros 1,003 thousand (unchanged compared to December 31, 2007).

Other assets leased mainly include an airplane under a leaseback arrangement between the subsidiary Perseo S.r.l. and Intesa Leasing S.p.A.. The contract began in April 2005 and has a term of 7 years with a purchase option at expiration. The net carrying amount is Euros 9,520 thousand.

Finance lease payables are included in financial payables (Note 24).

The minimum lease payments (that is, the payments made by the lessee over the residual term of the lease) are detailed as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Due within 1 year	12,447	5,171
Due between 1 and 5 years	34,117	24,540
Due beyond 5 years	-	12,911
	46,564	42,622
Future financial expenses	(5,465)	(6,970)
Leases payable (note 24)	41,099	35,652

The following table presents the finance lease payable by expiration date:

(in thousands of euros)

	12/31/2008	12/31/2007
Due within 1 year	10,759	3,381
Due between 1 and 5 years	30,340	19,711
Due beyond 5 years	-	12,560
Leases payable (note 24)	41,099	35,652

9. Intangible assets

The composition and movements in intangible assets are as follows:

(in thousands of euros)

	12/31/2007	Exchange differences	Discontinued operations	Change in the scope of consolidation	Increase	Decrease	Amortization	Other	12/31/2008
Patents and intellectual property rights	574	-	(10)	553	-	-	(145)	(548)	424
Concessions, licenses and trademarks	22,356	(5)	(80)	(846)	6,470	(883)	(2,817)	875	25,070
Goodwill	634,953	20	(86,752)	(410)	462,025	(2,624)	-	473	1,007,685
Software	10,442	14	(288)	599	7,615	(79)	(6,841)	667	12,129
Other intangible assets	4,215	(8)	(3,508)	(1,533)	594	(231)	(135)	1,406	800
	672,540	21	(90,638)	(1,637)	476,704	(3,817)	(9,938)	2,873	1,046,108

(in thousands of euros)

	12/31/2006	Exchange differences	Increase	Decrease	Amortization	Other	12/31/2007
Patents and intellectual property rights	777	-	-	-	(198)	(5)	574
Concessions, licenses and trademarks	24,188	(5)	3,612	(3,823)	(2,401)	785	22,356
Goodwill	479,734	(88)	161,399	(6,619)	-	527	634,953
Software	10,117	(2)	8,337	(899)	(6,438)	(673)	10,442
Other intangible assets	1,558	17	5,088	(42)	(1,462)	(944)	4,215
	516,374	(78)	178,436	(11,383)	(10,499)	(310)	672,540

“Discontinued operations” refer almost entirely to the deconsolidation of Integra FM B.V. group (formerly Pirelli RE Integrated Facility Management B.V.).

The increase in “Goodwill” mainly refers to:

- the purchase of the 38.9 percent minority interest in Pirelli Tyre S.p.A. through the acquisition of Speed S.p.A. (Euros 450,920 thousand, corresponding to the difference between the price paid and the net assets acquired);
- the purchase of the shares of the subsidiary Pirelli & C. Real Estate S.p.A. for Euros 22,064 thousand (equal to 2.8 percent of the total), resulting in further goodwill of Euros 2,407 thousand, equal to the difference between the price paid and accounting net assets;
- the inclusion in Pirelli Real Estate Group’s scope of consolidation of certain companies in the BauBeCon Group following the acquisition of stakes by Pirelli RE Netherlands B.V. and Pirelli & C. Real Estate Deutschland GmbH (Euros 4,466 thousand).

Accounting for this last business combination led to the recognition of assets and liabilities acquired at fair value, and also residual goodwill, as better detailed in the following table:

(in thousands of euros)

	Fair value	Carrying amount
A Purchase price (including costs directly attributable to the business combination)	19,139	
Property, plant and equipment	622	622
Intangible assets	2,505	2,505
Investments in associates and joint ventures	10,610	4,035
Deferred tax assets and deferred tax liabilities	(300)	(300)
Inventories	-	-
Trade receivables and trade payables	3,733	3,733
Other receivables and other payables	(779)	(779)
Provisions for other liabilities and charges and employee benefit obligations	(11,278)	(11,278)
Cash and cash equivalents	17,801	17,801
Financial payables	(7,291)	(7,291)
B Assets and liabilities acquired	15,623	9,048
C Equity attributable to minority interest	(950)	(950)
D Net assets and liabilities acquired (B + C)	14,673	8,098
E Goodwill (A - D)	4,466	

In September 2008, the Pirelli & C. Real Estate group sold 94.9 percent of the share capital of BauBeCon Sanierungstrager GmbH. Following the sale, goodwill was reduced by Euros 2,624 thousand (this reduction is shown in the column “**decrease**”); therefore, at December 31, 2008, the residual goodwill relating to this business combination amounts to Euros 1,842 thousand.

At December 31, 2008, the breakdown of goodwill according to business segment and cash-generating unit (or groups of cash-generating units) to which it was allocated for purposes of assessing impairment and the configuration of the recoverable amount are shown in the following table:

(in thousands of euros)

Business segment	Cash generating unit / groups of CGU	Amount	Recoverable amount
Tyre	Consumer	518,415	Value in use
Tyre	Industrial	313,668	Value in use
Other businesses	Eco Technology	4,860	Value in use
Real Estate	Real Estate	32,912	Value in use
Real Estate	Agency	5,719	Value in use
Real Estate	Credit Servicing	5,066	Value in use
Real Estate	Property	13,452	Value in use
Real Estate	Poland	3,257	Value in use
Real Estate	Fund management	29,042	Value in use
Real Estate	Germany - DGAG/BIB	81,142	Value in use
Real Estate	Non-Performing Loans	152	Value in use
		1,007,685	

The *impairment test* consists of estimating the recoverable amount of the cash-generating units and comparing it with the net carrying amount of the relative assets including goodwill.

The value in use corresponds to the present value of future cash flows which are expected to be associated with the cash-generating units, using a discount rate which reflects the risks specific to the individual cash-generating units at the measurement date.

Management uses many assumptions in applying this method, including the estimate of future increases in sales, operating cash flows, the growth rate of the end amounts and the weighted aver-

age cost of capital (discount rate). More to the point, the cash flows approved by management used in determining the value of use cover a period of three years.

For the Real Estate sector, the flows relating to the fourth and fifth year are extrapolated from the flows of the third year without applying growth assumptions.

Furthermore, consideration has been given to the cash flows generated from the sale of the cash-generating unit at the end of the explicit period (assumed to be equal to the present value of the return in perpetuity of cash flows generated in the last year of projection); for industrial operations, this flow has been extrapolated by applying a 2 percent growth factor to the flow of the last year (2 percent in 2007).

The discount rates, net of taxes, applied to the cash flow projections are as follows:

Business segment	Cash generating unit / groups of CGU	Discount rate	
		2008	2007
Tyre	Consumer	9.20%	8.20%
Tyre	Industrial	9.20%	8.20%
Other businesses	Eco Technology	15.00%	7.80%
Real Estate	Real Estate	6.50%	-
Real Estate	Agency	6.50%	6.20%
Real Estate	Credit Servicing	6.50%	6.20%
Real Estate	Property	6.50%	6.20%
Real Estate	Poland	6.50%	6.20%
Real Estate	Fund management	6.50%	6.20%
Real Estate	Germany - DGAG/BIB	6.50%	6.20%
Real Estate	Non-Performing Loans	6.50%	6.20%

As far as the Real Estate sector is concerned, the Group has indiscriminately allocated Euros 32.9 million being the difference between the purchase on the market over time of minority interests in listed securities and the relative net assets. This higher value recognized is supported by considering the recoverable amount of the sector as a whole.

On the basis of the results of the tests performed, there is no impairment.

A sensitivity analysis was also carried out: in all cases the value in use remains higher than the carrying amounts even assuming a change in the key parameters, such as:

- a change in the weighted average cost of capital by 50 basis point (hundredths of a percentage point) or
- for industrial operations, a change in the growth rate by 1 percentage point.

The **impairment losses** in 2008 on intangible assets other than goodwill, included in the column **decrease** in the table, amount to Euros 60 thousand (Euros 3,823 thousand in 2007). They are recognized in the income statement under “Amortization, depreciation and impairments” (Note 32).

10. Investments in associates and joint ventures

Investments in associates and joint ventures total Euros 515,300 thousand compared to Euros 534,194 thousand at December 31, 2007.

Movements during the year are as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Beginning balance	534,194	3,825,928
Discontinued operations	(5,145)	-
Acquisition/change in share capital and reserves	119,082	260,103
Distribution of dividends and reserves	(30,831)	(164,562)
Impairments	(74,421)	-
Disposals and wind-ups	(25,696)	(3,352,603)
Share of earnings (losses)	(175,964)	118,608
Reclassifications and other	131,916	(159,359)
Movement in provisions for other liabilities and charges	42,165	6,079
Ending balance	515,300	534,194

The following table details the movements in investments in associates:

(in thousands of euros)

	12/31/2007	Discontinued operations	Acquisition / change in share capital and reserves / other	Distribution of dividends / reserves	Impairments	Share of earnings (losses)	Reclassifications and other	Movements in provisions for other liabilities and charges	12/31/2008
Dixia S.r.l.	5,452	-	25	-	-	(446)	-	-	5,031
Orione Immobiliare Prima S.p.A.	562	-	6,078	-	-	(6,587)	-	-	53
Sci Roev Texas Partners L.P.	1,224	-	-	-	-	(987)	-	-	237
Spazio Investment N.V.	69,026	-	4,153	(6,706)	-	(3,887)	-	-	62,586
Turismo e Immobiliare S.p.A.	5,769	-	2,539	-	-	(610)	-	-	7,698
Eurostazioni S.p.A.	53,686	-	-	(1,303)	-	1,952	-	-	54,335
CyOptics Inc.	-	-	38,279	-	(8,700)	-	-	-	29,579
RCS MediaGroup S.p.A.	-	-	-	-	(65,721)	-	132,171	-	66,450
Other PRE group companies	(2,821)	(98)	472	-	-	116	3,016	(468)	217
Other Group companies	1,524	-	842	-	-	194	(969)	93	1,684
Total investments in associates	134,422	(98)	52,388	(8,009)	(74,421)	(10,255)	134,218	(375)	227,870

Spazio Investment N.V. is listed on the Alternative Investment Market of the London Stock Exchange; the market price at December 31, 2008 is Euros 6 and is equivalent to a total investment value of Euros 30.4 million.

RCS Mediagroup S.p.A. is listed on the Milan Stock Exchange. The market price at December 31, 2008 is Euros 0.9772 and is equivalent to a total investment value of Euros 38.2 million.

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

(in thousands of euros)

	12/31/2007	Discontinued operations	Acquisition / change in share capital and reserves/other	Distribution of dividends / reserves	Disposals and wind-up	Share of earnings (losses)	Reclassifications and other	Movements in provisions for other liabilities and charges	12/31/2008
Afrodite S.à r.l.	2,950	-	-	-	-	(3,862)	-	912	-
Aida RE B.V.	-	-	(1,810)	-	-	(3,004)	-	4,814	-
Alceo B.V.	564	-	4,897	-	-	(4,879)	-	-	582
Alimede Luxembourg S.à.r.l.	3,167	-	977	-	-	(7,662)	(135)	3,653	-
Alnitak S.à r.l.	2,358	-	-	-	-	319	-	-	2,677
Altair Zander Italia S.r.l.	152	(152)	-	-	-	-	-	-	-
Aree Urbane S.r.l.	6,782	-	-	-	-	(5,002)	-	-	1,780
Artemide S.à r.l.	1,696	-	-	-	-	(2,353)	-	657	-
Austin S.à.r.l.	5,810	-	7	-	-	(1,863)	-	-	3,954
AWW Assekuranzvermittlung der Wohnungswirtschaft GmbH	-	-	(47)	(1,226)	-	1,273	-	-	-
Baubecon Sanierungsträger GmbH	-	-	3,430	-	(3,458)	-	28	-	-
Bicocca S.à.r.l.	112	-	100	-	-	(592)	-	380	-
Bresso Energia S.r.l.	1	(1)	-	-	-	-	-	-	-
Capitol Immobiliare S.r.l.	68	-	(45)	-	-	(35)	-	12	-
Castello S.r.l.	197	-	-	-	-	(140)	-	-	57
Colombo S.à.r.l.	18,940	-	(356)	-	-	(810)	-	-	17,774
Consorzio ARP	54	-	-	-	(54)	-	-	-	-
Consorzio G6 Advisor	22	-	-	-	-	-	-	-	22
Continuum S.r.l.	3,553	-	-	(1,400)	-	(218)	-	-	1,935
Dallas S.à.r.l.	5,810	-	7	-	-	(1,863)	-	-	3,954
Delamain S.à.r.l.	20,914	-	23	(11,709)	-	(9,024)	-	-	204
Dolcetto sei S.r.l.	-	-	34	-	-	-	-	-	34
Doria S.à.r.l.	18,833	-	(356)	-	-	(805)	-	-	17,672
Elle Dieci S.c.a.r.l.	40	-	(40)	-	-	-	-	-	-
Elle Tre S.c.a.r.l.	40	-	(40)	-	-	-	-	-	-
Erice S.r.l.	1,477	-	-	(900)	-	(250)	-	-	327
Espeha - Serviços de Consultadoria L.d.A.	3,402	-	20	-	-	4,726	-	-	8,148
European NPL S.A.	21,758	-	(6,070)	-	-	2,346	-	-	18,034
Fattoria Medicea S.r.l.	484	-	-	-	(484)	-	-	-	-
Finprema S.r.l.	2	-	7,017	-	-	(1,841)	-	-	5,178
Galatea S.r.l.	70	-	(24)	(120)	(52)	(9)	135	-	-
Gamma RE B.V.	84,631	-	(2,396)	-	-	(2,950)	-	-	79,285
Gatus 372 GmbH	-	-	11	-	-	-	-	-	11
Golfo Aranci S.p.A. - Società di trasformazione urbana	2,736	-	824	-	-	(199)	-	-	3,361
Jamesmail B.V.	-	-	-	-	-	-	-	-	-
Immobiliare Prizia S.r.l.	5,949	-	-	-	-	-	(5,949)	-	-
IN Holdings I S.à.r.l.	174	-	-	(410)	-	(107)	-	343	-
Induxia S.r.l.	1,108	-	(9)	-	-	(1,881)	-	782	-
Inimm Due S.à.r.l.	1,330	-	-	(25)	-	820	-	-	2,125
Iniziative Immobiliari S.r.l.	4,015	-	(5)	-	-	(90)	-	-	3,920
Landgesellschaft Schleswing Holstein mbh	19,952	-	-	(1,158)	(19,571)	777	-	-	-
Localto ReoCo S.r.l.	4	-	-	-	-	(2)	-	-	2
Manifatture Milano S.p.A. (formerly Quadrifoglio Milano S.p.A.)	5,263	-	291	-	-	(2,357)	-	-	3,197
Maro S.r.l.	581	-	-	-	-	(245)	-	-	336

(in thousands of euros)

	12/31/2007	Discontinued operations	Acquisition / change in share capital and reserves/other	Distribution of dividends / reserves	Disposals and wind-up	Share of earnings (losses)	Reclassifications and other	Movements in provisions for other liabilities and charges	12/31/2008
Masaccio S.r.l.	195	-	-	-	(195)	-	-	-	-
Masseto I B.V.	305	-	-	-	-	(778)	-	473	-
Max B.V.	4,558	-	-	(4,998)	19	(140)	561	-	-
Mistral Real Estate B.V.	16,434	-	(127)	-	-	4,310	1,200	-	21,817
M.S.M.C. Italy Holding B.V.	9,933	-	58	-	-	(7,997)	(128)	-	1,866
MP Facility S.p.A.	3,840	(3,840)	-	-	-	-	-	-	-
Nashville S.à.r.l.	5,809	-	8	-	-	(1,864)	-	-	3,953
Patrimonio Casa - investment fund	12,395	-	-	-	-	(913)	-	-	11,482
Polish Investments Real Estate Holding B.V.	1,932	-	(481)	-	-	3,049	-	-	4,500
Polish Investments Real Estate Holding II B.V.	1,256	-	2,736	-	-	(2,686)	(6,848)	5,542	-
Popoy Holding B.V.	2,179	-	(1)	(550)	-	(1,177)	-	-	451
Progetto Bicocca La Piazza S.r.l.	1,072	-	(99)	-	-	899	-	-	1,872
Progetto Nuovo Sant'Anna S.r.l.	1,037	(1,037)	-	-	-	-	-	-	-
Progetto Gioberti S.r.l.	28	-	111	-	-	(95)	-	-	44
Resi S.r.l. (già Dolcetto Cinque S.r.l.)	6	-	-	-	-	(1)	-	-	5
Resident Baltic GmbH	262	-	4	-	-	(39)	-	-	227
Resident Berlin 1 P&K GmbH	4,238	-	(3)	-	-	(602)	-	-	3,633
Resident Brandenburg GmbH	1	-	(1)	-	-	-	-	-	-
Resident Sachsen P&K GmbH	159	-	35	-	-	(46)	-	-	148
Resident West GmbH	193	-	10	-	-	(126)	-	-	77
Rinascente/Upim S.r.l.	2,631	-	(111)	-	-	(5,961)	-	3,441	-
Riva dei Ronchi S.r.l.	553	-	2,022	-	-	(4,851)	-	2,276	-
Roca S.r.l.	2,699	-	-	-	-	(1,551)	-	-	1,148
S.AN.CO S.c.a.r.l.	2	(2)	-	-	-	-	-	-	-
Sigma RE B.V.	-	-	53,568	-	-	(44,931)	(29)	-	8,608
S.I.MA.GEST2 S.c.a.r.l.	15	(15)	-	-	-	-	-	-	-
Sicily Investments S.à.r.l.	820	-	-	-	-	(699)	-	-	121
Solaia RE S.à.r.l.	8,322	-	(4,351)	-	-	(11,248)	2,914	4,363	-
Solaris S.r.l.	2,598	-	(48)	(326)	-	(1,081)	-	-	1,143
S.I. Real Estate Holding B.V.	585	-	-	-	-	(603)	-	18	-
S.I.G. RE B.V.	3,006	-	-	-	-	(1,576)	-	-	1,430
Tamerice Immobiliare S.r.l.	3,877	-	-	-	-	129	-	-	4,006
Theta RE B.V.	31,975	-	(10,710)	-	-	(36,931)	-	15,666	-
Tizian Wohnen 1 GmbH	2,504	-	(3)	-	-	(268)	-	-	2,233
Tizian Wohnen 2 GmbH	1,051	-	24	-	-	(20)	-	-	1,055
Trinacria Capital S.à.r.l.	967	-	-	-	-	(839)	-	-	128
Trinoro S.à.r.l.	-	-	34	-	(12)	(19)	-	(3)	-
Trixia S.r.l.	-	-	1,368	-	-	(2,474)	5,949	(930)	3,913
Vespucci S.à.r.l.	18,949	-	(356)	-	-	(802)	-	-	17,791
Vesta Finance S.r.l.	12	-	-	-	-	-	-	-	12
Vivaldi - speculative real estate investment fund	-	-	9,072	-	-	(458)	-	-	8,614
Wameservice GmbH	-	-	1,663	-	(1,663)	-	-	-	-
Waterfront Flegreo S.p.A.	158	-	36	-	(175)	(19)	-	-	-
Other PRE Group companies	6,467	-	796	-	(51)	(610)	-	141	6,743
Solar Utility S.p.A.	1,750	-	5,000	-	-	(909)	-	-	5,841
Total investments in joint ventures	399,772	(5,047)	66,694	(22,822)	(25,696)	(165,709)	(2,302)	42,540	287,430

The column **discontinued operations** refers to the companies deconsolidated in 2008 following the sale of Integra FM B.V. (formerly Pirelli Real Estate Facility Management B.V.).

As regards the column **share of earnings**, reference should be made to Note 38 "Share of earnings (losses) of associates and joint ventures".

Reclassification and other largely refers to the investment in RCS Mediagroup S.p.A. which was reclassified at December 31, 2008 to the line item "Investments in associates and joint ventures" from the line item "Other financial assets".

The investment (equal to 5.3 percent of voting capital) forms part of the shareholders' agreement which aims to ensure the stability of the shareholder base and guide the management of the operations of the RCS Mediagroup S.p.A. in a single direction (the companies in the shareholders' agreement have contributed 63.5 percent of share capital). The reason for the reclassification lies in the fundamental strengthening of the single orientation within the shareholders' agreement and the intensification of other forms of exercising the rights of governance

The reclassification led to a writeback of the average purchase cost, equal to Euros 3.38 per share, which resulted in an increase in equity, the offsetting entry to the accumulated losses recognized in a specific equity reserve which at December 31, 2007 were equal to Euros 15,419 thousand and at June 30, 2008 to Euros 74,594 thousand.

At December 31, 2008, the investment was tested for impairment and was adjusted to its value in use (Euros 1.70 per share), determined, with the assistance of a independent appraiser, using a discounted cash flow model which takes into account the generalized decline in the profitability of the sector within the context of the negative trend of the financial markets, with a consequent impairment loss recognized in income equal to Euros 65,721 thousand.

The **impairment losses** also include Euros 8,700 thousand relating to CyOptics Inc..

Movements in **provisions for other liabilities and charges** are due to the equity method valuation of some companies in the Real Estate group. The movements also include the accrual to cover the losses in excess of the carrying amount.

