

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

**Half-yearly Financial Report
at June 30, 2008**

PIRELLI & C. Società per Azioni

Registered office in Milan, Via G. Negri 10

Share Capital - Euros 1,556,692,865.28

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PIRELLI & C. S.p.A. - MILAN
Half-yearly Financial Report at 6/30/2008

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PIRELLI & C. S.p.A.**Board of Directors**¹

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

* Independent director

^o Member of the Internal Control and Corporate Governance Committee

[^] Member of the Remuneration Committee

Secretary to the Board	Anna Chiara Svelto
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Board of Statutory Auditors³

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

General Manager

Operations	Claudio De Conto
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Independent Auditors⁴

Reconta Ernst & Young S.p.A.

Manager responsible for the preparation of the financial reports⁵

Claudio De Conto

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

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

³ 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

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

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

PERFORMANCE OF THE GROUP

The first half of the year was characterized by the completion of the plan announced by the group following the sale of Olimpia. It is based on three pivotal points: refocusing on the core business, distributing resources to shareholders and optimizing the equity structure. During the January to June period, in particular, the group reached an agreement to regain possession on the entire share capital of Pirelli Tyre, announced new capital expenditures in the tyre and real estate businesses and signed a letter of intent to create a large industrial hub in the automotive sector in Russia. At the same time, at the equity level, the parent Pirelli & C. S.p.A. reduced share capital and paid “*extraordinary dividends*” of Euros 826 million, setting up capital reserves for approximately Euros 408 million. The result of these transactions is a solid group from the standpoint of equity, with limited debt and in a phase of further expansion in its core businesses.

During the first half, the group signed a letter of intent with the American company CyOptics to form an international strategic alliance in the photonics business. The transaction was finalized in July when the parties reached an agreement to integrate the companies’ respective businesses in optical technology. The new CyOptics, in which Pirelli holds an approximate 30 percent stake, will be an important international operator on the market with an increasingly expanding portfolio of technologies and products. The transaction also led to the deconsolidation of the photonics business which has been considered as a discontinued operation in accordance with IFRS. Accordingly, it will only contribute to the result for the period after taxes. For comparative purposes, this treatment has also been applied to the data relating to 2007.

As for the results reported in the first half, it should be stressed that the group's performance was significantly influenced by external factors, starting with the international financial crisis and the relating repercussions on the economy and consumer demand, especially in Europe and the United States. The automotive and real estate sectors, in which the group's two main subsidiaries operate, were particularly hard hit.

In this scenario, at consolidated level, the group posted a slight increase in sales (+2.7 percent compared to the first half of 2007 net of the exchange rate effect and sales 65

made last year as a part of the deconsolidation of DGAG's assets by Pirelli RE in Germany) while operating profit before restructuring expenses is more than Euros 210 million, with a slight decrease (-4.4 percent) compared to the prior year. The change in the operating results from the first half of 2007 is attributable to a lower contribution from the real estate business in association with a slowdown in the sector despite Pirelli Real Estate's solid portfolio. In the tyre business, increases in prices, focus on the product mix and steps to continually improve cost efficiencies only partly compensated the decline in demand in certain key markets (especially in Western Europe and the United States) and the increase in raw material costs (up approximately 10 percent during the first half).

During the course of the first six months, the group further wrote down the 1.36 percent stake of ordinary share capital held in Telecom Italia S.p.A. The per share carrying amount of the investment was reduced to Euros 1.27 (which is the market price at June 30, 2008). The impact on the income statement is Euros 155 million and was a determining factor in the group reporting a consolidated loss for the six months.

The net financial position is a negative Euros 823 million, a reduction from Euros 851 million at March 31, 2008. The net financial position at corporate level continues to remain positive (Euros 258 million at June 30, 2008).

The group, finally, took steps for rationalization in order to improve the efficiency and competitiveness of the two main businesses and combat the difficult economic situation, with consequent restructuring expenses in the first half of 2008 totaling Euros 21.2 million.

Group's results

Consolidated net sales of the group for the six months ended June 30, 2008 amount to Euros 2,685.3 million, with an increase by 2.7 percent compared to the first half of 2007, excluding the exchange rate effect and the sales relating to the deconsolidation of DGAG real estate assets. Taking into account the DGAG effect, sales in the first half of 2007 amounted to Euros 3,192.6 million.

Consolidated **operating profit (EBIT) before restructuring expenses** amounts to Euros 211.5 million, a decrease of 4.4 percent compared to Euros 221.3 million in the first half of 2007. If restructuring expenses, equal to Euros 21.2 million, are also considered, the operating profit is at Euros 190.3 million. **Operating profit including earnings (losses) from investments**, which includes the effect of earnings or losses from companies accounted for by the equity method and dividends from unconsolidated holdings, is Euros 97.9 million. This result was affected by a lower contribution from Pirelli RE's investment holdings owing to the slowdown of the real estate market and especially the impairment loss of Euros 155 million recognized on the 1.36 percent stake in Telecom Italia S.p.A. held by the group.

As a result of the impairment loss, **income from continuing operations**, after financial expenses of Euros 26.6 million and income tax expenses of Euros 68.7 million, is Euros 2.6 million, a reduction from the Euros 188.4 million in the first half of 2007. The total **consolidated net result** is a loss of Euros 9.5 million, compared to income of Euros 198.3 million in the same period of 2007. The **loss attributable to the equity holders of Pirelli & C. S.p.A.** in 2007 is Euros 36.2 million, compared to income of Euros 108.2 million in the first half of 2007.

Total consolidated equity at June 30, 2008 is Euros 3,002.4 million, compared to Euros 3,804.1 million at the end of 2007 and Euros 3,187.5 million at March 31, 2008.

The change recorded during the first half is mainly attributable to the repurchase of the minority interests in Pirelli Tyre (Euros 386 million), dividends paid out (Euros 168 million), the actuarial loss on employee benefits (Euros 110 million) and the negative change in the fair value of financial assets (Euros 94 million).

Equity attributable to the equity holders of Pirelli & C. S.p.A. at the same date amounts to Euros 2,608.1 million (Euros 0.49 per share), compared to Euros 2,980.2 million (Euros 0.56 per share) at the end of 2007 and Euros 2,772.5 million (Euros 0.52 per share) at March 31, 2008.

The **net financial position** of the group at June 30, 2008 is a net debt position of Euros 823 million, with an improvement over a net debt position of Euros 851 million at March 31, 2008. The net financial position at December 31, 2007 was positive for Euros 302.1 million. The change during the first six months of 2008 can mainly be ascribed to: the effects of the repurchase of the minority interests in Pirelli Tyre; the seasonal changes in the working capital of the businesses; the payment of dividends; the purchase of Pirelli RE shares; the deconsolidation of the facility management business following the loss of control.

The number of **employees** of the group at June 30, 2008 is 31,368 (including 3,717 with temporary contracts) compared to 30,813 at December 31, 2007 (including 3,632 with temporary contracts).

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

The **net result** of Pirelli & C. S.p.A. in the first half ended June 30, 2008 is a loss of Euros 17.9 million compared to income of Euros 139 million in the first half of 2007. The first-half 2008 result was affected by the impairment loss of Euros 155.3 million recorded on the investment held directly and indirectly in Telecom Italia S.p.A..

Equity at June 30, 2008 is Euros 1,844.3 million (of which Euros 1,554.6 million relates to share capital) compared to Euros 2,076 million at the end of 2007.

SIGNIFICANT EVENTS IN THE FIRST HALF

With regard to the transaction for the reduction of share capital approved by the Pirelli & C. S.p.A. special 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 had been 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 per share price 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 per share price 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 per share price 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 each 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.

At June 30, 2008, Pirelli & C. S.p.A. holds 2,617,500 ordinary shares and 4,491,769 savings shares.

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 tyre that set the pace for traveling in style in Italy and the world starting from the mid-fifties was revisited in a new version which combines all of the very best in state-of-the art technologies, safety and ecosustainability.

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 the Settimo Torinese project.

On February 28, 2008, Pirelli RE SGR and First Atlantic RE SGR concluded the final agreement for the change in management of the fund Berenice Fondo Uffici. As part of the transfer of the fund's management, Pirelli RE SGR also sold its 5 percent holding in the fund to Zwinger Opco 6 BV, realizing a gain of Euros 5.6 million in addition to Euros 17 million recognized on the above-mentioned transfer of management, which in fact represents an advance on the fees that would have been earned in future years.

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 loan 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 was transferred to Pirelli on July 9, 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 the German Karstadt department store chain.

