

Good afternoon, ladies and gentlemen, welcome to Pirelli's conference call, in which our Chairman, Mr. Marco Tronchetti Provera, will disclose the first half 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. Today we're presenting Pirelli group's first half 2008 results. I'll give you an overview of them, and then Mr. De Conto will develop further on the group's financial results; then, Mr. Gori will disclose some insights of Pirelli Tyre results and, finally, Mr. Puri will show Pirelli Real Estate results. After the presentation, a Q&A session will be held.

Before going through Pirelli group's results, I'd like to recall the events which occurred during the first half 08. These facts confirm our commitment to the industrial activity and in this respect let me underline first of all the growth in Germany's high-tech factory; we invested 15 million in 2007 and 10 million pieces have been produced in 2007 and will be produced in the year; it's the largest factory in Germany... tire factory in Germany. Then, several new investments in Egypt increased truck manufacturing of 50%; we invested 65 million to reach a production of 1 million pieces per year. And today's announcement of the (...) rating joint-venture with Russian Technologies to enhance our presence in Russia... coming to exporting around 1.2 million tires and we want to start to reach our own production to a local green field facility. Then another key point is a trial in Beijing for Pirelli diesel engine particulate filters, which has further boosted our commitment to environmental businesses and, last but not least, we announce our alliance on photonic business with CyOptics financing the x value... afterwards more details will be given on this deal. At the same time, I'd like to remember the repurchase of 38.9% of Pirelli Tyre for an equity value of 835.5 million and the launch of Pirelli Cinturato, an eco-friendly tire. All these actions were taken with a clear view that the economic factors have changed starting from mid 2007. The crisis driven by the US subprime credit crunch is touching real economy. In fact, we'd like at... EU and US first half 2008 economies the inflation rate was higher than GDP; that means that real growth is negative. The opposite is happening in Brazil and China where the inflation rate was lower than GDP, showing a positive growth. All in all, the situation was a slowdown in US and new demand, increased competition and in real estate an important slowdown in business. The actions taken to face this scenario followed two directions: Pirelli Tyre put in place a price increase and a cost saving discipline and a restructuring... in know-how it is accelerating business in Rumania, Russia, and China to be more competitive on the market and keep on growing. Pirelli Real Estate has put in place a forward looking restructuring of the business and adapting its business model to fit the current European real estate market.

In concrete terms, you see on slide number 4, the actions taken to face today's difficult time market were: first of all, cost saving discipline, including a continuous effort in the manufacturing process, more efficient raw materials used in the purchasing process and in logistics fields. In this respect, we have finalized the reorganization of the European facilities. All in all, restructuring costs in half... in first half for tires were 5 million euros. Second, a consistent business acceleration in Rumania, where we expect to produce 3.5 million units in 2008 and 5.5 million units in 2009; China, where we expect to produce 2 million units in 2008 and 4 million units in 2009... car only. Russia, where we expect to establish a direct industrial presence by end 2009... and we expect to produce in 2010 around 3 million tires up to 4.2 million tires, units... and investments will be around 250 million euros. For what concerns our presence in Russia, I'd like to remark that we're defining an agreement with Russian Technologies State Corporation and the government of the Samara region in the context of the Pirelli - Russian Technologies negotiation aiming to set up an industrial joint-venture in Russia. The industrial site for the tire production will be located in the territory of the Samara region, as you can see in slide number 5. The Samara region is an industrial-technological park area. The joint venture will be jointly controlled and in turn will own 100% of a company founded in Russia which will control production and sale of the joint-venture's products. This company will build a tire plant with an initial capacity of around 4.2 million car industrial vehicle tires as I mentioned before. Tire market evolution in Russia saw a significant increase and is expected to grow fast in the next years. Estimated average growth rate for 2008-2012 for the car tires is 7.8%; the average growth rate for truck tires is 5.1%, but we have to take into account that the radial truck tire production will be more than 2-digits; 5.1 includes the traditional truck tires as a growth rate... average.