Key data relating to associates and joint ventures (at 100 percent) at December 31, 2008 refer to those in the Real Estate sector are indicated as follows:

(in thousands of euros)

	Associates	Joint Ventures
Non-current assets	684,196	2,705,858
Current assets	517,415	12,884,993
Non-current liabilities	559,494	11,744,744
Current liabilities	124,815	2,265,838
Revenues from sales and services	111,100	1,382,626
Costs	(123,125)	(2,695,753)
Income	(33,491)	(540,717)

Lastly, the investments in associates and joint ventures are pledged for an amount of Euros 96,879 thousand.

11. Other financial assets

Other financial assets amount to Euros 505,899 thousand compared to Euros 958,272 thousand at December 31, 2007.

The movements during the year are as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Beginning balance	958,272	1,006,898
Increase	31,864	107,939
Decrease	(30,696)	(24,173)
Impairments	(200,840)	(34,137)
(Gains) losses transferred to the income statement for disposals or impairment losses, previously recognized in equity	1,995	1,019
Changes in fair value	(138,015)	(91,842)
Reclassification	(132,171)	-
Reversal of reserve for reclassification of investments to associates	15,419	-
Reimbursement of shares	-	(7,374)
Other	71	(58)
Ending balance	505,899	958,272
of which:		
- financial assets measured at fair value through equity	476,300	926,362
- financial assets measured at fair value through profit or loss	29,599	31,910

Financial assets, whose change in fair value is recognized in the income statement under “Gains (losses) from changes in fair value of financial assets” (Euros 29,599 thousand compared to Euros 31,910 thousand in 2007) refer to shares corresponding to 13.32 percent of the Cloe Fondo Uffici – a reserved unlisted closed-end real estate investment fund, held by Pirelli Real Estate Netherlands B.V..

The classification of such shares in this line item reflects the purpose of the acquisition of the shares, which called for the shares to become part of a common investment platform for buildings intended for office use.

At December 31, 2008, financial assets, whose change in fair value is recognized in equity, are as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Listed securities		
Telecom Italia S.p.A.	203,539	387,172
Mediobanca S.p.A.	108,979	210,990
RCS Mediagroup S.p.A.	-	112,786
Fin. Priv. S.r.l. (Mediobanca shares)	14,883	28,172
Vittoria Capital N.V. (Vittoria Assicurazioni shares)	6,469	10,320
Avanex Corporation	1,422	19,213
Other companies	105	5,831
	335,397	774,484
Unlisted securities		
Alcatel Submarine SA	44,805	44,805
Alitalia S.p.A.	20,000	-
Gruppo Banca Leonardo S.p.A.	8,444	8,197
Istituto Europeo di Oncologia S.r.l.	6,483	6,024
FC Internazionale S.p.A.	4,627	3,033
Ticom I LP	2,453	5,249
Equinox Two SCA	2,270	306
Equinox Investment Company S.c.p.A.	970	1,264
Other PRE Group companies	9,115	6,526
Other companies	5,213	5,264
	104,380	80,668
Closed-end real estate investment funds		
Olinda Fondo Shops	17,888	30,964
Berenice Fondo Uffici	-	18,182
Cloe Fondo Uffici	11,170	12,195
Tecla Fondo Uffici	5,122	7,630
Armillia	1,847	2,115
Fondo Abitare Sociale 1	496	124
	36,523	71,210
	476,300	926,362

The **increase** refers mainly to Pirelli & C. S.p.A.'s subscription to Alitalia S.p.A. shares (Euros 20,000 thousand), the purchase of RCS Mediagroup S.p.A. shares (Euros 3,966 thousand) and also the purchase of Equinox shares (Euros 2,146 thousand) on the part of Pirelli Finance (Luxembourg) S.A..

In addition to the increase, there was the **decrease** that refers mainly to the total sale of the investment in Intek S.p.A. held by Pirelli & C. S.p.A. (Euros 4,008 thousand), the sale of Telecom Italia S.p.A. ordinary shares held by Pirelli Finance (Luxembourg) S.A. (Euros 10,630 thousand) and the sale of shares of the closed real estate investment funds of the Real Estate group (Euros 14,635 thousand).

Impairments are largely in reference to the adjustment made to the 1.32 percent stake held in Telecom Italia S.p.A. (Euros 173,004 thousand) and to the Avanex shares (Euros 24,335 thousand).

Net losses transferred to the income statement refer to the net effect of gains, previously recognized in equity, relating to investments in Intek S.p.A. (Euros 1,152 thousand) and in Be-

renice Fondo Uffici (Euros 3,399 thousand), transferred to the income statement following the sale of these investments, and losses previously recognized in equity, relating to the investment in Avanex Co (Euros 6,545 thousand), transferred to the income statement as a result of the impairment.

The negative **changes in fair value** of Euros 138,015 thousand (Euros 136,408 thousand recognized in equity and Euros 1,607 thousand in the income statement) mainly regard the shares of Mediobanca S.p.A. (negative for Euros 102,011 thousand), Fin Priv S.r.l. (negative for Euros 13,289 thousand) and shares of the closed-end real estate funds of the Real Estate group (negative for Euros 17,163 thousand).

For listed securities and closed-end real estate investment funds, the fair value corresponds to the stock market price at December 31, 2008.

For unlisted securities and closed-end real estate investment funds, the fair value has been estimated using appropriate estimation techniques.

Reclassification (Euros 132,171 thousand) refers to the investment in RCS Mediagroup S.p.A., reclassified from “Other financial assets” to “Investments in associates” as described in the note and comment on the line item “Investments in associates and joint ventures”. The reclassification generated a reversal of the cumulative negative fair value changes recognized in equity up to December 31, 2007 (Euros 15,419 thousand).

12. Deferred tax assets and liabilities

The composition of deferred tax assets and liabilities is as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Deferred tax assets	72,426	58,524
Deferred tax liabilities	(38,372)	(44,625)
	34,054	13,899

Since deferred tax assets and liabilities are offset in the financial statements when the income taxes are levied by the same tax authority and where there is a legally enforceable right of offset, the composition of the gross amounts is presented below:

(in thousands of euros)

	12/31/2008	12/31/2007
Deferred tax assets:	150,959	156,211
- of which, recoverable within 12 months	37,813	55,188
- of which, recoverable beyond 12 months	113,146	101,023
Deferred tax liabilities:	(116,905)	(142,312)
- of which, recoverable within 12 months	(2,149)	(4,311)
- of which, recoverable beyond 12 months	(114,756)	(138,001)
	34,054	13,899

The tax effect of the temporary differences and tax loss carryforwards which make up deferred tax assets and liabilities at December 31, 2008 and 2007 is as follows:

DEFERRED TAX ASSETS (in thousands of euros)

	12/31/2008	12/31/2007
Provision for other liabilities and charges	25,082	27,370
Employee benefit obligations	35,156	25,486
Inventories	14,563	14,063
Tax loss carryforwards	40,786	26,679
Depreciation and amortization	5,547	6,785
Trade and other receivables	7,788	16,719
Trade and other payables	11,154	17,458
Intragroup transactions	3,688	8,650
Other	7,195	13,001
	150,959	156,211

DEFERRED TAX LIABILITIES (in thousands of euros)

	12/31/2008	12/31/2007
Depreciation and amortization	(100.962)	(123.037)
Other	(15.943)	(19.275)
	(116.905)	(142.312)

At December 31, 2008, deferred tax assets relating to temporary differences that have not been recognized amount to Euros 75,213 thousand (Euros 44,958 at December 31, 2007), and those relating to tax losses equal Euros 503,791 thousand (Euros 483,044 thousand at December 31, 2007): such amounts refer to situations in which recoverability is not considered probable.

Unused tax loss carryforwards, by expiration date, for which no deferred tax assets have been recognized, are as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
2008	-	146,722
2009	288,667	288,531
2010	137,604	137,641
2011	62,922	96,895
2012	533,169	562,307
2013	36,293	547
2014	1,157	607
2015	26,318	-
2016	30,638	30,638
2017	62	-
2021	28,480	26,925
2022	52,807	48,988
2023	6,613	-
without expiration	609,504	397,970
	1,814,234	1,737,771

The tax effect of gains and losses recognized directly in equity is a positive Euros 11,281 thousand (negative Euros 2,856 thousand at December 31, 2007) and is shown in the statement of recognized income and expenses. Such movements are mainly due to the tax effect on actuarial gains/losses regarding employee benefits and the change in the fair value of available-for-sale financial assets.

13. Trade receivables

Trade receivables can be analyzed as follows:

(in thousands of euros)

	12/31/2008			12/31/2007		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures	76,237	-	76,237	122,802	-	122,802
Third parties	765,526	-	765,526	1,020,667	-	1,020,667
Receivables on construction contracts	6,177	-	6,177	9,330	-	9,330
	847,940	-	847,940	1,152,799	-	1,152,799
Provision for impairment of receivables	(59,989)	-	(59,989)	(53,872)	-	(53,872)
	787,951	-	787,951	1,098,927	-	1,098,927

Receivables on construction contracts, relating to the Real Estate sector, represent the excess of costs incurred and profit recognized using the percentage of completion method, equal to Euros 9,967 thousand at December 31, 2008 (Euros 9,780 thousand at December 31, 2007), over advances received against progress billings on contracts in progress, equal to Euros 3,790 thousand at December 31, 2008 (Euros 451 thousand at December 31, 2007).

Total gross trade receivables of Euros 847,940 thousand (Euros 1,152,799 thousand at December 31, 2007), Euros 164,149 thousand are past due (Euros 260,145 thousand at December 31, 2007). Writedowns for past due and current receivables are recognized according to the Group's policies described in the paragraph on credit risk under "Financial risk management policies". Receivables that are impaired include both significant single positions written down individually and positions with similar characteristics by group of credit risk written down on a collective basis.

The movements in the provision for impairment of trade receivables are as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Beginning balance	53,872	57,068
Discontinued operations	(6,358)	-
Exchange differences	(2,374)	150
Accruals	26,264	15,290
Utilization/release	(10,990)	(20,110)
Change in scope of consolidation	94	1,474
Other	(519)	-
Ending balance	59,989	53,872

The accrual to the provision for writedowns of trade receivables is charged to the income statement in "Other expenses" (Note 33).

The carrying amounts of trade receivables are deemed to approximate fair value.

14. Other receivables

Other receivables can be analyzed as follows:

(in thousands of euros)

	12/31/2008			12/31/2007		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures						
- financial receivables	582,259	564,492	17,767	535,999	520,079	15,920
- other receivables	6,826	891	5,935	4,292	965	3,327
Financial receivables from third parties	98,781	87,987	10,794	92,087	88,577	3,510
Trade and other accrued income and prepaid expenses/third parties	18,018	13	18,005	21,143	10	21,133
Financial accrued income and prepaid expenses	4,721	1,004	3,717	3,054	1,342	1,712
Receivables from employees	8,240	2,893	5,347	7,297	2,839	4,458
Receivables from social security agencies	4,391	-	4,391	2,923	-	2,923
Receivables from tax authorities unrelated to inc. taxes	83,897	12,717	71,180	99,353	8,860	90,493
Receivables for junior notes	21,330	21,330	-	11,307	11,307	-
Other receivables	142,576	31,677	110,899	143,369	42,525	100,844
	971,039	723,004	248,035	920,824	676,504	244,320
Provision for impairment of other receivables	(8,079)	-	(8,079)	(6,455)	(3,610)	(2,845)
	962,960	723,004	239,956	914,369	672,894	241,475

The carrying amount of **current and non-current other receivables** is regarded as approximating fair value. Particularly with regard to non-performing loans (included under “other receivables”) that, as described under the accounting policies, are accounted for at amortized cost using the effective interest method, the amount recognized is equal to the present value of future cash flows according to the most recent business plan available discounted at the original effective interest rate.

It is regarded that the carrying amount of such receivables, calculated as described above, approximates their fair value at the date of December 31, 2008 since the ordinary effective interest rate used to compute the present value is today still representative of a market rate that would be applied by third parties to measure the portfolio. Such rate is determined by considering the characteristics (such as risk, markets, etc.) of this portfolio, which are elements that company management responsible for these valuations still now consider to be essentially valid.

Non-current financial receivables from associates and joint ventures, equal to Euros 564,492 thousand, mainly refer to the Real Estate group and are classified as non-current since the collection times, connected with the plans for the disposal of the properties held directly and indirectly by the companies, will be concluded on average over a period of between two and six years. These loans are made at rates in line with those applied by the major market operators except for non-interest bearing loans made to certain non-operating companies or companies in a stage of transition. At December 31, 2008, the present value of non-interest bearing shareholder loans, net of the effect of accrued interest, resulted in a reduction of the receivable for Euros 14,264 thousand.

Non-current financial receivables from third parties principally include amounts deposited as a guarantee for tax and legal disputes relating to the subsidiary Pirelli Pneus S.A. (Brazil), remunerated at the market rate.

Receivables for junior notes relate to the Real Estate sector. The increase from the end of 2007 can be ascribed to Class B junior notes from the securitization of a non-performing loan portfolio of the associate Vesta Finance S.r.l. taken over by Pirelli & C. Real Estate S.p.A..

Other current receivables refer to the non-performing loan portfolios of the Real Estate sector (Euros 18,575 thousand) from the acquisition of mortgages and unsecured debts in previous years mainly from Banca Popolare di Intra and Banca Antonveneta, and regional grants that will be made by the Campania Region to aid buyers of property units owned by the company Geolidro S.p.A. (Euros 8,479 thousand).

The gross amount of other receivables written down is Euros 26,884 thousand at December 31, 2008 (Euros 21,756 thousand at December 31, 2007).

The movements in the provision for writedowns of other receivables are as follows:

(in thousands of euros)

	12/31/2008		12/31/2007	
	Non-current	Current	Non-current	Current
Beginning balance	3,610	2,845	3,560	2,820
Exchange differences	-	(21)	-	(6)
Accruals	-	1,124	50	79
Utilization/release	-	(424)	-	(132)
Change in scope of consolidation	(3,610)	4,545	-	84
Other	-	10	-	-
Ending balance	-	8,079	3,610	2,845

15. Tax receivables

Tax receivables amount to Euros 56,510 thousand (of which Euros 10,264 thousand is non-current) compared to Euros 55,559 thousand at December 31, 2007 (of which Euros 12,278 thousand is non-current).

16. Inventories

Inventories can be analyzed as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Tyre	809,376	652,684
Real Estate	93,379	114,291
Other	18,355	9,499
	921,110	776,474

(in thousands of euros)

	12/31/2008	12/31/2007
Raw materials, auxiliaries and consumables	210,045	168,586
Sundry materials	771	4,782
Trading properties held for sale	17,775	32,882
Building under construction / in renovation	34,997	27,052
Work in process and semifinished products	63,385	58,593
Finished products	538,529	422,281
Merchandise purchased for resale	10,413	5,954
Land to be developed	40,525	49,955
Advances to suppliers	4,670	6,389
	921,110	776,474

Inventories include capitalized borrowing costs of Euros 1,598 thousand at December 31, 2008 (Euros 679 thousand at December 31, 2007).

The writedowns of inventories recorded in 2008 amount to Euros 27,321 thousand (Euros 1,337 thousand at December 31, 2007).

Inventories are not used as collateral.

17. Securities held for trading

Securities held for trading amount to Euros 115,800 thousand (Euros 114,039 thousand at December 31, 2007) and include the following:

- Euros 35,907 thousand of floating rate bonds issued and guaranteed by banking institutions;
- Euros 63,501 thousand of fixed rate bonds issued and guaranteed by banking institutions;
- Euros 4,410 thousand of listed fixed rate bonds;
- Euros 11,850 of equity shares, of which Euros 7,371 thousand relates to listed shares;
- Euros 132 thousand of other securities.

For listed securities, the fair value corresponds to the stock market price at December 31, 2008. For unlisted securities, the fair value was determined by reference to estimates based on the best information available.

Changes in fair value are recognized in the income statement under “gains (losses) from changes in fair value of financial assets” (Note 38).

18. Cash and cash equivalents

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

For purposes of the statement of cash flows, the balance of cash and cash equivalents is shown net of bank overdrafts, equal to Euros 26,828 thousand at December 31, 2008 and Euros 47,207 thousand at December 31, 2007.

19. Equity

19.1 EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Share capital amounts to Euros 1,554,269 thousand, and consists of 5,233,142,003 ordinary shares and 134,764,429 savings shares, all with a par value of Euros 0.29 each and normal dividend rights.

The changes in share capital are detailed below:

	Number of ordinary shares (*) (thousands)	Number of savings shares (**) (thousands)	Ordinary shares (€ thousands)	Savings shares (€ thousands)	Total (€ thousands)
Balance at 12/31/2007	5,230,524	134,764	1,516,852	39,082	1,555,934
Purchase of treasury shares	(1,250)	(4,492)	(362)	(1,303)	(1,665)
Balance at 12/31/2008	5,229,274	130,272	1,516,490	37,779	1,554,269

* Net of 3,867,500 treasury shares in portfolio

** Net of 4,491,769 treasury shares in portfolio

The number of **ordinary treasury shares in portfolio** increased from 2,617,500 last year to 3,867,500 and represent 0.07 percent of ordinary shares only. Furthermore, following the withdrawal rights exercised by the savings shareholders, envisaged in the case of a reduction in share capital, pursuant to the law, 4,491,769 **savings treasury shares** were purchased, representing 3.33 percent of savings shares only. Total treasury shares in portfolio represent 0.16 percent of share capital.

Changes in equity are as follows:

(in thousands of euros)

	Attributable to the equity holders of the company						Attributable to the minority interest	TOTAL
	Share capital	Share premium reserve	Legal reserve	Reserve for translation differences	Other reserves / Retained earnings	Total attributable to equity holders of company		
Balance at 12/31/2006	2,790	759	89	187	55	3,880	807	4,687
Income and expense recognized directly in equity	-	-	-	(68)	(152)	(220)	7	(213)
Income for the year	-	-	-	-	165	165	159	324
Appropriation of income as per resolution of 4/23/2007:								
- absorption of loss	-	(748)	-	-	748	-	-	-
- dividend payment	-	-	-	-	-	-	-	-
Other dividends paid to third parties	-	-	-	-	-	-	(74)	(74)
Reduction of share capital	(1,234)	408	-	-	-	(826)	-	(826)
Movements in Pirelli & C. Real Estate S.p.A. treasury shares	-	-	-	-	(30)	(30)	(24)	(54)
Purchase of Pirelli & C. Real Estate S.p.A. shares	-	-	-	-	-	-	(24)	(24)
PRE stock options exercised in the year	-	-	-	-	5	5	3	8
Acquisitions/sales of interests from minority interest	-	-	-	-	-	-	(26)	(26)
Other	-	-	-	-	6	6	(4)	2
Balance at 12/31/2007	1,556	419	89	119	797	2,980	824	3,804
Income and expenses recognized directly in equity	-	-	-	(135)	(221)	(356)	(31)	(387)
Loss for the year	-	-	-	-	(348)	(348)	(65)	(413)
Appropriation of income as per resolution of 4/29/2008:								
- legal reserve	-	-	5	-	(5)	-	-	-
- dividend payment	-	-	-	-	(93)	(93)	-	(93)
Other dividends paid to third parties	-	-	-	-	-	-	(75)	(75)
Movements in Pirelli & C. Real Estate S.p.A. treasury shares	-	-	-	-	-	-	(20)	(20)
Acquisition of Speed S.p.A.	-	-	-	-	-	-	(386)	(386)
Acquisition of minority interest Turkey	-	-	-	-	-	-	(74)	(74)
Acquisitions/sales of interests from minority interest	-	-	-	-	-	-	17	17
Other	(2)	(2)	-	-	(7)	(11)	12	1
Balance at 12/31/2008	1,554	417	94	(16)	123	2,172	202	2,374

19.2 EQUITY ATTRIBUTABLE TO THE MINORITY INTEREST

The minority interest in equity went from Euros 823,840 thousand at December 31, 2007 to Euros 202,825 thousand at December 31, 2008. The change is mainly due to the repurchase of the 38.9 percent interest in Pirelli Tyre S.p.A. in addition to the payment of dividends and the exchange effect of the translation of foreign currency financial statements to Euros.

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

	12/31/2008	12/31/2007
Drahtcord Saar GmbH & Co. K.G. (Germany)	50.00%	50.00%
Pirelli & C. Eco Technology S.p.A. (Italy)	49.00%	49.00%
Pirelli & C. Ambiente S.p.A. (Italy)	49.00%	49.00%
Euro Driver Car S.L. (Spain)	48.85%	48.85%
Pirelli & C. Real Estate S.p.A. (Italy)	41.93%	44.64%
Driver Italy S.p.A. (Italy)	26.93%	26.93%
Pirelli Tyre Co. Ltd (China)	25.00%	25.00%
S.C. Cord Romania S.R.L (Romania)	20.00%	20.00%
Alexandria Tire Co. S.A.E. (Egypt)	10.90%	10.90%
Turk Pirelli Lastikleri A.S. (Turkey)	4.65%	30.41%
Pirelli de Venezuela C.A. (Venezuela)	3.78%	3.78%
Celikord A.S. (Turkey)	-	49.00%
Pirelli Tyre S.p.A. (Italy)	-	38.94%

20. Stock option plans

PIRELLI & C. S.p.A. STOCK OPTION PLANS

During the year ended December 31, 2008, the company did not introduce any stock option plans.