On April 1, 2008, a partial spin-off was effected whereby a new company of the group was established, PGT Photonics, which will operate in second-generation photonics based on nanotechnologies. This company is the result of the integration of the Pirelli Broadband Solutions S.p.A.'s photonics business unit and Pirelli Labs S.p.A.'s Optical Innovation division and its mission 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 S.p.A. will concentrate its business activities on broadband access, which increasingly involves market and technological dynamics which are different from photonics.

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 university. 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 June 3, 2008, the Pirelli Group announced a 50 percent increase in production in Egypt thanks to a new investment of U.S. dollars 65 million to expand the capacity of the radial tyre factory for trucks and buses in Alessandria. The new investment will enable this Egyptian factory to raise its annual production to one million pieces and become the largest radial tyres production facility for industrial vehicles in the entire Middle East and Africa areas.

The expansion of production capacity in Egypt is part of the strategy to increase the group’s manufacturing presence in countries that have strong market growth and are cost competitive. The initiative also strengthens Pirelli’s position in the radial truck tyre segment following the start of production in China in 2005 and the investments made at the Gravatai tyre manufacturing site in Brazil in 2006.

The Pirelli Group manufactures tyres for industrial vehicles also at Settimo Torinese (Italy), Izmit (Turkey), Feira de Santana and Santo André (Brazil).

On June 4, 2008, Pirelli & C. S.p.A. and State Corporation for Assistance to Development, Production and Export of Advanced Technology Industrial Product (“Russian Technologies”) signed a letter of intent for the start of negotiations to set up an industrial joint venture to manufacture and sell tyres for cars, light trucks and industrial vehicles, steelcord tyres and automotive filters in the territories of the Russian Federation and the Commonwealth of Independent States (CIS). Russian Technologies and Pirelli agreed to negotiate the final agreements for an exclusive period up to September 30, 2008. The letter of intent states that the venture will be jointly controlled and that Pirelli will be in charge of developing business strategy and conducting the operations of the new company. The joint venture will operate under the brand name of Pirelli.

On June 16, 2008, Pirelli & C. S.p.A. sold the remaining stake in Intek S.p.A. (6,149,354 ordinary shares equal to 1.768 percent of the company’s ordinary share capital) to Quattrodue Holding B.V. for approximately Euros 5 million. The transaction reflects the execution of the put&call agreement between the two companies sealed on January 9, 2007. As a result of this transaction, Quattrodue Holding B.V. now holds 150,174,261 Intek S.p.A. ordinary shares, equal to 43.181 percent of share capital with voting rights.

During the first six months of 2008, Pirelli & C. S.p.A. purchased 738,000 Pirelli & C. Real Estate S.p.A. shares on the market for a total of Euros 17 million, bringing its stake to 55.40 percent.

In June, a letter of intent was signed between Pirelli and CyOptics Inc. for the formation of a strategic alliance in the field of new generation integrated photonics. Negotiations continued and on July 24, 2008 the parties reached an agreement to integrate PGT Photonics S.p.A., the Pirelli Group photonics company valued at U.S. dollars 40 million including available cash, and CyOptics, a privately-held American company which is a leader in optical components based on indium phosphide technology. At the same time, Pirelli subscribed to a CyOptics capital increase with a cash contribution of U.S. dollars 20 million.

As a consequence, Pirelli has an approximate 30 percent stake in the new CyOptics that will have annual sales of about U.S. dollars 80 million.

Under the expansion program into European markets, Pirelli RE in Poland (Warsaw) focused on two important development projects. The first calls for building a residential complex which also offers commercial services in an area of about 150,000 m² on Ostrobramska street, one of the main thoroughfares of the city. The second, in the Huta district about 6 kilometers from the capital's downtown area, involves a 720,000 m² area zoned for building in which Pirelli RE has a 34 percent interest in the project under a partnership with Grove International Partners (51 percent) and the Lucchini family (15 percent through the company Lusigest).

THE GROUP

In this Half-yearly financial 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 “Half-yearly condensed consolidated financial statements” 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 half ending June 30, 2008 can be summarized as follows:

	<i>(in millions of euros)</i>		
	1st Half 2008	1 st Half 2007	Year 2007
. Net sales	2,685.3	3,192.6	6,499.9
. Net sales (excluding DGAG deconsolidation)	2,685.3	2,662.7	5,204.3
. Gross operating profit before restructuring expenses	316.8	326.5	593.9
% of net sales (excluding DGAG deconsolidation)	11.8%	12.3%	11.4%
. Operating profit before restructuring expenses	211.5	221.3	381.3
% of net sales (excluding DGAG deconsolidation)	7.9%	8.3%	7.3%
. Restructuring expenses	(21.2)	-	-
. Operating profit	190.3	221.3	381.3
% of net sales (excluding DGAG deconsolidation)	7.1%	8.3%	7.3%
. Earnings (losses) from investments	(92.4)	127.5	195.3
. Operating profit incl. earnings (losses) from investments and before restructuring expenses	119.1	348.8	576.6
. Operating profit incl. earnings (losses) from investments	97.9	348.8	576.6
. Financial income (expenses)	(26.6)	(81.2)	(137.8)
. Income taxes	(68.7)	(79.2)	(133.5)
. Income from continuing operations	2.6	188.4	305.3
% of net sales (excluding DGAG deconsolidation)	0.1%	7.1%	5.9%
. Income/(loss) from discontinued operations	(12.1)	9.9	18.3
. Total income/(loss)	(9.5)	198.3	323.6
. Income/(loss) attributable to the equity holders of Pirelli & C. S.p.A.	(36.2)	108.2	164.5
. Earnings per share (in euros)	(0.007)	0.020	0.031
. Total equity	3,002.4	4,692.3	3,804.1
. Equity attributable to the equity holders of Pirelli & C. S.p.A.	2,608.1	3,859.2	2,980.2
. Equity per share (in euros)	0.486	0.719	0.555
. Net financial (liquidity)/debt position	823.0	2,969.2	(302.1)
. Employees (number at period-end)	31,368	31,270	30,813
. Factories	24	24	24
<i>Pirelli & 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

For a more meaningful understanding of the performance of the group, the following economic data and the net financial position are presented by continuing business segment.

CONTINUING OPERATIONS (in millions of euros)	1 st Half ending 6/30/2008					TOTAL
	Tyre	Real Estate	Broadband	Other businesses	Other	
. Net sales	2,166.3	423.4	63.4	36.3	(4.1)	2,685.3
. Gross operating profit (loss) before restructuring exp.	286.5	35.3	3.6	(6.8)	(1.8)	316.8
. Operating profit (loss) before restructuring exp.	191.0	29.4	3.2	(7.4)	(4.7)	211.5
. Restructuring expenses	(5.0)	(16.2)	-	-	-	(21.2)
. Operating profit (loss)	186.0	13.2	3.2	(7.4)	(4.7)	190.3
. Earnings (losses) from investments	0.3	19.8	-	(0.5)	(112.0)	(92.4)
. Operating profit (loss) incl. earnings (losses) from investments before restructuring expenses	191.3	49.2	3.2	(7.9)	(116.7)	119.1
. Operating profit (loss) incl. earnings (losses) from investments	186.3	33.0	3.2	(7.9)	(116.7)	97.9
. Financial income (expenses)	(29.7)	(11.1)	(2.8)	(0.8)	17.8	(26.6)
. Income taxes	(54.9)	(10.5)	(0.2)	(0.1)	(3.0)	(68.7)
. Income (loss) from continuing operations	101.7	11.4	0.2	(8.8)	(101.9)	2.6
. Net financial (liquidity)/debt position	773.4	270.5	26.7	10.2	(257.8)	823.0

CONTINUING OPERATIONS (in millions of euros)	1 st Half ending 6/30/2007					TOTAL
	Tyre	Real Estate	Broadband	Other businesses	Other	
. Net sales	2,151.4	951.7	51.7	35.0	2.8	3,192.6
. Net sales (excluding DGAG)		421.8				2,662.7
. Gross operating profit (loss)	301.7	24.2	0.8	(2.8)	2.6	326.5
. Operating profit (loss) before restructuring exp.	206.3	19.5	0.3	(3.1)	(1.7)	221.3
. Operating profit (loss)	206.3	19.5	0.3	(3.1)	(1.7)	221.3
. Earnings (losses) from investments	0.4	105.9	-	-	21.2	127.5
. Operating profit (loss) incl. earnings (losses) from investments before restructuring expenses	206.7	125.4	0.3	(3.1)	19.5	348.8
. Operating profit (loss) incl. earnings (losses) from investments	206.7	125.4	0.3	(3.1)	19.5	348.8
. Financial income (expenses)	(28.3)	(23.5)	(1.0)	(0.1)	(28.3)	(81.2)
. Income taxes	(61.0)	(16.6)	-	-	(1.6)	(79.2)
. Income (loss) from continuing operations	117.4	85.3	(0.7)	(3.2)	(10.4)	188.4
. Net financial (liquidity)/debt position	695.5	1,094.8	17.9	6.3	1,154.7	2,969.2

Net sales

Net sales amount to Euros 2,685.3 million in the first half ending June 30, 2008 (net of the sales of discontinued operations), with an increase of 0.8 percent compared to the first half of 2007, net of the sales relating to the deconsolidation of DGAG's real estate assets.

