

Good afternoon, ladies and gentlemen, welcome to Pirelli's conference call, in which our Chairman, Mr. Marco Tronchetti Provera, will release first quarter 2007 group results. I remind you that a Q&A session will follow after the presentation and that you can find the presentation slides and the webcast audio of the event in the investors relation section of the Pirelli website. Now, let me introduce you to Mr. Marco Tronchetti Provera.

Good evening, ladies and gentlemen, thank you for joining our conference call. Today we are disclosing Pirelli group first quarter 07 results. I'll give you an overview of them, and then Mr. Gori will show you some insights of Pirelli Tire results, Mr. De Conto will develop more on Pirelli Broadband Solution, and, finally, Mr. Puri will show Pirelli Ambiente and Pirelli Real Estate results. After the presentation, a Q&A session will be held. So, before going through Pirelli group's results, I'd like to remind the main events occurred after first quarter 07. On Value Day, on April 2<sup>nd</sup>, financial instruments from disposal of cables were sold to Goldman Sachs for approximately 246 million. On April 28<sup>th</sup> 07, Pirelli and Sintonia signed an agreement for the sale of 100% of Olimpia for more than 4 billion to financial institutions and industrial operators. The expected cash-in for Pirelli at the close-in will be in the region of 3.3 billion. Finally, on the 4<sup>th</sup> of May, Pirelli sold 3% of Intek to Quattrodue for 8.3 million. Now I'll describe you more in detail the Olimpia deal. As all of you already know, on the 28<sup>th</sup> of April 07, Pirelli and Sintonia signed an agreement for the disposal of 100% of Olimpia to primary institutional financial investors and industrial operators for the amount I mentioned, for more than 4 billion. The amount to be received is around 3.3 billion, equal to 80% of the overall amount. The closing of the deal is expected by the end of October 07, subject to the approval and authorization by competent authorities.

On slide 4 you can find the chart of the new Pirelli group's structure after Olimpia disposal. We will therefore concentrate on our traditional core businesses. The chart is this and I have no other comments to make on it, just a few words to underline our international presence. This presence consists of a total of 24 plants in 12 countries, with enhanced production and presence in Brazil, Rumania, and China. Strong and committed teams are dedicated to those activities. Let me remind you that in 07 and 06 the geographical distribution was the following: 15% Italy, 38% Rest of Europe, 8% North America, 25% Central and South America, 14% Asia, Africa, and Pacific. In addition, let me remind you that Pirelli Real Estate has strengthened its European presence, with the recent German DGAG acquisition.

So, let's go through the group's first quarter results: in brief, Pirelli closed first quarter with an improvement in group operating performance; organic sales excluding sales from the DGAG partial deconsolidation stood at 1.303 billion euro, with an increase of 10.8%; group sales grew by 50% year-on-year to 1.811 billion from 1 billion 206 million in first quarter 06. The group EBITDA was 181.6 million, with an increase of 4.3%; the group EBIT was 129.5 million, an increase of 8.1%, and net income before discontinued operations was 55.3 million, close to the 56.8 million of the end of March 06. Discontinued operations amounted to 1 million; 07 includes 91 million of proceeds from Prysmian warrants and the 90 million estimate impact of Olimpia disposal, negative 90 million estimate impact of Olimpia disposal. Total net income including discontinued operations was positive for 56.3 million; 24.2 million of attributable net income; and the net financial position was negative for 3.73 million, including the DGAG impact of 981 million. Other details can be found in the back-up section.

The... let's say... going to the results: the Tire EBIT was 4.5 million, Pirelli Broadband Solution EBIT was negative 3.10 million, Pirelli RE EBIT was 9.5 million, even though, for Pirelli Real Estate the significant value is the result including results from equity participation, equal to 8.4 million, others for 2.9 million. So, these are the variations now I'll give the floor to Mr. Gori for Pirelli Tire first quarter results.

Thank you, Mr. Tronchetti, and good afternoon to everybody. Pirelli Tire net sales increased to 1 billion and 60 million from 1 billion in first quarter 2006; +6% year-on-year; organic growth stood at +9.1% from both consumer and industrial segments; volumes were up 3.9% with growth in all major markets, OE and Replacement; EBITDA and EBIT improved, while ratios slightly decrease; 2007 net income lowered by higher financial costs linked to 2006 financial restructuring.

Next slide illustrates Pirelli Tire's main figures by segment; as you are probably aware of, consumer segments include both car and motorcycle tires, while for industrial we mean truck tires plus steelcord. As you can see, the consumer segment accounts for the major part of Tire first quarter 07 results, with sales at 740 million, +5.9% year-on-year. Consumer sales' organic growth was up 8.4% driven by volumes mainly in the North America (OE and Replacement) and price mix everywhere. Consumer EBIT stood at 77.6 million, equal to 10.5% on sales. Coming to the industrial segment, sales amounted to 319.7 million, +6.1%, from 301.4 million in first quarter 2006; industrial sales'

organic growth was up 10.8% driven by volumes mainly in rapid developing economies and price mix everywhere. Industrial EBIT suffered from raw materials' higher costs, decreasing from 27.5 million to 26.1 million, equal to 8.2% on sales.

Now Mr. De Conto will go through Pirelli Broadband Solution's results.

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

Net sales were 25.1 million, down from 38.5 of first quarter 2006. This was mainly due to a different product mix and a different purchasing planning of the telecom operators, mainly seasonality. EBIT was negative by 3.8 million, mainly due to the photonics startup. If we go through a brief overview of Pirelli Broadband Solution's activities, we do reconfirm that we are leveraging, or are trying to leverage on the new products and on new customers, especially on Tire 2 and Tire3. As far as the products are concerned, we have effectively started sales of the set-top-box, especially this last month, April, was a good month, for which we are in the final phase of clarification with Microsoft for the new version, and this is going to be due by the end of the first half of 2007. Going into photonics, the CWDM will be enhanced from 2.5 to 10 gigabits; this is going to be very important in the middle network, especially if the IPTV deployment is going to accelerate, and also thanks to the stratification of the Dynamic Tunable Laser our products have now been delivered to the main clients for the final integration in their systems and testing. We... in general, we do expect to recover the gap with sales towards last year already by the end of June, and we still reconfirm a good increase in sales in the second half, so that we still do expect a double-digit top line growth compared to 2006.

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

Good afternoon. We are going through the profit and loss account of the quarter, first quarter; Pirelli Real Estate continues to grow: in terms of revenues we reached around 460 million, a 38% increase over last year, and even more important is the increase in terms of EBIT, including income from equity participation, that have increased by 22% to euro 47.3 million, most to be attributed most of the contribution to the investment in asset management activity, which has grown by 35%, versus first quarter 2006. Sales: no... let's stay in asset management... the most significant growth is in the sector of NPLs business: the result has increased by around 73% from 3 million euro in first quarter to 5.2 million. In terms of sales of real estate assets, we reached 641 million, 100%, not just our stake, up 41% versus last year. We completed the acquisition, still at 100%, in real estate assets for 335 million euros, and also we finalized the acquisition of Inges facility from the FIAT group for around 50 million, and we doubled the size of our company; in NPLs we have, with our partners, completed the acquisition of around 1.5 billion yesterday, that net is something around 300 million euros; so, the total acquisition between what is closed and what we have signed the binding way's around 650 million. Net profits: as it was expected, they were reduced versus 2006, and reached 19 million instead of 30; we expected this temporary reduction, and this is related to the increase in financial charges for the German acquisition of the DGAG that we have acquired 100%, but it is in the process of deconsolidation in line with our business model. The commercial asset will be in the joint-venture with Morgan Stanley, 35-65%, and the residential assets will be in the joint-venture with RIS, same proportion 35-65%, and instead the platform of services will remain 100% to our company. The outlook for the remaining part of the year is... we are confident that we will grow in EBIT, including income from equity participation, higher than our range that we have given for our three-year plan 2006-2008, so more than the 10-15% range. Now we'll go through the consolidated balance sheet. The net invested capital showed a significant increase versus last year, reaching around 1.8 billion, mainly due to the German acquisition; in the pro-forma after the DGAG consolidation, instead, we are in line with the yearend 2006; net debt reached 965.9 million euros, on which 908.1 million is related to the DGAG, so it's positive without the DGAG, but assuming the deconsolidation of the company, we were performing a financial position at around 76 million; even more important, the adjusted net financial position, which excludes shareholders' loans to companies in which minority interests are held, is around 1.3 billion euros, considering, as for the net debts, the consolidation of the DGAG the pro-forma adjusted financial position is estimated at approximately 455 million, so therefore in line with the end of 2006 and with a gearing around 0.6 in line with December 2006 and our objectives with a growth that we are creating the CEA will be not more than one-to-one. Now I'll leave the floor back to Mr. Tronchetti, thank you very much.

Thank you Carlo. As usual, I'd like to close the presentation with a brief outlook. We confirm 2007 increase in results, with a sound financial structure that, I remind you, will benefit from the cash-in from Olimpia sale, roughly 3.3 billion, and from the cash... the 91 million coming from the sale of

FourN to the former cables activity purchasers. So, thank you to everybody for joining the presentation, and now let's start with the Q&A session.

## **Q&A session:**

1. Mr. **Giuseppe Puglisi** from **Intermonte**:

*Good afternoon to everybody. I have a couple of questions on tires. The first one is: what would be the impact of the ramp-up of the new fabs Latin and China in terms of gross margin? Because I assume that there would be a decrease in the cost per unit, with an impact, a positive impact, on gross margin in the next few quarters. And the second... the second question regards the industrial segment of the tire business: what actions are you taking to improve your EBIT margin after the decrease you're near in terms of EBIT? Thank you very much.*

**Rispondo sulla prima domanda....**

**In inglese.**

**I'm answering to your first question about the contribution of China, Rumania to the lowering of costs; it's a progressive contribution that comes from the increased production in these new factories. However Rumania is the first, is at the very first year of operation, and will produce only a couple of million of tires this year. And double next year. So, this impact is going to be more visible next year, but I think this year it will already help; and it's not yet in this Return On Sales. It's not really coming from the Rumanian operations. It's coming from the improvement in the price mix and the top line in general, as far as consumer is concerned. So, the effect of Rumania is still not here. By the end of the year...**

*But can you give us a rough indication of what it will be in terms of gross margin when the ramp up will be completed?*

**It is material but I cannot exactly quote a number, and a figure.**

*Okay.*

**I told you that of course it's going to be visible next year, because we are going to produce 4 million tires, and this will help us more than this year; but I will not give you more precise numbers on this issue.**

*Okay.*

**As far as... by the way, next year we will also start production... actually by the end of this year we will also start production in China for car tires, and this is also going to help us at the bottom-line.**

*Yes.*

**Again, next year a couple of million, in two years' time 4 million, so the two things together, the two extra capacities in low-cost countries together are definitely going to support the growth we want to reach in the consumer profitability. As far as the industrial business is concerned, there are many actions we tried and managed and executed to improve the bottom-line. The number one action is of course pricing, because pricing is necessary to compensate the higher raw materials' cost and mainly natural rubber. The other action is more specifically in China, where we started operations one year and a half ago, and this year we are progressively moving the sales mix towards Pirelli brand only; and this will have a definitely good impact on the bottom-line. Again, these actions are going to be more visible in the second half of the year than in the first half.**

*Okay. If I may ask a quick follow-up regarding the broadband solution: after the sale of Telecom Italia, what is the rationale to maintain a dilutive business within Pirelli? Are you thinking of selling it? Because your numbers could be much better if we exclude the dilutive impact of the broadband in your P&L. Thank you.*

**Our opinion is that we can create value through this activity, both broadband and photonics; we are looking around to strengthen the activity also through agreements and partnerships; we have the know-how, and we know that the demand for set-top-box is going to increase, and for other products, so we can create value and then we will see, so the fact is that we have competence, know-how... these are startups, within our consolidated balance sheet they can be easily supported, and can create value. We have to remind you that we started from scratch, and the evaluation today for the activities is around some hundred million euros. So, some value has already been created, then we can do more.**

*Okay. Thank you.*

**Thank you.**

**2. Ms. Carola Bardelli from Deutsche Bank:**

*Good evening. Just a couple of questions if I may. Firstly on the use of proceeds, I would like to know if you exclude big deals with, let's say, the big five tire operators in the market. Secondly, distribution to shareholders: I think this is probably limited by no refers, or very little refers on Pirelli balance sheet; so, I was wondering if you're potentially open to some kind of financial engineering that could allow you to create some reserves to distribute, or if you are entirely focused on spending money on industrial investments? And then, finally, if I may, I wanted to know what your intentions are with regards to the 1.4% stake that you still own in Telecom Italia, and with regard to the stakes in RCS and Mediobanca. Thank you very much.*

**So, starting from the proceeds coming from the sale of Olimpia: first cash in and then spend it. The idea we have in mind is to invest first in our core businesses. For what concerns distribution of dividends, technically speaking, there is no need to have reserves anymore, it's enough to reduce the capital, so technically it's feasible to give an extraordinary dividend. So, we haven't made any decision. Then, for Mediobanca we don't have any plan of dismissal, so this is the perspective of the company. So we can strengthen our businesses, and we are looking around to see what can be done in order to create more value. On our participation in Telecom Italia, we are sure that the strategy that will be implemented after the agreement that has been set between the banks and Telephonica can provide an opportunity to increase the value and so, as Mr. Aglietto mentioned today during a conference call... during a general meeting, so we expect the value to grow, and then we will see. For the time being the value is very low, so we do not intend to sell today.**

*Thank you very much.*

**Thank you.**

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

*Good evening. Can you hear me?*

**Yes, we can.**

*Okay.*

**We can hear you very well.**

*Good evening. After the operation in Latin America and China, and Rumania as well, as far as the tire business is concerned, are you planning of opening new sites, maybe in India or in new emerging markets over the long term? Thank you.*

**Simply we are looking around, and, first of all, we are... let's say, we are ready to open a new factory in China September next, we are looking at India with a high level of interest, because they are investing a lot in infrastructure, which means more vehicles, more tires, tomorrow, and we have to invest more in Rumania. So, we will continue to invest in countries where there is growth and low cost.**

*Okay. Thanks.*

**I'd also like to remind you that we are also reshaping our presence in Europe, in Spain, in Italy, in order to be more effective and to reduce our costs.**

*Thank you.*

**Thank you.**

There are no more questions.

**Great. So, thank you very much to everybody, and good afternoon.**

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