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

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

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

	Pirelli to People	Group Senior Executives
Plan features	Option rights granted, non-transferable to third parties, for the subscription of future new issues of Pirelli & C. ordinary shares or, as decided by the latter, for the purchase of treasury shares of Pirelli & C..	Option rights granted, non-transferable to third parties, for the subscription of future new issues of Pirelli & C. ordinary shares or, as decided by the latter, for the purchase of treasury shares of Pirelli & C..
Recipients at December 31, 2008	222 employees (senior executives, cadres, key employees) of the companies of the group. Originally 725 persons at the date of approval of the plan.	21 senior executives of the companies of the group. Originally 51 persons at the date of approval of the plan.
Conditions for exercising options	Continuance of employment.	(a) continuance of employment, and (b) the reaching, in the two-year period 2001-2002, of specific targets, assigned to each recipient.
Subscription/purchase price per share	Each option right granted gives the right to subscribe/purchase one Pirelli & C. ordinary share at the price of Euros 0.996 (1).	Each option right granted gives the right to subscribe/purchase one Pirelli & C. ordinary share at the price of Euros 0.996 (1).
Vesting period of options	Up to nine years from the date the options are granted (which took place on November 5, 2001), but not before one year has passed from that date for 50 percent of the options granted, two years for another 25 percent and three years for the remaining 25 percent.	As regards the options granted on November 5, 2001, up to nine years from the date the options are granted, but not before one year has passed from that date for 50 percent of the options, two years for another 25 percent and three years for the remaining 25 percent. For the options granted definitively on May 10, 2002 up to May 31, 2009, but not before June 1, 2002 for 50 percent of the options and not before January 1, 2003 for the remaining 50 percent.
Maximum number of options for which the offer was open at December 31, 2007	18,175,604 options equal to about 0.35 percent of outstanding ordinary shares destined for 255 recipients.	11,541,015 options equal to about 0.22 percent of outstanding ordinary shares destined for 25 recipients.
Maximum number of options for which the offer was open at December 31, 2008	15,697,334 options equal to about 0.3 percent of outstanding ordinary shares destined for 222 recipients.	N. 9,789,185 options equal to about 0.2 percent of outstanding ordinary shares destined for 21 recipients.
Options forfeit during 2008 as a result of persons leaving the group	2,478,270	1,751,830
Shared issued during the year	None	None

¹ Following the operation to distribute capital of Euros 0.154 per share resolved by the special session of the shareholders' meeting held December 12, 2007, the per share subscription price was changed to Euros 0.996 (from Euros 1.15) from the date of April 3, 2008, in accordance with the regulations of those stock option plans in the event of transactions involving share capital.

The following table shows the changes in the above plans, the number of option rights and the exercise price.

Pirelli to people

TABLE 1

	Year 2008			Year 2007		
	Number of shares	Average exercise price in €	Market price in €	Number of shares	Average exercise price in €	Market price in €
Rights existing at 1/1/2008	18,175,604	1.15 ¹	0.75	20,389,204	1.15 ¹	0.75
Rights granted during year (rights exercised during year)	-	-	-	-	-	-
(Rights forfeit during the year as a result of persons leaving the Group)	2,478,270	-	-	2,213,600	-	-
Rights existing at 12/31/2008	15,697,334	0.996 ¹	0.26	18,175,604	1.15 ¹	0.75

TABLE 2

Exercise price	Rights granted – existing at December 31, 2008 Remaining contractual life		Of which exercisable
	> 1 year *	Total	From 11/5/2004
Euro 0.996 ¹	15,697,334	15,697,334	15,697,334

* until 11/5/2010

¹ Following the operation to distribute capital of Euros 0.154 per share resolved by the special session of the shareholders' meeting held December 12, 2007, the per share subscription price was changed to Euros 0.996 (from Euros 1.15) from the date of April 3, 2008, in accordance with the Regulations of those Stock Option Plans in the event of transactions involving share capital.

Group Senior Executives

TABLE 1

	Year 2008			Year 2007		
	Number of shares	Average exercise price in €	Market price in €	Number of shares	Average exercise price in €	Market price in €
Rights existing at 1/1/2008	11,541,015	1.15 ¹	0.75	12,397,548	1.15 ¹	0.75
Rights granted during year (rights exercised during year)	-	-	-	-	-	-
(Rights forfeit during the year as a result of persons leaving the Group)	1,751,830	-	-	856,533	-	-
Rights existing at 12/31/2008	9,789,185	0.996 ¹	0.26	11,541,015	1.15 ¹	0.75

TABLE 2

Exercise price	Rights granted – existing at December 31, 2008 Remaining contractual life		Of which exercisable
	> 1 year *	Total	From 11/5/2004
Euro 0.996 ¹	4,416,001	9,789,185	9,789,185

* until 11/5/2010

¹ Following the operation to distribute capital of Euros 0.154 per share resolved by the special session of the shareholders' meeting held December 12, 2007, the per share subscription price was changed to Euros 0.996 (from Euros 1.15) from the date of April 3, 2008, in accordance with the Regulations of those Stock Option Plans in the event of transactions involving share capital.

The following table indicates the number of rights granted under the above-described incentive plans, held at December 31, 2008, directly and indirectly, by the members of the board of directors, the board of statutory auditors, general managers and key managers of the company and the companies controlled by it.

Name	Rights held at 1/1/2008		Rights granted during year 2008		Rights exercised during year 2008		Rights held at 12/31/2008	
	No. of rights	Average exercise price	No. of rights	Average exercise price	No. of rights	Average exercise price	No. of rights	Average exercise price
Claudio De Conto	778,774 ¹	1.15 ³	-	-	-	-	778.774 ¹	0,996 ³
	410,667 ²	1.15 ³	-	-	-	-	410.667 ²	0,996 ³
Francesco Gori ⁴	533,334 ¹	1.15 ³	-	-	-	-	533.334 ¹	0,996 ³
	666,667 ²	1.15 ³	-	-	-	-	666.667 ²	0,996 ³

¹ Group Senior Executives incentive plan.

² Pirelli to People incentive plan.

³ Following the operation to distribute capital of Euros 0.154 per share resolved by the special session of the shareholders' meeting held December 12, 2007, the per share subscription price was changed to Euros 0.996 (from Euros 1.15) from the date of April 3, 2008, in accordance with the Regulations of those Stock Option Plans in the event of transactions involving share capital.

⁴ Francesco Gori, starting from July 1, 2006, took over the post of chief executive officer and general manager of the subsidiary Pirelli Tyre S.p.A..

The deputy chairman Carlo Alessandro Puri Negri is the grantee of stock options as the Executive Vice President of Pirelli & C. Real Estate S.p.A..

Giovanni Ferrario (chief executive officer and general manager of the company to December 2004) holds 1,333,334 option rights granting the right to subscribe/purchase the same number of Pirelli & C. ordinary shares at the price of Euros 0.996 each.

Valerio Battista (general manager of the company to June 2005) holds 1,650,134 option rights granting the right to subscribe/purchase the same number of Pirelli & C. ordinary shares at the price of Euros 0.996 each.

Luciano Gobbi from the date of March 31, 2008 - after the termination of the executive relationship with Pirelli & C. S.p.A. - is no longer a recipient of any option rights.

PIRELLI & C. REAL ESTATE S.P.A. PLANS

Stock option/stock grant plans

- On March 6, 2008, the Pirelli & C. Real Estate S.p.A. board of directors, as proposed by the Remuneration Committee, approved the guidelines for two compensation plans based on financial instruments, later approved by the shareholders' meeting which convened on April 14, 2008 (together called the "Plans"):
- a stock option plan, which calls for granting stock options to grantees for the purchase of Pirelli & C. Real Estate S.p.A. ("Stock Option Plan 2008-2010" or "SOP 2008-2010").
- a stock grant plan, which calls for granting free Pirelli & C. Real Estate S.p.A. shares to grantees ("Stock Grant Plan 2008" or "SGP 2008");

On April 14, 2008, the shareholders' meeting approved the Plans, giving the board of directors a mandate to adopt the relative regulations and conferring to them all necessary and appropriate powers for their implementation.

On May 8, 2008, the board of directors, as recommended by the Remuneration Committee and in accordance with the guidelines approved by the shareholders' meeting and the mandates conferred to it, implemented the Plans and adopted the relative regulations.

Subsequently, on May 27, 2008, the board of directors, as recommended by the Remuneration Committee and following certain actions taken to simplify and modify the organizational structure based on new and changing demands to reflect growth prospects and business development, approved certain amendments regarding the options granted to the SOP 2008-2010 recipients, under the guidelines that had been approved by the shareholders' meeting and the mandates that it had conferred.

The above date of May 27, 2008 therefore represents a new grant date for the SOP 2008-2010 options for certain identified recipients.

For a description of the Plans, reference should be made to the Information Documents pursuant to ex art. 84-bis of the Consob Regulation for Issuers, posted to the company's website www.pirellire.com in the corporate governance section.

The following disclosure is provided on the above-mentioned Plans.

STOCK OPTION 2008-2010

Plan features	Option rights granted, non-transferable to third parties, for the purchase of Pirelli & C. Real Estate S.p.A. ordinary shares held by the company (treasury shares).
Recipients at December 31, 2008	51 persons (directors, general managers and other key resources) of Pirelli & C. Real Estate S.p.A. and its subsidiaries. Originally 58 persons at the date of approval of the plan. Two grants were made, respectively, on May 8, 2008 (1,240,000 options) and on May 27, 2008 (193,500 options).
Conditions for exercising options	(a) continuance of the employment relationship or status as a director in the companies of the Pirelli Group; (b) reaching/exceeding, when the rights are exercised, a minimum market price of the Pirelli RE share, not less than Euros 26.00 [market restriction]; (c) Pirelli RE has reached the performance targets that will be set by the board of directors upon approval of the 2008-2010 plan.
Subscription/purchase prices per share	Each option right granted gives the right to subscribe/purchase one Pirelli & C. Real Estate S.p.A. ordinary share at the price of Euros 21.23 for the options granted on May 8 and the price of Euros 18.88 for the options granted on May 27, which corresponds to the fair value of the share on the grant date; this price may vary as a result of share capital increases or other extraordinary transactions, but in every case ensuring the equivalent rights held by the grantees before those transactions.
Vesting period of options	40 percent (or a part thereof) of the options can be exercised from May 1, 2010 to December 31, 2011 (first tranche) and the remaining 60 percent from May 1, 2011 to December 31, 2011 (second tranche); all options must be exercised by December 31, 2011. The options may be exercised in advance, in the event of a "change of control" and, as a result of which, Pirelli & C. S.p.A. would no longer be the majority shareholder of the company. However, the market and operating restrictions remain in place, with predetermined criteria to be applied in relation to the exercise of the options if the event should occur.
Maximum number of options for which the offer was open at December 31, 2008	1,379,500 options equal to about 0.03 percent of outstanding ordinary shares destined for 51 recipients.
Options forfeit during 2008 as a result of persons leaving the Group	54,000
Shares issued during the period	None.

The fair value of the options at the grant date was determined using the Binomial valuation model and is equal to:

Grant date	First tranche	Second tranche
May 8, 2008	€ 2.26	€ 2.87
May 27, 2008	€ 1.76	€ 2.37

- The assumptions that were considered in the valuation model can be summarized as follows:
- weighted average price of shares at the grant date equal to Euros 21.23 for the options granted on May 8 and Euros 18.88 for the options granted on May 27;
 - estimated volatility of 30 percent determined on the basis of the historical volatility of the price of the shares from the time Pirelli & C. Real Estate S.p.A. was listed up to the grant date of this plan;
 - estimated period of the rights is 1.98 years for the first tranche and 2.98 years for the second tranche for the options granted on May 8 (1.93 years and 2.93 years, respectively, for the first tranche and the second tranche for the options granted on May 27);
 - estimated dividends equal to 4 percent;
 - risk-free interest rate equal to 4.25 percent.

STOCK GRANT PLAN 2008

Plan features	Allotments of stock grants following the agreement for the consensual early termination of the Long-Term Incentive Plan 2006-2008 (LTI), with an amount corresponding to what has potentially accrued to the recipients in 2006 and divided among them on the basis of what they were respectively entitled. Instead of paying this amount in cash, the recipients were given the value in the form of shares
Recipients at December 31, 2008	55 persons (directors, general managers and other key resources) of Pirelli & C. Real Estate S.p.A. and its subsidiaries. The number of shares is equal to 109,860 allotted on the date of May 8, 2008.
Lock-up period	The Stock Grant Plan 2008 provides for a lock-up period (to April 30, 2009). During that time, each beneficiary is committed not to dispose of the shares assigned, or negotiate, with or without payment, for the transfer of ownership or other real right on the shares or pledge, restrict or encumber the shares in any other way.
Early end of lock-up period	The company may, before April 30, 2009, end the lock-up period in case of particular events or specific situations and without the recipients claiming any right even in the presence of the particular events or specific situations.
Call option	In the event of resignation, termination for cause and/or loss of director status during the lock-up period, the company has a call option to repurchase the recipient's shares.

The tables below – in conformity with Scheme 2 of Attachment 3C of Consob Regulation 11971/1999 – show the changes in the stock options held by the directors and general managers of Pirelli & C. Real Estate S.p.A. during 2008.

Name	Position	Rights held at 1/1/2008			Rights granted in 2008			Rights exercised in 2008			Rights expired/forfeit in 2008	Rights held at 12/31/2008	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)		(10)	(11) =(1)+(4)- -(7)-(10)
		Number of options	Average exercise price	Expiration	Number of options	Average exercise price	Due date	Number of options	Average exercise price	Average exercise market price	Number of options	Number of options	Average exercise price
Carlo Alessandro Puri Negri	Executive Deputy Chairman	300,000	46.50	12/15/2009	300,000	21.23	12/31/2011	-	-	-	300,000	300,000	21.23
Emilio Biffi	Delegated Officer - Chief Technical Officer	70,000	46.50	12/15/2009	30,000	21.23	12/31/2011	-	-	-	70,000	30,000	21.23
Olivier de Poulpique	Delegated Officer - Investment & Fund Raising	200,000	46.50	12/15/2009	200,000	21.23	12/31/2011	-	-	-	200,000	200,000	21.23
Carlo Bianco *	Deputy Chairman	140,000	46.50	12/15/2009	-	-	12/31/2011	-	-	-	140,000	-	-
Paolo Massimiliano Bottelli	General Manager Germany and Poland	140,000	46.50	12/15/2009	140,000	21.23	12/31/2011	-	-	-	140,000	140,000	21.23
				12/15/2009	33,500	18.88	12/31/2011					33,500	18.88
Wolfgang Weinschrod	Officer	-	-	12/15/2009	15,000	21.23	12/31/2011	-	-	-	-	15,000	21.23
Rodolfo Petrosino	General Manager Italy	140,000	46.50	12/15/2009	140,000	21.23	12/31/2011	-	-	-	140,000	140,000	21.23
				12/15/2009	33,500	18.88	12/31/2011					33,500	18.88
Gerardo Benuzzi	General Manager Finance & Human Resources	58,000	46.50	12/15/2009	65,000	21.23	12/31/2011	-	-	-	58,000	65,000	21.23
					12,500	18.88	12/31/2011					12,500	18.88

* Director in office from January 1, 2008 to April 14, 2008 and not reappointed by the shareholders' meeting held April 14, 2008

Name	Position	Rights held at 1/1/2008			Rights granted in 2008			Rights exercised in 2008			Rights expired/forfeit in 2008	Rights held at 12/31/2008	
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)		(10)	(11) =(1)+(4)- -(7)-(10)
(A)	(B)	Number of options	Average exercise price	Expiration	Number of options	Average exercise price	Expiration	Number of options	Average exercise price	Average exercise market price	Number of options	Number of options	Average exercise price
Emilio Biffi	Delegated Officer - Chief Technical Officer	-	-	-	5,203	-	n/a	5,203	-	19.37	-	-	-
Olivier de Poulpiquet	Delegated Officer - Investment & Fund Raising	-	-	-	16,283	-	n/a	16,283	-	19.37	-	-	-
Paolo Massimiliano Bottelli	General Manager Germany and Poland	-	-	-	7,400	-	n/a	7,400	-	19.37	-	-	-
Rodolfo Petrosino	General Manager Italy	-	-	-	7,400	-	n/a	7,400	-	19.37	-	-	-
Gerardo Benuzzi	General Manager Finance & Human Resources	-	-	-	4,607	-	n/a	4,607	-	19.37	-	-	-

These are option rights relating to the stock option plan for the three years 2006-2008 which was subsequently replaced by the stock option plan 2008-2010, as approved by the shareholders' meeting held on April 14, 2008 in view of the approval of the new three-year plan 2008-2010. The stock option plan is described in detail in the information document pursuant to ex art. 114-bis of the Consolidated Law on Finance and art. 84 of the Regulation for Issuers, published in accordance with the law. Consequent to the introduction of the new plan, the options relating to the previous plan are forfeit.

PIRELLI & C. AMBIENTE S.P.A. PLANS

Under the cash-settled stock options plan approved by the board of directors of Pirelli & C. Ambiente Renewable Energy S.p.A. and its parent Pirelli & C. Ambiente S.p.A. (which merged Pirelli & C. Ambiente Renewable Energy S.p.A. during the course of the year), in effect since January 2006, the specific corporate targets set as conditions precedent to the exercise of the option rights had not been met as at December 31, 2008. As a result the option rights were forfeit for all intents and purposes.

Therefore, the payable corresponding to the fair value of the plan, equal to Euros 501 thousand, was reversed to the income statement.

21. Tax payables

Tax payables amount to Euros 53,742 thousand (of which Euros 9,706 thousand is non-current) compared to Euros 56,918 thousand at December 31, 2007 (of which Euros 11,211 thousand is non-current).

22. Provisions for other liabilities and charges

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

PROVISIONS FOR OTHER LIABILITIES AND CHARGES - NON-CURRENT (in thousands of euros)

Beginning balance at 12/31/2007	146,331
Exchange differences	(16,437)
Increase	19,929
Utilization/release	(12,071)
Other	3,439
Ending balance at 12/31/2008	141,191

PROVISIONS FOR OTHER LIABILITIES AND CHARGES - CURRENT (in thousands of euros)

Beginning balance at 12/31/2007	71,340
Exchange differences	(834)
Increase	81,252
Utilization/release	(11,856)
Other	(4,252)
Ending balance at 12/31/2008	135,650

At December 31, 2008, the **non-current portion** mainly refers to the accruals for the legal and tax disputes of the subsidiary Pirelli Pneus S.A. in Brazil (Euros 72,201 thousand), risks of a tax nature (Euros 27,410 thousand) and other risks/expenses of a commercial nature and labor disputes (Euros 15,807 thousand) regarding the Parent, Pirelli & C. S.p.A., and contractual commitments undertaken for the performance of extraordinary maintenance work on buildings sold (Euros 17,533 thousand) and disputes under arbitration and pending litigation (Euros 5,666 thousand) regarding Pirelli & C. Real Estate S.p.A..

The increase for the year is largely in reference to adjustments connected with commercial risks, compensation and disputes (Euros 9,951 thousand for the Parent, Pirelli & C. S.p.A., and Euros 7,720 thousand for the Tyre sector).

The **current portion** includes accruals for contractual guarantees and product claims (Euros 33,514 thousand for the Tyre sector and Euros 14,831 thousand for the Broadband Access sector), accruals made by the Parent, Pirelli & C. S.p.A., for guarantees provided when Pirelli sold its activities in the Energy and Telecom Cables and Systems sectors to Goldman Sachs Capital Partners in July 2005 (Euros 10,000 thousand) and restructuring expenses for the internal reorganization of Pirelli & C. Real Estate S.p.A. (Euros 16,976 thousand) in addition to the provision for liabilities regarding investments accounted for by the equity method of Pirelli & C. Real Estate S.p.A. (Euros 48,670 thousand).

The **increase** mainly refers to the Real Estate sector for restructuring programs (Euros 17,900 thousand) and liabilities relating to the investments accounted for by the equity method in order to absorb the losses of the associates and joint ventures in excess of their carrying amount (Euros 48,670 thousand) in addition to an accrual by the Tyre sector (Euros 8,284 thousand) regarding contractual guarantees and product claims.

23. Employee benefit obligations

Employee benefit obligations include:

(in thousands of euros)

	12/31/2008	12/31/2007
Pension funds:		
- funded	157,368	118,234
- unfunded	88,752	88,050
Employees' leaving indemnity (Italian companies)	56,783	74,559
Medical care plans	18,442	21,839
Other benefits	45,190	46,460
	366,535	349,142

PENSION FUNDS

The composition of pension funds at December 31, 2008 is as follows:

(in thousands of euros)

	12/31/2008					
	Germany	Total unfunded pension funds	USA	UK	Other countries	Total funded pension funds
Funded						
Present value of funded obligations	-	-	128,035	598,155	2,615	728,805
Fair value of plan assets	-	-	(73,780)	(495,549)	(2,108)	(571,437)
Unfunded						
Present value of unfunded obligations	88,752	88,752	-	-	-	-
Net liability in the balance sheet	88,752	88,752	54,255	102,606	507	157,368
of which:						
- Tyre	83,310	83,310	54,255	62,157	507	116,919
- Real Estate	5,442	5,442				
- Other				40,449		40,449

The composition of pension funds at December 31, 2007 was as follows:

(in thousands of euros)

	12/31/2007					
	Germany	Total unfunded pension funds	USA	UK	Other countries	Total funded pension funds
Funded						
Present value of funded obligations	-	-	123,593	899,691	2,519	1,025,803
Fair value of plan assets	-	-	(103,933)	(801,632)	(2,004)	(907,569)
Unfunded						
Present value of unfunded obligations	88,050	88,050	-	-	-	-
Net liability in the balance sheet	88,050	88,050	19,660	98,059	515	118,234
of which:						
- Tyre	87,269	87,269	19,660	65,278	515	85,453
- Real Estate	781	781				
- Other				32,781		32,781

The principal features of the pension plans in existence at December 31, 2008 are as follows:

- Germany - Tyre sector: this is an unfunded defined benefit plan based on the most recent remuneration. It guarantees another pension besides the government pension. The plan was closed in October 1982; consequently, the participants in the plan are employees who were hired prior to that date;
- USA – Tyre sector: this is a funded defined benefit plan based on the most recent remuneration. It guarantees another pension besides the government pension. The plan is under the administration of a trust. The plan was closed in 2001 and frozen in 2003 for those employees who changed over to a defined contribution scheme. None of the current participants in the plan are in service;
- UK: these are funded defined benefit plans based on the most recent remuneration. They guarantee another pension besides the government pension. The plans are under the administration of a trust. The plans were closed in 2001; consequently, the participants in the plan are employees who were hired prior to that date.