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

	1st Half 2008	1st Half 2007
Pirelli Tyre	80.7%	80.7%
Pirelli Real Estate	15.8%	15.8%
Broadband Access	2.3%	1.9%
Other businesses	1.2%	1.6%
	<u>100%</u>	<u>100%</u>

A percentage breakdown of the change in net sales by business segment is as follows:

. Pirelli Tyre	+	3.0%	
. Pirelli Real Estate	+	0.4%	
. Broadband Access	+	22.6%	
. Other businesses	+	3.7%	
Total group		<u>+</u>	<u>2.7%</u>
. Foreign exchange effect		-	1.3%
. Net sales for DGAG deconsolidation		-	17.3%
Total change		<u>-</u>	<u>15.9%</u>

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

<i>(in millions of euros)</i>				
	1st Half 2008		1st Half 2007 (*)	
Europe:				
. Italy	646.4	24.08%	751.6	23.55%
. Other European countries (*)	883.3	32.89%	1,363.9	42.72%
North America	148.9	5.54%	171.3	5.36%
Central and South America	678.1	25.25%	570.2	17.86%
Oceania, Africa and Asia	328.6	12.24%	335.6	10.51%
	2,685.3	100.00%	3,192.6	100.00%

(*) The first half of 2007 included the effect of the deconsolidation of DGAG assets for Euros 529.9 million

Operating profit including earnings (losses) from investments

Operating profit including earnings (losses) from investments in the first half of 2008 is Euros 97.9 million compared to Euros 348.8 million in the first half of 2007.

The change is represented, according to the group's activities, as follows (in millions of euros):

Operating profit post-investments 1st Half 2007	348.8
. Pirelli Tyre	(15.4)
. Broadband Access	2.9
. Other businesses	(4.8)
. Pirelli Real Estate	(76.2)
. Impairment loss on Telecom Italia shares	(155.3)
. Restructuring expenses	(21.2)
. Other	19.1
	(250.9)
Operating profit post-investments 1st Half 2008	97.9

The impairment loss on Telecom Italia S.p.A. shares brings the per share amount of the investment to Euros 1.27 per share (market price at June 30, 2008).

“Other” includes Euros 21.4 million relating to the release of charges for accruals set aside when a stake in Pirelli Tyre S.p.A. was sold and now, after the repurchase of that stake, are no longer necessary.

Income

Income from continuing operations in the first half of 2008 is Euros 2.6 million compared to Euros 188.4 million in the first half of 2007.

Loss from discontinued operations is Euros 12.1 million and refers to the photonics business which is considered a discontinued operation in the first half of 2008 following the sale transaction described previously.

Total net loss in the first half of 2008 is Euros 9.5 million (net income of Euros 198.3 million in the first half of 2007).

Loss attributable to the equity holders of Pirelli & C. S.p.A. in the first half ended June 30, 2008 is Euros 36.2 million (-Euros 0.007 per share) compared to income of Euros 108.2 million in the first half ended June 30, 2007 (Euros 0.020 per share).

Equity

Equity decreased from Euros 3,804.1 million at December 31, 2007 to Euros 3,002.4 million at June 30, 2008. The change that can be summarized as follows:

	<i>(in millions of euros)</i>		
	Group	Minority interest	Total
Equity at December 31, 2007	2,980.2	823.9	3,804.1
Translation differences	(27.7)	(4.5)	(32.2)
Income (loss) for the period	(36.2)	26.7	(9.5)
Dividends paid to minority interest by :			
- Pirelli & C. S.p.A	(93.2)		(93.2)
- Pirelli Tyre S.p.A.		(35.2)	(35.2)
- Pirelli & C. Real Estate S.p.A.		(36.5)	(36.5)
- Other group companies		(3.1)	(3.1)
Speed S.p.A. acquisition		(385.8)	(385.8)
Purchase of Pirelli & C. Real Estate S.p.A. shares		(12.8)	(12.8)
Change in fair value of available-for-sale financial assets/derivatives	(99.0)	4.7	(94.3)
Net actuarial gain (loss) on employee benefits	(110.4)	0.4	(110.0)
Share capital increase in subsidiaries subscribed by minority interest		9.0	9.0
Other changes	(5.6)	7.5	1.9
Total changes	(372.1)	(429.6)	(801.7)
Equity at June 30, 2008	2,608.1	394.3	3,002.4

The equity attributable to the equity holders of Pirelli & C. S.p.A. at June 30, 2008 is equal to Euros 2,608.1 million (Euros 0.486 per share) compared to Euros 2,980.2 million at December 31, 2007 (Euros 0.555 per share).

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 823.0 million at June 30, 2008.

The change during the period can be summarized as follows:

	<i>(in millions of euros)</i>
Net financial position at December 31, 2007	302.1
Cash flows used in ordinary activities (*)	(5.4)
Financial and tax income (expenses)	(95.3)
Effect of Speed S.p.A. acquisition	(835.5)
Dividends paid to minority interest	(167.9)
Purchase of Pirelli & C. Real Estate S.p.A. shares	(17.0)
Purchase of RCS shares	(4.0)
Total changes	(1,125.1)
Net financial position at June 30, 2008	(823.0)

(*) Includes the effect of the deconsolidation of the facility management business for Euros 102.4 million.

Employees

At June 30, 2008, there are 31,368 employees (including 3,717 with temporary contracts) compared to 30,813 at December 31, 2007 (including 3,632 with temporary contracts). The increase is due to the growth of the temporary contract workforce in the tyre sector and workers employed mainly in Brazil and in the new investment areas in China and Romania.

The breakdown of employees by geographical area and business segment is as follows:

	June 30, 2008		December 31, 2007	
Geographical Area				
Europe:				
. Italy	5,587	17.81%	6,681	21.68%
. Other European countries	11,557	36.84%	10,652	34.56%
North America	261	0.83%	265	0.86%
Central and South America	11,079	35.33%	10,548	34.24%
Oceania, Africa and Asia	2,884	9.19%	2,667	8.66%
	31,368	100.00%	30,813	100.00%
Business Segment				
Tyres	28,583	91.12%	27,224	88.35%
Pirelli Real Estate	1,805	5.75%	2,682	8.70%
Pirelli Broadband Solutions	106	0.34%	94	0.31%
Other businesses	144	0.46%	95	0.31%
Other	730	2.33%	718	2.33%
	31,368	100.00%	30,813	100.00%

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FIRST HALF

On July 10, 2008, the Italian Ministry for the Environment signed an agreement with the City of Beijing to begin an experiment in the Chinese capital on the antiparticulate filter technology developed by Pirelli Eco Technology. Such filters are capable of reducing fine particle diesel engine emissions by more than 95 percent.

The agreement calls for the installation of Pirelli filtering systems on heavy vehicles (mainly buses, but also trucks and later snow ploughs and tractors) that will be supplied to the local public transport company. The first filtering systems will be installed before the start of the Olympics and the rest after the end of the summer.

On July 15, 2008, Pirelli announced a restructuring plan for the Manresa factory in order to protect its presence in Spain. In fact, for some time now, a large part of the production at the Catalan plant occurs at conditions that are not competitive. The situation is further complicated by a difficult economic and market scenario which is increasingly deteriorating. The pivotal element of the plan will consist of focusing the Manresa plant on products with a better margin and reducing articles that are manufactured at a loss. The restructuring plan calls for a reduction in production capacity and in the factory's workforce by about 30 percent by the end of 2008 and will affect approximately 280 workers.

On July 28, 2008, the Consortium formed by RREEF Alternative Investment, Pirelli RE, the Generali Group and the Borletti Group completed the acquisition of a 49 percent stake in Highstreet, an investment company that owns the properties leased to the German Karstadt department store chain. Highstreet has a portfolio consisting of 164 properties located throughout the German territory. The total gross area is 3.2 million square meters (the gross sales area is 2.1 million square meters). The enterprise value is equal to approximately Euros 4.56 billion, with approximately Euros 3.5 billion of loans secured by the properties.