Next we turn to real estate: on slide number 6 you see that Pirelli Real Estate has now decided to change its business model, moving the structure to a business area organization which is helping to evaluate and exploit value creation in (...) business, to face a new market and to implement its guidance for 2008 and beyond... at a cost, for 2008 for the reorganization estimated to be around 25 million with a benefit in 2009 of approximately 35 million euros. Carlo Puri will return on it, but we already had his conference call... a conference call this morning, and so he gave a number of details

to the market and will sum up all the projects going on after my speech is finished. Carlo Puri and Claudio De Conto will refer on Pirelli Real Estate but also on the Photonics agreement.

Last but not least, I'd like to point out that on... as you see, on page number 7, on the 10th of July, the Italian Ministry for the Environment signed an agreement with the Municipality of Beijing to launch a pilot project in the Chinese capital for testing high-tech innovative filters on Beijing buses during the Olympic Games. Innovation research permitted us to produce filtering systems able to reduce by more than 95% particulate emissions from diesel engines. Today we are manufacturing in Varese near Milan, making a best production of filters, assemblage of filtering systems, and product development. In the first half 2008 sales started and we had 2 million approximately of sales; moreover, a new factory in Rumania, for the so-called SiC filters production is going to start by the end of 2008. So, we expect this activity to become one of the growth activities in our businesses... within our businesses.

Now I give the floor to Mr. De Conto, who will comment further on financial group's results for first half 2008. Thank you, and, so, we will have later on the Q&A session. Thank you. Mr. De Conto.

Thank you Mr. Tronchetti and good afternoon to everyone. I would like to start with the agreement signed with CyOptics, leader in optical component based on Indium Phosphide technology. This agreement has brought together a significant and quite exhaustive state of technologies to address the needs of telecommunication networks and with quite important cost reduction synergies to be achieved. This will also mean the possibility to develop a new generation of products, such as, for example, the PICs, which stands for Photonic Integrated Circuits, which could go up to 100 gigabit. We also have subscribed a reserve capital increase of PGT Photonics for 20 million dollars; and as a consequence of all these transactions, Pirelli will hold an approximate stake... or, the precise number is, actually, 31.9%... fully diluted percentage of the capital of the company. Going now to the first half 2008 consolidated numbers: I will simply comment on the most significant figures because afterwards Mr. Gori and Mr. Puri will elaborate further on Tyre and Real Estate.

Net sales stand at 2.6 billion euros, showing an improvement mainly in the... Okay, we start again... we do apologize for the inconvenient... so, I will start again from the net sales, which stand at 2.7 roughly billion euros, showing an improvement mainly coming from the industrial activity with real estate steady as far as the levels of sales are concerned. EBIT before restructuring costs stands at 211.5 compared to 221.3; the number of course... the reduction is influenced by market conditions in the tire and the real estate markets. Restructuring costs at 22... 21.2 million euros, split in such 16 million for real estate and 5 million for the tire business; EBIT therefore amounts to 190 million euros. Results from equity participation heavily affected by the devaluation of TI for 155 million euros from the beginning of the year. Net income before discontinued operations is positive for 2.6; without taking into account the devaluation it would have been 158 roughly, excluding the impact of TI; discontinued operations negative for 12.1 million and this, of course, refers to the deconsolidation of the photonic business. Net financial position stands at 823 million euros.

The next slide shows EBIT including results from equity participations where the main variations before mentioned are the TI devaluation, the Pirelli Real Estate reduction for 76.2 million; of course, this includes in the comparison the DGAG effect for about 25 million, but Mr. Puri will give the relevant details later on. EBIT of tire business in reduction for 15 million and restructuring costs on a global basis of 21.2 million.

Going to the slide showing the variation of the net financial position from the beginning of the year, I would only mention the... of course, the Speed acquisition for 835 million, the reacquisition of the minority of the tire business, I would also underline that the net cash flow for the ordinary activities, which in these figures includes the deconsolidation of the facility of real estate, would have been negative... a number higher than expected due not only to the seasonality of working capital, but also to an increase in the number of days of stock of finished products... of tires, which increased to a still very low level of about 54 days with an increase of 10 days but also due to the increase in raw materials' price and of course of the higher value of the invested capital. And I think the other figures do explain themselves, and therefore I give the word to Mr. Gori for the Tyre results.