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

(in thousands of euros)

	12/31/2008	12/31/2007
Beginning balance	1,113,853	1,193,755
Exchange differences	(207,553)	(99,276)
Change in the scope of consolidation	3,986	-
Movements through the income statement:		
- current service cost	4,669	5,110
- interest cost	57,672	58,488
Actuarial (gains) losses recognized in equity	(111,992)	7,230
Employee contribution	1,323	1,620
Benefits paid	(48,146)	(53,760)
Other	3,745	686
Closing balance	817,557	1,113,853

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

(in thousands of euros)

	12/31/2008	12/31/2007
Beginning balance	(907,569)	(937,597)
Exchange differences	187,355	85,947
Movements through the income statement:		
- expected return of plan assets	(64,529)	(67,042)
Actuarial (gains) losses recognized in equity	195,456	(3,030)
Employer contribution	(22,453)	(31,288)
Employee contribution	(1,323)	(1,620)
Benefits paid	40,978	47,004
Other	648	57
Closing balance	(571,437)	(907,569)

The assumptions made to compute the expected return of the pension fund assets are based on the expected returns of the underlying assets (shares, bonds and deposits). The expected return originates from the general average of the expected returns by the assets for every class of separately identified investments, with reference to an effective or objective composition of the assets.

The expected return of each class of investment originates from the market yields available at the balance sheet date. Specifically, the expected return of equity shares originates from a risk-free rate of return with the addition of an adequate premium for the risk.

The composition of the funded pension plan assets is presented in the following table:

	12/31/2008			12/31/2007		
	UK	USA	Other countries	UK	USA	Other countries
Shares	64%	70%		82%	68%	
Bonds	33%	25%		14%	29%	
Deposits				1%	3%	
Other	3%	5%	100%	3%		100%
	100%	100%	100%	100%	100%	100%

The effective return of pension plan assets is as follows:

(in thousands of euros)

	USA	UK	Other countries	Total
Effective return 2008 - (gain)/loss	26,027	134,370	(51)	160,346
Effective return 2007 - (gain)/loss	(7,666)	(60,473)	251	(67,888)

The costs recognized in the income statement for pension funds are as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Current service costs	4,669	5,110
Interest cost	57,672	58,488
Expected return on plan assets	(64,529)	(67,042)
	(2,188)	(3,444)

The amounts recognized in the income statement are included in "Personnel costs" (Note 31). The contributions which are expected to be paid for pension funds during 2009 amount to Euros 23,337 thousand.

EMPLOYEES' LEAVING INDEMNITY

The movements during the year in employees' leaving indemnity are as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Beginning balance	74,559	96,824
Discontinued operations	(12,846)	-
Change in the scope of consolidation	-	(5,491)
Movements through the income statement (excluding curtailment)	3,565	8,270
Curtailment	-	(5,186)
Actuarial (gains) losses recognized in equity	1,959	(5,358)
Payments / advances	(10,798)	(14,467)
Other	344	(33)
Ending balance	56,783	74,559
of which:		
- Tyre	37,194	38,912
- Broadband	651	1,128
- Real Estate	7,327	21,283
- Other	11,611	13,236

Discontinued operations refer to the deconsolidation of the Integra FM B.V. group (formerly Pirelli RE Integrated Facility Management B.V.) and PGT Photonics S.p.A., after the stakes held in these companies were sold to third parties.

The movements through the income statement during 2008 relate only to the interest expense accrued on employees' leaving indemnity at December 31, 2007. Following the leaving indemnity reform introduced by Italian Budget Law 2007, employees' leaving indemnity was in fact transformed into a defined contribution plan.

Movements through the income statement are recorded in "Personnel costs" (Note 31).

MEDICAL CARE PLANS

The composition of medical care plans is as follows:

(in thousands of euros)

	USA
Liability in the balance sheet at 12/31/2008	18,442
Liability in the balance sheet at 12/31/2007	21,839

The medical care plan in existence in the United States (Tyre sector) covers white-collars and blue-collars, in service and retired.

The plan is structured according to "pre-medicare" and "post-medicare", with the latter referring to participants over the age of 65.

Contributions are paid in both by the employer and the employee.

The movements during the year in the liabilities recognized in the financial statements for medical care plans are the following:

(in thousands of euros)

	12/31/2008	12/31/2007
Beginning balance	21,839	28,362
Exchange differences	1,333	(3,081)
Moviments through the income statement:		
- current service cost	7	7
- interest cost	1,217	1,366
Actuarial (gains) losses recognized in equity	(1,109)	(1,355)
Benefits paid	(1,591)	(1,863)
Other	(3,254)	(1,597)
Ending balance	18,442	21,839

The effect of a one percentage point increase or decrease in the estimated rates for the costs of medical care is as follows:

(in thousands of euros)

	1% increase		1% decrease	
	12/31/2008	12/31/2007	12/31/2008	12/31/2007
Effect on current service cost and interest cost	55	55	(54)	(52)
Effect on liabilities recognized in the balance sheet	933	849	(908)	(805)

The costs recognized in the income statement for medical care plans are as follows:

(in thousands of euros)

	12/31/2008	12/31/2007
Current service costs	7	7
Interest cost	1,217	1,366
	1,224	1,373

The amounts recognized in the income statement are included in "Personnel costs" (Note 31).

OTHER INFORMATION

Net actuarial losses referring to 2008 recognized directly in equity amount to Euros 85,058 thousand (net gains of Euros 2,589 thousand in 2007).

The cumulative amount at December 31, 2008, equal to a net loss of Euros 150,460 thousand (net loss of Euros 64,326 thousand in 2007), is made up as follows:

(in thousands of euros)

	Italy	Germany	USA	UK	Other countries	Total
Pension funds	-	8,670	(44,445)	(124,439)	(1,151)	(161,365)
Medical care plans	-	-	214	-	-	214
Employees' leaving indemnity	10,691	-	-	-	-	10,691
Total actuarial gains (losses) recognized in equity	10,691	8,670	(44,231)	(124,439)	(1,151)	(150,460)

The breakdown of the cumulative amount at December 31, 2007 by country was as follows:

(in thousands of euros)

	Italy	Germany	USA	UK	Other countries	Total
Pension funds	-	5,916	(10,607)	(72,315)	(515)	(77,521)
Medical care plans	-	-	(894)	-	-	(894)
Employees' leaving indemnity	14,089	-	-	-	-	14,089
Total actuarial gains (losses) recognized in equity	14,089	5,916	(11,501)	(72,315)	(515)	(64,326)

The main actuarial assumptions used at December 31, 2008 and also to determine the estimated cost for the year 2009 are as follows:

	Italy	Germany	Netherlands	UK	USA
Discount rate	5.70%	5.70%	5.70%	6.20%-6.40%	6.25%
Inflation rate	2.00%	2.00%	2.00%	2.70%	-
Expected return on plan assets	-	-	-	6.65%	7.75%
Expected remuneration increase rate	3.5% - 4.5% *	2.50%	2.00%	3.15%	-
Medical care cost trend rate - initial	-	-	-	-	8.50%
Medical care cost trend rate - final	-	-	-	-	4.50%

* Indicators are only valid for companies with less than 50 employees.

The main actuarial assumptions used at December 31, 2007 and also to determine the estimated cost for the year 2008 were as follows:

	Italy	Germany	Netherlands	UK	USA
Discount rate	5.50%	5.50%	5.50%	5.60%	6.00%
Inflation rate	2.00%	2.00%	2.00%	3.15%	-
Expected return on plan assets	-	-	-	7.78%	7.67%
Expected remuneration increase rate	3.5% - 4.5% *	2.50%	2.00%	3.15%	-
Medical care cost trend rate - initial	-	-	-	-	9.00%
Medical care cost trend rate - final	-	-	-	-	4.50%

* Indicators are only valid for companies with less than 50 employees.

The discount rates are used in the measurement of the obligation and the financial component of the net current expense. The Group has chosen such rates based on the yield curves of fixed-rate securities (corporate bonds) of leading companies (with an AA+ rating) at the measurement date of the plans.

The medical care cost trend rate represents the expected increase in medical care costs. The rate is determined on the basis of the specific experience of the sector and the various trends, including specific inflation projections in the health care sector.

The initial rate used represents a trend for a short-term period based on recent experience and the prevailing market conditions. The final rate used is an assumption of the long-term period which takes into account, among other things, inflation in the costs of health care on the basis of the general inflation trend, incremental medical inflation, technologies, new drugs, average age of the population and a different mix of medical services. The change in the average trend in the rate of growth of medical care costs in 2008 was determined based on the recent change in medical care costs.

The expected return on plan assets reflects the estimates on the medium- and long-term return performance of the pension fund assets for the entire duration of the obligation. The expected return is set for each class of assets (equity shares, bonds, cash and real estate) and is net of expected administrative costs. The historical trend and the correlation of returns, the estimate on future trends and other relevant financial factors are analyzed in order to check reasonableness and consistency.

The adjustments based on historical experience made to defined benefit plans are the following:

(in thousands of euros)

	12/31/2008	12/31/2007	12/31/2006	12/31/2005
Adjustments to plan liabilities - (gains)/losses	(9,553)	16,097	(7,527)	46,038
Adjustments to plans assets - (gains)/losses	224,875	(744)	(32,733)	(75,756)

The adjustments to liabilities represent the change in the actuarial liability that is not generated by changes in the actuarial assumptions. These typically include changes in the demographic and remuneration structure. Experience adjustments do not include changes in the plan regulations (past service cost).

The adjustments to assets represent the difference between the effective return of the assets and the expected return at the start of the year.

24. Borrowings from banks and other financial institutions

Borrowings from banks and other financial institutions are analyzed as follows:

(in thousands of euros)

	12/31/2008			12/31/2007		
	Total	Non-current	Current	Total	Non-current	Current
Bonds	150,000	-	150,000	650,000	150,000	500,000
Borrowings from banks	1,780,681	1,279,470	501,211	872,768	653,714	219,054
Borrowing from other financial institutions	66,401	64,739	1,662	69,433	67,936	1,497
Finance lease payables	41,099	30,340	10,759	35,652	32,271	3,381
Financial accrued liabilities and deferred income	19,268	510	18,758	17,693	420	17,273
Other financial payables	13,859	688	13,171	14,411	955	13,456
	2,071,308	1,375,747	695,561	1,659,957	905,296	754,661

These payables are secured by real guarantees (liens and mortgages) for Euros 19,107 thousand (Euros 179,380 thousand at December 31, 2007).

If the negative fair value change of derivatives hedging the exchange rates of financial payables (classified in "Derivative financial instruments") of Euros 43 million is added to the total, the gross payable is equal to Euros 2,114 million, reported in the net financial position.

The carrying amount of current payables is regarded as approximating fair value. The current payables include the current portion of long-term financial payables of Euros 414,330 thousand (Euros 531,200 thousand at December 31, 2007).

The fair value of non-current payables, compared to the carrying amount, is as follows:

(in thousands of euros)

	12/31/2008		12/31/2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial payables	1,375,747	1,383,316	905,296	901,692

At December 31, 2008, the breakdown of payables by interest rate and currency of origin is as follows:

(in thousands of euros)

	Fixed rate		Floating rate		Total
EUR	301,418		228,896		530,314
USD	1,902		-		1,902
BRL (Brazilian real)	88,872		-		88,872
CNY (Chinese renminbi)	37,737		26,326		64,063
Other currencies	10,310		100		10,410
Current payables	440,239	63%	255,322	37%	695,561
EUR	313,321		989,192		1,302,513
USD	23,711		-		23,711
BRL (Brazilian real)	-		17,909		17,909
CNY (Chinese renminbi)	-		31,614		31,614
Non-current payables	337,032	24%	1,038,715	76%	1,375,747
	777,271	38%	1,294,037	62%	2,071,308

The percentage of floating-rate payables at December 31, 2008 increased compared to the prior year mainly as a result of repayments of fixed-rate bond issues (Euros 500,000 thousand) in October 2008. However, the intention is to bring the fixed/floating ratio in line with the Group's policies which call for an objective 60/40 proportion for fixed-/floating-rate payables.

At December 31, 2007, the situation was as follows:

(in thousands of euros)

	Fixed rate		Floating rate		Total
EUR	541,682		103,843		645,525
USD	19,970		-		19,970
BRL (Brazilian real)	30,754		-		30,754
CNY (Chinese renminbi)	58,112		-		58,112
Other currencies	300		-		300
Current payables	650,818	86%	103,843	14%	754,661
EUR	485,671		370,683		856,354
USD	23,532		-		23,532
BRL (Brazilian real)	10,085		15,227		25,312
EGP (Egyptian pound)	98		-		98
Non-current payables	519,386	57%	385,910	43%	905,296
	1,170,204	70%	489,753	30%	1,659,957

The fixed-rate payables above include payables denominated by contract at fixed rates and payables denominated by contract at floating rates hedged by derivatives.

The Group's exposure to interest rate changes on financial payables in terms of either the type of rate or the date of resetting the rate can be summarized as follow:

(in thousands of euros)

	12/31/2008			12/31/2007		
	Total	Fixed rate	Floating rate	Total	Fixed rate	Floating rate
Up to 6 months	850,480	378,539	471,941	756,652	266,899	489,753
Between 6 and 12 months	61,700	61,700	-	500,367	500,367	-
Between 1 and 5 years	1,151,637	329,541	822,096	394,745	394,745	-
Beyond 5 years	7,491	7,491	-	8,193	8,193	-
	2,071,308	777,271	1,294,037	1,659,957	1,170,204	489,753

Bonds refer to those issued in 1999 by Pirelli & C. S.p.A. for Euros 150,000 thousand at a fixed rate of 5.125 percent, maturing April 7, 2009.

The reduction from 2007 is due to the repayment of the bonds issued on October 21, 1998 by Pirelli & C. S.p.A. for Euros 500,000 thousand at a fixed rate of 4.875 percent and repaid in a one-off payment at maturity on October 21, 2008.

The bonds are not covered by financial covenants or clauses which could cause the early repayment of the bonds due to events other than insolvency.

With regard to negative pledge clauses, there is a commitment on the bonds requiring that real guarantees are not to be provided on the Relevant Debt (bonds and similar securities destined for listing) with the exception for real guarantees on existing debt.

With regard to the existence of financial covenants on credit lines drawn down (included in payables to banks) the following financing lines should be noted, all of which are revolving lines:

Corporate:

- Barclays Capital, BNP Paribas, HSBC Bank plc, J.P. Morgan plc, The Royal Bank of Scotland plc (as the Mandated Lead Arrangers), for Euros 800,000 thousand, drawn down for Euros 100,000 thousand, expiring December 2011 for Euros 155,000 thousand and December 2012 for Euros 645,000 thousand, for which Pirelli & C must maintain a specific level of consolidated debt and a specific ratio between consolidated net debt and gross operating profit. These parameters are complied with at December 31, 2008.

As far as negative pledges are concerned, real guarantees must not be granted above the ceiling of Euros 75,000 thousand, relating to the Relevant Debt (bonds and similar destined for listing), with the exception for real guarantees on existing debt or debt which replaces it, to be provided by law, relating to export and project finance arrangements and low-rate financing;

Tyre:

- syndicated line (granted to Pirelli Tyre S.p.A. and Pirelli International Limited), in which 12 banks participate for a total of Euros 675,000 thousand, drawn down for Euros 600,000 thousand, expiring February 2012, carries no financial covenants. There is a negative pledge clause not to grant real guarantees, beyond a set ceiling defined as the higher of Euros 100,000 thousand and 3 percent of total assets (as defined in the consolidated financial statements of Pirelli Tyre S.p.A.), relating to the Relevant Debt (bonds and similar destined for listing) with the exception for real guarantees on existing debt or debt which replaces it, to be provided by law, relating to export and project finance arrangements and low-rate financing;

Real Estate:

- The Royal Bank of Scotland plc, for Euros 50,000 thousand, completely drawn down, expiring December 2009, for which Pirelli & C. Real Estate S.p.A. must maintain, in reference to the consolidated financial statements, a specific amount of net tangible assets (defined as the difference between total equity and the amount resulting from the sum of intangible assets and any asset balance between deferred tax assets and liabilities);
- West LB AG, for Euros 50,000 thousand, fully drawn down, expiring May 2011, for which Pirelli & C. Real Estate S.p.A. must maintain a specific level of consolidated equity;
- Unicredit Corporate Banking S.p.A., for Euros 100,000 thousand, fully drawn down, expiring January 2010, which can be renewed for another 18 months, for which Pirelli & C. Real Estate S.p.A. must maintain a specific level of consolidated equity.

As for the financing lines granted to Pirelli Real Estate, the fact of considering the capital increase described in the report on operations and previously announced to the financial community brings the balance sheet requirement and conventional requirement of net tangible assets, which can be influenced by the group's performance in the absence of the above capital increase, above the minimum contractually agreed levels.

On the other credit lines, Pirelli Real Estate is not required to comply with any covenants.

The other financial payables in existence are not covered by financial covenants or clauses which could cause their early repayment due to events other than insolvency.

There are no significant negative pledge clauses.

In addition to liquidity and securities held for trading of Euros 369,705 thousand, at December 31, 2008 the Group has unused committed credit lines for Euros 785,000 thousand (Euros 2,672,000 thousand at December 31, 2007). Expiration dates are the following:

(in thousands of euros)

2010	10,000
2011	136,000
2012	639,000
	785,000

As for finance lease payables, reference should be made to Note 8.1 "Finance leases".

25. Trade payables

Trade payables are analyzed as follows:

(in thousands of euros)

	12/31/2007			12/31/2006		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures	21,704	-	21,704	24,458	-	24,458
Third parties	1,079,800	-	1,079,800	1,198,417	-	1,198,417
Notes payable	3,043	-	3,043	97,073	-	97,073
Payables on construction contracts	4,026	-	4,026	3,640	-	3,640
	1,108,573	-	1,108,573	1,323,588	-	1,323,588

The carrying amount of trade payables is regarded as approximating fair value.

The reduction in **notes payables** at December 31, 2008 is mainly due to the change in the terms for the purchase of natural rubber on the part of the Tyre sector. The reduction is basically compensated by the increase in trade receivables from third parties.

Payables on construction contracts relating to the Real Estate sector represent the advances received on progress billings for contracts, equal to Euros 30,266 thousand at December 31, 2008 (Euros 26,818 thousand at December 31, 2007), in excess of costs incurred and margins recognized on the basis of the percentage of completion method, equal to Euros 26,240 thousand at December 31, 2008 (Euros 23,178 thousand at December 31, 2007).

26. Other payables

Other payables can be analyzed as follows:

(in thousands of euros)

	12/31/2007			12/31/2006		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures	7,344	-	7,344	21,466	-	21,466
Trade and other accrued liabilities and deferred income	72,253	3,712	68,541	130,776	4,869	125,907
Tax payables	53,986	8,167	45,819	98,433	10,288	88,145
Payables to employees	168,244	277	167,967	131,031	77	130,954
Payables to social security agencies	38,256	3,052	35,204	48,308	2,934	45,374
Payables for stock options	10	-	10	494	-	494
Dividends payable	920	-	920	827,252	-	827,252
Advances from customers	2,284	10	2,274	4,979	-	4,979
Other payables	187,576	33,254	154,322	155,234	5,132	150,102
	530,873	48,472	482,401	1,417,973	23,300	1,394,673

Dividends payable declared last year referred to the reimbursement of share capital to the shareholders of Pirelli & C. S.p.A. for Euros 826,254 thousand, approved by the shareholders' meeting held on December 12, 2007.

Other non-current payables mainly include the payables for the acquisition of stakes in Polish companies (Euros 11,210 thousand) and payables for the non-performing loan portfolio (Euros 17,661 thousand), both relating to the Real Estate sector.

Other current payables comprise:

- Payables for claims under warranty arising from defects on the products marketed for Euros 26,597 thousand;
- payables for the purchase of property, plant and equipment for Euros 27,649 thousand, relating to the Tyre sector;
- payables for down-payments and advances relating to the Real Estate sector for Euros 1,763 thousand;
- payables to sales representatives, agents, professionals and consultants for Euros 9,429 thousand;
- payables of the Parent, Pirelli & C. S.p.A., to Alitalia S.p.A. for the capital subscribed by not yet paid for Euros 8,871 thousand;
- advances disbursed by the European Union to the Tyre sector for research projects for Euros 1,678 thousand;
- payables for withholding taxes at source on income of the Tyre sector for Euros 3,405 thousand.

The carrying amount of other current and non-current payables is regarded as approximating fair value.

27. Derivative financial instruments

This item includes the measurement at fair value of derivatives outstanding at December 31, 2008. In particular, the portion of the fair value measurement included in current assets comprises:

- Euros 90,535 thousand (Euros 56,116 thousand at December 31, 2007) relating to the fair value measurement of forward currency purchases and sales in place at December 31, 2008.