On August 5, 2008, Pirelli, Russian Technologies State Corporation and the Russian region of Samara announced that they had signed an agreement as part of the negotiations currently underway between Pirelli and Russian Technologies for setting up an industrial joint venture in Russia. The new company will build a tyre plant for cars and industrial vehicles in the Togliatti area. Initial production capacity is estimated at 4.2 million tyres. The investment will amount to approximately Euros 250 million.

OUTLOOK FOR THE CURRENT YEAR

Pirelli Tyre, in light of the current market scenario and the persistence of inflationary pressure on raw materials and production costs, forecasts an operating profit before restructuring expenses in the second half substantially in line with the corresponding period of 2007, barring any further deterioration in the reference markets. Restructuring measures should also make it possible to present a more efficient structure and manufacturing base, to the benefit of future years.

Pirelli Real Estate, thanks to restructuring measures put into place and if certain negotiations currently in progress are finalized, expects to confirm a full-year operating profit including earnings (losses) from investments, before restructuring expenses, in line with that of the prior year (net of the effects of DGAG's temporary consolidation). However, in view of the persisting uncertainty in the financial markets and the deteriorating macroeconomic scenario, the company notes that the risks of not concluding certain negotiations or transactions could affect the possibility of reaching its targets.

As for **other businesses** of the group and **corporate activities**, the full-year operating result should be in line with that of 2007.

PIRELLI TYRE

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

	<i>(in millions of euros)</i>		
	1st Half 2008	1 st Half 2007	Year 2007
. Net sales	2,166.3	2,151.4	4,161.7
. Gross operating profit before restructuring expenses	286.5	301.7	548.6
% on net sales	13.2%	14.0%	13.2%
. Operating profit before restructuring expenses	191.0	206.3	358.1
% on net sales	8.8%	9.6%	8.6%
. Restructuring expenses	(5.0)		
. Operating profit	186.0	206.3	358.1
% on net sales	8.6%	9.6%	100.0%
. Earnings (losses) from investments	0.3	0.4	1.5
. Operating profit (loss) incl. earnings (losses) from investments before restructuring expenses	191.3	206.7	359.6
. Operating profit (loss) incl. earnings (losses) from investments	186.3	206.7	359.6
. Financial income (expenses)	(29.7)	(28.3)	(55.2)
. Income taxes	(54.9)	(61.0)	(93.9)
. Income	101.7	117.4	210.5
% on net sales	4.7%	5.5%	5.1%
. Net financial (liquidity)/debt position	773.4	695.5	559.6
. Employees (number at period-end)	28,583	26,876	27,224
. Factories (number)	24	24	24

Net sales reached Euros 2,166.3 million, with an increase on a like-for-like basis of 3 percent against the same period of the prior year.

Net of the exchange rate effect (a negative 2.3 percent), the growth in net sales is 0.7 percent.

The single components of the change in net sales are as follows:

• Volumes	-	1.3%
• Prices/mix	+	4.3%
Change on a like-for-like basis	+	<u>3.0%</u>
• Foreign exchange effect	-	<u>2.3%</u>
Total change	+	<u>0.7%</u>

The 3 percent growth in net sales, on a like-for-like basis, was reached notwithstanding a contraction of the North American and European markets compared to both the first quarter of 2008 and last year. This was achieved thanks to the focus on higher value segments and price management (the price/mix variance posted an increase of 4.3 percent even though the channel mix was unfavorable due to a higher growth of original equipment volumes).

The reduction of volumes in Europe and North America was only partly compensated by the growth of volumes in South America and in emerging areas (overall the volume variance on net sales was a negative 1.3 percent).

The composition of net sales by geographical area reflects this scenario (growth in South America and reductions in Europe and North America), further intensified for the U.S. dollar areas by a weakening of the currency (-15 percent compared to the prior year).

As far as the businesses are concerned, net sales recorded a growth in Motorcycle and Industrial Tyres and a decline in Car tyres.

Geographical area	1st Half 2008	1st Half 2007
Italy	10%	11%
Other European countries	37%	39%
North America	7%	8%
Central and South America	31%	27%
Oceania, Africa, Asia	15%	15%
Total	100%	100%

Product category	1st Half 2008	1st Half 2007
Car tyres	58%	60%
Truck tyres	28%	27%
Motorcycle tyres	10%	9%
Steelcord / other tyres	4%	4%
Total	100%	100%

Gross operating profit before restructuring expenses decreased 5 percent compared to the first half of 2008, amounting to Euros 286.5 million (13.2 percent of net sales), compared to Euros 301.7 million (14.0 percent of net sales) in the first half of 2007.

Operating profit before restructuring expenses is Euros 191.0 million in the first half of 2008, with the percentage of operating profit to net sales at 8.8 percent, compared to Euros 206.3 million in the first half of 2007 or 9.6 percent of net sales.

Despite the contribution by the price/mix product change and higher original equipment volumes, especially in South America, the lower sales volumes in the replacements channels in Europe and North America and particularly overall increases in the unit cost of production factors (raw materials, energy and labor) in an unfavorable market scenario, negatively influenced the result in the first half of 2008 compared to the prior year. The exchange rate effect was also negative for the results produced in the U.S. dollar areas.

Some restructuring measures were begun in Europe to more quickly combat the current scenario by strengthening the group's competitive position. This had an impact on expenses in the first half of 2008 of Euros 5.0 million.

Taking into account restructuring expenses, **operating profit** in the first half of 2008 is Euros 186.0 million compared to Euros 206.3 million in the first half of 2007.

The change in operating profit can be summarized as follows:

Operating Profit 1st Half 2007		206.3
Foreign exchange effect	(7.1)	
Prices/mix	67.5	
Volumes	(6.4)	
Production factors per unit cost	(60.8)	
Efficiencies	0.7	
Restructuring expenses	(5.0)	
Depreciation and other	(9.2)	
		(20.3)
Operating Profit 1st Half 2008		186.0

The **net result** is income of Euros 101.7 million in the first half of 2008 (after financial expenses of Euros 29.7 million and income tax expenses of Euros 54.9 million) compared to Euros 117.4 million in the first half of 2007 (after financial expenses of Euros 28.3 million and income tax expenses of Euros 61.0 million).

The **net financial position** is a net debt position of Euros 773.4 million, a decrease compared to March 2008 (Euros 843.8 million) and an increase compared to June 2007 (Euros 695.5 million). The increase from Euros 559.6 million at December 31, 2007, after the February payment of dividends by Pirelli Tyre S.p.A. to shareholders (Euros 54.9 million to Pirelli & C. S.p.A. and Euros 35.0 million to Speed S.p.A.), is principally due to seasonal factors affecting working capital.

At June 30, 2008, there are 28,583 **employees**, including 3,033 with temporary contracts and 440 temp workers. Compared to December 31, 2007 (27,224 including 2,665 with temporary contracts 816 temp workers), the number of workers increased mainly in Brazil and Turkey and in the new areas of investment in China and Romania, due to the usual seasonal factors.

Consumer Market

Net sales were reported in the first half of 2008 for Euros 1,494.3 million, with an increase of 3.1 percent compared to the prior year, at stable exchange rates (the exchange rate effect is -3.0 percent).

Net sales in the original equipment channel and the Motorcycle segment grew considerably, while in the replacements segment in Europe and North America, negative volumes mitigated the gain made by the price/mix factor. The contraction in the replacements market in Europe was 4 percent, in North America 5 percent and in the original equipment market in North America 15 percent.

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

The operating profit before restructuring expenses, equal to Euros 126.8 million, representing 8.5 percent as a percentage of sales, is Euros 22.3 million lower than in the first half of 2007. This is due to the negative trend of volumes, an unfavorable sales mix channel, only a partial recovery of the increase in production cost factors, especially raw materials, and the presence of start-up costs incurred for the Car tyre plant facilities in Romania and China.

During the first half, restructuring measures amounting to Euros 5.0 million began on the consumer line.

During the first half of the year, the following products were launched in the **Car** segment:

- on the European market, the new Pirelli Cinturato, a modern high-tech revisitation of the tyre that made history in the tyre industry. The new Cinturato, manufactured in the P4 and P6 models, is an environmentally-friendly, high-performance tyre with excellent safety features which, thanks to new technologies, makes it possible to reduce fuel consumption and harmful emissions of up to 4 percent and improve mileage (+30 percent). Furthermore, aromatic oils have been removed from the tread, in advance with the new European regulations which will come into force in 2010.

The new Cinturato, produced at the factories in Bollate (Italy), 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 such as Mercedes, Volkswagen, Fiat and Peugeot. The tyre has already received important acknowledgements from the most important specialized magazines and from the German, Swiss and Austrian Automobile Clubs, regarded as authoritative showcases for comparative tests on new car products in Central Europe;

- in the Winter segment, the new Winter Sottozero Series 2, a tyre characterized by a special, performing grip in conditions of snow and wet asphalt, which generally contributes to safe driving in winter, while ensuring driver comfort in normal conditions.

