

Ladies and gentlemen, welcome to Pirelli's conference call, in which our Chairman, Mr. Marco Tronchetti Provera, will disclose the nine-month 2008 group results. I remind you that a Q&A session will follow after the presentation; moreover, a live web casting of the event and the presentation slides are available in the investors relation section of the Pirelli website. Now, I would like to introduce you to Mr. Marco Tronchetti Provera.

Good evening ladies and gentlemen, thank you for joining our conference call for the presentation of Pirelli Group's 9 months results, just approved by the Board of Directors.

Before looking at the financial results for the Group and our two main business, tyres and real estate, which Mr. de Conto, Mr. Gori and Mr. Puri will illustrate in detail a little later, I'd like to begin by giving a brief overview of the macroeconomic climate and explain the decisions we have taken in the last quarter.

I believe these decisions are crucial to placing Pirelli Group in a more flexible and competitive position for 2009 - which looks likely to be a tough year – ready for the upturn we expect to see in 2010, providing the government's measures to support the credit market and introduce fiscal stimuli are successful. Global companies are well used to working in a complex economic environment. But today we need to keep a close eye on many different markets at the same time, and be able to react quickly to developments wherever they occur. The world economy is no longer driven by a single market (such as the US) but by various interlocking and interdependent markets where economic repercussions are felt throughout the system much more quickly than in the past.

2009 will be a year of recession in the USA and stagnation in Europe.

Growth in European GDP, which we show here at +1.2% for 2008 will fall to zero for 2009 according to yesterday's statement by the European Commission.

The effects of the subprime crisis have already spread to emerging markets where growth will slow in 2009 before picking up again in 2010.

As regards emerging markets, in particular, it is worth noting that the International Monetary Fund, which has just lowered the global GDP estimates it announced in October in Washington, made only slight adjustments to the outlook for Brazil and China which are two of Pirelli's key markets.

Slowing demand in USA and Europe and slower growth in the emerging markets has lowered the price of oil (which has now fallen to 2Q '07 levels of around 65 USD a barrel) and commodities, with benign effects for inflation (forecast weaker for 2009 than in 2008)

Notice that the price of oil (which reached 145 USD a barrel on July 3rd 2008) and commodities have had a dramatic impact on '08 earnings in manufacturing. Though Pirelli has a worldwide footprint and is accustomed to operating in a complex global environment, the company must move even more quickly to achieve greater flexibility and innovation.

In the tyre business we have many strengths we can draw on:

Geographic diversification, with 47% of tyre revenues coming from emerging markets. Mr. Gori will examine in detail the trends in the various geographies and show how countries like Brazil—despite slowing growth—offer excellent opportunities.

The product mix is already highly weighted towards low-cost markets (70%), in particular Turkey, Egypt, China and Romania.

As regards the channel mix, the ratio of Original Equipment to Replacement is currently 27%-73%, meaning that we should feel less of an impact from a falloff in consumption while at the same time benefiting from the higher margins in the Replacement segment.

Pirelli continues to invest around 4% of revenues (exc. real estate) in R&D. We believe that innovation, research, quality and productivity are key to maintaining a premium on prices and the product, enabling us to better weather crises like the present and offset declining sales (see 3Q '08 tyre revenue mix). For example, in Germany Pirelli has a state-of-the-art facility and R&D centre which sends engineers out across the world, in particular to China and Romania. As we all know, to be competitive in Germany you need to be competitive worldwide!

We have a sales presence in 160 countries, but we also continue to expand our production capabilities in high growth regions (China, Brazil, Romania, Russia....), not just to supply the more dynamic markets but also to give us greater cyclical flexibility. The current financial crisis does not alter this fact, it makes it even more important!. Still, these strengths alone are not enough.

In the current climate it is imperative to cut costs to make the company more flexible.

We stated in our half-year report that we had begun to restructure our tyre business. However, having seen the sudden worsening of the macro situation in September, we decided we could no longer delay implementation of a more drastic restructuring plan based on the following macro actions:

- review of our entire European manufacturing footprint

- right sizing of management and staff at headquarters and the main European companies from now through to 1Q '09.

(full disclosure of labour cost savings will be given at the industrial plan presentation on February 11th)

Turning now to our second business, real estate, here we are undertaking a thorough-going structural and business audit. Slide 4 illustrates the overall scenario and the various measures Pirelli RE expects to take. Here are some of the highlights for the Real Estate segment of the Group.

The real estate market in general is going through a difficult phase. In the first half of this year we saw a sharp decline in total real estate investment in Europe, with a significant drop in the number of deals, especially big transactions worth over €500m, which were down 60% year-on-year.

This slowdown has accelerated further in the third quarter.

We do not expect the situation to improve in the near term, certainly not before late 2009. In the coming months we expect to see an increasing number of forced sellers in the real estate market and a number of possible defaults by very highly leveraged companies. We are aware that only the biggest and most reliable players will be rewarded.

In such a scenario, Pirelli Re is taking steps to respond to the changing environment. In particular, beginning last June, we have reorganised operations around three business units (Residential, Commercial, NPL) so as to identify a clear responsibility on each product line, both in investment / asset management and in services.

In addition, Pirelli RE is also implementing an extensive cost cutting program that will bring savings in excess of €30m starting from next year.

We will obviously continue to work to adapt to the present market scenario and we are committed to reshaping the Pirelli RE business model through a "hold" strategy for core portfolios coupled with some opportunistic trading activity.

We are also clearly focused on debt reduction and on achieving a more solid financial structure.

Let me now elaborate on what we believe are the pillars of Pirelli RE's mission.

1) First of all, we intend to reinforce our position as leading real estate Fund and Asset Manager in the major European markets such as Italy, Germany (and Poland).

2) Second, in order to tackle the new challenges and get ready to capture the market recovery, we intend to address efforts towards consolidating our existing business and gaining tighter control of the risks inherent in the sector.

3) Third, we believe it is important in any case to lever the innovation capabilities that have always characterised Pirelli RE

Last but not least, we are committed to achieving economic and financial equilibrium, with a clear focus on enhancing our recurring income stream and cash generation.

That said, I would now like to talk you through the strategic priorities we see for Pirelli RE, which are substantially two:

The first is to focus on portfolio resizing and rebalancing essentially through:

the disposal of non-strategic real estate assets as well as non-real estate assets

the adoption of a "hold" strategy based on long term management of core portfolios and trading activity limited to a few selected opportunities

a significant increase in third party assets under management.

We also see possible upside from fund raising activities to grasp opportunities in "selected situations".

The second priority is to improve operating efficiency and financial solidity, by significantly reducing gearing levels through asset disposals, and cost savings partly achieved by a more simplified company structure and a marked reduction in the number of legal entities to be managed.

Such measures will allow Pirelli RE to return swiftly to financial independence and enable Pirelli & C. to call in the €750 mln credit line by 1H '09.

I say this because in our 2009 plan we expect Pirelli RE to reduce its adjusted net financial position from €934 mln to around €500/400 mln taking into account:

cash raised by the sale of Facility Management, scheduled to close by the end of 2008

disposal of the non performing loans portfolio

strong reduction of net capital invested in development activities

in line with the updated mission which I described earlier and the new plan which will be discussed in detail on February 11th

Following this overall picture, my colleagues will present a closer analysis of our financial and business results, after which I shall return to talk about the outlook for the end of 2008.

I now hand over to Mr De Conto, COO and CFO.

Thank you, Mr. Tronchetti and good afternoon to everyone. Looking at the slide you should have in front of you, I would focus on the quarter, where the results were indeed not good. As you can see, starting from the first line of net sales, we can see, on an organic basis, a reduction of 4.6%, that has two components: we have the tire business, which, in spite of the situation, is still growing by about 3.4% and reduction is due to a significant contraction of activity of the Real Estate sales. As far as the EBIT is concerned, you read that from 76 million of 2007, we have a quarter result of 30 million. The main variation for about 40 million is coming from the tire result and within the tire result I would like to stress the fact that we have about 76 million euros of raw material increase of cost, which has only been partially compensated by the commercial variation; and as you will see, when Mr. Gori will go in detail, also the energy cost does play a role. And as far as the quarter is concerned, we have the combination of the highest cost of raw materials of the year, coupled with the market situation where Western Europe and North America have seen a very important reduction in terms of market. When we go to the EBIT including results from equity participation, clearly the negative impact is coming from the real estate result and that is already known to the market from yesterday, Pirelli Real Estate's communication. That has brought to the attributable net income of a negative of 15 million against a positive of 21 for last year. If we look at the progressive results, I would start from the EBIT post results from equity participation, the 109.6 compared to the 462.1 of last year.

And on the next slide, we have the main effect of this variation; as you can see, we have an organic EBIT reduction of 55 million euros, 55.7; of course, the real estate result should also have to take into account part of that 92.2 million coming from the lower result of the real estate vehicles. We have also had 50 million restructuring cost split as 31- 32 million for tire and about 18 million for real estate. As far as tire is concerned, I would say the total majority of the amount has been spent, as Mr. Tronchetti has anticipated, in factories and staff in Western Europe. So, this is leading to the 109.6, and of course, within this number, the devaluation of Telecom Italia is present, for 155 million euros. Looking at the variation of the net result from 129.8 to 51.3, having already seen the variation of the EBIT post restructuring result from equity, we do have positive financial income reduction in tax charges, not as much as the reduction in profit and the delta of discontinued operation, which I do remind you, we have 12 million negative this year for the integration of the photonics, which are out of our consolidated perimeter, and the positive of 24 million of last year, which are mainly related to the warrant linked to the Prysmian transaction. Then we have the delta of the minorities that brings to a 51 negative.

Going to the next slide, showing the variation of the net financial position, which now stands at a total of 1055.7, I would like to highlight the fact that the net cash-flow of ordinary activity has been negative for 80 million euros; of that 80 million euros, 75 million was negative in this quarter, which I stated was not good at all, and that is mainly due to the tire business and here Mr. Gori will comment afterwards on the stock reduction that will take place in the next 3 months; because this, with the reduction of results has been the main catalyst of this negative figure. I would say that the other items are well explained and don't deserve comments. I would only like to make one comment on the composition of the 1055 million of net financial debt, because I'll give you the split of this debt, the debt is so allocated: tire business is 890, Pirelli Real Estate 324, other businesses 50 million and the corporate, as a financial position, positive for 210, and the adding up of these factors gives that total. As far as the net financial position of the corporate is composed, I would briefly remind you that on the debt side we had, at 30th of September 650 million of bonds and 250 million of long-term financing linked to R&D projects, with a duration of about 3 and a half years. On the credit side, we had 750 million that were given to Pirelli Real Estate and the other 400 million is a mix of cash liquidity and loans mainly to the tire sector.

Just to give you a brief update at October, the moment we talked, the bond has been reinversed, the credit extended to real estate has been reduced from the 715 to 600 million and we still have over 600, nearly 700, committed lines not drawn at the time, at present. So, I think, if you have any further question afterwards, I'm of course available and I would pass the word to Mr. Gori for the Tyre business result.

Thank you, Mr. De Conto, and good afternoon. Our first slide shows that the third quarter has been one of the worst in the tire industry in Europe and North America, with double-digit reductions not only from OEMs, but also in replacement and winter segments. On the contrary, emerging markets, notably South America, kept growing in all segments.

Next slide shows that the third quarter has also been hit by the highest price ever recorded for most key raw materials of the tire industry, such as natural rubber, synthetic rubbers, carbon black and steel. The increase has been progressively coming at the end of the second quarter, beginning of the third quarter, and is, of course, impacting also fourth quarter sales, with a clear reduction by the end of the year, beginning of next year.

Moving to next slide, the cost burden has been progressively increasing quarter-by-quarter, from 14 million euros in quarter 1 versus 2007, to 45 million euros in half 1, up to 121 million in 9 months.

Next page: our results, showing a 3.4% top-line organic growth in the third quarter, with volumes down 4.2% and price mix up 7.6%. EBIT is decreasing to 40.8 million as commercial variations do not offset input costs, not only raw materials, but also energy costs have been increasing dramatically in the recent months.

Moving to the next slide, nine-month tire results are showing 3.1% organic growth, with volumes down 2.2 and price mix up 5.3%. Restructuring costs have increased to 31.7 million euros, while EBIT stands at 231.8 million before restructuring, and 200.1 million after restructuring.

Next slide, consumer business; nine-month results are showing a 2.2% organic growth, driven by higher sales to OEMs, while volumes are down 2.3% mainly in Europe, replacement winter segments. Price mix is up 4.5% and EBIT is down to 139 million euros before restructuring costs.

Next slide: nine-month industrial business has been growing 5.2%, driven by higher sales in Latin America, with volumes down 2% mainly in Europe. Price mix was up 7.2% and EBIT has improved over 2007 up to 92.8 million euros.

Next slide: we show Pirelli Tyre sales by region that have been following quarterly market trends, with a progressive reduction in Europe driven by lower winter sales and a significant growth in Latin America and, to a lower extent, also in Africa, Asia and Pacific.

Next slide: we wish to summarize the qualitative results we achieved over the last quarter. Pirelli was one of the two only brands scoring above average in 2008 J. D. Power OE Tire Customer Satisfaction study in US. Pirelli was again, and by far, the Top of Mind brand in Brazilian research Datafolha. Our winter products have been successfully tested by all major magazines in Europe; Cinturato, our green tire, won a test based on braking and handling made by the French magazine Auto Journal. Our products showed up at the Paris Motorshow on most of the new current HEV platforms from the Ferrari California to the new Volvo XC60 and motor sport activities were at the highest with WRC and the Superbike championships.

Finally, in the next slide our short-term action plan based on the following actions: management and staff right sizing in H-quarter and main European companies, now and ending early 2009. Output reduction in all Western European factories, tactical in the fourth quarter and structural in 2009. Focus on inventory reductions by year-end. Sales of minor non-core assets. Renegotiation of all purchasing contracts (raw materials; energy; transportation; services) to a short-term (monthly) or spot-basis, to take advantage of the declining, if not following, price trend. Re-design or phase out from portfolio of high cost/high weight products. Investments keep on track in emerging markets where growth will continue, even if at a slower rate next year.

Thank you. I'll now pass on to Mr. Puri Negri.

Thank you Mr. Gori, good afternoon to all of you. We have given details during Wednesday's conference call. Therefore, I only have some major comments. Our nine-month results were affected by the difficult sales, as regarding the general economic and financial environment. Our EBIT including income from equity participation reached 33 million euros, before restructuring costs and around 18 million compared with the 48 million of 2007, net of approximately 93 million of related to the sale of 49% of facility management and fair value adjustment on the real estate portfolio.

The company is up to speed with its important restructuring program, as our Chairman has said before. In fact, at the end of September 2008, nearly 18 million were booked in the P&L and by the year-end further efficiencies will be achieved. We project both asset management services and staff. We are on track and therefore we expect benefits, as we have already said, higher than 30 million starting from 2009, above the prior guidance of 25-30 million. Net results before restructuring costs are at breakeven, total net result was negative for 12.9 million. Net debts, as Mr. De Conto said before, are 324 million in respect to 337 million at September 2007. Adjusted net debts is around 930 million compared with 927 million at September 2007. Gearing ratios to temporally at 1.5 versus 1.13 at the end of 2007, for the mentioned increase in the adjusted net debt and also the reduction of net equity, affected by the mentioned loss for the period and dividend payments. We are strongly committed to going back in the first half of the year, and this was already said, down to 1/1 ratio. Overall, the real estate sales were down 40% versus the same period of last year, for a total of 714 million, while margins were only marginally affected by the market conditions, decreasing from 21% to 19%. New asset under management on 100% basis were nearly 5 billion, of which 4.6 related to Highstreet acquisition that we co-managed with Archon group and we participated only at 12% stake. Net of disposal the increase in asset under management was 3.7 billion. The equity investments in the year were in line with last year and around 130 million, of which 110 for Highstreet and 20 for the rest. As was said by our Chairman, we have undertaken all the actions that are under implementation

and we will present in detail on the 11th of February, as I said yesterday, and we have a clear focus on reshaping the company, reduction of debts and having an even stronger financial structure, before the end of the first half of the year.

Thank you.

The outlook of 2008. So there we have our examination of the 9 months results and I think the key messages to take away are:

Stabile revenues year-on-year, despite the present crisis, with the tyre business contributing 83%. Here the important thing to stress is the positive product mix which clearly shows that our top range / innovation strategy is a winner.

-margins down 1.3 pp year-on-year (EBIT before restr.), hit dramatically by high commodity prices. Though easing now we will not feel the benefits until 1Q 2009.

A net loss of €50 million which includes around €200 million in extraordinary costs together with the reduced contribution of Pirelli RE due to the slowing property market.

At year end, bearing in mind the deteriorating economic environment, high commodity prices which will still have an impact in 4Q '08 and the smaller contribution from real estate, EBIT before restructuring costs will be lower than last year.

However I must stress once again that we are implementing a radical restructuring of our two main businesses in order to lay the basis for an industrial plan which we will present on February 11th.

By that date we will already be in a position to put into action the various measures I described in my opening remarks to eliminate all factors that might threaten our Equity Story, which is increasingly focused on our core manufacturing business.

We shall continue to exploit and reinforce our strengths: innovation, product quality, efficiency and geographical diversification

Thank you for your attention, we can now begin the Q&A session and I will be happy to take questions together with top management

Thank you.

Q&A session:

1. Ms. **Monica Bosio** from **Banca IMI**:

Yes, good afternoon, everyone, I would have three questions, if it's possible. The first one is for Mr. Tronchetti: given the strong deterioration in company results over the nine months and if we could assume a further deterioration over the fourth quarter, do you believe that Pirelli would still be able to pay a dividend for the current year? And the second question is for Mr. Gori, relating to the emerging markets: registrations in Brazil are not going very well, according to the figures in October. I was wondering what kind of growth, if any, do you expect for 2009? And the same question for China. As a third one I would like to know if it's possible to give us a guidance of the expected slowdown in winter tires over 2008 and, maybe, also for 2009?

Thank you. So, starting with an analysis of the next three months, we have to take into account that the cost of raw materials will remain high until mid-December, because it's more or less night-to-day transition time from the day we buy and the day in which we produce and sell the tires, so the tires will be still affected by raw materials. What we expect is 2009 will begin in a different way and we have to see how it will be balanced, the reduction in costs we are implementing, the reduction in raw materials, mix on the one hand, and the costs... and the prices on the other hand... and volumes, which will affect us, let's say, partly, because we are more focused on replacement than OE and this is something that can balance our position better than in other cases. So, we do not expect good news until year-end, we expect that the actions that took place and that will take place in the next weeks and months, together with a change in the value of raw materials, will provide us better opportunities in 2009. So, I'll leave the floor to... Mr. Gori.

...as far as Brazil registrations, you're right, they're down and we expect them to be going down also in the next few months, possibly also 2009 may not be brilliant; however, our business in South America depends a lot on replacement and we expect the replacement market to maintain a positive

growth and, mostly, offer an opportunity, as the lower currency value of the South American currencies, the strength of the dollar are making it more difficult for cheap imports from Asia to penetrate those markets. This year, we had to give up some market share in replacement, because OEM was asking tires that were over-saturating our capacity. Next year we will be in a better position to serve the replacement markets with a lower OE demand. We expect them to be fully saturated in South America also next year, even though we are increasing capacity. As far as China is concerned, I think that the answer is more on a mix of products. As you know, China is the largest truck tire market of the world, still with a high percentage of non-radial tires. So, even though the economy is slowing down, but definitely maintaining a positive sign, the radial truck tire market is heavily influenced by the conversion from cross-ply or conventional tires to radial. So we believe there to... to... so good and growing results and sales next year. The last question is the most difficult to answer: winter weather is not under our control, the temperature is a bit too warm, so we have to wait and see, and it really depends, incredibly so, from the weather. Overall, October has not been too bad, but for sure it's a soft market, so we don't have to be too optimistic; let's wait and see. This is for the fourth quarter 2008; for 2009, I cannot answer, frankly speaking. Probably, there will not be the overstock that was accumulated at the end of 2007, because dealers are very careful in purchasing tires, unless they are confident that they can sell them out.

coming back to the first question, given that the situation is not brilliant, as Mr. Tronchetti confirmed... so, shouldn't we expect a dividend over the full year?

Sorry, I didn't answer that question, but... As you know, it's the Board meeting that next year will take a decision and we will see what the situation will be prospectively because the dividend is based on results and also on perspective.

2. Mr. Luca Orsini from One Investment:

Yes, well, I have two questions. One is industrial and the other one is financial. The industrial question, if you can answer, is: reading on your slides, we see that you are looking at downside production in some selected areas in order to adjust to the current situation of demand. What kind of size of reduction of production are you looking at as an overall group for the next three-six months? I mean, I know that the visibility is low, but still, you know, you need to plan from this... a short period of time. And second... and then you know, a different way to ask the question: how quickly can you do that? And the financial question goes back to slide 26 and also to some parts of your accounts. You are lending to Pirelli Real Estate as Pirelli & Co., the parent company, a substantial amount of money, we read 610 million euros, which incidentally is three times the market cap of real estate today; and also we read in the accounts it looks as Pirelli Real Estate is then financing the joint-ventures in which it owns minority stakes. So, my question is: for how long these loans will last? and then what I would also like to understand is just moving again on the financial situation of real estate... is you say by 2010 there are 300 and odd million of pro-quota loans that needs to be refinanced by 2010 at Pirelli level; but if you could grow sub that number so that you understand what is the growth need of the joint-venture in which you appreciate only a 20% shareholder but still a shareholder with... generously lending more money to those joint-ventures.

Thank you. So, first the down-sizing we are implementing are mainly focused on Western Europe and America, but mainly Western Europe, and the target we have is to finalize it within the first quarter of 2009, the action is already in place, and the target is to reduce by 10% our costs in Western Europe. So, speed is the essence, and also I think that the target, even if it's a target that is quite strong and important, we believe we will be able to implement it. I already answered about the financing of Pirelli & C Real Estate. We expect that, thanks to the disposals that have already been planned and some of them finalized, we will reduce our financing from the holding Pirelli & Co. to Pirelli Real Estate for about 500 million between now and the end of the first half 2009. And we see that the expectations they have, but I think that Mr. Puri and Mr. Benuzzi can answer better than me, for the refinancing of the vehicles, the expectations from now until 2010 should be, let's say, finalized directly by Pirelli Real Estate thanks to the activities that they are making. So, the need to have a line from Pirelli & Co. should be rapidly... rapidly eliminated within the next few months and then the company will stay on its own legs but if you have something to ask, Mr. Puri will give you the details.

If I can say: you have pro-quota 357 of need of refinancing by 2010. My question was: what is the growth of this pro-quota 357? And then: and what would be the amount that will be refinanced in 2009? Gross or net, it becomes the same.

Slide 35. 357 million is our pro-quota needed to refinance out of a total net bank pro-quota of Pirelli RE, which is 3 billion euros, so it's just like more than 10% and until 2009 the value is 140 million. Obviously, we will renegotiate with banks according to the business plan of the different initiatives but I have to remind you that the average duration of the total pro-quota debt of Pirelli Real Estate is about 3.7 years. So, it's a very positive fact.

Sorry, sorry, maybe I didn't make myself understood, but... thank you for the answer, but the 357 is the pro-quota of Pirelli by 2010, but what is the growth by 2010? The pro-quota means that Pirelli's share is 357, the total JV share of 357 how much is it?

Listen, as far as I can understand, 357 is the figure. It's the total amount of refinancing need within the vehicles in which Pirelli Real Estate has an investment. 110-120 is the refinancing in 2009 and the rest is 2010. It's a question of renegotiation; that's the part of refinancing that Pirelli Real Estate has to provide. So, this is the pro-quota of the refinancing and that's ... that's all. So, I think it's just a question of renegotiation. I also want to underline that this renegotiation will happen after Pirelli Real Estate will have decreased the debt, thanks to the disposal of the assets that I mentioned before. So, it's with a lower level of debt to refinance vehicles.

I want to add one thing: this 357 million is non-recourse debts of the vehicles and have as a guarantee assets. This is roughly 10% of the total debts we have. These debt, as Mr. Benuzzi said before, a duration of 4.5 years that becomes 3.7 only because the last acquisition is a little bit shorter, it's Highstreet, where we have 12%, is all hedge, 83%, rise at 4.3, and have an average... spread of 145. So this is all the refinancing that we have on the vehicles, where we have roughly a position of 25% and the rest are real estate closed-end funds with all the equity already in.

3. Mr. Giuseppe Puglisi from Intermonte:

Good afternoon to everybody. Giuseppe Puglisi from Intermonte. I have a couple of questions. The first one regards Pirelli Tyre: you are saying that you want to reduce stocks in Q4. My question is: in what way? Cutting prices or reducing the production or, maybe, only transferring stocks to dealers? This is very important for me to understand. My second question regards the debt... the net financial position. As Mr. De Conto said before, the net financial position has 750 million euros of receivables related to Pirelli Real Estate that have been reduced to 600 million at the end of October. You are planning a reduction in exposition to Pirelli Real Estate and you are making some disposals. What if some of these disposals cannot go ahead? Because of the financial crisis? Are you taking any different plans or whatever?

Sorry, first I want to answer to the second question: even if we are financing Pirelli Real Estate we are still liquid at corporate level. We have more or less 200 million of liquidity. Second, the assets that Pirelli Real Estate has in its plan to dispose, are: one of them we can say is 99% done, so there will be some cash-in and so we can reduce the exposure towards Pirelli & Co. Real Estate that uses the facility. The contract has been signed and the contract should be finalized between now and year-end. And the other disposals I talked about, NPLs they have their own cycle, today's a positive cycle, they have good results, they have a very good platform, so we are not in a hurry to sell it and we believe we can have a nice return on it. So, we are not in a hurry, we don't need to have the money back, we have nice assets to dispose. So, that's why we feel comfortable. So, financially we feel very relaxed. And that's why we don't have to answer to the question "and what happens if not?"; when there is no problem, there is no answer. And I can also add that we have 600 million of committed lines that we do not use, as Mr. De Conto mentioned at the beginning of his presentation. So, I think that in this environment, we can do all the job that we have planned: the restructuring, the disposal of assets, the cost cutting, we can do it quickly but in a very comfortable way, because it's something that will increase the competitiveness of our group. It's not something that is needed in order to save our group. This is a quite an interesting difference at this time. Thank you.

So, just a quick follow-up: so you are not taking into account the possibility to sell Telecom Italia shares soon?

I'm confident that the value of Telecom Italia will grow, and when it will be convenient, we will sell it. So, we don't have any need to sell the participation in TI, we see that the main shareholders are confident on the recovery of TI and of the increase in value, so we are confident as they are.

I'm Francesco Gori, to answer you about the reduction in stocks, the only way to reduce production. We have already implemented actions in the month of October; we'll continue to do so in November and December, by canceling over-times, canceling Sunday's and Saturday's production, advancing holidays, using the equivalent of the cassa integrazione, so the temporary suspension of work in Italy and in the other European countries, and also reducing the workforce by now to year-end. This should be more than sufficient to reduce our production, to enter next year with the right speed.

But, you are excluding to cut prices, or making higher discounts?

Well, for the time being, we have the highest costs of our tires ever recorded in the history of the industry in the warehouse, because tires now have been produced with the record prices of raw materials recorded in summertime and until a few weeks ago, we were still receiving natural rubber, and I think Pirelli and all the competitors in the world purchased at these record prices. So, it's out of question that now we're going to reduce prices.

4. Mr. Martino Ambrogi from Equita SIM:

Yes, good afternoon, everybody. I have a question on the industrial for Mr. Gori. In slide 23 you already gave some answers with a previous question, but if you want to try, at least for two to three main points of your slide number 23: if you can quantify the impact of, I don't know, two or three, depending on what you consider the most important points on this slide, just to have a rough indication of what could be the quantitative impact? The second always on the tire division: you are mentioning raw material costs' negative impact of 75 million in the third quarter. You already gave an answer also on this issue, but what is the expected impact for next quarter? The current quarter. And if I adjust, and just to try to understand and if you can clarify... if I adjust your EBIT in Q3, adding up both the negative raw material costs' impact and restructuring costs, ROS would have been in excess of 10%. Am I right or is there something that has to be explained? And next I have a couple of follow-ups.

So, as far as the first question is concerned, we quantify the cost reductions in 10% on the labor cost base in Europe, but we're not going to give you more details because we are acting now and we have to manage the issue that is, you may understand, is critical and delicate. So, it's a substantial cost reduction we are going to realize in the next few weeks or months.

As far as the inventory reduction is concerned, our target is to try and reach in quantity, probably not in value, the level we had at the end of the year 2007. So, to have a minor variation of the working capital in that area. And then, again, we will be definitely more explicit and clear on the occasion of the presentation of the three-year plan, when we will quantify the results of all these actions and how much they will be worth. Coming to the second question: 76 million was the extra cost supported in the third quarter. In the fourth quarter, we expect to have a lowering of this impact. Not dramatic, but definitely a lowering and, hopefully, to enter in the first quarter 2009 with a much better situation.

If I may, just a clarification on the restructuring plus negative material cost impact, because if I add it to the very low EBIT, in any case we have a return on sales which is in excess of 10%, so just to understand where I'm wrong, because there is probably something that I missed.

No, no, I mean, I forgot your last question. The 76 million that has been reducing the result, the operative result in the third quarter, is of course more than the difference between the EBIT result of 2007 and 2008. Why? Because the volume reduction has been more than offset by price increases. So, if we had the costs of raw materials of 2007, which, unfortunately, we did not enjoy, we would have got a much better result than 2007. But this, of course, is theory, because we were able to increase prices also thanks to the overall industry increasing prices due to these cost increases.

If I may add one, let's say, more information: the fact is that third quarter, mainly, and fourth quarter, they have a kind of, let's say, extraordinary situation whereby in a market where the demand is going down, there are no growth expectations, there is an expectation of recession, we are in a recession... the prices of raw materials are still at the top level, which is quite unusual, it has happened. It has happened now for the first time in fifty years, then all around the world there has been a, let's say, contradiction between values of raw materials and market expectations and demand. So, this is why we have that peculiar situation. That's why we feel quite comfortable saying that thanks to the actions, thanks to the decrease in raw materials and thanks to our products and market diversification, we will be able to face the difficulties that will be tough in 2009, but in a situation that

will be more normal and more predictable. So, what has been was: some months unpredictable, was the situation of having a very high level of raw materials and a very rapidly decrease in demand. That has been the reason why third quarter was so bad and that's why fourth quarter won't be good.

My follow-up is on the financial structure: three quick questions. The first one is on group and net debt: so, just to check if you confirm your guidance of net debt at year-end more or less in line with first half? So, roughly, 820 million. B question is still on Pirelli Real Estate refinancing: you said we are sure the situation is under control; we are selling assets and so on and by first half net debt will be reduced to 500 million. Actually, my question is: when do you plan Pirelli Real Estate will be able to restore its financial independence based on the divestiture plan you have in mind? And C question, the last one (if I understood what in the previous question Luca tried to ask you) it's on the 357 million of your portion of expiring debts; probably, if we consider that your average stake in the SPV is 30%, the answer was that the total debt to be refinanced is, roughly, 1.1 billion. So, probably that was the subject of the previous question.

Starting from your last question: of course; yes; the answer is yes, but we underlined that this is the portion that is in the participation of Pirelli Real Estate; so your figures are right: the total debt is more or less the same, it would be around 900 million, so there is no major difference year-end, and the disposals we mentioned, we are confident that the figures we have given, between 400 and 500 million, are consistent with what we can do from now until the end of first half 2009. And I mentioned also that part of it should be finalized before year-end.

Yes. But, will Pirelli be able to be independent from a financial standpoint already in first half next year? After divesting what you plan to divest?

I already gave the answer, but now we have to hear Pirelli Real Estate and I'll give the floor to Carlo Puri, who will give you the answer.

I don't think it's so exceptional our being independent. We have been independent for roughly 18 years. In this case, we decided to do a very big restructuring that was more flexible, faster, quicker, to have a finance directly from the parent company but for all the rest of the year we have been independent, and we will be independent. It's better for us and it's better for the parent company. So, we will do it.

5. Ms. **Laura Pennino** from **Banca Leonardo**:

Just a quick question: regarding the restructuring cost for the full year, can you give an indication of what you expect also for the fourth quarter, for tires?

I told you that we are implementing a plan of restructuring that will reduce by 10% the headcount in Europe within the first quarter 2009. Part of it is already in the accounts, part of it will be accounted at year-end. We cannot give you figures about actions that are taking place and that will be finalized between now and the beginning of next year. About the question you raised on results of first quarter 2009, we cannot deliver any answer about it. We just already gave an answer on what we expect the first quarter to be. So, we expect a first quarter where the raw material costs will be much lower, we expect to have lower costs, we expect to have a market that is in a recession, as it is today. So, these are the qualitative answers we can provide, we cannot give you any figure because we didn't make it public.