These are derivative transactions hedging commercial and financial transactions of the Group; the hedge accounting option was not adopted. The fair value is determined by using the forward exchange rate at the balance sheet date;

- Euros 3,507 thousand (Euros 2,210 thousand at December 31, 2007) relating principally to the measurement of other derivatives at fair value. In particular, Euros 1,934 thousand refers to the fair value measurement of futures contracts purchased on natural rubber on which the Tyre sector uses hedge accounting in accordance with IAS 39.

The above hedge put into place in the last quarter of 2008 by the Tyre sector aims to limit exposure to the economic effects of an increase in natural rubber prices and contain the cost of the future provisioning of natural rubber for a limited part of the total requirements for the first half of 2009.

In order to avoid fluctuations in economic results due to the volatility of the relative fair value, hedge accounting was adopted under IAS 39.

The amount recognized in equity at December 31, 2008 is a positive Euros 1,934 thousand.

The portion of the fair value measurement included in current liabilities comprises:

- Euros 104,106 thousand (Euros 72,513 thousand at December 31, 2007) relating to the fair value measurement of forward currency purchases and sales in place at the closing date. These are derivative transactions hedging commercial and financial transactions of the Group; the hedge accounting option was not adopted. The fair value is determined by using the forward exchange rate at the balance sheet date;
- Euros 6,367 thousand (Euros 2,210 thousand in financial instruments recorded in assets at December 31, 2007) relating to the fair value measurement of interest rate derivatives, referring mainly to the Real Estate sector for Euros 264 thousand (a positive Euros 2,210 thousand at December 31, 2007) and the Tyre sector for Euros 4,992 thousand.

As far as the Real Estate sector is concerned, the line item includes the measurement of the plain vanilla interest rate collar purchased in 2006 with a notional amount of Euros 120 million to hedge an increase in interest rates. The derivative qualified for hedge accounting under IAS 39. Hedge accounting is only applied to the intrinsic value while the change in the time value is recognized in the income statement.

In 2008, the amount recognized in equity is a negative Euros 2,038 thousand (a positive Euros 875 thousand at December 31, 2007), whereas that recognized in the income statement is a negative Euros 432 thousand.

Details relating to the derivative financial instruments in place at December 31, 2008 are as follows:

Type of financial instrument	Interest rate collar	Interest rate collar	Interest rate collar
Counterpart	SoGen	Barclays	Morgan Stanley
Notional amount for the period December 31, 2008 to March 31, 2009	40,000,000	40,000,000	40,000,000
Premium paid	360,000	333,000	360,000
Date of contracts	1/27/2006	1/30/2006	1/31/2006
Date of expiration	8/3/2010	8/3/2010	8/3/2010
Interest rate cap	3.75%	3.75%	3.75%
Interest rate floor	2.20%	2.20%	2.20%
Fair value at December 31, 2008	(88,150)	(88,150)	(88,150)

As far as the Tyre sector is concerned, the line item includes the measurement of plain vanilla interest rate swaps purchased during the year to hedge an increase in the interest rates on a notional amount of Euros 100 million. The derivative qualifies for hedge accounting under IAS 39. In 2008, the amount recognized in equity is a negative Euros 4,992 thousand.

The amounts included in non-current assets (equal to Euros 3,161 thousand, Euros 3,849 thousand at December 31, 2007) and in non-current liabilities (equal to Euros 2,139 thousand, Euros 6,782 thousand at December 31, 2007) refer to the fair value measurement of forward currency purchases and sales in place at December 31, 2008. These are derivative transactions hedging commercial and financial transactions of the Group; the hedge accounting option was not adopted. The fair value is determined by using the forward exchange rate at the balance sheet date.

28. Commitments and contingencies

SURETIES

Sureties were provided by banking institutions and insurance companies to third parties and in the interests of companies of the Pirelli & C. Real Estate S.p.A. group mainly to fulfill contractual obligations for a total of Euros 156,966 thousand.

Moreover, guarantees and comfort letters were provided by Pirelli & C. Real Estate in the interests of investments holdings for a total of Euros 161,896 thousand, principally among which are the following:

- joint insurance obligations to third parties for various reasons for a total of Euros 9,644 thousand;
- guarantees for loans made by credit institutions to associates and joint ventures for a total of Euros 23,957 thousand;
- guarantees provided in favor of Hypo Real Estate, the financing bank in the acquisition of the DGAG, to cover any tax liabilities associated with the period of the duration of the loan. These guarantees involve an exposure for the Group quantified in Euros 29,616 thousand;
- guarantees provided, as part of securitization transactions conducted by vehicle companies for the correct and precise fulfillment of payment obligations for a total of Euros 52,896 thousand;
- guarantees provided, as part of the transaction for the sale of junior notes relating to a non-performing loan portfolio of ex-Banco di Sicilia, to third parties on behalf of joint ventures. These guarantees, counter-guaranteed by the partner in the venture, involve a net exposure for the group of Euros 26,009 thousand;
- guarantees provided, mainly for the fulfillment of payment obligations by International Credit Recovery 8 S.r.l. for the purchase price of a non-performing loan portfolio for an amount of Euros 13,773 thousand.

Finally, Pirelli & C. Real Estate S.p.A. has a commitment to proportionally cover any negative difference between the flows from rental income and interest expenses payable by the joint venture Tiglio I S.r.l. to the lending banking institutions on credit lines expiring in 2009; at this time, based on available information, revenue flows are higher than estimated interest expenses.

SECURITIES PLEDGED

Securities of associates and joint ventures of the Real Estate sector are pledged for an amount of Euros 96,879 thousand.

COMMITMENTS FOR PURCHASES OF PROPERTIES

Commitments for the purchase of properties refer to the Pirelli & C. Real Estate S.p.A. obligation to purchase certain buildings if they remain unsold, owned by Imser 60 S.r.l., for a maximum amount of Euros 288,600 thousand. The purchase prices of these buildings are established by contract at a fraction of their market value. This option may be exercised by the counterpart between November 12, 2021 and May 31, 2022.

COMMITMENTS FOR PURCHASES OF PROPERTY, PLANT AND EQUIPMENT

Commitments for the purchase of property, plant and equipment mainly refer to the Tyre sector and total Euros 84.4 million (Euros 85.8 million at December 31, 2007), principally in reference to the companies in Brazil, China, Egypt, Italy and Germany.

COMMITMENTS FOR PURCHASES OF INVESTMENTS / FUND SHARES

These refer to purchase options and commitments undertaken:

- by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. to subscribe to shares of Fondo Abitare Sociale 1 - Closed-end Ethical Real Estate Investment Fund for Qualified Investors for a total amount of Euros 1,913 thousand;
- by Pirelli & C. Real Estate S.p.A. to subscribe to, through its investment holding, Alimede Luxembourg S.a.r.l., shares of Fondo Social & Public Initiatives – Closed-end Speculative Real Estate Investment Fund for a total maximum amount of Euros 7,000 thousand;
- by Pirelli RE Netherlands B.V. to subscribe to shares of Fondo Vivaldi – Closed-end Speculative Real Estate Investment Fund for a total maximum amount of Euros 3,000 thousand;
- by Pirelli Finance (Luxembourg) S.A. to subscribe to shares of the company Equinox Two S.c.a., a private equity company specialized in investments in listed and unlisted companies with a high potential for growth, for an equivalent maximum amount of Euros 7,550 thousand.

GUARANTEES PROVIDED AT THE TIME OF THE SALE OF OLIMPIA

At the time of the sale of the investment in Olimpia S.p.A., the sellers (Pirelli and Sintonia) remained responsible for all tax risks for the periods up to the date of sale.

The litigation currently pending can be summarized in the following terms.

On December 27, 2006, the Tax Revenues Agency had notified Olimpia S.p.A. of an assessment for IRAP taxes regarding 2001.

Briefly, with regard to the year 2001, an assessment was received for the alleged financial income on the Bell bonds repayable in Olivetti shares, with a consequent IRAP tax of Euros 26.5 million, in addition to penalties of the same amount.

The company opposed the assessment and filed suit on administrative grounds and against the evident unfounded grounds of the tax assessment.

In September 2007, the Tax Commission of the First Instance, by motivated decision 654/01/07 of November 25, 2007, ruled in favor of the appeal filed by the company and completely canceled the above-mentioned assessment.

The Tax Revenues Agency appealed this decision. Counter-arguments were filed with the Regional Tax Commission. The hearing for discussion is fixed for this May 29.

With regard to the assessment for the year 2002, with which Olimpia was attributed the status of a “shell company”, the appeal was discussed on November 18, 2008. The relative IRPEG tax amounts to Euros 29.3 million, besides penalties for the same amount.

Even though the ruling has not yet been filed, the company is confident of the outcome, considering the unfounded grounds, the solid foundation of the argumentation and the positive direction of the discussion.

On December 9, 2008, another assessment was notified relating to 2003, with which Olimpia was again identified as a “shell company”. The relative IRPEG tax amounts to Euros 28.5 million, besides penalties for same amount.

This assessment, like the preceding one, is considered completely groundless and the company has lodged an appeal with the Tax Commission of the First Instance. The first instance ruling can reasonably be expected to be handed down by the end of 2009.

For this second dispute, as well, since the nature is the same as the previous one, there is reason to trust that the company's arguments, supported by qualified experts, will be upheld in court, without resulting in any increase in tax.

PROCEEDINGS FOR UNLAWFUL ADMINISTRATIVE RESPONSIBILITY PURSUANT TO LAW 231/2001

As to the investigation conducted by the Milan district attorney's office regarding matters which involved two former employees of the company's Security Function, reference should be made to the Report on Corporate Governance, included with the financial statements, in which this issue is discussed at length.

With regard to the valuation of the possible effects of this matter, even though the company has recourse to special procedure for the application of sanctions by request, it is noted that the risk associated with the competent Judicial Authority's confirmation of the existence of responsibility pursuant to Legislative Decree 231/2001 is constituted by the payment of a pecuniary penalty of limited amount. It is believed that in this case the risk of the application of interdicting sanctions is low.

The company, with the assistance of highly-qualified experts in this area, has also examined the possibility of third-party liability resulting from the activities conducted by the above-mentioned parties.

The company – although considering and reiterating its non-involvement with the acts committed, moreover also to the company's detriment – consistent with the values of loyalty and correctness that are the basis of its action and the importance that Pirelli has always recognized in the wealth of its human resources, it deemed it proper to offer immediately an economic contribution as an act of solidarity. The extent of the contribution was determined on the basis of an equitable evaluation supported also by the above-noted experts, and is offered to all employees or former employees of the Pirelli Group who were the target of "intrusive activities" according to what has emerged from the acts of the proceedings.

With regard to contingent liabilities, should the parties indicated in the lists contained in the notice of conclusion of the investigation bring action against the former employees of the company, who are the authors of the acts for which the company is responsible under ex article 2049 of the Italian Civil Code, the company is of the opinion that this risk is possible but not quantifiable at this time.

Lastly, it should be noted that the company is continuing with the civil suits against the suppliers of the security service involved in the investigations, with the aim of being reimbursed for the payment of services rendered since they are considered as not having been carried out or illegal.

29. Revenues from sales and services

Revenues from sales and services can be analyzed as follows:

(in thousands of euros)

	2008	2007
Revenues from sales of products	4,342,434	5,672,612
Revenues from services	304,711	402,390
Revenues on construction contracts	13,030	595
	4,660,175	6,075,597

30. Other income

“Other income” amounts to Euros 175,928 thousand compared to Euros 274,939 thousand in 2007 and includes income from rent, commissions, royalties, compensation, insurance refunds and other minor items.

The decrease compared to 2007 is mainly in reference the subsidiary Shared Service Center, which was sold at the end of 2007 (Euros 110,011 thousand).

Total other income includes income from nonrecurring events for Euros 17,000 thousand for the consideration received by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. on the sale of the management of Fondo Berenice to another SGR, which, in fact, represents an advance on what would have been due as fees in future years. The percentage of income from nonrecurring events to total other income is equal to 9.7 percent. Last year, income from nonrecurring events amounted to Euros 2,818 thousand and included compensation for the expropriation of land located in Settimo Torinese for Euros 1,746 thousand and the refund of the events tax for the periods it was not due for Euros 1,072 thousand.

31. Personnel costs

Personnel costs consist of the following:

(in thousands of euros)

	2008	2007
Salaries and wages	851,374	843,801
Social security costs	173,956	183,843
Leaving indemnity and similar costs (*)	30,136	25,191
Defined contribution pension fund costs	18,906	17,164
Defined benefit pension fund costs	(2,188)	(3,444)
Defined benefit medical care plan costs	1,224	1,373
Long-service bonus costs	782	984
Defined contribution medical care plan costs	23,739	20,120
Other costs	76,922	6,913
	1,174,851	1,095,945

* Includes Italian and foreign companies.

With regard to amounts relating to employees' leaving indemnity, pension funds and medical care defined benefit plans, reference should be made to “Employee benefit obligations” (Note 23).

Personnel costs include Euros 132,352 thousand of costs from nonrecurring events, equal to 11.2 percent of total personnel costs. They refer to special employee termination benefit incentives for Euros 41,252 thousand put into place by the Real Estate sector and Euros 91,100 thousand by the Tyre sector.

In 2007, costs from nonrecurring events included Euros 5,186 thousand relating to income for curtailment relating to the provision for employees' leaving indemnity following legislative changes which altered the nature of the provision to a defined contribution plan.

32. Amortization, depreciation and impairments

Amortization, depreciation and impairments are as follows:

(in thousands of euros)

	2008	2007
Amortization of intangible assets	9,938	8,927
Depreciation of property, plant and equipment	198,742	199,985
Impairment loss on intangible assets	105	3,823
Impairment loss on property, plant and equipment	9,770	811
	218,555	213,546

Amortization, depreciation and impairments include Euros 7,100 thousand of impairments associated with the restructuring plans of the Tyre sector which qualify as a nonrecurring event. The percentage of impairments to the total line item is 3.2 percent.

33. Other expenses

Other expenses include the following:

(in thousands of euros)

	2008	2007
Selling expenses	279,052	307,408
Purchases of merchandise for resale	200,801	221,819
Utilities and power	188,907	171,658
Advertising expenses	148,813	127,480
Consulting fees	95,816	140,480
Maintenance	69,892	67,756
Rent and hires	73,473	78,464
Commissioned work by third parties	60,362	93,680
Traveling expenses	41,875	48,582
Software and information services expenses	35,831	40,252
Other accruals	36,129	35,666
Revenues stamps, duties and local taxes	27,549	25,369
Receivables impairment	27,389	15,009
Insurance	26,853	28,919
Contract work expenses	24,149	23,296
Operating lease payments	17,121	9,032
Cleaning expenses	12,127	10,932
Security expenses	12,981	18,307
Telephone expenses	11,681	13,922
Urbanization fees	4,946	5,479
Other	291,822	220,347
	1,687,569	1,703,857

Research expenses went from Euros 173 million in 2007 (3.6 percent of sales net of the DGAG deconsolidation) to Euros 156 million in 2008 (3.3 percent of sales). These are expensed to income since they do not meet the conditions for capitalization under IFRS.

Other expenses include costs from nonrecurring events totaling Euros 4,764 thousand (0.3 percent of total operating expenses) for the restructuring plans of the Tyre sector (Euros 1,800 thousand) and the Real Estate sector (Euros 2,964 thousand).

34. Financial income

Financial income includes the following:

(in thousands of euros)

	2008	2007
Interest	81,957	89,419
Other financial income	46,637	12,914
Gains on exchange	420,497	171,800
Gains on disposal of available-for-sale financial assets	6,855	9,922
Gains on disposal of investments in subsidiaries	21,391	11,234
	577,337	295,289

Other financial income includes the gain of Euros 27,300 thousand realized on the difference between the purchase value of the minority stakes in Turkey, recognized in the third quarter of 2008, and the corresponding accounting equity drawn up according to Group accounting principles.

Gains on exchange include the adjustment to the year-end exchange rates for open positions at the end of the year expressed in currencies other than the functional currency and the gains realized on closed positions.

Gains on the disposal of available-for-sale financial assets mainly include Euros 5,584 thousand from the sale of the fund shares of Berenice Fondo Uffici –Closed-end real estate investment fund held by the subsidiary Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. and the sale of Intek S.p.A. shares by the Parent, Pirelli & C. S.p.A., for Euros 1,151 thousand.

Gains on the disposal of investments in subsidiaries refer to the release of amounts set aside following the sale, in 2006, of the 38.9 percent stake in Pirelli Tyre S.p.A. which are no longer due under the contractual agreements with the counterparts. In 2007, the amount of Euros 11,234 thousand referred to the gain realized by the Real Estate sector on the sale of the 20 percent interest in the German-registered company Mertus AchtunddreiBigste GmbH. The total includes Euros 48,691 thousand (equal to 8.4 percent of financial income) which qualifies as a **nonrecurring event**, of which Euros 21,391 thousand is for the “gains on the disposal of investments in subsidiaries” described above and Euros 27,300 thousand from the positive impact of the minority stakes purchased in the Turkish subsidiaries where the cost of acquisition was below the accounting equity, as mentioned previously.

35. Financial expenses

Financial expenses include the following:

(in thousands of euros)

	2008	2007
Bank interest	106,500	195,905
Other financial expenses	41,908	31,019
Losses on exchange	450,235	150,252
Losses on disposal of available-for-sale financial assets	4,809	-
	603,452	377,176

Other financial expenses mainly include Euros 11,353 thousand for impairment losses on the junior notes generated by the adjustment of their carrying amount to the present value of future cash flows discounted at the original effective interest rate and Euros 4,606 thousand for banking fees, listing rights and other financial expenses.

Losses on exchange include the adjustment to the year-end exchange rates of open positions at the end of the year expressed in currencies other than the functional currency and losses realized on closed positions.

Losses on disposal of available-for-sale financial assets refer to the sale of 5,000,000 Telecom Italia S.p.A. ordinary shares.

36. Impairment losses on investments

This line item includes impairment losses on listed companies for Euros 263,060 thousand, in particular RCS Mediagroup S.p.A. for Euros 65,721 thousand and Telecom Italia S.p.A. for Euros 173,004 thousand, and Avanex for Euros 24,335 thousand and also impairment losses in other unlisted companies for Euros 12,202 thousand, mainly CyOptics Inc. (Euros 8,700 thousand). Last year, impairment losses on investments referred to those taken on Telecom Italia S.p.A. (Euros 21,929 thousand), Avanex (Euros 7,670 thousand) and Equinox (Euros 3,362 thousand).

37. Dividends

Dividends principally refer to those received from Telecom Italia S.p.A. (Euros 14,569 thousand), RCS Mediagroup S.p.A. (Euros 4,300 thousand), Mediobanca (Euros 9,752 thousand), Fin. Priv. S.r.l. (Euros 1,269 thousand) and Banca Leonardo (Euros 278 thousand).

In 2007, dividends included those received from Telecom Italia S.p.A. (Euros 6,602 thousand), RCS Mediagroup S.p.A. (Euros 3,871 thousand), Mediobanca S.p.A. (Euros 9,752 thousand), Equinox (Euros 9,022 thousand), Fin. Priv. S.r.l. (Euros 1,269 thousand) and Servizio Titoli S.r.l. (Euros 873 thousand).

38. Gains (losses) from changes in fair value of financial assets

The gains (losses) from changes in the fair value of financial assets refer to:

(in thousands of euros)

	2008	2007
Measurement of financial assets at fair value through profit or loss	(7,671)	1,537
Measurement of currency derivatives at fair value	4,821	(31,205)
Measurement of other derivatives at fair value	2,054	9,571
	(796)	(20,097)

The **measurement of financial assets at fair value through profit or loss** includes a loss of Euros 6,055 thousand for the negative fair value change in securities classified in the financial statements as “Securities held for trading” (a negative Euros 2,989 thousand in 2007) and a loss of Euros 1,616 thousand for the negative fair value change of other financial assets designated at fair value through profit or loss (Cloe Fondo Uffici – Closed-end unlisted reserved real estate investment fund, relating to the Real Estate sector) and classified in the financial statements in “Non-current other financial assets” (a positive Euros 4,526 thousand in 2007).

The **measurement of currency derivatives at fair value** refers to forward currency purchases and sales hedging trading and financial transactions and is affected by the volatility of the exchange rates which marked the entire year 2008. For open items at December 31, 2008, the fair value is determined by applying the forward exchange rate at the balance sheet date. The fair value measurement is divided into two components: the interest component associated with the interest rates differential between the two currencies in the individual hedges, equal to a net hedging cost of Euros 19,879 thousand and the exchange rate component, equal to a net income of Euros 24,808 thousand.

Comparing the latter with the exchange difference on the items in foreign currency, equal to a net loss of Euros 29,738 thousand (exchange losses of Euros 450,236 thousand, included in financial expenses, and exchange gains of Euros 420,498 thousand, included in financial income), it can be said that the management of exchange risks is basically at a breakeven.

The **measurement of other derivatives at fair value** shows a gain of Euros 2,054 thousand compared to a gain of Euros 9,571 for 2007. It refers almost entirely to the fair value measurement of derivatives in connection with interest rate risk.

39. Share of earnings (losses) of associates and joint ventures

The share of earnings (losses) of associates and joint ventures accounted for using the equity method is a loss of Euros 175,677 thousand (earnings of Euros 116,543 thousand in 2007). The line item mainly includes the results of investments accounted for using the equity method of the Pirelli & C. Real Estate group which shows a loss of Euros 177,019 thousand (earnings of Euros 114,977 thousand in 2007).