In the **Motorcycle** segment, sales in the first half increased for both the Pirelli and Metzeler brands.

In the replacements channel, significant growth was reported in Latin America.

Sales in Europe continued to grow, despite a market decline in the second quarter.

Sales were positive in the original equipment channel.

Pirelli received important homologations such as the Buell 1125 R fitted with the Diablo Corsa III, Ducati 848 with the Dragon Supercorsa Pro, KTM RC8 with the Dragon Supercorsa Pro and KTM Super Duke with the Diablo Corsa III. For Metzeler there were important homologations with the BMW HP2 Sport with the Racetec, BMW HP2 Megamoto with the M3, and Triumph Speed Triple with the M3.

There were positive results in the racing scene. In mid-July, the promoter of the World Superbike Championship announced that Pirelli had won the bid to be the official tyre supplier for the World Championships for the next three years 2010-2012.

In off-road, Pirelli also led the field in the MX2 category of the Motocross World Championship in Europe, and kept a firm hold on the first five places in the MX1 class. In South America, Pirelli came first in the prestigious Rally dos Sertões in Brazil.

In North America, Pirelli achieved great results at the Daytona 200, where it conquered the first six places of the category. Metzeler dominated the Enduro World Championship in all classes. Significant results were also achieved in Road Racing in the National European and Extra-European Championships, not only in terms of victories but also in demonstrating reliability and management skills in the series for which it is the sole supplier.

Industrial market

In the industrial market, net sales amount to Euros 672.0 million, with an increase of 2.5 percent compared to the same period of 2007 at stable exchange rates (exchange rate effect -0.6 percent).

The operating profit is Euros 64.2 million. As a percentage of sales, this represents 9.6 percent, an increase of Euros 7.0 million (+12 percent) compared to the prior year.

Tyre sales for **Industrial Vehicles** increased dramatically both in Latin America and in emerging markets, ensuring full production capacity, despite a reduction of the market in Europe which has become more marked in recent months (-9 percent in the replacements market in Europe).

Steelcord products closed the first half with sales in line with those of the prior year.

Outlook for the current year

In a market context where problems became more accentuated in the second quarter in terms of demand in mature markets, and in which the costs of raw materials and energy are constantly rising, Pirelli Tyre commenced restructuring measures as part of the continuous process to raise efficiency and improve its competitive position.

On July 15, 2008, Pirelli announced a restructuring plan for the Manresa factory in order to protect its presence in Spain. In fact, for some time now, a large part of the production at the Catalan plant occurs at conditions that are not competitive. The situation is further complicated by a difficult economic and market scenario which is increasingly deteriorating.

The pivotal element of the plan will consist of focusing the Manresa plant on products with a better margin and reducing articles that are manufactured at a loss. The restructuring plan calls for a reduction in production capacity and in the factory's workforce by about 30 percent by the end of 2008 and will affect approximately 280 workers.

In light of the current market scenario and the persistence of inflationary pressure on raw materials and production costs, Pirelli Tyre forecasts an operating profit before restructuring expenses in the second half substantially in line with the corresponding period of 2007, barring any further deterioration in the reference markets. Restructuring measures should also make it possible to present a more efficient structure and manufacturing base, to the benefit of future years

PIRELLI & C. REAL ESTATE

Pirelli Real Estate is an Alternative Fund & Asset manager, which manages investment funds and companies that own real estate and non-performing loans in which it co-invests by acquiring minority stakes, aligning its own interests to those of investors.

The assets under management, including the acquisition of “Highstreet” (the investment company which holds property leased to the German Karstadt department store chain) concluded on July 28, 2008, amount to Euros 18.7 billion. This is an increase of 25 percent compared to Euros 15 billion at December 2007, placing Pirelli RE among the major asset managers in Continental Europe. Pirelli RE’s average minority stake in holdings is 25 percent.

The assets under management are composed of Euros 16.5 billion of real estate and development projects and Euros 2.2 billion of non-performing loans. The development projects, valued in the company’s real estate portfolio at approximately Euros 1.2 billion by independent real estate appraisers, are estimated to be worth more than Euros 5.3 billion when finished.

As a result of the acquisition of Highstreet, the real estate assets managed abroad now account for 50 percent of the total and the remaining part in Italy is managed through real estate investment funds for 75 percent of the total.

Economic and equity/financial review

The economic and equity/financial review of the company in the first half of 2008 is presented below.

It should be noted that the share of aggregate revenues and the operating profit including earnings (losses) from investments are considered to be the most important indicators of the group's performance, expressing, respectively, business volumes and trend of earnings.

Economic review

(in millions of euros)

	1 st Half 2008	1 st Half 2007 net of DGAG's temporary consolidation	1 st Half 2007
Share of aggregate revenues (1)	681.3	745.5	811.9
Consolidated revenues (1)	423.4	355.4	421.8
Operating profit before restructuring expenses	29.4	(0.2)	19.5
Earnings (losses) from investments	14.1	56.6	56.6
Positive change in the fair value of real estate	5.7	49.3	49.3
Operating profit including earnings from investments before restructuring expenses	49.2	105.7	125.4
Restructuring expenses	(16.2)	-	-
Operating profit including earnings from investments (2)	33.0	105.7	125.4
Income attributable to the equity holders of the company	9.0	87.5	80.1

(1) The share of aggregate revenues expresses 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. The amount for the first half of 2008 is presented net of sales at cost, for the sale of the interests, of the real estate properties of DGAG to the joint venture with RREEF and MSREF for Euros 529.9 million.

(2) Operating profit including earnings (losses) from investments comprises the operating profit (Euros 13.2 million) in addition to the share of the earnings of the companies accounted for by the equity method (Euros 13.8 million), dividends from real estate investment funds (Euros 0.5 million), and the gain realized on the sale of the shares of real estate investment funds (Euros 5.6 million).

Equity and Financial Review

(in millions of euros)	June 30, 2008	December 31, 2007
Equity	657.1	720.1
<i>. of which attributable to the equity holders of the company</i>	<i>650.1</i>	<i>715.7</i>
Net financial (liquidity)/debt position	270.5	289.7
Shareholder loans	539.3	526.4
Net financial (liquidity)/debt position gross of shareholder loans	809.8	816.1
Gearing ratio	1.23	1.13

Pirelli RE's real estate activities during the first half of 2008 generated an operating profit, allowing the company to pursue its strategies and sustain the costs necessary for the restructuring plan currently in progress, announced on May 8, 2008.

The **share of aggregate revenues** amounts to Euros 681.3 million compared to Euros 745.5 million in the first half of 2007, net of the effects of DGAG's temporary consolidation.

Operating profit including earnings from investments before restructuring expenses of Euros 16.2 million for the current year, is Euros 49.2 million compared to Euros 105.7 million in the first half of 2007 (net of the effects of DGAG's temporary consolidation). Excluding the positive change in the fair value of real estate properties, operating profit including earnings (losses) from investments is Euros 43.5 million compared to Euros 56.4 million in the first half of 2007.

Note should be taken of the fact that in the first half of 2007 operating profit included Euros 42.0 million from the gain on the sale of the 49 percent stake in Pirelli RE Facility Management B.V.

During the first half of 2008, the company began a restructuring plan to reduce expenses by approximately Euros 25-30 million in 2009 and Euros 35-40 million in 2010. The plan will be completely operational in 2010: during the first half, an initial expense of the plan amounted to Euros 16.2 million

Operating profit including earnings (losses) from investments including restructuring expenses amounts to Euros 33.0 million compared to Euros 105.7 million in the first half of 2007 net of the effects of DGAG's temporary consolidation.

Income attributable to the equity holders of the company is Euros 9.0 million in the first half of 2008, compared to Euros 80.1 million in the first six months of the prior year.

Equity attributable to the equity holders of the company amounts to Euros 650.1 million (Euros 712.0 million at March 31, 2008 and Euros 715.7 million at December 2007). The reduction of Euros 65.6 million is basically attributable to the effect of the payment of dividends (Euros 85.1 million) which is offset in part by income for the period and other positive changes.

The **net financial position** shows a net debt position of Euros 270.5 million at June 30, 2008. This is an improvement compared to Euros 300.3 million at March 31, 2008 and 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 809.8 million (Euros 807.8 million at March 31, 2008 and Euros 816.1 million at December 31, 2007).