Thank you, Mr. De Conto and good afternoon to everybody. Pirelli Tyre's net sales increased to 2 billion and 166 million euros from 2 billion and 151 million euros; +0.7% year-on-year; however, organic growth stood at 3% from both consumer and industrial segments, compared to first half 2007. Volumes down by 1.3%, due to tough comparative figures in first half 2007 and negative market trends in Europe and North America. EBITDA and EBIT below 2007, as input costs have been

increasing faster than prices. Restructuring costs stand at 5 million during the period. First half 2008 net income stood at 101.7 million.

Slide number 15 shows first half 2008 Pirelli Tyre results by business segments. As you can see, consumer segment sales stood at 1 billion 494 million euros, + 0.1% year-on-year. Consumer sales organic growth went up to 3.1%, driven by price/mix improvements across the markets. Consumer EBIT stood at 126.8 million euros with ROS down to 8.5%, driven by higher sales to OEM; actually booming OE demand in South America asked for shipments from Europe with reduced margins, while building up local additional capacity by end 2008 - early 2009. Coming to the industrial segment, sales amounted to 672 million euros, up 1.9% from 659 million euros in first half 2007. Industrial sales organic growth was 2.5%, driven by rapid developing economies. Industrial EBIT stood at 64.2 million euros with ROS up to 9.6% in respect of first half 2007, thanks to high saturation and price increases.

Looking at tire market trends... next slide: in the US the consumer market was negative for both OE and Replacement, while in Europe it was negative only for Replacement and barely +1% in OE. Latin America and China very positive across the board. As far as the industrial market is concerned, Europe was positive on the original equipment side, while negative, 9% versus previous year, in the replacement market. Again, Latin America and China very positive versus previous year. Sales breakdown by geographical area, next slide: as you can see, Europe is now at 47% of our total sales, North America at 7%, slightly down from previous year, mainly for the effect of the US dollar; Latin America up to 31%; Middle East and Asia Pacific at 15% on total sales.

Coming to raw materials... next slide: you see the strong correlation between the oil price and the natural rubber price, which went up again in the second quarter. So, overall, the compounded raw material costs 2000... for 2007 was going up close to 10% and in the first quarter the index was 3.7% versus the average of 2007 at 5.8% in the second quarter. To face that trend we already announced price increases across the markets and they are sticking definitely to the dollar-based markets and a bit more difficult to achieve in Europe.

Next slide shows first half 2008 Pirelli Tyre highlights. This full range of top-quality tires that we are producing helps to face different market situations between high-growth countries, such as Latin America and China and massive markets such as US and Europe with the same commitment to sustainable growth and environment. Both Cinturato and Winter Sottozero are 100% aromatic oil free and improve aquaplaning performance, allowing superior stability and grip. We have then the Amaranto truck tire, characterized by an ultra-low profile ensuring increased loads, volumes and mileage and by an all steel degree structure. And, finally, I'd also like to mention the very successful motorbike products, such as the Scorpion Trail a new Enduro street tire, the Metzeler Roadtec Z6 Interact, a new and innovative sport Touring product. Last but not least, Pirelli has been confirmed as the exclusive tire supplier for the three-year period 2010-2012 for the World Superbike Championship.

I'll now leave the floor to Mr. Puri, who will discuss Pirelli Real Estate results.

Good afternoon to all of you. I will provide you only with some highlights of the half year results of Pirelli RE, since we have already given all the data this morning in the conference call. In the generally negative market environment we have achieved an EBIT including income from equity participations before restructuring costs of 49.2 million euros against a result of 105.7 million euros in first half 2007, which was net of the temporary effects of the DGAG deconsolidation; excluding fair value adjustments, this result would be 43.5 million euros, versus 56.4 million in first half of 2007. Restructuring costs in the first semester amounted to 16.2 million euros and will be 25 for the whole year. Total consolidated net profit amounted to 90 million euros, compared with 80.1 million euros at the 30 of June 2007. Now, our real estate NAV, N-A-V, has remained almost stable at 1 billion euros, showing the good and defensive quality of our assets. Adjusted net debt gross of shareholders' loans has slightly improved versus last year, reaching 809 million euros. Asset under management reached nearly 19 billion euros including the acquisition of 49% of Karstadt portfolio in Germany completed after the end of the semester, with a 25% increase versus 2007. This amounted... the results of sale for 527 million plus 235 million euros of recoveries of non-performing loans and the acquisition of real estate assets and NPLs for 289 million euros; these sales do not include the acquisition, as I said before, done in July 2008 of Highstreet, the Karstadt portfolio that amounts to 4.6 billion in total. For the full year 2008, thanks to the restructuring process underway and some of the core negotiations, we believe we can confirm an EBIT including income from equity

participations before restructuring costs in line with the one of 2007, net of the temporary consolidation of the DGAG.
Thank you. I'll leave the floor to Mr. Tronchetti.

Thank you, Carlo. So, going to the outlook. Pirelli Group 2008... for the last months... second half of 2008... you see on slide 26: so, Pirelli Tyre, in light of the current market scenario and of the persistence of inflationary trends on costs of raw materials and production factors, forecasts for the second half EBIT before restructuring charges substantially in line with the same period 2007. Restructuring actions should also allow the company to present a more efficient structure and manufacturing base, for the benefit of future years. Pirelli Real Estate, thanks to ongoing restructuring actions that have been described by Carlo Puri and if some negotiations currently underway are finalized, expects it to be possible to confirm EBIT including equity participations before restructuring charges for the full year in line with that of the previous period (net of the effects of temporary consolidation of DGAG). Given the persistence of the a situation of uncertainty in financial markets, and the worsening of the macroeconomic scenario, the company notes that the risks of not closing certain negotiations/transactions could influence the possibility of reaching its targets.

So, for what concerns the group's other businesses and corporate activities, the forecast for 2008 is that the business operating results will be in line with 2007.

Now I want to thank you very much for your attention and we are ready for the Q&A session. Thank you.

Q&A session:

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

Yes, good afternoon, everyone, I would have a couple of questions; the first one is related to the Russian plant: I was wondering if you could give us some more information regarding the net revenues once on stream and if you're planning for the Russian plant an operating profitability higher than the current operating profitability of tire business overall? The second question is related to Russia: as for the investments, which are 250 million euros, in how many years should we spread this investment... expenses? And a third question: I was wondering if you could give us some indication of the amount of the restructuring charges over the full year and how much is related to tires.

Well, thank you. For the plant in Russia the information we can give is the following: so, we will invest 250 million between the end of this year and the end of 2009 - beginning of 2010, but we invest only half of it because it's a joint-venture, so part of it will be invested by our business partners. And, we are setting the business plan and it's not ready yet, so it will be disclosed when the business plan is ready and it will be agreed between us and our partners in Russia. As far as... we are aware of the conditions in the market mainly for the winter tires, for the evolution of the high-end tires, truck tires... so, we expect a profitability that is more than average. So, this is an area that includes not only Russia and the CIS countries, but also Northern Europe where the winter market is very strong. So, we expect an investment that could be profitable more than in line with the average profitability we have. The other question was about the restructuring costs: we haven't yet set the total amount of the restructuring costs for both Tyre and Real Estate; we expect to have better visibility on it. We already have the projects set, but we are considering the total amount... I think that when we deliver third quarter results we should be in the position to give you the details on all restructuring costs for full 2008.

Okay. Thank you very much.

Thank you.

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

Good afternoon to everybody. It's Giuseppe Puglisi from Intermonte. I have a couple of questions. The reduction in guidance you made today is due to mainly lower...

Could you please... Could you please speak a bit louder?

Yes, sure. Can you hear me? Can you hear me? Hallo?

Yes. Much better. Thank you.

Okay. So, the slight reduction in guidance you made today for the tire results in 2008 is mainly due to lower volumes or lower guidance with respect to your previous expectations? And my second question is on your basic assumption for the tire market in 2008 in terms of rubber costs, for instance, and euro-dollar exchange rate. Thank you.

I will now leave the floor to Mr. Gori. I want to say one thing that is a general thought: second half we will have on the one hand a reduction... a possible reduction in the top prices that have been reached by raw materials but we know that in some areas the market conditions are deteriorating; so, the balance between the two has to be faced day by day and so what we deliver to you is our best forecast based on today's market conditions but I will give the floor to Mr. Gori to give you more details on it.

Sure. Thank you.

So, as far as volumes are concerned, we expect again to maintain the current trends. So we have a slow... a slight reduction... a slight reduction of 1.3% in the first half 2008... second half will confirm growth in markets such as Latin America, Middle East, China and so forth while we do not expect a strong demand in Europe and North America able to offset the first six months. As far as margins are concerned, they are clearly squeezed now as it appears from our EBIT and EBITDA from the high increase in raw material costs and the not yet fully implemented price increases. So, this is the situation and it may not change even though recently there has been a downturn in oil price and natural rubber price, but it's too early to understand if it's going to be... to remain or to improve or to... to reverse.

Okay, but the current assumption on rubber price for the second half of 2008... which is it?

Well, we can tell you that starting from yesterday the price has fallen down but starting from yesterday. So we have to wait before making any forecast and... so the logic says that the trend will continue, because the demand around the world is not increasing as it used to. So, the fact is the balance, as I mentioned before, between the growth... the slowdown of the prices in raw materials and the slowdown in market demand, so... and our capability to move inside both variables facing with our mix, cost cutting and price increase that situation.

Sure. Thank you. If I may... a quick follow-up; one point regarding your distributors: do you see some increase in inventories... in your distributors... at the distributor level? I mean in particular in Europe and in Asia.

Well, we cannot say that we see... we see a slowdown in demand, as Mr. Gori was mentioning before. And then there is only the question mark of the winter tires' seasonality. We don't see any slowdown for the time being, but as you know, if it snows in October and mid-November, the demand on the... in the market will be strong; if not, it will be weak. So, part of the result is also linked to seasonality... linked to the season and to the snow in October and November and we cannot forecast it. The demand for winter tires for the time being is not slowing down.

Okay. Thank you.

Thank you.

3. Mr. **Martino De Ambrogi** from **Euromobiliare SIM**:

Good afternoon, everybody. Three quick questions on the tires division: tax rate, guidance for the current year, total depreciation and amortization and the working capital tried to have a quantitative element in terms of absorption in the first half and what we should expect in the second half. These were the questions on the tires division. On broadband: after selling the photonic division the broadband division can still be considered a core business or something can be divested going forward? And a general one on the possible utilization of the holding net cash: are you looking at any possible investments in the short term or should we probably discuss on it probably within some quarters? Thank you.

So, the general question on investments: we don't have any project for the time being to invest the cash we have. We are happy to have this cash and we look around quietly but we are focused on our businesses and so we don't see any need to invest the cash we have. Broadband: we... it's still a core activity, I mean it's a core financial partnership that we set with our technological know-how and we keep an interesting part of the new core coming from the merger between CyOptics and our broadband activity. So, we see it for the time being as strategic because we see that there is an opportunity to create value, concentrating the main technologies in the field of photonics in a single company. For the cash-flow year-end, I will give the floor to Mr. De Conto; generally speaking, we don't expect any erosion of cash during 2008, so we are focused on keeping year-end the same financial position we had at the end of 2007. So, we don't see any deterioration looking at it... closely. Please, Mr. De Conto.

Thank you. As far as the tax rate is concerned, I do expect to see for the tire business a tax rate of approximately 35% at year-end, more or less in line with what we had in June. As far as depreciation, depending on how much we will invest in the second half we probably would expect to have depreciation of around 200 million at the year end. And, as far as working capital is concerned, depending on how the winter season is going to perform, I would say we will end up between 250 and 300.

Okay. If I may add a follow-up on cash utilization: you didn't mention the buyback.

In fact I didn't mention it.

Okay. Thank you.

Thank you.

Bye.

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

Hallo. I had just a question which is more a clarification regarding your guidance. When you say that for 2008... for the second half of 2008 you expect an EBIT in line with second half of 2007, before restructuring charges, should we compare it with the 150 million recorded in second half of 2007? Is it correct?

We mentioned the operational result.

Yes.

And we said clearly that it's EBIT before restructuring charges, which is expected to be substantially in line with the same period of 2007, but we underlined that it's before restructuring charges.

Okay. There were no restructuring charges in 2007?

No there weren't any.

Okay. And regarding winter sales in Europe: can you give an indication of the level of inventories the distributors have currently?

Stocks are probably higher than last year, and that's why the season started later and we did not enjoy sales in the second quarter as we always did in the past. However, given that the second quarter now is gone, we see that the winter demand from distributors is in line with our expectations in the third quarter, so we see no surprises short term. Of course, the seasonality may influence the results on the fourth quarter.

Okay. Thank you.

Thank you.

5. Ms. **Valentina Romitelli** from **UBS Milano**:

Thank you. Good evening. I would like to ask a clarification about the Pirelli Tyre's raw material and energy cost trends you have on page 18. I wondered... you show here a compound gross rate of oil and rubber costs, which are 30 or north of 30% and an overall cost index which is below 10%. I just wanted to understand exactly how the two are up... what's the declining part of the cost index? And the second question is always on tires: what's the expected capex for the full year given the additional investments in the new capacity? And, finally, should we compare the mix of products in terms of high performance relative to the rest for the car tires in 2006-2007 and what can we expect in 2009 given the different trends in some developed markets? If you could give us a flavor of what you expect the mix to be, despite you have little exposure to the US market? Thank you.

So. Mr. Gori will answer the one related to the mix. For raw materials, 9.8 is the growth, as you can see, between 2007 and 2008, 3.7 then 5.6; and, so this is the average... this is the growth between 2007 and 2008. The BRENT is the average growth rate between 2004 and 2008 both for BRENT and the other raw materials. So, this is looking backwards. Looking forward, it's worth what I mentioned before... there is a trend down and we have to cross this trend down with the volume trend, which is also down in Europe and America, and we have to see if Latin America and the rest of the world will be in a position to balance the erosion of volumes we see in Europe and North America. So, that's the reason why we say that we can be in line in second half, because we expect the two factors will be balanced and also... the two factors I mean the price increase on the one hand and the menacing price of raw materials and in the other hand the volume reduction in Europe balanced by the volumes in Latin America and in the Eastern part of the world. For the export prices and mix, I give the floor to Mr. De Conto. Mr. Gori, sorry.

Yes. Can you repeat the question on the subject?

There are two questions: one is capex... final current budget for 2008 total capex for tires. And second is: should we expect a visible change in your tire mix between 2006, 2007 and, let's say, 2009 because of structural changes in final consumptions?

So, as far as capex is concerned, the ratio will be in the region of 1.3-1.4 versus the depreciation. As far as the market mix is concerned, if you look at slide 17, page 17 and slide 17, you see that first half... this is the mix and it's not going to change dramatically to the end of the year; so, versus previous year, Europe and North America are slightly declining and Latin America and the other markets are slightly growing. But that's already embedded in page 17.

So, maybe I was not totally clear ... I'm talking about product mix. So, high-end, high-performance tires compared to standard products.

No change. No change. It's... we maintain our position with a high focus on the high-end. Of course there we include winter tires where we enjoy a high-end within... high-end product mix within winter tires and we see no major changes, especially because replacement market is not changing the product mix because there was a crisis or a recession... whoever owns an SUV or a given vehicle has to replace the tires that are fitted on that vehicle.

Okay. Thank you.

Thank you.

There are no more questions.

Thank you very much and good evening to everybody.

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