40. Income taxes

Income taxes for the period are composed as follows:

(in thousands of euros)

	2008	2007
Current income taxes	86,557	115,682
Deferred income taxes	(13,937)	7,346
	72,620	123,028

The reconciliation between theoretical and effective taxes is as follows:

(in thousands of euros)

	2008	2007
Income (loss) before income taxes	(403,327)	378,881
Income (loss) from discontinued operations	63,421	67,737
Reversal of share of earnings (losses) of associates and joint ventures	175,677	(116,543)
Total taxable amount	(164,229)	330,075
Theoretical income taxes	33,528	(81,874)
Principal reasons giving rise to differences in theoretical and effective income taxes:		
Non-taxable income	87,214	169,795
Non-deductible costs	(119,236)	(74,226)
Utilization of tax loss carryforwards	31,513	32,788
Unrecognized deferred tax assets	(60,812)	(137,676)
Other	(44,827)	(31,835)
Effective income taxes	(72,620)	(123,028)

The effective tax change of the Group in 2008 (equal to Euros 72.6 million) on a total negative taxable income, is largely attributable to the tax charges of the Tyre sector (equal to Euros 70.1 million) on taxable income of the relative investees.

This also reflects the presence of income taxes unrelated to income components, including IRAP taxes on labor costs, as well as the non-recognition of deferred tax assets on tax losses, mainly referring to the investment holdings of the Corporate sector.

The amount of income taxes includes the recognition, by Pirelli & C. S.p.A. of positive tax effects generated by the national consolidated tax return.

The theoretical tax charge of the Group is calculated by taking into account the nominal tax rates in the countries in which the major companies of the Group operate, as indicated in the following table:

	2008	2007
Europe:		
Italy	31.40%	37.25%
Spain	30.00%	32.50%
Germany	29.51%	38.36%
United Kingdom	28.50%	30.00%
Turkey	20.00%	20.00%
North America:		
USA	40.00%	40.00%
South America:		
Argentina	35.00%	35.00%
Brazil	34.00%	34.00%
Venezuela	34.00%	34.00%

41. Income (loss) from discontinued operations

The income (loss) from discontinued operations and the cash flows provided by and used for such operations are detailed as follows:

(in thousands of euros)

	2008		2007	
		of which related parties		of which related parties
Revenues from sales and services	233,482	41,986	428,940	91,973
Other income	7,656		11,422	
Raw materials and consumables used (net of change in inventories)	(12,623)		(28,216)	
Personnel costs	(35,589)		(60,225)	
Amortization, depreciation and impairments	(2,980)		(5,132)	
Other expenses	(192,663)	(11,217)	(362,936)	(26,471)
Increase in property, plant and equipment from internal work	73		901	
Operating loss	(2,644)		(15,246)	
Financial income	325	75	91,452	101
Financial expenses	(4,585)		(44,644)	(2)
Gains (losses) from changes in fair value of financial assets	117		(82)	
Share of earnings (losses) of associates and joint ventures	1,802	1,802	2,065	2,065
Income (loss) before income taxes	(4,985)		33,545	
Income taxes	(4,137)		(7,225)	
Income (loss) for the year	(9,122)		26,320	
Net gain realized	72,543		41,417	
Total income from discontinued operations	63,421		67,737	
A Net cash flows provided by (used for) operating activities	57,672		58,794	
B Net cash flows provided by (used for) investing activities	103,082		70,783	
C Net cash flows provided by (used for) financing activities	(119,022)		(63,568)	
D Total cash flows provided (used) during year (A+B+C)	41,732		66,009	
E Cash and cash equivalents + bank overdrafts at beginning of year	39,461		382	
F Cash and cash equivalents + bank overdrafts at end of year (D+E)	81,193		66,391	

Discontinued operations in 2008 are described as follows:

— on July 24, 2008, an agreement was signed between Pirelli and CyOptics Inc. to integrate PGT Photonics S.p.A., a photonics company in the Pirelli Group, resulting from the spin-off of Pirelli Broadband Solutions and Pirelli Labs activities, in CyOptics, a privately-owned American company which is a leader in the field of optical components based on indium phosphide technology. At the same time, Pirelli subscribed to a CyOptics capital increase with a cash contribution of U.S. dollars 20 million.

Following the operation, Pirelli holds about a 30 percent stake in the new CyOptics. The loss from the discontinued operation is Euros 11,207 thousand (a loss of Euros 14,788 thousand in 2007);

— on November 5, 2008, the Pirelli RE board of directors approved the terms and conditions of the contract for the sale, to Manutencoop Facility Management, of its 50 percent stake in Pirelli Re Integrated Facility Management, a 50-50 joint venture with Intesa Sanpaolo which, through its investment holdings, supplies project management and facility management services. The closing of the transaction and the announcement to the market, once all the conditions precedent had been satisfied and the necessary authorization were obtained

from the Antitrust Authority, took place on December 23, 2008. The sales price of 100 percent of Pirelli RE Integrated Facility Management, including the 50 percent interest held by Intesa Sanpaolo, was equal to Euros 137.5 million and equally divided between the two seller companies Pirelli RE and Intesa Sanpaolo, against an Enterprise Value of Euros 270 million. For the Pirelli RE Group, the impact on the net financial position, excluding Pirelli RE shareholder loans, was an approximate positive Euros 90 million.

The total income from the discontinued operation is Euros 74,628 thousand (Euros 49,455 thousand in 2007), including a gain realized for Euros 71,371 thousand (Euros 41,417 thousand in 2007).

As for the year **2007**, the income (loss) from discontinued operations, in addition to what was described above, included:

- the gain of Euros 91,000 thousand on the sale of the warrants obtained under the agreement for the sale of the Energy and Telecom Cables and Systems activities in July 2005 to Goldman Sachs and linked to the economic benefits on Prysmian (Lux) S.a.r.l. (included in “financial income” in the table above);
- the accrual relating to the adjustment of the value of the guarantees provided to Goldman Sachs (costs of Euros 4,125 thousand, included in “other expenses” in the table above);
- the effect of the sale of Olimpia S.p.A. (a loss of Euros 53,805 thousand, of which Euros 39,794 thousand is included in “financial expenses” and Euros 14,011 thousand included in “other expenses” in the table above).

42. Earnings per share

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

	2008	2007
Income (loss) from continuing operations for the year attributable to the equity holders of the company (in millions of Euro)	(379)	119
Income (loss) attributable to savings shares considering the extra 2% (in millions of euros)	9	(3)
Income (loss) from adjusted continuing operations for the year attributable to the equity holders of the company (in millions of Euro)	(370)	116
Weighted average number of outstanding ordinary shares (in thousands)	5,230,244	5,230,525
Basic earnings per ordinary share from continuing operations (in Euros per thousand of shares)	(70.65)	22.09
Income (loss) from discontinued operations for the year attributable to the equity holders of the company (in millions of Euro)	31	46
Income (loss) attributable to savings shares considering the extra 2% (in millions of euros)	(1)	(1)
Income (loss) from discontinued operations for the year attributable to the equity holders of the company (in millions of Euro)	30	45
Weighted average number of outstanding ordinary shares (in thousands)	5,230,244	5,230,525
Basic earnings per ordinary share from discontinued operations (in Euros per thousand of shares)	5.74	8.60

Diluted earnings per share has not been calculated since the company, at both December 31, 2008 and December 31, 2007, has only one category of potentially dilutive ordinary shares: shares from exercising stock options. However, since the price to exercise the stock options is higher than market value, the stock options have not been considered as exercised.

43. Dividends per share

Pirelli & C. S.p.A., paid dividends based on 2007 earnings to its shareholders equal to Euros 0.0160 per each 5,230,524,503 ordinary share (excluding treasury shares) and Euros 0.0728 per each 130,272,660 savings shares (excluding treasury shares).
Total dividends paid out amounted to Euros 93.2 million.

44. Related party disclosures

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

The following table summarizes the balance sheet and income statement line items which include related party transactions and the relative incidence of the total:

(in millions of Euro)

	Total in financial statements at 12/31/2008	Of which related parties	% of total	Total in financial statements at 12/31/2007	Of which related parties	% of total
BALANCE SHEET						
Non-current assets						
Other receivables	723.0	565.2	78.2%	672.9	520.8	77.4%
Current assets						
Trade receivables	788.0	77.1	9.8%	1,098.9	123.7	11.3%
Other receivables	240.0	23.9	10.0%	241.5	22.1	9.1%
Current liabilities						
Borrowings from banks and other financial institutions	693.6	5.2	0.8%	754.7	2.9	0.4%
Trade payables	1,108.6	23.8	2.2%	1,323.6	29.1	2.2%
Other payables	482.4	7.7	1.6%	1,394.7	21.5	1.5%
Tax payables	44.0	1.1	2.4%	45.7	-	-
INCOME STATEMENT						
Revenues from sales and services	4,660.2	138.1	3.0%	6,075.6	195.9	3.2%
Other income	175.9	-	-	274.9	72.7	26.4%
Personnel costs	(1,174.9)	(3.1)	0.3%	(1,095.9)	(14.5)	1.3%
Other expenses	(1,687.6)	(42.9)	2.5%	(1,703.9)	(88.9)	5.2%
Financial income	577.3	34.1	5.9%	295.3	31.2	10.6%
Financial expenses	(603.5)	(0.2)	-	(377.2)	(4.5)	1.2%
Dividends	31.3	-	-	34.5	6.6	19.2%

Related party transactions relating to discontinued operations are detailed in Note 41.

The income statement, balance sheet and cash flow effects of transactions with related parties on the consolidated financial statements of the Pirelli & C. Group for the year ended December 31, 2008 are as follows.

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES:

(in millions of Euro)

Revenues for goods and services	136.5	These mainly refer to mandates with the associates and JV of the Real Estate relating to fund and asset management and technical and commercial services.
Other expenses	25.3	These mainly refer to Pirelli & C. Real Estate sundry types of amounts recharged, connected, among other things, also to consortium expenses, and to the purchase of an area located in Pioltello by a Pirelli Real Estate company.
Financial income	34.1	This mainly includes interest income relating to financial receivables from associates and joint ventures of Pirelli & C. Real Estate.
Financial expenses	0.2	
Current trade receivables	76.4	These mainly refer to receivables for services rendered to associates and joint ventures of Pirelli & C. Real Estate
Non-current other receivables	0.9	
Non-current financial receivables	564.3	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	7.0	These refer to Pirelli & C. Real Estate and mainly include a receivable to be collected for dividends declared.
Current financial receivables	16.9	These mainly refer to current account balances with the new companies that hold real estate assets in Germany.
Current trade payables	21.7	These mainly refer to Pirelli & C. Real Estate sundry types of amounts recharged.
Current other payables	7.7	These mainly include Pirelli & C. Real Estate companies' sundry types of amounts recharged.
Current borrowings from banks and other financial institutions	5.2	These mainly include the liability balances on the intercompany current accounts of the companies of Pirelli & C. Real Estate.
Current tax payables	1.1	These refer to the payable of Pirelli & C. Real Estate S.p.A. to Trixia S.r.l. for expenses arising from this company's participation in the regime for fiscal transparency under art. 115 of TUIR, by virtue of which taxable income and loss of the company are allocated to the shareholders.

TRANSACTIONS WITH PARTIES RELATED TO PIRELLI THROUGH DIRECTORS

(in millions of Euro)

Revenues for goods and services	1.6	These refer to services rendered by Pirelli & C. Real Estate S.p.A. and Pirelli & C. S.p.A. to the Camfin group
Other expenses	9.0	These refer to costs for the sponsorship of F.C. Internazionale Milano S.p.A.
Current trade receivables	0.7	These refer to receivables for the supply of the above services to the Camfin.
Current trade payables	2.2	These refer to payables for the supply of the above services to F.C. Internazionale Milano S.p.A.
Dividends paid (cash flows)	22.7	These are dividends to Camfin S.p.A. (Euros 21.9 million) and C.M.C. S.p.A. (Euros 0.8 million) from Pirelli & C. S.p.A..
Change in financial payables (cash flows)	218.9	Capital reimbursed to Camfin S.p.A (Euros 211.1 million) and C.M.C. S.p.A. (Euros 7.8 million) by Pirelli & C. S.p.A..

BENEFITS TO KEY EXECUTIVES

In 2008, the compensation due to key executives, being those who have the power and responsibility, directly or indirectly, for the planning, direction and control of the activities of Pirelli & C. S.p.A., including executive and non-executive directors, amounts to Euros 11,707 thousand (Euros 26,505 thousand in 2007). Of that amount, "Personnel costs" were charged for Euros 3,097 thousand in 2008 (long-term part is equal to Euros 608 thousand) and Euros 14,504 thousand in 2007 (long-term part is equal to Euros 490 thousand) and "Other expenses" for Euros 8,610 thousand (Euros 12,001 thousand in 2007).

To the chairman of Pirelli & C. S.p.A. and the executive deputy chairman of Pirelli & C. Real Estate, for the offices held in those companies, besides severance indemnity (similar to employ-

ees' leaving indemnity and included in the amount in the previous paragraph) a further annual component of severance indemnity is paid pursuant to ex art. 17, paragraph 1, letter c), of D.P.R. 917/1986 (TUIR), starting from age 62, or eventually predeceasing that age, as a result of insurance policies taken out with leading insurance companies. The annual premium is borne by the companies and corresponds to the amounts that would be due by the companies to the social security agencies or benefit funds had those persons been classified in the "manager" employment category of those companies.

45. Significant subsequent events

On January 27, 2009, Brembo, Magneti Marelli and Pirelli announced that they had launched a technological cooperation initiative with the aim of developing hi-tech solutions for the Italian and international automotive industry.

The Cyber Tyre, the intelligent tyre developed by Pirelli, will be integrated with Magneti Marelli's electronic control systems and Brembo's hi-tech braking systems to create special technological solutions which will meet the performance and safety requirements of every kind of user.

The competence and expertise of the three Italian groups is recognized at an international level. By combining their experience, they aim to create important synergies and to develop applications, especially in the field of car safety systems. Another aim of the project is to reduce environmental impact, and develop applications that are in line with international regulations and which reflect the new CO₂ limits established by the EU, scheduled to come into force in 2012.

On February 11, 2009, the Pirelli Group presented the guidelines of its 2009-2011 Industrial Plan.

On March 5, 2009, the Pirelli & C. Real Estate S.p.A. board of directors confirmed the resolutions passed in February authorizing a share capital increase against payment, divisible, to be offered as option rights to the shareholders for a maximum amount of Euros 400 million. The transaction is aimed at strengthening the company's equity structure and supporting its new business model.

The share capital increase is expected to be completed by the end of the first half of the current year, assuming that it will be approved by the special session of the shareholders' meeting called at the same time as the ordinary session of the shareholders' meeting that, among other things, will resolve on the approval of the financial statements for the year ended December 31, 2008, and that the necessary authorizations will also be obtained from the relevant authorities.

Pirelli & C. S.p.A. has given its full support to the capital increase and has made a commitment to subscribe to its share equal to Euros 226 million. The company has also stated that it will subscribe to any unsubscribed shares that remain at the end of the offer period for a total amount of Euros 174 million. Pirelli & C. S.p.A. will fulfill its obligation by converting into equity a part of the financial receivable due from Pirelli & C. Real Estate S.p.A., amounting to Euros 491 million at December 31, 2008.

On March 24, 2009, Pirelli and Alcatel-Lucent reached an agreement for the sale to Alcatel-Lucent by Pirelli of its investment in Alcatel-Lucent Submarine Networks, a telecommunications submarine systems company. The deal took place after Pirelli exercised the put option contracted between the two companies in 2004 when the agreement had been sealed with Alcatel for the acquisition of some of Pirelli's activities in submarine systems. The sale, for a total amount of Euros 56 million, will be paid in three tranches by the end of 2009. Pirelli's divestiture is consistent with its strategy of focusing on the core business as announced by the Group upon presentation of the Industrial Plan 2009-2011.

46. Other information

COMPENSATION TO DIRECTORS AND STATUTORY AUDITORS

Compensation to directors and statutory auditors of Pirelli & C. S.p.A. to carry out these functions also in other companies included in the scope of consolidation is as follows:

(in thousands of euros)

	2008	2007
Directors	8,840	13,620
Statutory auditors	157	266
	8,997	13,886

HEADCOUNT

The average number of employees of the companies included in consolidation, by category, is the following:

	2008	2007
Executives and white collars	7,808	8,396
Blue collars	20,254	18,426
Temporary workers	3,438	3,958
	31,500	30,780

COMPENSATION TO AUDIT FIRMS

The following schedule, prepared in accordance with art. 149 – duodecies of the Consob Regulation for Issuers, presents the fees paid for the year 2008 for the audit services and services other than audit rendered by the audit firm of Reconta Ernst & Young S.p.A. and by the entities belonging to its network:

(in thousands of euros)

Audit services	Pirelli & C S.p.A.	235		
	Subsidiaries	3,325	3,560	87,8%
Certification services	Pirelli & C S.p.A.	23		
	Subsidiaries	226 *	249	6,1%
Tax consulting services	Pirelli & C S.p.A.	-		
	Subsidiaries	240	240	5,9%
Services other than audit	Pirelli & C S.p.A.	-		
	Subsidiaries	7	7	0,2%
			4,056	100%

* Of which Euros 173 thousand refers to professional services rendered in respect of the engagement for the audit of the consolidated financial statements at October 31, 2008 as part of the sale of the investment in Pirelli & C. Real Estate Facility Management B.V., in addition to the professional services relating to the examination of the pro-forma data of Pirelli & C. Real Estate S.p.A. for the half year ended June 30, 2008 to be included in the Information Document, prepared in accordance with art. 71 of the Regulation for Issuers adopted by Consob resolution 11971/1999 and subsequent amendments and additions.

TRANSACTIONS GENERATED BY UNUSUAL AND/OR EXCEPTIONAL TRANSACTIONS¹

In accordance with Consob Communication of July 28, 2006, a statement is made to the effect that during 2008 the Group did not carry out any unusual and/or exceptional transactions as defined by that same Communication.

EXCHANGE RATES

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

(local currency against Euros)

	Year-end		Change in %	Average		Change in %
	12/31/2008	12/31/2007		2008	2007	
British pound	0.9525	0.7334	29.87%	0.7961	0.6765	17.68%
Swiss franc	1.4850	1.6547	(10.26%)	1.5873	1.6370	(3.04%)
Slovakian koruna	30.1260	33.5830	(10.29%)	31.2771	33.8864	(7.70%)
American dollar	1.3917	1.4721	(5.46%)	1.4716	1.3443	9.47%
Canadian dollar	1.6998	1.4449	17.64%	1.5596	1.4846	5.05%
Brazilian real	3.2524	2.6075	24.73%	2.7041	2.6910	0.49%
Venezuela bolivar	2.9922	3.1650	(5.46%)	3.1640	2.8900	9.48%
Argentine peso	4.8055	4.6356	3.67%	4.6535	4.1757	11.44%
Australian dollar	2.0274	1.6757	20.99%	1.7411	1.6372	6.35%
Chinese renminbi	9.4991	10.7516	(11.65%)	10.2270	10.3024	(0.73%)
Singapore dollar	2.0040	2.1163	(5.31%)	2.0769	2.0492	1.35%
Egyptian pound	7.6544	8.1039	(5.55%)	7.9888	7.6286	4.72%
Turkish lira	2.1511	1.7102	25.78%	1.9062	1.7989	5.96%

NET FINANCIAL POSITION

(Non-GAAP Alternative Performance Measure)

(in millions of Euro)

	12/31/2008		12/31/2007	
		of which related parties		of which related parties
Borrowings from banks and other financial institutions - current	677	5	737	3
Financial accrued liabilities and deferred income - current	59		46	
Borrowings from banks and other financial institutions - non-current	1,378		912	
Payables to shareholders for capital reduction	-		826	
Total gross debt	2,114		2,521	
Cash and cash equivalents	(254)		(2,058)	
Securities held for trading	(116)		(114)	
Financial receivables - current	(29)	(17)	(19)	(16)
Financial accrued income and prepaid expenses - current	(31)		(18)	
Net financial debt (*)	1,684		312	
Financial receivables - non-current	(652)	(565)	(609)	(520)
Financial accrued income and prepaid expenses - non-current	(4)		(5)	
Total net financial (liquidity)/debt position	1,028		(302)	

* In accordance with Consob Communication of July 28, 2006 and in conformity with the CESR recommendation of February 10, 2005 "Recommendation on Alternative Performance Measures".

The main events which had an impact on the net financial position are the following:

- Acquisition of Speed S.p.A. (Euros 835.5 million)
- Investment in Highstreet – Pirelli Real Estate (Euros 59.8 million)
- Investment in CyOptics (Euros 12.7 million)
- Purchase of Pirelli & C. Real Estate S.p.A. treasury shares (Euros 22.1 million)
- Purchase of net assets of minority interests relating to the Turkish companies of Pirelli Tyre (Euros 43.3 million)
- Dividends paid (Euros 168 million).

At December 31, 2008, the Group has, besides cash and securities held for trading totaling Euros 369,705 thousand, unused committed credit lines of Euros 785,000 thousand (Euros 2,672,000 thousand at December 31, 2007).

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Headquarters	Share	Capital	% holding	Held by
Europe						
Austria						
ECOI-Immobilien Gmbh	Real Estate	Vienna	Euro	35,000	100.00%	Pirelli RE Residential Investments Gmbh
Pirelli Gmbh	Tyre	Vienna	Euro	726,728	100.00%	Pirelli Tyre (Europe) S.A.
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700,000	100.00%	Pirelli Tyre (Europe) S.A.
Bulgaria						
Pirelli RE Bulgaria AD	Real Estate	Sofia	Bgn	50,000	75.00%	Pirelli RE Netherlands B.V.
France						
Gecam France S.a.S	Sustainable mobility	Villepinte	Euro	750,000	70.00%	Pirelli & C. Eco Technology S.p.A.
Pirelli Broadband Solutions France S.a.r.l.	Telecommunications	Villepinte	Euro	10,000	99.00%	Pirelli Broadband Solutions S.p.A.
					1.00%	Maristel S.p.A.
Pneus Pirelli S.a.S	Tyre	Villepinte	Euro	1,515,858	100.00%	Pirelli Tyre (Europe) S.A.
Germany						
BauBeCon Asset Management Gmbh	Real Estate	Hannover	Euro	125,000	100.00%	Pirelli RE Agency Deutschland Gmbh
BauBeCon Corporate Services Gmbh	Real Estate	Hannover	Euro	125,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
BauBeCon Treuhand Gmbh	Real Estate	Hannover	Euro	530,000	100.00%	Pirelli RE Property Management Deutschland Gmbh
Deutsche Pirelli Reifen Holding Gmbh	Financial	Breuberg/Odenwald	Euro	7,694,943	100.00%	Pirelli Tyre S.p.A.
DGAG Grundstücksbeteiligung Gmbh	Real Estate	Kiel	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
Drahtcord Saar Geschaeftsfuehrungs Gmbh	Tyre	Merzig	Deut. Mark	60,000	50.00%	Pirelli Deutschland Gmbh
Drahtcord Saar Gmbh & Co. K.G.	Tyre	Merzig	Deut. Mark	30,000,000	50.00%	Pirelli Deutschland Gmbh
Driver Handelssysteme Gmbh (ex-Driver Fleet Solution Gmbh)	Tyre	Breuberg/Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding Gmbh
Pirelli & C. Real Estate Deutschland Gmbh	Real Estate	Hamburg	Euro	5,000,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli Deutschland Gmbh	Tyre	Breuberg/Odenwald	Euro	26,334,100	100.00%	Deutsche Pirelli Reifen Holding Gmbh
Pirelli Personal Service Gmbh	Tyre	Breuberg/Odenwald	Euro	25,000	100.00%	Deutsche Pirelli Reifen Holding Gmbh
Pirelli RE Agency Deutschland Gmbh	Real Estate	Hamburg	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Asset Management Deutschland Gmbh (ex- Mertus Achtunddreissigste Gmbh)	Real Estate	Frankfurt	Euro	25,000	80.00%	Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE AM NPL Deutschland Gmbh (ex- Pirelli RE Asset Management Gmbh)	Real Estate	Berlin	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Development Deutschland Gmbh (ex-DGAG Shopping Immobilien Gmbh)	Real Estate	Hamburg	Euro	153,400	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Facility Management Deutschland Gmbh (ex- PSG Parkhaus Service Gmbh)	Real Estate	Hamburg	Euro	25,600	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Hausmeister Service Deutschland Gmbh	Real Estate	Kiel	Euro	25,000	100.00%	Pirelli RE Facility Management Deutschland Gmbh (ex- PSG Parkhaus Service Gmbh)

Company	Business	Headquarters	Share	Capital	% holding	Held by
Pirelli RE Management Services Deutschland Gmbh	Real Estate	Hamburg	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Property Management Deutschland Gmbh	Real Estate	Hamburg	Euro	25,000	100.00%	Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Residential Investments Gmbh	Real Estate	Hamburg	Euro	570,000	100.00%	Pirelli & C. Real Estate S.p.A.
PK Grundstuecksverwaltungs Gmbh	Tyre	Hoechst/Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding Gmbh
Pneumobil Gmbh	Tyre	Breuberg/Odenwald	Euro	259,225	100.00%	Deutsche Pirelli Reifen Holding Gmbh
Projekt Bahnhof Hamburg-Altona Verwaltungs Gmbh	Real Estate	Hamburg	Euro	25,000	100.00%	Projektentwicklung Bahnhof Hamburg-Altona Gmbh & Co. KG
Projektentwicklung Bahnhof Hamburg-Altona Gmbh & Co. KG	Real Estate	Hamburg	Euro	8,000,000	74.90%	Pirelli & C. Real Estate Deutschland Gmbh
Greece						
Elastika Pirelli S.A.	Tyre	Athens	Euro	1,192,000	99.90%	Pirelli Tyre (Europe) S.A.
					0.10%	Pirelli Tyre S.p.A.
Pirelli Hellas S.A. (in liquidation)	Sundry	Athens	US \$	22,050,000	79.86%	Pirelli Holding N.V.
The Expert in Wheels - Driver Hellas S.A.	Tyre	Athens	Euro	100,000	72.00%	Elastika Pirelli S.A.
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3,000,000	100.00%	Pirelli Tyre (Europe) S.A.
Ireland						
Pirelli Reinsurance Company Ltd	Reinsurance	Dublin	US \$	7,150,000	100.00%	Pirelli Finance (Luxembourg) S.A.
Italy						
Acquario S.r.l. (in liquidation)	Real Estate	Genoa	Euro	255,000	100.00%	Pirelli & C. Real Estate S.p.A.
Alfa S.r.l.	Real Estate	Milan	Euro	2,600,000	100.00%	Pirelli & C. Real Estate S.p.A.
Beta S.r.l.	Real Estate	Milan	Euro	26,000	100.00%	Pirelli & C. Real Estate S.p.A.
Botticino S.r.l.	Real Estate	Milan	Euro	10,000	100.00%	Pirelli & C. Real Estate S.p.A.
Casaclick S.p.A.	Real Estate	Milan	Euro	299,000	100.00%	Pirelli & C. Real Estate Agency S.p.A.
Centrale Immobiliare S.p.A.	Real Estate	Milan	Euro	5,200,000	100.00%	Pirelli & C. Real Estate S.p.A.
Centro Servizi Amministrativi Pirelli S.r.l.	Services	Milan	Euro	51,000	34.00%	Pirelli & C. S.p.A.
					33.00%	Pirelli Tyre S.p.A.
					33.00%	Pirelli & C. Real Estate S.p.A.
CFT Finanziaria S.p.A.	Real Estate	Milan	Euro	20,110,324	100.00%	Pirelli & C. Real Estate S.p.A.
Driver Italia S.p.A.	Commercial	Milan	Euro	350,000	72.37%	Pirelli Tyre S.p.A.
Edilnord Gestioni S.r.l. (in liquidation) (ex-Edilnord Gestioni S.p.A.)	Real Estate	Milan	Euro	517,000	100.00%	Pirelli & C. Real Estate S.p.A.
Elle Dieci Società Consortile a.r.l.	Real Estate	Milan	Euro	100,000	100.00%	Edilnord Gestioni S.r.l. (in liquidation) (ex-Edilnord Gestioni S.p.A.)
Elle Tre Società Consortile a.r.l.	Real Estate	Milan	Euro	100,000	100.00%	Edilnord Gestioni S.r.l. (in liquidation) (ex-Edilnord Gestioni S.p.A.)
Elle Uno Società Consortile a.r.l. (in liquidation)	Real Estate	Milan	Euro	100,000	100.00%	Edilnord Gestioni S.r.l. (in liquidation) (ex-Edilnord Gestioni S.p.A.)
Erato Finance S.r.l. (in liquidation)	Real Estate	Milan	Euro	600,000	53.85%	Pirelli & C. Real Estate S.p.A.
Geolidro S.p.A.	Real Estate	Naples	Euro	3,099,096	100.00%	Centrale Immobiliare S.p.A.
Iniziative Immobiliari 3 S.r.l.	Real Estate	Milan	Euro	10,000	100.00%	Iniziative Immobiliari 3 B.V.
Kappa S.r.l.	Real Estate	Milan	Euro	10,400	100.00%	Pirelli & C. Real Estate S.p.A.

Company	Business	Headquarters	Share	Capital	% holding	Held by
Lambda S.r.l.	Real Estate	Milan	Euro	578,760	100.00%	Pirelli & C. Real Estate S.p.A.
Maristel S.p.A.	Telecommunications	Milan	Euro	1,020,000	100.00%	Pirelli Broadband Solutions S.p.A.
NewCo RE 1 S.r.l.	Real Estate	Milan	Euro	30,000	100.00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 4 S.r.l.	Real Estate	Milan	Euro	10,000	100.00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 5 S.r.l.	Real Estate	Milan	Euro	40,000	100.00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 6 S.r.l.	Real Estate	Milan	Euro	40,000	100.00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 8 S.r.l.	Real Estate	Milan	Euro	40,000	100.00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 9 S.r.l.	Real Estate	Milan	Euro	40,000	100.00%	Pirelli & C. Real Estate S.p.A.
Parcchegi Bicocca S.r.l.	Real Estate	Milan	Euro	1,500,000	75.00%	Pirelli & C. Real Estate S.p.A.
P.A. Società di Gestione del Risparmio S.p.A.	Financial	Milan	Euro	1,000,000	100.00%	Pirelli & C. Ambiente S.p.A.
PBS S.C a r.l.	Real Estate	Milan	Euro	100,000	60.00%	Pirelli & C. Real Estate Property Management S.p.A.
Perseo S.r.l.	Services	Milan	Euro	20,000	100.00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente S.p.A.	Environment	Milan	Euro	6,120,000	51.00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente Site Remediation S.p.A.	Environment	Milan	Euro	155,700	100.00%	Pirelli & C. Ambiente S.p.A.
Pirelli & C. Eco Technology S.p.A.	Sustainable mobility	Milan	Euro	33,120,000	51.00%	Pirelli & C. S.p.A.
Pirelli & C. Opere Generali S.p.A.	Real Estate	Milan	Euro	104,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Agency S.p.A.	Real Estate	Milan	Euro	1,000,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Finance S.p.A. (ex- Pirelli & C. Real Estate Franchising Servizi Finanziari S.r.l.)	Real Estate	Milan	Euro	120,000	100.00%	Pirelli & C. Real Estate Agency S.p.A.
Pirelli & C. Real Estate Property Management S.p.A.	Real Estate	Milan	Euro	114,400	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate S.p.A.	Real Estate	Milan	Euro	21,298,616	56.45%	Pirelli & C. S.p.A.
					2.79%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A.	Real Estate	Milan	Euro	24,458,763	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli Broadband Solutions S.p.A.	Telecommunications	Milan	Euro	9,120,000	100.00%	Pirelli & C. S.p.A.
Pirelli Cultura S.p.A.	Sundry	Milan	Euro	1,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Industrie Pneumatici S.r.l.	Tyre	Settimo Torinese (To)	Euro	21,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Labs S.p.A.	Research and Development	Milan	Euro	5,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Nastri Tecnici S.p.A. (in liquidation)	Sundry	Milan	Euro	384,642	100.00%	Pirelli & C. S.p.A.
Pirelli RE Credit Servicing S.p.A.	Real Estate	Milan	Euro	1,809,500	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli Servizi Finanziari S.p.A.	Financial	Milan	Euro	1,976,000	100.00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Information Systems	Milan	Euro	1,010,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	256,820,000	100.00%	Pirelli & C. S.p.A.
Progetto Bicocca Università S.r.l.	Real Estate	Milan	Euro	50,360	50.50%	Pirelli & C. Real Estate S.p.A.
Progetto Perugia S.r.l.	Real Estate	Perugia	Euro	100,000	100.00%	Pirelli & C. Real Estate S.p.A.
Progetto Vallata S.r.l.	Real Estate	Milan	Euro	1,500,000	80.00%	Pirelli & C. Real Estate S.p.A.
Pzero S.r.l.	Sundry	Milan	Euro	10,000	100.00%	Pirelli & C. S.p.A.
Sarca 222 S.r.l.	Travel Agency	Milan	Euro	46,800	100.00%	Pirelli & C. S.p.A.
Servizi Amministrativi Real Estate S.p.A.	Real Estate	Milan	Euro	520,000	100.00%	Pirelli & C. Real Estate S.p.A.

Company	Business	Headquarters	Share	Capital	% holding	Held by
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104,000	89.30%	Pirelli & C. S.p.A.
					2.00%	Pirelli Tyre S.p.A.
					2.00%	Pirelli & C. Real Estate S.p.A.
					1.00%	Pirelli & C. Ambiente S.p.A.
					0.95%	Centro Servizi Amministrativi Pirelli S.r.l.
					0.95%	Pirelli Broadband Solution S.p.A.
					0.95%	Pirelli Labs S.p.A.
					0.95%	Pirelli Sistemi Informativi S.r.l.
					0.95%	Pzero S.r.l.
					0.95%	Pirelli & C. Eco Technology S.p.A.
SIB S.r.l.	Real Estate	Milan	Euro	10,100	100.00%	Pirelli RE Credit Servicing S.p.A.
Luxembourg						
Pirelli Finance (Luxembourg) S.A.	Financial	Luxembourg	Euro	270,228,168	100.00%	Pirelli & C. S.p.A.
Mistral RE S.à.r.l.	Real Estate	Luxembourg	Euro	12,500	100.00%	Pirelli & C. Real Estate S.p.A.
Sigma RE S.à.r.l.	Real Estate	Luxembourg	Euro	12,500	100.00%	Pirelli RE Netherlands B.V.
Poland						
Driver Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	100,000	68.50%	Pirelli Polska Sp.ZO.O.
Pirelli Pekao Real Estate Sp.ZO.O.	Real Estate	Warsaw	Pol. Zloty	35,430,000	75.00%	Pirelli & C. Real Estate S.p.A.
Pirelli Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	625,771	100.00%	Pirelli Tyre (Europe) S.A.
Romania						
S.C. Pirelli & C. Eco Technology RO S.R.L.(ex- Pirelli & C. Eco Technology RO S.A.)	Sustainable mobility	Oras Bumbesti-Jiu	Rom. Leu	50,000,000	100.00%	Pirelli & C. Eco Technology S.p.A.
Pirelli RE Romania S.A.	Real Estate	Bucarest	Rom. Leu	100,000	80.00%	Pirelli RE Netherlands B.V.
S.C. Cord Romania S.R.L.	Tyre	Slatina	Rom. Leu	36,492,150	80.00%	Pirelli Tyre Holland N.V.
S.C. Pirelli Tyres Romania S.R.L.	Tyre	Slatina	Rom. Leu	242,169,800	95.00%	Pirelli Tyre Holland N.V.
					5.00%	Pirelli Tyre S.p.A.
Russia						
000 Pirelli Tyre Russia	Commercial	Moscow	Russian Rouble	50,485,259	95.00%	Pirelli Tyre (Europe) S.A.
					5.00%	Pirelli Tyre Holland N.V.
Slovakia						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Slov. Koruna	200,000	100.00%	Pirelli Tyre (Europe) S.A.
Spain						
Euro Driver Car S.L.	Tyre	Barcelona	Euro	804,000	25.00%	Pirelli Neumaticos S.A.
					26.12%	Proneus S.L.
Omnia Motor S.A.	Tyre	Barcelona	Euro	1,502,530	100.00%	Pirelli Neumaticos S.A.
Pirelli Neumaticos S.A.	Tyre	Barcelona	Euro	45,075,908	100.00%	Pirelli Tyre Holland N.V.
Proneus S.L.	Tyre	Barcelona	Euro	3,005	100.00%	Pirelli Neumaticos S.A.
Tyre & Fleet S.L.	Tyre	Barcelona	Euro	20,000	100.00%	Pirelli Neumaticos S.A.
Sweden						
Pirelli Tyre Nordic A.B.	Tyre	Bromma	Swed. Krona	950,000	100.00%	Pirelli Tyre (Europe) S.A.
Switzerland						
Agom S.A.	Tyre	Conthey	Swiss Franc	50,000	80.00%	Pirelli Tyre (Europe) S.A.
Agom S.A. Bioggio	Tyre	Bioggio	Swiss Franc	590,000	100.00%	Pirelli Tyre (Europe) S.A.
Pirelli Société de Services S.à r.l.	Financial	Basel	Swiss Franc	50,000	100.00%	Pirelli Tyre (Europe) S.A.
Pirelli Société Générale S.A.	Financial	Basel	Swiss Franc	28,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre (Europe) S.A.	Tyre	Basel	Swiss Franc	1,000,000	100.00%	Pirelli Tyre Holland N.V.
The Netherlands						
Iniziative immobiliari 3 B.V.	Real Estate	Amsterdam	Euro	4,500,000	100.00%	Pirelli & C. Real Estate S.p.A.
P.A.E.T. B.V. (In Liquidation)	Sustainable mobility	Amsterdam	Euro	18,000	100.00%	Pirelli & C. Eco Technology S.p.A.
Pirelli China Tyre N.V.	Tyre	Heinenoord	Euro	38,045,000	100.00%	Pirelli Tyre Holland N.V.
Pirelli Holding N.V.	Holding Company	Heinenoord	Euro	60,000,000	100.00%	Pirelli & C. S.p.A.

Company	Business	Headquarters	Share	Capital	% holding	Held by
Pirelli RE Agency Netherlands B.V.	Real Estate	Amsterdam	Euro	18,000	100.00%	Pirelli RE Netherlands B.V.
Pirelli RE Netherlands B.V.	Real Estate	Amsterdam	Euro	21,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli RE Property Management Netherlands B.V.	Real Estate	Amsterdam	Euro	18,000	100.00%	Pirelli & C. Real Estate S.p.A.
Pirelli Tyre Holland N.V.	Tyre	Heinoord	Euro	3,045,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Heinoord	Euro	18,152	100.00%	Pirelli Tyre (Europe) S.A.
Sipir Finance N.V.	Financial	Heinoord	Euro	13,021,222	100.00%	Pirelli & C. S.p.A.
Turkey						
Celikord A.S.	Tyre	Istanbul	YTL	29,000,000	98.733%	Pirelli Tyre Holland N.V.
					0.632%	Pirelli UK Tyre Holding Ltd
					0.367%	Pirelli UK Tyre Ltd
					0.267%	Pirelli Tyre S.p.A.
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	YTL	140,000,000	95.19%	Pirelli Tyre Holland N.V.
					0.15%	Pirelli Tyre S.p.A.
United Kingdom						
CTC 2008 Limited (ex- Central Tyre Ltd)	Tyre	London	British Pound	100,000	100.00%	Pirelli UK Tyres Ltd
CPK Auto Products Ltd	Tyre	London	British Pound	10,000	100.00%	Pirelli UK Tyres Ltd
CTC 1994 Ltd	Tyre	London	British Pound	984	100.00%	CTC 2008 Limited (ex- Central Tyre Ltd)
Pirelli International Ltd	Financial	London	Euro	250,000,000	75.00%	Pirelli UK Tyre Holding Ltd
					25.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Ltd	Tyre	London	British Pound	16,000,000	100.00%	Pirelli UK Tyres Ltd
Pirelli UK Ltd	Finance Holding Company	London	British Pound	97,161,278	100.00%	Pirelli & C. S.p.A.
Pirelli UK Tyre Holding Ltd	Holding Company	London	British Pound	96,331,000	100.00%	Pirelli Tyre Holland N.V.
Pirelli UK Tyres Ltd	Tyre	London	British Pound	85,000,000	75.00%	Pirelli UK Tyre Holding Ltd
North America						
Canada						
Pirelli Tire Inc.	Tyre	Fredericton (New Brunswick)	Can. \$	6,000,000	100.00%	Pirelli Tyre (Europe) S.A.
U.S.A.						
Pirelli North America Inc.	Tyre	Atlanta	US \$	10	100.00%	Pirelli Tyre Holland N.V.
Pirelli Tire LLC	Tyre	Wilmington (Delaware)	US \$	1	100.00%	Pirelli North America Inc.
Central/South America						
Argentina						
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	101,325,176	95.00%	Pirelli Tyre Holland N.V.
					5.00%	Pirelli Tyre S.p.A.
Pirelli Soluciones Tecnologicas S.A.	Telecommunications	Buenos Aires	Arg. Peso	1,283,070	95.00%	Pirelli Broadband Solution S.p.A.
					5.00%	Pirelli & C. S.p.A.
Brazil						
Comercial e Importadora de Pneus Ltda	Tyre	Sao Paulo	Bra. Real	12,913,526	100.00%	Pirelli Pneus Ltda
Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda	Tyre	Santo André	Bra. Real	84,784,342	100.00%	Pirelli Pneus Ltda
Pirelli Broadband Solutions Soluções em Telecomunicações Ltda (ex- Pirelli & C. Real Estate Ltda)	Real Estate	Santo André	Bra. Real	2,000,000	100.00%	Pirelli Ltda
Pirelli Ltda	Financial	Sao Paulo	Bra. Real	49,189,271	100.00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda	Tyre	Feira de Santana	Bra. Real	341,145,811	100.00%	Pirelli Tyre S.p.A.
TLM - Total Logistic Management Serviços de Logística Ltda	Holding Company	Santo André	Bra. Real	1,006,000	99.98%	Pirelli Pneus Ltda
					0.02%	Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda

Company	Business	Headquarters	Share	Capital	% holding	Held by
Chile						
Pirelli Neumaticos Chile Limitada	Tyre	Santiago	Chile Peso	1,918,451	99.98%	Pirelli Pneus Ltda
					0.02%	Comercial e Importadora de Pneus Ltda
Colombia						
Pirelli de Colombia S.A.	Tyre	Santa Fe De Bogota	Col. Peso/000	3,315,069	92.91%	Pirelli Pneus Ltda
					2.28%	Pirelli de Venezuela C.A.
					1.60%	Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda
					1.60%	TLM - Total Logistic Management Serviços de Logistica Ltda
					1.60%	Comercial e Importadora de Pneus Ltda
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	35,098,400	99.98%	Pirelli Pneus Ltda
					0.02%	Comercial e Importadora de Pneus Ltda
Servicios Pirelli Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	50,000	99.00%	Pirelli Pneus Ltda
					1.00%	Comercial e Importadora de Pneus Ltda
Venezuela						
Pirelli de Venezuela C.A.	Tyre	Valencia	Ven. Bolivar/000	20,062,679	96.22%	Pirelli Tyre Holland N.V.
Africa						
Egypt						
Alexandria Tire Company S.A.E.	Tyre	Alexandria	Egy. Pound	393,000,000	89.08%	Pirelli Tyre S.p.A
					0.03%	Pirelli Tyre (Europe) S.A.
International Tire Company Ltd	Tyre	Alexandria	Egy. Pound	50,000	99.80%	Alexandria Tire Company S.A.E.
South Africa						
Pirelli Tyre (Pty) Ltd	Tyre	Sandton	S.A. Rand	1	100.00%	Pirelli Tyre (Europe) S.A.
Oceania						
Australia						
Pirelli Tyres Australia Pty Ltd	Tyre	Sydney	Aus. \$	150,000	100.00%	Pirelli Tyre (Europe) S.A.
New Zealand						
Pirelli Tyres (NZ) Ltd	Tyre	Wellington	N.Z. \$	100	100.00%	Pirelli Tyres Australia Pty Ltd
Asia						
China						
Pirelli Scientific and Technological Consulting (Shangai) Co. Ltd	Tyre	Shangai	US \$	200,000	100.00%	Pirelli China Tyre N.V.
Pirelli Tyre Co. Ltd	Tyre	Yanzhou	China Renmimbi	1,041,150,000	75.00%	Pirelli China Tyre N.V.
Japan						
Pirelli Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2,700,000,000	100.00%	Pirelli Tyre Holland N.V.
Singapore						
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. \$	2	100.00%	Pirelli Tyre (Europe) S.A.

INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Company	Business	Headquarters	Share	Capital	% holding	Held by
Europe						
Germany						
Beteiligungsgesellschaft Einkaufszentrum Mülheim Gmbh	Real Estate	Hamburg	Euro	31,000	41.17%	Pirelli & C. Real Estate Deutschland Gmbh
City Center Mülheim Grundstücksgesellschaft mbh & Co. KG	Real Estate	Hamburg	Euro	47,805,791	41.17%	Pirelli & C. Real Estate Deutschland Gmbh
Einkaufszentrum Mülheim Gmbh & Co. KG	Real Estate	Hamburg	Euro	26,075,856	41.18%	Pirelli & C. Real Estate Deutschland Gmbh
Gatus 372. Gmbh	Real Estate	Berlin	Euro	25,000	40.00%	Pirelli RE Residential Investment Gmbh
Grundstücksgesellschaft Merkur Hansaallee mbh & Co. KG	Real Estate	Hamburg	Euro	22,905,876	33.75%	Pirelli & C. Real Estate Deutschland Gmbh
Industriekraftwerk Breuberg Gmbh	Cogeneration	Hoechst/Odenwald	Euro	1,533,876	26.00%	Pirelli Deutschland Gmbh
Kurpromenade 12 Timmendorfer Strand Grundstücksgesellschaft mbh & Co. KG	Real Estate	Hamburg	Euro	6,237,761	50.00%	Pirelli & C. Real Estate Deutschland Gmbh
Resident Berlin 1 P&K Gmbh	Real Estate	Berlin	Euro	125,000	40.00%	Pirelli RE Residential Investments Gmbh
Tizian Wohnen 1 Gmbh	Real Estate	Berlin	Euro	1,114,400	40.00%	Pirelli RE Residential Investments Gmbh
Tizian Wohnen 2 Gmbh	Real Estate	Berlin	Euro	347,450	40.00%	Pirelli RE Residential Investments Gmbh
Verwaltung Büro - und Lichtspielhaus Hansaallee Gmbh	Real Estate	Hamburg	Euro	50,000	27.00%	Pirelli & C. Real Estate Deutschland Gmbh
					20.00%	Grundstücksgesellschaft Merkur Hansaallee mbh & Co. KG
Verwaltung City Center Mülheim Grundstücksgesellschaft mbh	Real Estate	Hamburg	Euro	31,000	41.17%	Pirelli & C. Real Estate Deutschland Gmbh
Verwaltung Kurpromenade 12 Timmendorfer Strand Grundstücks- gesellschaft mbh & Co. KG	Real Estate	Hamburg	Deut. Mark	50,000	50.00%	Pirelli & C. Real Estate Deutschland Gmbh
Verwaltung Mercado Ottensen Grundstuecksgesellschaft mbh	Real Estate	Hamburg	Deut. Mark	50,000	44.00%	Pirelli RE Netherlands B.V.
					50.00%	Mistral Real Estate B.V.
Italy						
A.P.I.C.E. - società per azioni	Environment	Rome	Euro	200,000	50.00%	Pirelli & C. Ambiente S.p.A.
Aree Urbane S.r.l.	Real Estate	Milan	Euro	307,717	34.60%	Pirelli & C. Real Estate S.p.A.
					0.28%	Pirelli & C. S.p.A.
Cairol Finance S.r.l.	Real Estate	Milan	Euro	10,000	35.00%	Pirelli & C. Real Estate S.p.A.
Capitol Immobiliare S.r.l.	Real Estate	Milan	Euro	10,000	33.00%	Pirelli & C. Real Estate S.p.A.
Castello S.r.l. (in liquidation)	Real Estate	Milan	Euro	1,170,000	49.10%	Pirelli & C. Real Estate S.p.A.
Consorzio G6 Advisor	Real Estate	Milan	Euro	50,000	42.30%	Pirelli & C. Real Estate Agency S.p.A.
Continuum S.r.l.	Real Estate	Milan	Euro	500,000	40.00%	Pirelli & C. Real Estate S.p.A.
Dixia S.r.l.	Real Estate	Milan	Euro	2,500,000	30.00%	Pirelli & C. Real Estate S.p.A.
Dolcetto sei S.r.l.	Real Estate	Milan	Euro	10,000	50.00%	Pirelli & C. Real Estate S.p.A.
Erice S.r.l.	Real Estate	Milan	Euro	10,000	40.00%	Pirelli & C. Real Estate S.p.A.
Eurostazioni S.p.A.	Holding	Rome	Euro	160,000,000	32.71%	Pirelli & C. S.p.A.
Finprema S.p.A.	Real Estate	Milan	Euro	120,000	35.00%	Pirelli & C. Real Estate S.p.A.
Golfo Aranci S.p.A. - Società di Trasformazione Urbana	Real Estate	Golfo Aranci (Ot)	Euro	1,000,000	43.80%	Pirelli & C. Real Estate S.p.A.
					5.00%	Centrale Immobiliare S.p.A.

Company	Business	Headquarters	Share	Capital	% holding	Held by
Idea Granda Società Consortile r.l.	Environment	Cuneo	Euro	1,292,500	49.00%	Pirelli & C. Ambiente S.p.A.
Induxia S.r.l.	Real Estate	Milan	Euro	836,300	18.00%	Pirelli & C. Real Estate S.p.A.
Iniziative Immobiliari S.r.l.	Real Estate	Milan	Euro	5,000,000	49.46%	Pirelli & C. Real Estate S.p.A.
Le Case di Capalbio S.r.l.	Real Estate	Milan	Euro	10,000	20.00%	Pirelli & C. Real Estate S.p.A.
Localto ReoCo S.r.l. (in liquidation)	Real Estate	Milan	Euro	10,000	35.00%	Pirelli & C. Real Estate S.p.A.
Manifatture Milano S.p.A. (ex- Quadrifoglio Milano S.p.A.)	Real Estate	Rome	Euro	11,230,000	50.00%	Pirelli & C. Real Estate S.p.A.
Maro S.r.l.	Real Estate	Milan	Euro	20,000	25.00%	Pirelli & C. Real Estate S.p.A.
Orione Immobiliare Prima S.p.A.	Real Estate	Milan	Euro	104,000	40.10%	Pirelli & C. Real Estate S.p.A.
Progetto Bicocca la Piazza S.r.l.	Real Estate	Milan	Euro	3,151,800	26.00%	Pirelli & C. Real Estate S.p.A.
Progetto Corsico S.r.l.	Real Estate	Milan	Euro	100,000	49.00%	Pirelli & C. Real Estate S.p.A.
Progetto Fontana S.r.l. (in liquidation)	Real Estate	Milan	Euro	10,000	23.00%	Pirelli & C. Real Estate S.p.A.
Progetto Gioberti S.r.l.	Real Estate	Milan	Euro	100,000	50.00%	Pirelli & C. Real Estate S.p.A.
RCS MediaGroup S.p.A.	Finance Holding Company	Milan	Euro	762,019,050	5.33%	Pirelli & C. S.p.A.
Resi S.r.l. (in liquidation)	Real Estate	Milan	Euro	10,000	25.00%	Pirelli & C. Real Estate S.p.A.
Rinascente/Upim S.r.l.	Real Estate	Rozzano (Milan)	Euro	10,000	20.00%	Pirelli & C. Real Estate S.p.A.
Riva dei Ronchi S.r.l.	Real Estate	Milan	Euro	100,000	35.00%	Pirelli & C. Real Estate S.p.A.
Roca S.r.l.	Real Estate	Milan	Euro	20,000	25.00%	Pirelli & C. Real Estate S.p.A.
Serenergy S.r.l.	Environment	Milan	Euro	25,500	50.00%	Pirelli & C. Ambiente S.p.A.
Solaris S.r.l.	Real Estate	Milan	Euro	20,000	40.00%	Pirelli & C. Real Estate S.p.A.
Solar Utility S.p.A.	Environment	Milan	Euro	14,000,000	50.00%	Pirelli & C. Ambiente S.p.A.
Tamerice Immobiliare S.r.l.	Real Estate	Milan	Euro	500,000	20.00%	Pirelli & C. Real Estate S.p.A.
Trixia S.r.l.	Real Estate	Milan	Euro	1,209,700	36.00%	Pirelli & C. Real Estate S.p.A.
Turismo e Immobiliare S.p.A.	Real Estate	Milan	Euro	120,000	33.30%	Pirelli & C. Real Estate S.p.A.
Vesta Finance S.r.l.	Real Estate	Milan	Euro	10,000	35.00%	Pirelli & C. Real Estate S.p.A.
Luxembourg						
Afrodite S.à r.l.	Real Estate	Luxembourg	Euro	4,129,475	40.00%	Pirelli & C. Real Estate S.p.A.
Alimede Luxembourg S.à r.l.	Real Estate	Luxembourg	Euro	12,945	35.00%	Pirelli & C. Real Estate S.p.A.
Alnitak S.à r.l.	Real Estate	Luxembourg	Euro	4,452,500	35.00%	Pirelli & C. Real Estate S.p.A.
Artemide S.à r.l.	Real Estate	Luxembourg	Euro	2,857,050	35.00%	Pirelli & C. Real Estate S.p.A.
Austin S.à r.l.	Real Estate	Luxembourg	Euro	125,000	28.46%	Pirelli & C. Real Estate S.p.A.
Bicocca S.à r.l.	Real Estate	Luxembourg	Euro	12,500	35.00%	Pirelli & C. Real Estate S.p.A.
Colombo S.à r.l.	Real Estate	Luxembourg	Euro	960,150	35.00%	Pirelli & C. Real Estate S.p.A.
Dallas S.à r.l.	Real Estate	Luxembourg	Euro	125,000	28.46%	Pirelli & C. Real Estate S.p.A.
Delamain S.à r.l.	Real Estate	Luxembourg	Euro	12,500	49.00%	Pirelli & C. Real Estate S.p.A.
Doria S.à r.l.	Real Estate	Luxembourg	Euro	992,850	35.00%	Pirelli & C. Real Estate S.p.A.
European NPL S.A.	Real Estate	Luxembourg	Euro	2,528,738	33.00%	Pirelli & C. Real Estate S.p.A.
IN Holdings I S.à r.l.	Real Estate	Luxembourg	Euro	2,595,725	20.50%	Pirelli & C. Real Estate S.p.A.
Inimm Due S.à r.l.	Real Estate	Luxembourg	Euro	240,950	25.00%	Pirelli & C. Real Estate S.p.A.
Nashville S.à r.l.	Real Estate	Luxembourg	Euro	125,000	28.46%	Pirelli & C. Real Estate S.p.A.
Sicily Investments S.à r.l.	Real Estate	Luxembourg	Euro	12,500	40.00%	Pirelli & C. Real Estate S.p.A.
Solaia RE S.à r.l.	Real Estate	Luxembourg	Euro	12,500	35.00%	Pirelli & C. Real Estate S.p.A.
Trinacria Capital S.à r.l.	Real Estate	Luxembourg	Euro	12,500	40.00%	Pirelli & C. Real Estate S.p.A.
Trinoro S.à r.l. (in liquidation)	Real Estate	Luxembourg	Euro	30,000	35.00%	Pirelli & C. Real Estate S.p.A.
Vespucci S.à r.l.	Real Estate	Luxembourg	Euro	960,150	35.00%	Pirelli & C. Real Estate S.p.A.
Portugal						
Espelha - Serviços de Consultadoria Lda	Real Estate	Madeira	Euro	5,000	49.00%	Pirelli & C. Real Estate S.p.A.
Romania						
SC Eco Anvelope S.A.	Tyre	Bucarest	Ron	160,000	20.00%	S.C. Pirelli Tyres Romania S.R.L.
Spain						
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200,000	20.00%	Pireli Neumaticos S.A.

Company	Business	Headquarters	Share	Capital	% holding	Held by
The Netherlands						
Aida RE B.V.	Real Estate	Amsterdam	Euro	18,000	40.00%	Pirelli RE Netherlands B.V.
Alceo B.V.	Real Estate	Amsterdam	Euro	18,000	33.00%	Pirelli & C. Real Estate S.p.A.
Gamma RE B.V.	Real Estate	Amsterdam	Euro	18,000	49.00%	Pirelli RE Netherlands B.V.
M.S.M.C. Italy Holding B.V.	RE Holding	Amsterdam	Euro	20,000	25.00%	Pirelli & C. Real Estate S.p.A.
Masseto 1 B.V.	Real Estate	Amsterdam	Euro	19,000	33.00%	Pirelli & C. Real Estate S.p.A.
Mistral Real Estate B.V.	Real Estate	Amsterdam	Euro	18,000	35.00%	Pirelli & C. Real Estate S.p.A.
Polish Investments Real Estate B.V.	RE Holding	Amsterdam	Euro	20,000	40.00%	Pirelli & C. Real Estate S.p.A.
Polish Investments Real Estate Holding II B.V.	RE Holding	Amsterdam	Euro	18,000	40.00%	Pirelli & C. Real Estate S.p.A.
Popoy Holding B.V.	RE Holding	Amsterdam	Euro	26,550	25.00%	Pirelli & C. Real Estate S.p.A.
S.I.G. RE B.V.	Real Estate	Amsterdam	Euro	18,000	36.70%	Pirelli RE Netherlands B.V.
Sigma RE B.V.	Real Estate	Amsterdam	Euro	18,000	24.66%	Pirelli RE Netherlands B.V.
SI Real Estate Holding B.V.	RE Holding	Amsterdam	Euro	763,077	25.00%	Pirelli & C. Real Estate S.p.A.
Theta RE B.V.	Real Estate	Amsterdam	Euro	18,005	40.00%	Pirelli RE Netherlands B.V.
North America						
U.S.A.						
Sci Roev Texas Partners L.P.	Real Estate	Dallas	US \$	12,000,000	10.00%	Pirelli & C. Real Estate S.p.A.
CyOptics Inc	Fotonica	Wilmington	US \$	629,392,744	34.52%	Pirelli & C. S.p.A.
Central/South America						
Argentina						
Lineas de Transmision de Buenos Aires S.A. (in liquidation)	Services	Buenos Aires	Arg. Peso	12,000	20.00%	Pirelli Soluciones Tecnologicas S.A.

OTHER INVESTMENTS CONSIDERED SIGNIFICANT AS PER CONSOB RESOLUTION NO. 11971 OF MAY 14,1999

Company	Business	Headquarters	Share	Capital	% holding	Held by
Belgium						
Euroqube S.A. (in liquidation)	Services	Brussels	Euro	84,861,116	17.79%	Pirelli & C. S.p.A.
France						
Aliapur S.A.	Tyre	Lion	Euro	262,500	14.29%	Pirelli Tyre S.p.A
Germany						
WoWiMedia Gmbh & Co. KG	Real Estate	Hamburg	Euro	2,500,000	18.85%	Pirelli RE Netherlands B.V.
AVW Assekuranzvermittlung der Wohnungswirtschaft GmbH & Co. KG.	Real Estate	Hamburg	Euro	260,000	10.50%	Pirelli RE Netherlands B.V.
					0.20%	Pirelli & C. Real Estate Deutschland GmbH
Hungary						
HUREC Tyre Recycling Non-Profit Company	Tyre	Budapest	Hun. Forint	50,000,000	17.00%	Pirelli Hungary Tyre Trading and Services Ltd
Italy						
Fin. Priv. S.r.l.	Financial	Milan	Euro	20,000	14.29%	Pirelli & C. S.p.A.
Tecnocittà S.r.l. (in liquidation)	Real Estate	Milan	Euro	547,612	12.00%	Pirelli & C. Real Estate S.p.A.
Poland						
Centrum Utylizacji Opon Olganizacja Odzyseu S.A.	Tyre	Warsaw	Pol. Zloty	1,008,000	14.29%	Pirelli Polska Sp. ZO.O.
The Netherlands						
Spazio Investment N.V.	Financial	Amsterdam	Euro	6,096,020	18.42%	Pirelli RE Netherlands B.V.
Tunisia						
Société Tunisienne des Industries de Pneumatiques S.A.	Tyre	Tunis	Tun. Dinar	42,078,240	15.83%	Pirelli Tyre S.p.A
United Kingdom						
Tlcom I Ltd Partnership	Financial	London	Euro	1,204	12.98%	Pirelli Finance (Luxembourg) S.A.
U.S.A.						
Avanex Corporation	Telecommunication	Fremont	US \$	226,793,103	12.48%	Pirelli Finance (Luxembourg) S.A.

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO ART. 81-TER OF CONSOB REGULATION 11971 OF MAY 14, 1999, WITH AMENDMENTS AND ADDITIONS

1. We, the undersigned, Marco Tronchetti Provera, Chairman of the board of directors, and Claudio De Conto – Operations General Manager and Manager responsible for the preparation of the financial reports of the company, Pirelli & C. S.p.A., certify, having also considered the provisions of art. 154-bis, paragraphs 3 and 4, of Legislative Decree 58 dated February 24, 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application,

of the administrative and accounting procedures used in the preparation of the consolidated financial statements for the fiscal year ended December 31, 2008.

2. To this end:

- there have been no situations of particular interest in terms of operations or strategies to report nor have there been any problems and/or anomalies noted also with regard to the effective application of the procedures;
- the evaluation of the adequacy of the administrative and accounting procedures used in the preparation of the consolidated financial statements at December 31, 2008 is based upon an assessment of the system of internal control. This assessment is based upon a process defined by Pirelli & C. S.p.A. consistently with the “Internal Control – Integrated Framework” model issued by the “Committee of Sponsoring Organizations of the Treadway Commission” (COSO), an internationally-accepted reference framework.

3. We also certify that:

3.1. the consolidated financial statements:

- (a) are prepared in accordance with the applicable international financial reporting standards endorsed by the European Union pursuant to EC regulation 1606/2002 of the European Parliament and Council dated July 19, 2002;
- (b) agree with the results of the accounting records and entries;
- (c) are prepared in conformity with art. 154-ter of Legislative Decree 58/1998 as well as the provisions of Consob on the subject and are suitable for fairly and correctly presenting the financial condition, results of operations and cash flows of the company and the aggregate of the companies included in consolidation;

3.2. the report on operations includes a reliable analysis of the performance and results of operations, as well as the condition of the issuer and the aggregate of the companies included in consolidation, together with a description of exposure to major risks and uncertainties.

March 10, 2009

Chairman of the Board of Directors

Manager responsible for the preparation
of the financial reports of the company

Marco Tronchetti Provera

Claudio De Conto



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Independent auditors' report
pursuant to Article 156 of Legislative Decree No. 58 of February 24, 1998
(Translation from the original Italian text)

To the Shareholders
of Pirelli & C. S.p.A.

1. We have audited the consolidated financial statements of Pirelli & C. S.p.A. and its subsidiaries, (the "Pirelli & C. Group") as of and for the year ended December 31, 2008, comprising the balance sheet, the income statement, the statement of recognized income and expense, the statement of cash flows and the related notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Italian Legislative Decree n° 38/2005 is the responsibility of the Pirelli & C. S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to the auditors' report dated April 9, 2008, issued by other auditors.

3. In our opinion, the consolidated financial statements of Pirelli & C. Group as of December 31, 2008, have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Italian Legislative Decree n° 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations, the income and expense recognized in equity and the cash flows of Pirelli & C. Group for the year then ended.
4. The management of Pirelli & C. S.p.A. is responsible for the preparation of the Report on Operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Report on Operations with the financial statements as required by art. 156, paragraph 4-bis, letter d) of the Legislative Decree 58/98. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the Report on Operations is consistent with the consolidated financial statements of Pirelli & C. Group as of December 31, 2008.

Milan, April 2, 2009

Reconta Ernst & Young S.p.A.
signed by: Pellegrino Libroia, Partner

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Codice Fiscale n° 00000001000
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