The ratio of the net financial position, gross of shareholder loans, to equity (the **gearing** ratio) is 1.23 compared to 1.13 at both March 31, 2008 and December 31, 2007 as a result of the reduction in equity following the payment of dividends.

Net cash flows are positive for Euros 19.2 million compared to negative cash flows for Euros 10.6 million at March 31, 2008 and for Euros 109.4 million at June 30, 2007 (net of the effects of DGAG's temporary consolidation).

Performance of Pirelli RE's major business segments

Capital activities

The net asset value of real estate at June 30, 2008, given by the difference between the market value measurement of investments and managed assets, carried out by independent appraisers, and the net financial position, excluding the Highstreet portfolio purchased on July 28, 2008, is equal to Euros 1 billion. The core-core plus portfolio is measured at fair value and the trading portfolio includes an unrealized gain of approximately Euros 330 million.

Capital activities generated operating profit including earnings (losses) of investments, before restructuring expenses, of Euros 35.3 million compared to Euros 58.6 million in the first half of 2007 (net of the effects of DGAG's temporary consolidation). Excluding the positive change in the fair value of real estate, the operating profit including earnings (losses) of investments, before restructuring expenses, is Euros 29.6 million compared to Euros 9.3 million in the first half of 2007.

Sales of real estate in the first half of 2008 amount to Euros 527.6 million (Euros 1,116.8 million in the first half of 2007). Collections on non-performing loans total Euros 235.0 million (Euros 238.0 million in the first half of 2007). Acquisitions of real estate and non-performing loans amount to Euros 298.3 million compared to Euros 628.0 million in the same period of the prior year. It should be noted that the Highstreet investment portfolio was purchased after the close of the first half and is leased to the German Karstadt department store chain and valued at Euros 4,560 million.

Management activities

Management activities overall generated a share of aggregate revenues in the first half of 2008 of Euros 404.8 million compared to Euros 349.1 million in the first half of 2007. Revenues in the current period include Euros 17 million of consideration recognized on the sale of the management of the Fondo Berenice fund. This, in effect, represents an advance on what would have been earned in fees in future years.

Management activities generated operating profit including earnings (losses) of investments, before restructuring expenses, of Euros 28.6 million compared to Euros 23.3 million in the first half of 2007.

Operating profit including earnings (losses) of investments, also including restructuring expenses (equal to Euros 15.3 million), is Euros 13.3 million compared to Euros 23.3 million in the first half of 2007.

Performance of Pirelli RE's divisions

In the **Residential Division**, the share of aggregate revenues in the first half of 2008 amounts to Euros 171.2 million (Euros 177.2 million in the first half of 2007, net of DGAG's temporary consolidation). These revenues are composed of Euros 129.8 million from capital activities (Euros 139.5 million in the first half of 2007) and Euros 41.4 million from asset management and services fees (Euros 37.7 million in the first half of 2007). The operating result including earnings (losses) of investments, before restructuring expenses, is a loss of Euros 0.4 million in the first half of 2008 compared to a loss of Euros 1.6 million in the first half of 2007.

In the **Commercial Division (offices, retail and industry)** the share of aggregate revenues amounts to Euros 243.2 million in the first half of 2008 (Euros 343.5 million in the first half of 2007 net of DGAG's temporary consolidation). These revenues are composed of Euros 162.5 million from capital activities (Euros 263.4 million in the first half of 2007) Euros 80.9 million from asset management and services fees (Euros 80.1 million in the first half of 2007). The operating profit including earnings (losses) of investments, before restructuring expenses, is Euros 40.4 million in the first half of 2008 compared to an operating profit of Euros 67.0 million in the first half of 2007. Excluding the positive change in the fair value of real estate this result would be Euros 34.7 million compared to Euros 17.7 million in the first half of 2007.

The **Non-performing Loans Division** posted a share of aggregate revenues of Euros 21.4 million in the first half of 2008 (Euros 23.2 million in the first half of 2007). The operating profit including earnings (losses) of investments is Euros 13.9 million in the first half of 2008 and grew from Euros 9.0 million in the first half of 2007.

Integrated Facility Management records a share of aggregate revenues from third parties of Euros 264.5 million in the first half of 2008 which grew from Euros 209.2 million in the first half of 2007. The operating profit including earnings (losses) of investments increased to Euros 9.7 million in the first half of 2008 from Euros 7.5 million in the first half of 2007 (this amount does not take into account the gain of Euros 42.0 million realized on the sale of Pirelli RE Facility).

Outlook for the current year

Thanks to restructuring measures put into place and if certain negotiations currently in progress are finalized, the company expects to confirm a full-year 2008 operating profit including earnings (losses) from investments, before restructuring expenses, in line with that of the prior year (net of the effects of DGAG's temporary consolidation).

However, in view of the persisting uncertainty in the financial markets and the deteriorating macroeconomic scenario, the company notes that the risks of not concluding certain negotiations or transactions could affect the possibility of reaching its targets.

BROADBAND ACCESS

As already described, in June 2008, a letter of intent was signed between Pirelli and CyOptics Inc. for the formation of a strategic alliance in the field of new generation integrated photonics. Negotiations continued and on July 24, 2008 the parties reached an agreement to integrate PGT Photonics, the Pirelli Group photonics company valued at approximately U.S. dollars 40 million including available cash, and CyOptics, a privately-held American leader in optical components based on indium phosphide technology. At the same time, Pirelli subscribed to a CyOptics capital increase with a cash contribution of U.S. dollars 20 million. Following the transaction, Pirelli holds an approximate 30 percent stake in the new CyOptics that will have annual sales of about U.S. dollars 80 million.

The transaction led to the deconsolidation of the photonics business which has been considered as a discontinued operation in accordance with IFRS. Accordingly, it will only contribute to the result for the period after taxes. Therefore, the broadband access sector now only refers to access activities.

The highlights in the first half of 2008 can be summarized as follows:

	<i>(in millions of euros)</i>		
	1st Half 2008	1 st Half 2007	Year 2007
. Net sales	63.4	51.7	112.5
. Gross operating profit	3.6	0.8	1.9
. Operating profit	3.2	0.3	0.9
. Operating loss incl. earnings (losses) from investments	3.2	0.3	0.9
. Financial income (expenses)	(2.8)	(1.0)	(3.5)
. Income taxes	(0.2)	-	-
. Income (loss)	0.2	(0.7)	(2.6)
. Employees (number at period-end)	106	85	94

Net sales in the six months ending June 30, 2008 amount to Euros 63.4 million compared to Euros 51.7 million in the first half of 2007, an increase of 23 percent.

Operating profit is Euros 3.2 million, increasing from Euros 0.3 million in the corresponding period of the prior year.

Income in the first half of 2008 is Euros 0.2 million (after financial expenses and income tax expenses of Euros 3.0 million) compared to a loss of Euros 0.7 million (after financial expenses and income tax expenses of Euros 1.0 million) in the first half of 2007.

At June 30, 2008, there are 106 **employees**, 12 more than at December 31, 2007.

During the first half of the year the corporate portfolio grew further and was consolidated and now consists of six product lines: Residential Access Gateways, Small Business Gateways, Set-top Boxes, Extenders (products for implementing domestic broadband networks), Terminals (mobile and combined fixed-mobile convergence broadband solutions) and PMP (Pirelli Management Platform, a remote software platform for device management).

In the **Residential Access Gateways** line, the qualification process was completed for the new product for Telecom Italia, which, for the first time, is introducing VOIP (Voice Over IP) functions for Italy's leading operator company. The same platform has successfully been used for the expansion and supply of foreign operators.

The qualification process was completed for the VDSL2 Access gateway, the top-notch technology in terms of copper access. The qualification process was started at Telecom Italia for an optical termination (GPON – Gigabit Passive Optical Network) which – in future – should become the access technology for the new generation of optical networks. The new technology will make it possible to deliver ever-higher band capacity to final users, able to sustain the demand for video with high-definition content on the one hand and high-speed Internet access on the other.

With regard to the new line of **Small Business Gateways**, towards the end of the first half, the qualification process was begun for the new product, also using ISDN technology.

In the **Set-top Box** line, the model with a rigid disk was successfully certified at Alcatel-Lucent Madrid. Set-top Boxes with hard disks were supplied in the field to the German operator Arcor.

In addition, the alliance with Alcatel-Lucent was consolidated for the development of IP-TV solutions.

The **Extenders** line offers solutions associated with the whole range of products in the portfolio. During the first half, it was enhanced by products based on power line technology using the 802.11n wireless networking standard, which were tested under various conditions at leading European operators.

In the sphere of **Terminals**, development continued to improve the new-generation dual-mode (GPRS and Wi-Fi) phone based on Windows Mobile 6.1 technology, seen as a product qualifying for new applications and services.

In addition to dual-mode phones, the portfolio offering is being expanded to encompass fixed-mobile convergence technology, allowing Pirelli to offer solutions integrated with the access gateways line in which operators have shown great interest in recent months.

Moreover, again with regard to the fixed-mobile convergence technology mentioned above, Pirelli Broadband Solutions has become a member of Femtoforum, a special international organization for femtocells, a technology that will encourage the development of third-generation broadband communications in domestic environments.

Thanks partly to an agreement signed with Nokia-Siemens in the first half of the year, PBS can now be regarded as an expert, competitive player in the new market scenarios which are likely to emerge in the near future.

PMP, software used for controlling terminals in the networks, continues as an open platform on which to pursue both the implementation of “standard” functions as a component of the remote control of equipment and the integration of new value-added services (localization, e-payment etc.).

Outlook for the current year

The current year shows the company concentrating its efforts mainly on consolidating the Access Gateways line, supported by introducing the new VDSL2 technology, the launching of fixed-mobile convergence technology for applications associated with femtocells, increasing volumes in the Set-top Box line by completing the IP-TV optical product range, and developing the Small Business line with a modular product capable of supporting various configurations of service models.

From the point of view of geographical positioning, in addition to strengthening its presence in Europe, business continues to expand in emerging markets, especially in South America and Russia.

These development lines should enable the company to continue the good performance recorded in the first half for the rest of the year and to preserve business profits despite the constant trend of price erosion now affecting the reference market.

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) reported **net sales** of Euros 36.3 million in the first half of 2008, up from the first half of 2007 (Euros 35.0 million).

The **operating loss** of Euros 7.4 million (Euros 3.1 million in the first half of 2007), was particularly affected by the start-up costs for the new manufacturing and marketing activities of anti-particulate filters.

At June 30, 2008, there are 144 **employees** compared to 95 at December 31, 2007.

Net 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 half, the marketing of filters commenced for heavy vehicles in certain European countries. In addition, during the period, building work continued on the new anti-particulate filter production plant in Gorj county in Romania which will become operational in the second half of the year.

Activities are also moving forward for the production of renewable energy from solid waste with the high-quality fuel CDR-Q and the development of the business thanks to the new company A.P.I.C.E, a joint venture with ACEA. In the photovoltaic sector, activities were begun to build the first plants for the production of electrical energy; in the environmental reclamation sector, activities continued to reclaim land and factories and activities were consolidated in the field of energy certification for buildings.

HALF-YEARLY CORPORATE GOVERNANCE REPORT

Pirelli & C. has adhered to the Self Regulatory Code by Borsa Italiana, the Italian Stock Exchange, (published in July 2002), since its first issue, and in the Board meeting of 12 March 2007 it formalised its adhesion to the new self-regulatory code for listed companies (published in March 2006)

Awareness of the important role played by the Company's *corporate governance* system in meeting the targets of value creation for all shareholders, and for the sustainable development of the business, prompts the Company itself to maintain its corporate governance system constantly in line both with ongoing regulatory developments and with Italian and international *best practice*.

The Company adopts the traditional administration and control model based on the centrality of the Board of Directors, the presence of correct *disclosure* practice concerning the choices and the processes by which company decisions are made, on an effective internal control system, on an effective regulation of potential conflicts of interest, as well as on rigorous rules for the conduct of transactions with related parties.

The system of *governance* is documented in the Code of Ethics, in the Company Bylaws, in the Regulations regarding shareholders' meetings, and in a series of principles, rules and procedures, periodically updated to reflect regulatory changes, that are available on the website of the Company at www.pirelli.com under the section dedicated to the *Governance*, and in the policies and guidance of the Board of Directors.

In this half-yearly report, the Company intends to highlight the main updates and additions made during the current year and up to the date of this report to its corporate governance system since the last annual report.

Structure of the share capital

The Share capital is divided into ordinary shares and savings shares; the table below shows its exact composition.

	N°. of shares	% of share capital	Listing
Ordinary shares*	5,233,142,003	97.49%	Listed on the MTA (Mercato Telematico Telematic Stock Market) organised and managed by Borsa Italiana S.p.A. – Blue Chip segment
Savings shares**	134,764, 429	2.51%	Listed on the MTA (Mercato Telematico Telematic Stock Market) organised and managed by Borsa Italiana S.p.A. – Blue Chip segment

* Identification code ISIN IT0000072725

* Identification code ISIN IT0000072733

At the date of this report, the share capital of Pirelli & C S.p.A. totals Euro 1,556,692,865.28, consisting of 5,367,906,432 shares of 0.29 euros par value, of which 5,233,142,003 ordinary shares and 134,764,429 non-convertible savings shares.

The share capital may be increased up to a maximum of Euro 1,572,418,361.78 par value by the issue of a maximum of 54,225,850 ordinary shares of 0.29 euros par value each, at a price of 0.996 euros each, of which Euro 0.706 as share price premium, against the possible exercising of the options granted to managers and executives of the company, its subsidiaries and the companies controlled by these latter as part of the stock option plans called “Pirelli to People” and “Group Senior Executives”, already deliberated by the merged company Pirelli S.p.A. in 2001.

So far as the Company is aware, there are no subjects who could exercise control over it pursuant to article 93 of Legislative Decree no. 58 of 24 February 1998 (the Testo Unico della Finanza, or consolidated Financial Services Act – hereafter the FSA.).

Participants in the “Pirelli & C. S.p.A. Block Share Syndicate”, the purpose of which is to ensure Pirelli & C. share structure stability, and an excerpt of the relevant agreement are available on the website of the Company at www.pirelli.com.

Authorisations to purchase own shares

In its meeting on 9 May 2008, the Board of Directors, implementing the authorisation received from the Shareholder’s Meeting held on 29 April 2008, approved a programme to purchase its own shares, the principles and characteristics of which have been reported to the market¹.

At the date of this Report, the Company holds 2,617,500 of its own ordinary shares and

4,491,769 of its own savings shares.

COMPANY BYLAWS

As communicated in the Annual Corporate Governance Report for 2007, a Shareholders’ Meeting held on 29 April 2008 approved – in its extraordinary session - some changes to the Company Bylaws.

The current text of the Company Bylaws is available on the company website www.pirelli.com.

Shareholders Meetings

The Shareholders’ Meeting approved the modification of article 7 of the company bylaws, to incorporate the variations made to the FSA by Legislative Decree no. 195 of 6 November 2007, incorporating directive 2004/109/EC concerning the harmonisation of the requirements for transparency in information on issuer whose securities are traded in a regulated market. Specifically, listed companies may no longer benefit from the possibility envisaged in subsection two of article 2364 of the

¹ Press release issued on 9 May 2008 available on the company internet website www.pirelli.com Media section.

Civil Code to derogate from the period of one hundred and twenty days for the approval of the financial statements by the Shareholders' Meeting.

Appointment and replacement of directors

The Shareholders' Meeting also approved some additions to the provisions concerning the election of the Board of Directors, ensuring that, if the voting slate mechanism does not assure the minimum number of independent directors, the non-independent candidate elected with the highest progressive number of votes on the slate with the highest number of votes should be replaced by the unelected independent candidate from the same slate according to the progressive order of presentation and so on, slate by slate, until the minimum number of independent directors has been achieved.

The Board of Statutory Auditors

Finally, some changes were made on the subject of the election of members of the Board of Statutory Auditors, to refine and clarify the text of the bylaws and to take into account the changes made to Article 144-sexies, subsection 5 of the Issuer Regulations approved by Consob under Resolution no. 11971 of 1999.

MANAGEMENT AND CO-ORDINATION ACTIVITIES

It should be noted that, in its meeting on 29 April 2008, the Board of Directors confirmed that, while the Company - pursuant to article 2359 of the Civil Code - controls Pirelli & C. Real Estate S.p.A., a company listed on the Milan stock exchange, and consolidates its results, it does not exercise direction and coordination activities over it, since, as reported in the Annual Corporate Governance Report for 2007, there is no evidence to show that it has any effective impact on the management of this subsidiary.

BOARD OF DIRECTORS

The Board of Directors plays a central role in the *corporate governance* system of the Company, and holds the power (and the obligation) to guide the activities of the Company, pursuing the final and primary objective of creating value for its shareholders.

In fact, pursuant to the Bylaws, the Board manages the business and is invested for this purpose with the widest administrative powers, excepting those which according to the law and the bylaws themselves are held by the Shareholders' Meeting.

The Board of Directors of the Company, as established by the bylaws, consists of no less than seven and no more than twenty-three members, who serve for three years (unless a lesser period is specified by the shareholders' meeting upon their appointment) and may be re-appointed.

The mandate of the Board of Directors appointed by the shareholders' meeting of 28 April 2005 ended on approval of the financial reports for the year ending 31 December 2007.

In its meeting on 29 April 2008, the Shareholders' Meeting decided that the new Board of Directors shall be composed of 20 directors and shall serve for three years, to expire at the shareholders' meeting called to approve the financial reports for the year ending 31 December 2010.

With the methods and within the terms specified in article 10 of the Company Bylaws, and in accordance with the recommendation of the Self Regulatory Code of the Italian stock exchange, two slates were presented to the shareholders' meeting held on 29 April 2008: one from the participants in the Pirelli & C. Share Block Syndicate and another one from a group of institutional investors. Those proposing the slates made the candidates' profiles available so that the candidates' personal and professional characteristics, as well as some candidates' qualifications as independents, were made known prior to voting. The *curricula vitae* presented when the slates were filed were promptly published on the *Governance* section of the company website, www.pirelli.com.

To respect the best national and international corporate governance practice, the Company allowed the shareholders to vote separately on the following matters when the Board of Directors of the company was being renewed: (i) the determination of the number of directors, (ii) the appointment of directors by voting on the slates presented (iii) the determination of the duration for which the Board of Directors should serve, and (iv) the determination of the remuneration due to directors.

By voting on a slate the minority shareholders were able to nominate four directors, i.e. one fifth of the total number (specifically, Carlo Angelici, Cristiano Antonelli, Franco Bruni and Umberto Paolucci).

The current composition of the Board of Directors, in addition to being reported at the beginning of the publication containing this Half-yearly Corporate Governance report, is also available in the *Governance* section of the Company website www.pirelli.com.

Corporate Governance Tools

It is appropriate to report that the Board of Directors, in the first meeting it held after its appointment, confirmed the validity and applicability of the principal tools of Corporate Governance adopted by the company, as reported at the end of the Annual Corporate Governance Report for 2007 and/or on the company website www.pirelli.com, and specifically:

- Organisational Model 231/2001;
- “Policy of the Board of Directors on the maximum number of appointments considered compatible with effective service as a director of the Company”;
- “Procedure for Information Flows to Directors and Auditors”;
- “Rules of Conduct for Transactions with Related Parties”;
- “Procedure for the Management and Public Disclosure of Inside Information”;
- “Insider dealing – black out periods”.

The Board also confirmed that, without prejudice to the responsibilities and powers reserved to it by law, the bylaws, the balance of delegated powers and internal procedures, it is the right of the Board of Directors to approve certain non intragroup transactions (determined on the basis of further qualitative criteria and further quantitative thresholds) in advance, when undertaken by Pirelli & C. or companies, including unlisted and foreign companies, that are subject to the direction and control of Pirelli & C..

DELEGATED BODIES

Chairman

After its renewal, the Board of Directors confirmed Marco Tronchetti Provera as Chairman of the Board of Directors.

The Chairman is recognised as the legal representative of the Company, empowered to perform any action pertinent to corporate activity in its various manifestations.

The Board of Directors has identified the limits to the powers it confers, which have been defined as the inner limits of the relationship between the delegating body of the Board and the subject with delegated powers. In particular, the following inner limits have been identified for the Chairman: the power to guarantee Company and subsidiary bonds having individual values of more than 25 million euros, or for third parties regarding bonds with individual values of more than 10 million euros (in the latter cases another General Manager must co-sign with the Chairman);

Furthermore, the Board confirmed that the Chairman, Marco Tronchetti Provera, should exercise the following organizational functions:

- relations with shareholders and the information provided to them;
- formulation of the general strategies and development policy for the Company and the Group together with extraordinary corporate actions to be submitted to the Board of Directors;
- proposals for the appointment of General Managers and, after consulting the Remuneration Committee, for their remuneration, to be submitted to the Board of Directors;

- chairmanship of the management committees with strategic functions;
- coordination of the activities of Managing Directors, where appointed;
- all forms of communication to the market, with the right to delegate to the managing directors, where appointed.

-

OTHER EXECUTIVE DIRECTORS

After its renewal, and in coherence with the previous mandate, the Board of Directors considered the two Vice-Chairmen, Carlo Alessandro Puri Negri and Alberto Pirelli, as executive directors, in addition to the Chairman of the Board of Directors, Marco Tronchetti Provera, also in relation to the offices they hold in some of the major subsidiary companies.

NON-EXECUTIVE DIRECTORS AND INDEPENDENT DIRECTORS

The Board of Directors of the Company determined that, on the basis of the information provided by the Directors and that available to the Company, eleven directors who were qualified as independent-(Carlo Acutis; Carlo Angelici; Cristiano Antonelli, Alberto Bombassei, Franco Bruni, Luigi Campiglio, Berardino Libonati, Umberto Paolucci, Giampiero Pesenti, Luigi Roth e Carlo Secchi), upon their appointment have the requisites for independence specified in the Self Regulatory Code and the FSA. A further six Board members (Gilberto Benetton, Enrico Tommaso Cucchian, Giulia Maria Ligresti, Massimo Moratti, Renato Pagliaro and Giovanni Perissinotto) could be qualified as non-executive directors. It follows that the percentage of independent directors on the Board as currently composed is 55%. In accordance with the recommendations of the Self Regulatory Code, the Board of Statutory Auditors has checked that the criteria and ascertainment procedures adopted by the Board to assess the independence of its members have been correctly applied.

LEAD INDEPENDENT DIRECTOR

After the renewal of the board, the designation of Carlo Secchi, the Chairman of the Committee for Internal Control and *Corporate Governance*, as *Lead Independent Director*, the point of reference and coordination for the requests and contributions of the independent Directors, has been confirmed. The rights of the *Lead Independent Director* include the right to convene - on his own initiative or upon the request of other Directors – specific meetings solely for independent Directors in order to discuss subjects occasionally felt to be of interest to the functioning of the Board of Directors or to the management of the company. And last but not least, it should be noted that the *Lead Independent Director* works with the Chairman of the Board of Directors for the better functioning of the Board of Directors.

BOARD COMMITTEES

In its meeting on 29 April 2008, the Board of Directors confirmed the institution of two subcommittees: the Internal Control and *Corporate Governance* Committee and the Remuneration Committee.

The Board gave the Committee for Internal Control and *Corporate Governance* the power to identify candidates to propose to the Board in the event that an independent Director is replaced pursuant to article 2386, subsection 1 of the Civil Code.

REMUNERATION COMMITTEE

In full compliance also with the provisions of the Self Regulatory Code, the Remuneration Committee, appointed by the Board of Directors in its meeting on 29 April 2008, is composed solely of independent Directors:

- Berardino Libonati (Chairman);
- Alberto Bombassei;
- Giampiero Pesenti.

The Secretary to the Board of Directors acts as Secretary to this Committee.

The Board of Directors confirmed the investigation and consultation functions of the Remuneration Committee attributed to it in the preceding mandate, as specified in the Self Regulatory Code.

REMUNERATION OF DIRECTORS

In addition to reimbursement for expenses incurred in performing their duties, Directors are entitled to annual fees determined by the shareholders' meeting.

The meeting of 29 April 2009 confirmed the maximum of 1,200,000 euros as the total annual compensation of the Board of Directors pursuant to Art. 2389, subsection 1, of the Civil Code, said amount to be distributed among its members in accordance with the decisions taken in this regard by the Board.

At the same meeting, on 29 April 2008, the Board of Directors established the distribution of the fee as follows:

- 50,000 euros per annum for each of the members of the Board of Directors;
- 25,000 euros per annum for each of the members of the Committee for Internal Control and *Corporate Governance*;
- 20,000 euros per annum for each of the members of the Remuneration Committee,

reserving the right to use the residual amount (65,000 euros) in the future, to give the Board a margin of organizational flexibility, including for the adoption of any new *governance* solutions.

A fee 15,000 euros per annum is also made to the Board member called on to be a member of the Supervisory Body as per legislative decree no. 231/2001 (Carlo Secchi).

The remuneration for directors given particular tasks is established by the Board of Directors, upon consultation with the Board of Statutory Auditors, as proposed by the Remuneration Committee. The current remuneration system provides for payments to comprise a fixed amount and an additional bonus linked to the performance of the Group, and to be related to the attainment of specific objectives set by the Board

THE COMMITTEE FOR INTERNAL CONTROL AND *CORPORATE* *GOVERNANCE*

In line with best practices and in full compliance with the recommendations in the Self Regulatory Code, the Board of Directors in its meeting on 29 April 2008 appointed the following exclusively independent Directors as members of the Committee:

- