

**Pirelli & C. S.p.A. - Milan**

**Quarterly Report  
at March 31, 2008**

**PIRELLI & C. Società per Azioni**

**Registered office in Milan, Via G. Negri 10**

**Share Capital - Euros 1,556,692,865.28**

**Milan Companies Register No. 00860340157**

**Economic Administrative File (REA) No. 1055**

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## Board of Directors <sup>1</sup>

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Chairman <sup>2</sup>	Marco Tronchetti Provera
Deputy Chairman <sup>2</sup>	Alberto Pirelli
Deputy Chairman <sup>2</sup>	Carlo Alessandro Puri Negri
Directors:	Carlo Acutis *
	Carlo Angelici * <sup>o</sup>
	Cristiano Antonelli *
	Gilberto Benetton
	Alberto Bombassei * <sup>^</sup>
	Franco Bruni * <sup>o</sup>
	Luigi Campiglio *
	Enrico Tommaso Cucchiani
	Berardino Libonati * <sup>^</sup>
	Giulia Maria Ligresti
	Massimo Moratti
	Renato Pagliaro
	Umberto Paolucci *
	Giovanni Perissinotto
	Giampiero Pesenti * <sup>^</sup>
	Luigi Roth *
	Carlo Secchi * <sup>o</sup>

\* Independent director

<sup>o</sup> Member of the Internal Control and Corporate Governance Committee

<sup>^</sup> Member of the Remuneration Committee

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Secretary to the Board	Anna Chiara Svelto
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## Board of Statutory Auditors <sup>3</sup>

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Chairman	Luigi Guatri
Standing members	Enrico Laghi
	Paolo Domenico Sfameni
Alternate members	Franco Ghiringhelli
	Luigi Guerra

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## General Manager

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Operations	Claudio De Conto
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## Independent Auditors <sup>4</sup>

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Reconta Ernst & Young S.p.A.

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## Manager responsible for the preparation of the financial reports <sup>5</sup>

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Claudio De Conto

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<sup>1</sup> Appointment: April 29, 2008. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2010.

<sup>2</sup> Post: conferred by the board of directors' meeting held on April 29, 2008.

<sup>3</sup> Appointment: April 21, 2006. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2008.

Paolo Domenico Sfameni was appointed by the shareholders' meeting held on April 29, 2008 to replace Paolo Francesco Lazzati who resigned.

<sup>4</sup> Post: conferred by the shareholders' meeting held on April 29, 2008.

<sup>5</sup> Appointment: by the board of directors' meeting held on April 29, 2008. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2010.

## **DIRECTORS' REPORT ON OPERATIONS**

The Pirelli & C. S.p.A. Group ended the first quarter of 2008 with an increase in the income attributable to the equity holders of the company of 39.7 percent compared to that reported in the first quarter ending March 31, 2007.

Group sales, in a global scenario of economic slowdown, reported a slight increase (net of the effect of the deconsolidation of DGAG which had featured in the prior year), thanks particularly to the contribution of Pirelli Tyre and higher revenues from the new businesses, especially broadband access.

As far as operating results are concerned, Pirelli Tyre basically held its ground in a disappointing quarter for the world tyre market because of the fall in car sales, especially in the United States, and a contraction of the replacements market in Europe and North America and the continuing increase in the costs of raw materials and energy. At Group level, operating results were affected by a lower contribution from the real estate sector associated with the slowdown in the sector. However, the market context did not halt the process of international expansion of Pirelli Real Estate, which, during the quarter, together with other investors, acquired 49 percent of Highstreet in Germany.

During the quarter, the Group has continued the process of refocusing on its core business, announced at the time of its withdrawal from the investment in Telecom Italia S.p.A.. In March, in fact, Pirelli & C. S.p.A. reached an agreement with the bank shareholders of Speed S.p.A., a company which has held a 38.9 percent interest in Pirelli Tyre S.p.A. since August 2006, in order to regain possession of the entire share capital of its activities in the tyre sector.

Furthermore, the transaction to reduce share capital was completed during the period and, as a result, on April 3, 2008, the “extraordinary dividends” of approximately Euros 826 million became payable. This transaction also allowed the Pirelli & C. S.p.A. Group to optimize its equity structure by setting up reserves for about Euros 408 million. Pirelli’s solid position is also linked to its limited debt level: at the end of the quarter, after signing the agreement which brought 100 percent of Pirelli Tyre’s capital back into its possession, the consolidated net financial position of the Group is a debt position of approximately Euros 850 million. The corporate net financial position, instead, is a liquidity position of approximately Euros 340 million.

Consolidated **net sales** of the Group for the three months ending March 31, 2008 amount to Euros 1,314.1 million. This is an increase of 2.1 percent compared to the first quarter of 2007, considering stable exchange rates and excluding the sale of DGAG real estate assets. Taking into account DGAG, net sales for the three months ending March 31, 2007 amounted to Euros 1,811.3 million.

**Gross operating profit** (EBITDA) is Euros 168 million, a decrease compared to Euros 181.6 million in the first quarter of 2007.

**Operating profit** (EBIT) is Euros 114.6 million, decreasing of 11.5 percent from Euros 129.5 million in the first quarter of 2007.

**Operating profit including earnings (losses) from investments**, which comprises the effect of earnings or losses from companies accounted for by the equity method and dividends from unconsolidated holdings, is Euros 98.8 million, a decrease compared to Euros 143.2 million in the first quarter of 2007. The reduction in operation results compared to last year is primarily attributable to the lower contribution from the real estate sector in terms of both EBIT and earnings from investments. The operating profit including earnings (losses) from investments is also affected by the impairment loss of Euros 37.5 million recognized in the first quarter on the investment in Telecom Italia held by the Group.

**Financial expenses** decreased considerably (Euros 4.3 million, from Euros 46.4 million in the first quarter of 2007) thanks to the appreciable reduction in the Group's net debt compared to the same period of the prior year.

The **total net result** is income of Euros 62.4 million, an increase of 10.8 percent compared to Euros 56.3 million in the first quarter of 2007.

The **income attributable to the equity holders of Pirelli & C. S.p.A.** is Euros 33.8 million (0.006 per share), compared to Euros 24.2 million (Euros 0.005 per share) in the first quarter of 2007, with an increase of 39.7 percent.

Total **consolidated equity** at March 31, 2008 is Euros 3,187.5 million against Euros 3,804.1 million at December 31, 2007.

**Equity attributable to the equity holders of Pirelli & C. S.p.A.** amounts to Euros 2,772.5 million (Euros 0.516 per share) compared to Euros 2,980.2 million (Euros 0.555 per share) at December 31, 2007.

The **net financial position** of the Group at March 31, 2008 is a net debt position of Euros 851 million, compared to Euros 2,092.8 million at March 31, 2007 (Euros 3,073.8 million including the effect of DGAG) and a net liquidity position of Euros 302.1 million at the end of 2007. The change from December 31, 2007, besides the normal seasonal changes in the working capital of the businesses, is also due to the agreement for the purchase of Speed S.p.A. (Euros 835.5 million), the payment of dividends by Pirelli Tyre to the minority interest (Euros 35 million) and the purchase of Pirelli RE shares (Euros 16.2 million).

The number of **employees** of the Group at March 31, 2008 is 31,293 (including 3,056 with temporary contracts) compared to 30,813 at December 31, 2007. The increase of 480 people is mainly due to the expansion of the tyre and real estate businesses (the latter with an increase of 298 people as a result of the consolidation of the BauBeCon activities in Germany).

### **The Parent, Pirelli & C. S.p.A.**

The net result of Pirelli & C. S.p.A. in the first three months ended March 31, 2008 is income of Euros 33.5 million compared to Euros 62 million in the same period of 2007. Income in 2008 is affected by the impairment loss of Euros 37.5 million recognized on the investment in Telecom Italia S.p.A..

Equity at March 31, 2008 is Euros 2,064 million (of which Euros 1,555 million relates to share capital) compared to Euros 2,076 million at the end of 2007.



## **SIGNIFICANT EVENTS IN THE FIRST QUARTER**

With regard to the transaction for the reduction of share capital approved by the Pirelli & C. S.p.A. extraordinary shareholders' meeting held on December 12, 2007 and the Pirelli & C. S.p.A. special shareholders' meeting of the savings shareholders held on December 14, 2007, the savings shareholders that did not approve the above resolution had until January 5, 2008 to exercise their withdrawal right.

At the end of that time, the withdrawal right was exercised for a total of 4,546,093 shares.

In accordance with the law, such shares were offered to all Pirelli shareholders from January 28 to February 27, 2008 at a price per share of Euros 0.8055 (equal to the arithmetic mean of the stock market price over the previous six months).

At the end of the placement period, 54,324 shares had been purchased.

The remaining 4,491,769 shares were offered on the stock market between March 18 and March 26, 2008 inclusive, always at the price per share of Euros 0.8055. This offer ended without any purchases being made.

On March 27, 2008 Pirelli & C. S.p.A. therefore purchased all the 4,491,769 remaining shares that had not been placed at the price per share of Euros 0.8055, for a total amount of about Euros 3.6 million, through the utilization of available reserves.

On April 3, 2008, the extraordinary dividends of Euros 0.154 per ordinary and savings share were then paid (ex dividend date March 31, 2008).

After this transaction, the share capital of Pirelli & C. S.p.A. is equal to Euros 1,556,692,865.28. The total number of shares remains unchanged (5,233,142,003 ordinary shares and 134,764,429 savings shares), whereas the par value per share decreased from Euros 0.52 to Euros 0.29.

On January 16, 2008, Acea and Pirelli Ambiente announced that the 50-50 A.P.I.C.E. joint venture will operate in the sector of sources of renewal energy from waste and will combine Acea's expertise and territorial roots with Pirelli Ambiente's experience and technology to carry out projects aimed at the manufacture of CDR-Q, a fuel derived from quality waste which will be used in thermo-electric power plants and cement factories.

On January 17, 2008, Pirelli unveiled the new Cinturato Pirelli. The tire that set the pace for traveling in style in Italy and in the world starting from the mid-fifties has been re-proposed in a new version which combines all of the very best in state-of-the-art technologies, safety and ecosustainability.

On February 1, 2008, PGT Photonics was set up. The new company of the Group will operate in second-generation photonics based on nanotechnologies. This company is the result of the integration of the photonics business unit of Pirelli Broadband Solutions and the Pirelli Labs Optical Innovation division. The aim is to create ever-greater synergies between research and business development activities. The company will focus on the areas of innovative optical components, optical modules and transport systems. At the same time, Pirelli Broadband Solutions will concentrate its business activities on broadband access, which increasingly involves market and technological dynamics which are different from photonics.

On February 22, 2008, the Piedmont Region, the Province of Turin, the City of Settimo Torinese, the Politecnico University of Turin and the Pirelli Group sealed a collaboration agreement aimed at developing research and innovation programs under the project to build a new Pirelli industrial hub in Settimo Torinese. Pirelli plans to invest about Euros 140 million in Settimo Torinese.

On February 28, 2008, Pirelli RE SGR and First Atlantic RE SGR concluded an agreement to transfer the management of Berenice Fondo Uffici, approved by Zwinger which holds more than 90 percent of the shares. Zwinger has committed to acquiring 5 percent of the shares held by SGR for a total of Euros 19.16 million.

On March 11, 2008, Pirelli & C. S.p.A. reached an agreement to acquire the entire share capital of Speed S.p.A., a company in which interests are held by leading financial institutions (Intesa Sanpaolo, Gruppo Banca Leonardo, UniCredit, One Equity Partners – JP Morgan Group, Lehman Brothers and Mediobanca), and, the holder, since August 2006, of the 38.9 percent stake in Pirelli Tyre S.p.A., for Euros 434.4 million which was financed by the company's liquid resources. The price takes into account a payable by Speed S.p.A. of Euros 401.1 million. The transfer of the Speed S.p.A. shares took place at the closing on March 12, 2008, except for a 19.19 percent stake which is expected to be transferred to Pirelli in July 2008.

On March 19, 2008, a consortium consisting of RREEF, GREF (Generali Group), the Borletti Group and Pirelli RE sealed a binding agreement with Karstadt Quelle AG (Arcandor Group) for the purchase of a 49 percent stake in Highstreet, an investment company which holds the majority of the buildings leased to large German department stores.

During the first quarter of 2008, Pirelli & C. S.p.A. purchased 706,000 Pirelli & C. Real Estate S.p.A. shares on the market for a total Euros 16.2 million, bringing its interest to 55.33 percent.

After the end of the quarter another 32,000 Pirelli & C. Real Estate S.p.A. shares were purchased on the market for a total Euros 0.7 million, raising the stake to 55.40 percent.

## THE GROUP

In this quarterly report on operations, in addition to the financial performance measures established by IFRS, certain non-IFRS measures originated from the latter are presented although they are not required by IFRS (“Non-GAAP Measures”).

These performance measures are presented for purposes of a better understanding of the trend of operations of the Group and should not be construed as a substitute for the information required by IFRS.

Specifically, the “Non-GAAP Measures” used are described as follows:

- **Gross operating profit:** this financial measure is used by the Group as the financial target in internal business plans and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group as a whole and for each single segment, in addition to the Operating Profit. The Gross Operating Profit is an intermediate performance measure represented by the Operating Profit from which depreciation and amortization are excluded.
- **Earnings (losses) from investments:** earnings (losses) from investments consist of all the effects recorded in the income statement referring to investments that are not consolidated line-by-line. These include dividends, the share of the earnings (losses) of companies accounted for using the equity method, impairment losses on available-for-sale financial assets and gains (losses) on the disposal of available-for-sale financial assets.  
Changes in the fair value of available-for-sale financial assets which are recognized directly in equity are excluded.
- **Net financial (liquidity)/debt position:** this performance measure is represented by the gross financial debt less cash and cash equivalents as well as other interest-earning financial receivables. The section “Interim consolidated financial statements and notes” presents a table that shows the balance sheet amounts used to calculate the net financial (liquidity)/debt position.

The highlights of the consolidated financial statements for the first quarter ending March 31, 2008 can be summarized as follows:

	(in millions of euros)		
	1 <sup>st</sup> Quarter 2008	1 <sup>st</sup> Quarter 2007	Year 2007
. Net sales	<b>1,314.1</b>	1,811.3	<b>6,504.5</b>
. Net sales (excluding DGAG)	<b>1,314.1</b>	1,303.7	<b>5,208.9</b>
. Gross operating profit	<b>168.0</b>	181.6	<b>580.9</b>
% of net sales (excluding DGAG)	<b>12.8%</b>	13.9%	11.2%
. Operating profit	<b>114.6</b>	129.5	<b>366.9</b>
% of net sales (excluding DGAG)	<b>8.7%</b>	9.9%	7.0%
. Earnings (losses) from investments	<b>(15.8)</b>	13.7	<b>195.3</b>
. Operating profit incl. earnings (losses) from investments	<b>98.8</b>	143.2	<b>562.2</b>
. Financial income (expenses)	<b>(4.3)</b>	(46.4)	<b>(138.2)</b>
. Income taxes	<b>(32.1)</b>	(41.5)	<b>(133.5)</b>
<b>. Income from continuing operations</b>	<b>62.4</b>	55.3	<b>290.5</b>
% of net sales (excluding DGAG)	<b>4.7%</b>	4.2%	5.6%
<b>. Income from discontinued operations</b>	<b>-</b>	1.0	<b>33.1</b>
<b>. Total income</b>	<b>62.4</b>	56.3	<b>323.6</b>
. Income attributable to the equity holders of Pirelli & C. S.p.A.	<b>33.8</b>	24.2	<b>164.5</b>
. Earnings per share (in euros)	<b>0.006</b>	0.005	<b>0.031</b>
. Total equity	<b>3,187.5</b>	4,608.8	<b>3,804.1</b>
. Equity attributable to the equity holders of Pirelli & C. S.p.A.	<b>2,772.5</b>	3,764.2	<b>2,980.2</b>
. Equity per share (in euros)	<b>0.516</b>	0.701	<b>0.555</b>
. Net financial (liquidity)/debt position	<b>851.0</b>	3,073.8 *	<b>(302.1)</b>
. Employees (number at period-end)	<b>31,293</b>	30,269	<b>30,813</b>
. Factories	<b>24</b>	24	<b>24</b>
<i>Pirelli &amp; C. shares outstanding</i>			
. ordinary shares (number in millions)	5,233.1	5,233.1	5,233.1
<i>of which treasury shares</i>	2.6	2.6	2.6
. savings shares (number in millions)	134.8	134.8	134.8
<i>of which treasury shares</i>	4.5	-	-
. Total shares outstanding	5,367.9	5,367.9	5,367.9

\* including the effect of the deconsolidation of DGAG

For a more meaningful understanding of the performance of the Group in its various segments of business, the following economic data and the net financial position are provided by business segment.

CONTINUING OPERATIONS (in millions of euros)	Tyre	Real Estate	1 <sup>st</sup> Quarter ending 3/31/2008			TOTAL
			Broadband Access & Photonics	Other Businesses	Other	
. Net sales	1,076.9	189.5	29.7	18.8	(0.8)	<b>1,314.1</b>
. Gross operating profit (loss)	148.5	27.2	(2.9)	(3.8)	(1.0)	<b>168.0</b>
. Operating profit (loss)	100.3	24.5 (:) )	(3.5)	(4.0)	(2.7)	<b>114.6</b>
. Earnings (losses) from investments	0.1	0.5	-	(0.3)	(16.1)	<b>(15.8)</b>
. Operating profit (loss) incl. earnings from investments	100.4	25.0	(3.5)	(4.3)	(18.8)	<b>98.8</b>
. Financial income (expenses)	(15.2)	(4.5)	(2.3)	(0.2)	17.9	<b>(4.3)</b>
. Income taxes	(27.5)	(7.5)	(0.1)	(0.1)	3.1	<b>(32.1)</b>
. Income (loss) from continuing operations	57.7	13.0	(5.9)	(4.6)	2.2	<b>62.4</b>
. Net financial (liquidity)/debt position	843.8	300.3	39.6	5.7	(338.4)	<b>851.0</b>

(:) includes restructuring expenses for Euros 2.3 million

CONTINUING OPERATIONS (in millions of euros)	Tyre	Real Estate	1 <sup>st</sup> Quarter ending 3/31/2007			TOTAL
			Broadband Access & Photonics	Other Businesses	Other	
. Net sales	1,060.0	708.6	25.1	17.4	0.2	<b>1,811.3</b>
. Net sales (excluding DGAG)	-	201.0	-	-	-	<b>1,303.7</b>
. Gross operating profit (loss)	150.9	36.9	(3.4)	(1.5)	(1.3)	<b>181.6</b>
. Operating profit (loss)	103.7	34.5	(3.8)	(1.7)	(3.2)	<b>129.5</b>
. Earnings (losses) from investments	-	12.8	-	-	0.9	<b>13.7</b>
. Operating profit (loss) incl. earnings from investments	103.7	47.3	(3.8)	(1.7)	(2.3)	<b>143.2</b>
. Financial income (expenses)	(13.8)	(15.1)	(0.4)	-	(17.1)	<b>(46.4)</b>
. Income taxes	(31.8)	(12.4)	-	-	2.7	<b>(41.5)</b>
. Income (loss) from continuing operations	58.1	19.8	(4.2)	(1.7)	(16.7)	<b>55.3</b>
. Net financial (liquidity)/debt position	734.7	966.9 *	20.5	3.0	1,348.7	<b>3,073.8</b>

\* including the effect of the deconsolidation of DGAG

## Net sales

Net sales amount to Euros 1,314.1 million in the first quarter ending March 31, 2008 compared to Euros 1,811.3 million (Euros 1,303.7 million excluding the deconsolidation of DGAG) in the same period of the prior year.

A percentage breakdown of net sales on a like-for-like basis by business segment is as follows:

	<b>1<sup>st</sup> Quarter 2008</b>	<b>1<sup>st</sup> Quarter 2007</b>
. Pirelli Tyre	81.9%	81.3%
. Pirelli Real Estate	14.4%	15.4%
. Broadband Access & Photonics	2.3%	1.9%
. Other Businesses	1.4%	1.4%

The distribution of net sales by geographical area is as follows:

	<i>(in millions of euros)</i>			
	<b>1<sup>st</sup> Quarter 2008</b>		<b>1<sup>st</sup> Quarter 2007 (*)</b>	
Europe:				
. Italy	302.4	23.02%	367.5	20.28%
. Other European countries (*)	443.0	33.71%	924.2	51.03%
North America	74.0	5.63%	83.7	4.62%
Central and South America	327.8	24.94%	274.7	15.17%
Oceania, Africa and Asia	166.9	12.70%	161.2	8.90%
	<b>1,314.1</b>	<b>100.00%</b>	<b>1,811.3</b>	<b>100.00%</b>

(\*) The first quarter of 2007 includes the effect of the deconsolidation of DGAG assets for Euros 507.6 million.

### **Operating profit**

Operating profit in the first quarter of 2008 amounts to Euros 114.6 million compared to Euros 129.5 million in the first quarter of 2007.

The change in operating profit by business segment is the following:

<i>in millions of euros</i>	
<b>Operating Profit 1<sup>st</sup> Quarter 2007</b>	<b>129.5</b>
.   Pirelli Tyre	(3.4)
.   Pirelli Real Estate	(10.0)
.   Broadband Access & Photonics	0.3
.   Other Businesses	(2.3)
.   Other	0.5
	<b>(14.9)</b>
<b>Operating Profit 1<sup>st</sup> Quarter 2008</b>	<b>114.6</b>

#### **Operating profit including earnings (losses) from investments**

Operating profit including earnings (losses) from investments in the first quarter of 2008 is Euros 98.8 million compared to Euros 143.2 million in the first quarter of 2007.

The change by individual business segment is as follows:

<i>in millions of euros</i>	
<b>Operating profit post-investments 1<sup>st</sup> Quarter 2007</b>	<b>143.2</b>
.   Pirelli Tyre	(3.3)
.   Pirelli Real Estate	(22.3)
.   Broadband Access & Photonics	0.3
.   Other Businesses	(2.6)
.   Other	(16.5)
	<b>(44.4)</b>
<b>Operating profit post-investments 1<sup>st</sup> Quarter 2008</b>	<b>98.8</b>

“Other” includes an impairment loss made to the investment in Telecom Italia S.p.A. for Euros 37.5 million.



## Equity

Equity went from Euros 3,804.1 million at December 31, 2007 to Euros 3,187.5 million at March 31, 2008.

The equity attributable to the equity holders of Pirelli & C. S.p.A. is equal to Euros 2,772.5 million (Euros 0.516 per share) compared to Euros 2,980.2 million (Euros 0.555 per share) at December 31, 2007.

The changes during the period can be summarized as follows:

	<i>(in millions of euros)</i>		
	<b>Group</b>	<b>Minority interest</b>	<b>Total</b>
<b>Equity at December 31, 2007</b>	<b>2,980.2</b>	<b>823.9</b>	<b>3,804.1</b>
Translation differences	(69.0)	(12.0)	(81.0)
Income for the period	33.8	28.6	62.4
Dividends paid to minority interest by Pirelli Tyre		(35.2)	(35.2)
Speed S.p.A. acquisition		(385.8)	(385.8)
Purchase of Pirelli & C. Real Estate S.p.A. shares		(12.2)	(12.2)
Change in fair value of available-for-sale financial assets	(171.8)		(171.8)
Share capital increase in subsidiaries subscribed by minority interest		6.0	6.0
Other changes	(0.7)	1.7	1.0
<b>Total changes</b>	<b>(207.7)</b>	<b>(408.9)</b>	<b>(616.6)</b>
<b>Equity at March 31, 2008</b>	<b>2,772.5</b>	<b>415.0</b>	<b>3,187.5</b>

**Net financial position**

The consolidated net financial position of the Group went from a liquidity position of Euros 302.1 million at December 31, 2007 to a debt position of Euros 851 million at March 31, 2008. The change during the period can be summarized in the following cash flows:

	<i>(in millions of euros)</i>
<b>Net financial position at December 31, 2007</b>	<b>302.1</b>
Translation differences	(16.4)
Cash flows used in ordinary activities	(198.0)
Financial and tax income (expenses)	(36.4)
Impact of Speed S.p.A. acquisition	(835.5)
Dividends paid to minority interest by Pirelli Tyre	(35.2)
Purchase of Pirelli & C. Real Estate S.p.A. shares	(16.2)
Purchase of RCS shares	(4.0)
Other changes	(11.4)
<b>Total changes</b>	<b>(1,153.1)</b>
<b>Net financial position at March 31, 2008</b>	<b>(851.0)</b>

## 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 income statement and balance sheet effects of transactions with related parties on the consolidated financial statements of the Pirelli Group at March 31, 2008 are indicated below.

### **Transactions with associates and joint ventures:**

(in millions of euros)

Revenues for goods and services	51.4	These principally refer to technical and commercial services and fund and asset management services rendered under agreements with group companies
Other expenses	7.3	These principally refer to various types of amounts recharged, of Pirelli & C. Real Estate, connected, among other things, also with consortium expenses
Financial income	7.3	This principally includes interest income relating to financial receivables from associates and joint ventures of Pirelli & C. Real Estate
Share of earnings (losses) of associates and joint ventures	(1.0)	This refers to the earnings or losses of the investments accounted for by the equity method
Trade receivables	101.8	These mainly refer to receivables for services rendered to associates and joint ventures of Pirelli & C. Real Estate
Non-current other receivables	1.0	These refer to the receivables of Pirelli & C. Real Estate
Non-current financial receivables	500.9	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	10.1	These refer to Pirelli & C. Real Estate and mainly include a receivable to be collected for dividends declared
Current financial receivables	17.9	These mainly include current account transactions by the new companies which hold real estate assets in Germany
Current trade payables	23.9	These principally refer to various types of amounts recharged, of Pirelli & C. Real Estate, connected, among other things, with consortium expenses
Current other payables	20.8	These mainly include various types of amounts recharged of the companies of Pirelli & C. Real Estate
Current borrowings from banks and other financial institutions	2.4	These mainly include the liability balances on the intercompany current accounts of the companies of Pirelli & C. Real Estate

### **Transactions with parties related to Pirelli through directors**

(in millions of euros)		
Revenues for goods and services	0.3	These refer to services rendered by Pirelli & C. Real Estate S.p.A. and Pirelli & C. S.p.A. to the Camfin group (Euros 0.2 million) and services rendered to F.C. Internazionale Milano S.p.A. (Euros 0.1 million)
Other expenses	3.3	These refer to natural gas and fuel supplied by the Camfin group (Euros 1.6 million) and costs for the sponsorship of F.C. Internazionale Milano S.p.A. (Euros 1.7 million)
Current trade receivables	0.3	These refer to receivables for the services supplied above (to the Camfin group Euros 0.2 million and F.C. Internazionale Milano Euros 0.1 million)
Current trade payables	4.4	These refer to payables for the services supplied above (by the Camfin group Euros 3.6 million and F.C. Internazionale Milano S.p.A. Euros 0.8 million)

## **SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FIRST QUARTER**

On April 22, 2008, the Pirelli Group and Politecnico University of Milan sealed an agreement to set up a chair on “Chemical Foundations of Rubber and Compounds Technology”. The new professorship will study innovative materials and the use of nanotechnology for the development of new-generation tyres.

Pirelli will also fund five PhD research scholarships under this agreement over a period of 10 years in the Chemical, Materials and Chemical Engineering “G. Natta” Department at Politecnico University of Milan.

The accord falls under a framework for collaboration between the university and industry research aimed at exploiting the synergies resulting from academic research applied to the world of industry. The agreement is only one of a number of collaborations that has been initiated by the Pirelli Group with the Milan universities. Standing out among these initiatives, in particular, are the consortia CORECOM (with Politecnico University of Milan) and CORIMAV (with Bicocca University of Milan). These consortia conduct research on second-generation photonics and new materials, respectively.

On April 24, 2008, the associate Pirelli RE Spazio Investment N.V., through the closed-end real estate investment fund Spazio Industriale, purchased a new building for office use located in Sesto San Giovanni (Milan) from the Pasini group for Euros 27.5 million. The building covers an area of 13,100 square meters and will be rented in part to Alstom Power Italia and in part to the same seller which has agreed to guarantee a rental income for a period of not less than six years.

## **OUTLOOK FOR THE CURRENT YEAR**

For 2008, the Pirelli & C. S.p.A. Group confirms forecasts for a result by its businesses in line with that of the prior year, net of restructuring expenses for real estate activities, unless external factors of an extraordinary nature intervene which cannot be foreseen at this time. In particular, a slight growth is expected for Pirelli Tyre compared to 2007.

## PIRELLI TYRE

The economic and financial results reached in the first quarter of 2008 can be summarized as follows:

	<i>(in millions of euros)</i>		
	<b>1<sup>st</sup> Quarter 2008</b>	1 <sup>st</sup> Quarter 2007	Year 2007
. Net sales	<b>1,076.9</b>	1,060.0	4,161.7
. Gross operating profit	<b>148.5</b>	150.9	548.6
% of net sales	<b>13.8%</b>	14.2%	13.2%
. Operating profit	<b>100.3</b>	103.7	358.1
% of net sales	<b>9.3%</b>	9.8%	8.6%
. Earnings (losses) from investments	<b>0.1</b>	-	1.5
. Operating profit incl. earnings (losses) from investments	<b>100.4</b>	103.7	359.6
. Financial income (expenses)	<b>(15.2)</b>	(13.8)	(55.2)
. Income taxes	<b>(27.5)</b>	(31.8)	(93.9)
. Income	<b>57.7</b>	58.1	210.5
% of net sales	<b>5.4%</b>	5.5%	5.1%
. Net financial (liquidity)/debt position	<b>843.8</b>	734.7	559.6
. Employees (number at period-end)	<b>27,334</b>	25,947	27,224
. Factories (number)	<b>24</b>	24	24

**Net sales** reached Euros 1,076.9 million, with an increase on a comparable basis of 3.2 percent against the same period of the prior year. Net of the exchange rate effect (a negative 1.6 percent due mainly to the decrease in the value of the U.S. dollar), the growth of revenues is 1.6 percent.

The change can be summarized as follows:

. Volumes	-	0.7%
. Prices/mix	+	<u>3.9%</u>
<b>Change on a comparable basis</b>	+	<u><b>3.2%</b></u>
. Foreign exchange effect	-	<u>1.6%</u>
<b>Total change</b>	+	<u><b>1.6%</b></u>

In a market scenario that displayed a disappointing start in the first quarter, especially in Replacements in Europe and North America, the focus of sales on higher value-added (product mix) segments and pricing control, in spite of an unfavorable channel mix owing to greater volume growth in Original Equipment, were found to be the major components of the growth of sales (+3.9 percent prices/mix).

The lower contribution by volumes (-0.7 percent), after a strong seasonal growth in the first quarter of 2007 (volumes had grown by 3.9 percent for a total of 1.8 percent for the full-year 2007), is due to the market trend in the areas mentioned above, partly influenced also by fewer working days in the month of March and the delay in the period for replacing tyres in some central European markets, due to weather trends. However, volumes in emerging markets and in South America were positive in the Original Equipment channel.

**Gross operating profit** (EBITDA) is Euros 148.5 million (13.8 percent of net sales), basically in line with Euros 150.9 million in the first quarter of 2007.

**Operating profit** is Euros 100.3 million in the first quarter of 2008, with the percentage of operating profit to net sales at 9.3 percent compared to Euros 103.7 million in the first quarter of the prior year, with the percentage of operating profit to net sales at 9.8 percent.



The change can be summarized as follows:

<i>in millions of euros</i>	
<b>Operating Profit 1<sup>st</sup> Quarter 2007</b>	<b>103.7</b>
. Foreign exchange effect	(2.6)
. Prices/mix	24.9
. Volumes	(0.7)
. Production factors per unit cost	(20.1)
. Efficiencies	(0.3)
. Depreciation and other	(4.6)
	<b>(3.4)</b>
<b>Operating Profit 1<sup>st</sup> Quarter 2008</b>	<b>100.3</b>

The positive product price/mix variance, with lower sales volumes in Replacements and higher volumes in Original Equipment, did not entirely compensate the increase in costs, particularly raw materials and energy.

The **net result** is income for the first quarter of 2008 for Euros 57.7 million (after financial expenses of Euros 15.2 million and income tax expenses of Euros 27.5 million) and substantially in line with the prior year (Euros 58.1 million after financial expenses of Euros 13.8 million and income tax expenses of Euros 31.8 million).

The **net financial position** is a net debt position of Euros 843.8 million compared to Euros 559.6 million at December 31, 2007 and Euros 734.7 million at March 31, 2007. The increase from December 31, 2007 is principally due to seasonal factors affecting working capital and the distribution of approximately Euros 90 million to shareholders in February.

At March 31, 2008, there are 27,334 **employees** (including 2,841 with temporary contracts) compared to 27,224 (including 3,481 with temporary contracts) at December 31, 2007.

## **Consumer market**

The quarter resulted in sales of Euros 748.3 million, with an increase of 3.2 percent compared to the prior year, at stable exchange rates.

Considerable growth was reported in sales of the Original Equipment channel and the Motorcycle segment, while in Europe and North America, in the Car Replacements segment, the company chose to focus on the price/mix rather than volumes in a negative market scenario (-4 percent both in Europe and North America).

In South America, double-digit growth was reported in sales, thanks partly to a brilliant Original Equipment market which is a positive economic indicator and commercial investment for future growth in the demand for Replacements.

The exchange effect was negative above all for the conversion to euros of sales recorded in North America and the emerging markets (Africa, the Middle East and Far East) where, however, significant price increases are underway.

The operating result, equal to Euros 70.3 million, representing 9.4 percent as a percentage of sales, is Euros 7.3 million lower than in 2007 as a result of the sales channel mix (with an unfavorable Replacements market in Europe and North America), partially unabsorbed by raw material cost increases and the start-up costs incurred for the new Car tyre facilities in Romania and China.

The first quarter saw the launch on the European market of the new Pirelli Cinturato, a modern, hi-tech version with innovative content of a tyre that made history in the tyre industry. The new Cinturato, produced in the P4 and P6 models, is an environmentally-friendly, high-performance tyre with excellent safety features which, thanks to new technologies, allows a reduction in fuel consumption and harmful emissions of up to 4 percent and improved mileage (+30 percent). Furthermore, aromatic oils have been removed from the tread, in compliance with the new European regulations which will come into force in 2010.

The new Cinturato, produced at the factories at Bollate, Izmit (Turkey), Manresa (Spain) and Carlisle (Great Britain) has already been selected as Original Equipment on the most popular models of many leading car manufacturers (Fiat, Mercedes, Peugeot and Volkswagen), and has received important acknowledgements from the specialized press and from the German, Swiss and Austrian Automobile Clubs, which are regarded as authoritative showcases for comparative tests on new car products in Central Europe. In the Motorcycle segment, sales in the first quarter of 2008 increased for both the Pirelli and Metzeler brands. In the Replacements channel in particular, there was a significant increase in sales in Latin America. In Europe the increase was more than proportional to that of the market, while, in the U.S.A., volumes remained at the level of the prior year, in a falling market. There were positive results in the sales of the Original Equipment channel, especially in Europe and Latin America.

Metzeler received important homologations for the BMW HP2 Sport and the Megamoto equipped with the Metzeler Racetec K3 and the Sportec M3, for the Honda Transalp with the Tourance U, for the Guzzi Griso 1200 and the Triumph Speed Triple with the M3, and for the Yamaha XT660Z Tenere with the Tourance.

The main homologations received by Pirelli were for the Buell 1125 R equipped with the Diablo Corsa III, for the Ducati 848 and the 1098 R with the Supercorsa Pro and SP, for the KTM 990 Superbike and the Super Duke with the Dragon Supercorsa PRO and the Diablo Corsa III.

### **Industrial market**

In the Industrial business area, net sales amount to Euros 328.6 million, with an increase of 3.3 percent compared to the same period of 2007 at stable exchange rates.

The operating profit is Euros 30 million. As a percentage of sales, this represents 9.1 percent, an increase of Euros 3.9 million (+14.9 percent) compared to the prior year.

Sales of tyres for Industrial Vehicles increased both in Latin America and in the emerging markets, ensuring that production capacity reached saturation point. Thanks to the focus on areas with mature markets (-8 percent in replacements in Europe) there was an improvement in the percentage of sales of about one point compared to the prior year, despite the increase in the cost of raw materials.

Steelcord products closed the quarter with sales much in line with those of the prior year.

### **Outlook for the current year**

Pirelli Tyre confirms the outlook announced at the close of 2007, namely a slight increase in results in 2008 compared to 2007, despite the difficulties of the global economy and the sector as a whole.

## **PIRELLI & C. REAL ESTATE**

Operating profit including earnings from investments, before restructuring expenses, is Euros 27.3 million compared to Euros 35.3 million in the first quarter of 2007 (net of the effect of temporarily consolidating DGAG). Taking into account restructuring expenses, equal to Euros 2.3 million, the operating profit including earnings from investments is Euros 25.0 million compared to Euros 47.3 million in 2007. Income attributable to the equity holders of the company in the first quarter of 2008 before restructuring expenses is Euros 13.2 million compared to Euros 19.0 million in the first three months of the prior year (Euros 22.4 million net of the effect of consolidating DGAG). Taking into account the above-mentioned expenses, income is Euros 11.6 million.

### **Economic review**

In reading the following income statement, it should be noted that the operating profit including earnings from investments, in view of the type of business conducted by the Group, should be considered the most important indicator and expresses the trend of earnings.

(in millions of euros)	1 <sup>st</sup> Quarter 2008	1 <sup>st</sup> Quarter 2007	1 <sup>st</sup> Quarter 2007 net of DGAG
<b>Pro-rata aggregate revenues (1)</b>	<b>301.0</b>	<b>405.8</b>	<b>374.4</b>
Consolidated revenues (2)	189.5	201.0	169.6
Operating profit before restructuring expenses	26.8	34.5	22.5
Earnings from investments	0.5	12.8	12.8
<b>Operating profit including earnings from investments before restructuring expenses</b>	<b>27.3</b>	<b>47.3</b>	<b>35.3</b>
Restructuring expenses	(2.3)	-	-
<b>Operating profit including earnings from investments (3)</b>	<b>25.0</b>	<b>47.3</b>	<b>35.3</b>
<b>Income attributable to the equity holders of the company</b>	<b>11.6</b>	<b>19.0</b>	<b>22.4</b>

- (1) Pro-rata aggregate revenues express the total business volumes of the Group, calculated as the sum of consolidated revenues and the share of the revenues of the associates, joint ventures and funds in which the Group has holdings.
- (2) The amount for the first quarter of 2007 is presented net of the sale of DGAG properties at cost through the disposal of shares to the joint ventures with RREEF and MSREF for Euros 507.6 million.
- (3) Operating profit including earnings from investments comprises the operating profit (Euros 24.5 million) in addition to the share of the earnings of the companies accounted for by the equity method (-Euros 0.9 million), dividends from real estate investment funds (Euros 0.1 million) and other income from third parties (Euros 1.3 million).

Pro-rata **aggregate revenues** amount to Euros 301.0 million compared to Euros 405.8 million in the first quarter of 2007.

**Consolidated revenues** amount to Euros 189.5 million compared to Euros 708.6 million in the first quarter of 2007 (Euros 201.0 million net of the sale of DGAG properties at cost through the disposal of shares to the joint ventures with RREEF and MSREF equal to Euros 507.6 million).

**Operating profit before restructuring expenses** in the first quarter of 2008 is Euros 26.8 million compared to Euros 34.5 million in the first quarter of 2007.

**Operating profit including earnings from investments before restructuring expenses** is Euros 27.3 million compared to Euros 35.3 million in the first quarter of 2007 (net of the effect of temporarily consolidating of DGAG). Taking into account the above-mentioned restructuring expenses of Euros 2.3 million, the operating profit including earnings from investments is Euros 25.0 million compared to a total of Euros 47.3 million in the first quarter of 2007.

**Income attributable to the equity holders of the company before restructuring expenses** is Euros 13.2 million in the first quarter of 2008, compared to Euros 19.0 million in the first three months of the prior year (Euros 22.4 million net of the effect of temporarily consolidating DGAG). Considering the above-mentioned expenses, income is Euros 11.6 million.

The income statement for the first quarter ending March 31, 2008 includes income of approximately Euros 17 million relating to compensation received by Pirelli RE SGR for its commitment to transfer the management of Fondo Berenice to another SGR without the Fund sustaining any expenses; this transaction was submitted for approval to the Bank of Italy.

Although total management activities (asset management and specialist services) generated a higher result compared to the prior year, net of restructuring expenses (Euros 27.4 million in the first quarter ending March 31, 2008 compared to Euros 24.1 million in the first quarter of 2007), the result from co-investment activities decreased (Euros 4.5 million in the first quarter ending March 31, 2008 compared to Euros 16.9 million in the first quarter of 2007 net of the effect of DGAG), mainly due to a contraction in sales.

Taking into account the effect of DGAG, co-investment activities in the first quarter of 2007 amounted to Euros 28.9 million.

## **Balance sheet and financial review**

(in millions of euros)	March 31, 2008	December 31, 2007
<b>Fixed assets</b>	<b>876.1</b>	<b>886.1</b>
<i>. including investments in funds and investment companies (1)</i>	<i>589.0</i>	<i>601.3</i>
<b>Net working capital</b>	<b>205.8</b>	<b>190.5</b>
<b>Net invested capital</b>	<b>1,081.9</b>	<b>1,076.6</b>
<b>Equity</b>	<b>717.6</b>	<b>720.1</b>
<i>. of which attributable to the equity holders of the company</i>	<i>712.0</i>	<i>715.7</i>
<b>Provisions</b>	<b>64.0</b>	<b>66.8</b>
<b>Net financial (liquidity)/debt position</b>	<b>300.3</b>	<b>289.7</b>
<b>Total net invested capital financed</b>	<b>1,081.9</b>	<b>1,076.6</b>
<b>Net financial (liquidity)/debt position gross of shareholder loans</b>	<b>807.8</b>	<b>816.1</b>
<b>Net invested capital gross of shareholder loans</b>	<b>1,589.4</b>	<b>1,603.0</b>

(1) This item includes investments in associates, joint ventures and other investments (Euros 460.4 million), investments in real estate investment funds (Euros 96.6 million) and junior notes (Euros 32 million).

**Fixed assets** total Euros 876.1 million compared to Euros 886.1 million at December 31, 2007, with a decrease of Euros 10.0 million owing to a reduction in the value of the investments in associates, joints ventures and funds.

**Net working capital** is equal to Euros 205.8 million compared to Euros 190.5 million at the end of 2007 (+Euros 15.2 million). The change is attributable to the reduction in trade payables, among other things.

**Equity attributable to the equity holders of the company** amounts to Euros 712.0 million and is about the same as at December 31, 2007, Euros 715.7 million.



The **net financial position** at March 31, 2008 is the following:

(in millions of euros)	March 31, 2008	December 31, 2007
<b>Net financial (liquidity)/debt position</b>	<b>300.3</b>	<b>289.7</b>
Shareholder loans	507.5	526.4
<b>Net financial (liquidity)/debt position gross of shareholder loans</b>	<b>807.8</b>	<b>816.1</b>
<b>Gearing ratio (1)</b>	<b>1.13</b>	<b>1.13</b>

(1) The gearing ratio corresponds to the ratio of net financial (liquidity)/debt position gross of shareholder loans to equity.

The **net financial position** shows a net debt position of Euros 300.3 million at March 31, 2008 compared to Euros 289.7 million at December 31, 2007.

The **adjusted net financial position** (expressed gross of shareholder loans made to minority-owned companies) is a net debt position of Euros 807.8 million, an improvement compared to Euros 816.1 million at December 31, 2007.

The gearing ratio is 1.13, the same as at December 31, 2007.

### **Outlook for the current year**

The company forecasts a weak first half and for the full year, taking in account actions/negotiations in progress, an operating profit including earnings from investments before restructuring expenses in line with that of the prior year (net of the effect of temporarily consolidating DGAG).

## BROADBAND ACCESS & PHOTONICS

The highlights of Broadband Access & Photonics can be summarized as follows:

	<i>(in millions of euros)</i>		
	1 <sup>st</sup> Quarter 2008	1 <sup>st</sup> Quarter 2007	Year 2007
. Net sales	29.7	25.1	117.1
. Gross operating loss	(2.9)	(3.4)	(11.1)
. Operating loss	(3.5)	(3.8)	(13.5)
. Earnings (losses) from investments	-	-	-
. Operating loss incl. earnings (losses) from investments	(3.5)	(3.8)	(13.5)
. Financial income (expenses)	(2.3)	(0.4)	(3.9)
. Income taxes	(0.1)	-	-
. Loss	(5.9)	(4.2)	(17.4)
. Net financial (liquidity)/debt position	39.6	20.5	21.5
. Employees (number at period-end)	221	182	196

**Net sales** in the three months ending March 31, 2008 amount to Euros 29.7 million compared to Euros 25.1 million in 2007 and largely consist of broadband access product sales.

The **operating result** is a loss of Euros 3.5 million; this is a slight improvement compared to the prior year.

The operating result for the broadband access business was positive while research and start-up costs affected photonics.

The **loss** in the first quarter of 2008 is Euros 5.9 million after financial expenses and income tax expenses of Euros 2.4 million.

The **net financial position** is a net debt position of Euros 39.6 million compared to Euros 21.5 million at December 31, 2007.

At March 31, 2008, there are 221 **employees**, 25 people more than in December 2007, concentrated in the Engineering and Sales functions.

### **Broadband access**

In the first quarter of 2008, volumes increased especially as a result of the sales of the new line of set-top-boxes. International expansion of operations continues in South America and above all in Europe.

### **Photonics**

During the first three months of the year, sales of the tunable laser began, while testing of the first optical modules commenced at main customers. In the systems line, despite the contraction of capital expenditures on the part of telecommunications operators, Pirelli succeeded in maintaining its market share.

In the sectors of broadband access and photonics, during the first quarter, the Group began an operational reorganization process that resulted in the creation of PGT Photonics, a company that operates in new-generation photonics and is the result of the integration of the photonics business unit of Pirelli Broadband Solutions with the Optical Innovation Division of Pirelli Labs. At the same time, Pirelli Broadband Solutions is concentrating its activities on the broadband access business area. This transaction will allow the Group to operate through two independent companies, each focusing on two sectors which are growing ever more diverse, with the aim of seizing opportunities arising in the future, and creating further synergies in terms of R&D and marketing.

## **OTHER BUSINESSES**

The other businesses of the Group in the sectors of renewable energy sources (Pirelli Ambiente), sustainable mobility (Pirelli Eco Technology) and fashion (PZero) recorded **net sales** of Euros 18.8 million in the first quarter of 2008, an increase of 8 percent compared to the first quarter of 2007 (Euros 17.4 million).

The **operating loss** of Euros 4 million (Euros 1.7 million for the first quarter of 2007), was particularly affected by the start-up costs for the new manufacturing and marketing activities for anti-particulate filters.

At March 31, 2008, there are 115 **employees**, compared to 95 at December 31, 2007.

Sales of the other businesses mainly revolve around the marketing of fuel with a low environmental impact, Gecam – “the white diesel”, also sold on the French market through the subsidiary Gecam France, and the development of a new line of anti-particulate filters to reduce emissions from diesel-run vehicles. During the first quarter, building work continued on the new anti-particulate filter production plant in the county of Gorj, in Romania, which will become operational in the second half of the year.

Activities are also proceeding in the production of renewable energy from waste (CDR-Q), thanks partly to the new collaboration with ACEA, in photovoltaic cells and environmental reclamation.

The Board of Directors

Milan, May 9, 2008

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
AND NOTES**

(in thousands of euros)		
<b>INTERIM CONSOLIDATED BALANCE SHEET</b>	<b>3/31/2008</b>	<b>12/31/2007</b>
Property, plant and equipment	1,570,397	1,650,485
Intangible assets	1,129,687	672,540
Investments in associates and joint ventures	490,343	534,194
Other financial assets	787,087	958,272
Deferred tax assets	59,973	58,524
Other receivables	666,847	672,894
Tax receivables	11,647	12,278
Investment property	-	-
Financial instruments	5,324	3,849
<b>NON-CURRENT ASSETS</b>	<b>4,721,305</b>	<b>4,563,036</b>
Inventories	791,797	776,474
Trade receivables	1,225,425	1,098,927
Other receivables	250,991	241,475
Securities held for trading	100,757	114,039
Cash and cash equivalents	981,467	2,057,682
Tax receivables	47,755	43,281
Financial instruments	76,849	58,326
<b>CURRENT ASSETS</b>	<b>3,475,041</b>	<b>4,390,204</b>
<b>TOTAL ASSETS</b>	<b>8,196,346</b>	<b>8,953,240</b>
Attributable to the equity holders of the company:	2,772,524	2,980,231
Share capital	1,554,631	1,555,934
Reserves	1,184,115	1,259,746
Income for the period	33,778	164,551
Attributable to the minority interest:	414,952	823,840
Reserves	386,318	664,799
Income for the period	28,634	159,041
<b>TOTAL EQUITY</b>	<b>3,187,476</b>	<b>3,804,071</b>
Borrowings from banks and other financial institutions	801,327	788,198
Other payables	21,623	23,300
Provisions for other liabilities and charges	143,433	146,331
Deferred tax liabilities	42,098	44,625
Employee benefit obligations	324,555	349,142
Tax payables	10,066	11,211
Financial instruments	6,539	6,782
<b>NON-CURRENT LIABILITIES</b>	<b>1,349,641</b>	<b>1,369,589</b>
Borrowings from banks and other financial institutions	909,793	871,759
Trade payables	1,194,603	1,323,588
Other payables	1,338,706	1,394,673
Provisions for other liabilities and charges	72,793	71,340
Tax payables	56,607	45,707
Financial instruments	86,727	72,513
<b>CURRENT LIABILITIES</b>	<b>3,659,229</b>	<b>3,779,580</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>8,196,346</b>	<b>8,953,240</b>

(in thousands of euros)		
INTERIM CONSOLIDATED INCOME STATEMENT	1 <sup>st</sup> Quarter 2008	1 <sup>st</sup> Quarter 2007
Revenues from sales and services	1,314,073	1,811,290 *
Other income	60,535	78,538
Change in inventories of work in process, semifinished and finished products	17,552	41,556
Raw materials and consumables used	(492,135)	(983,614) *
Personnel costs	(276,967)	(280,648)
Amortization, depreciation and impairments	(53,449)	(52,133)
Other expenses	(455,876)	(487,063)
Increase in property, plant and equipment from internal work	837	1,554
<b>OPERATING PROFIT</b>	<b>114,570</b>	<b>129,480</b>
Financial income	137,330	49,751
Financial expenses	(140,607)	(86,440)
Dividends	83	159
Gains (losses) from changes in fair value of financial assets	(15,603)	(7,082)
Share of earnings (losses) of associates and joint ventures	(1,265)	10,882
<b>INCOME BEFORE INCOME TAXES</b>	<b>94,508</b>	<b>96,750</b>
Income taxes	(32,100)	(41,472)
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>62,408</b>	<b>55,278</b>
Income from discontinued operations	-	1,000
<b>INCOME FOR THE PERIOD</b>	<b>62,408</b>	<b>56,278</b>
<b>Attributable to:</b>		
equity holders of the company	33,774	24,119
minority interest	28,634	32,159

\* of which Euros 507.6 million relates to the partial deconsolidation of Pirelli & C. Real Estate's DGAG assets

## **FORM AND CONTENT**

The Quarterly Report at March 31, 2008 is prepared in accordance with art. 154 ter of Legislative Decree 58/1998 and Consob regulations on the subject.

The recognition and measurement of accounting amounts are based upon International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission and in force at the time of the approval of this Report.

The standards and principles applied are consistent with those used in the preparation of the financial statements at December 31, 2007, to which reference should be made for additional details.

## **NOTES**

### **Intangible assets**

The increase in intangible assets of Euros 457 million since December 31, 2007 is almost entirely due to goodwill generated by the repurchase of the 38.9 stake of Pirelli Tyre S.p.A. through the acquisition of Speed S.p.A. (Euros 451 million).

### **Other financial assets**

The reduction in other financial assets of Euros 171 million from December 31, 2007 is primarily to the fair value change in listed securities.



**Net financial position**

(non-GAAP measure)

	(in millions of euros)	
<b>Net financial position</b>	<b>3/31/2008</b>	<b>12/31/2007</b>
. Borrowings from banks and other financial institutions - current	884	854
. Financial accrued liabilities and deferred income - current	54	46
. Cash and cash equivalents	(981)	(2,058)
. Securities held for trading	(101)	(114)
. Financial receivables - current	(21)	(19)
. Financial accrued income and prepaid expenses - current	(25)	(18)
. Borrowings from banks and other financial institutions - non-	808	795
. Payables to shareholders for capital reduction	826	826
<b>Net financial debt</b>	<b>1,443</b>	<b>312</b>
. Financial receivables - non-current	(586)	(609)
. Financial accrued income and prepaid expenses - non-current	(7)	(5)
<b>Total net financial (liquidity)/debt position</b>	<b>851</b>	<b>(302)</b>

The change during the period is not only due to the normal seasonal effects of working capital in the operational businesses but also to the acquisition of Speed S.p.A. for Euros 835 million.

**Exchange rates**

	(local currency against Euros)					
	Period-end		Change in	Average		Change in
	12/31/2007	12/31/2006	%	2007	2006	%
British pound	0.7958	0.7334	8.51%	0.7577	0.6706	12.99%
Swiss franc	1.5738	1.6547	(4.89%)	1.6001	1.6162	(1.00%)
Slovakian koruna	32.582	33.583	(2.98%)	33.0600	34.3470	(3.75%)
American dollar	1.581	1.472	7.41%	1.499	1.311	14.38%
Canadian dollar	1.623	1.445	12.30%	1.505	1.536	(2.02%)
Brazilian real	2.766	2.608	6.07%	2.605	2.763	(5.73%)
Venezuela bolivar	3.399	3.165	7.39%	3.223	2.818	14.37%
Argentinean peso	5.009	4.636	8.06%	4.727	4.058	16.48%
Australian dollar	1.733	1.676	3.44%	1.655	1.667	(0.72%)
Chinese renminbi	11.087	10.752	3.12%	10.732	10.169	5.53%
Singapore dollar	2.182	2.116	3.10%	2.112	2.007	5.20%
Egyptian pound	8.620	8.104	6.37%	8.216	7.462	10.10%

**Certification according to art. 154-bis, paragraph 2  
of Legislative Decree 58 dated February 24, 1998 (TUF)**

The undersigned, Claudio De Conto, Operations General Manager and Manager responsible for the preparation of the financial reports of Pirelli & C. S.p.A., with registered offices in Milan, Via Gaetano Negri 10, share capital of Euros 1,556,692,865.28, tax code, VAT and registration number in the Milan Companies Register 00860340157

**attests**

in accordance with paragraph 2, article 154 bis of the Consolidated Law on Financial Intermediation (TUF) that the accounting disclosure made in this **Quarterly Report at March 31, 2008** agrees with the accounting documents, records and entries.

Milan, May 9, 2008

*Claudio De Conto  
Manager responsible for the preparation  
of the financial reports of the company*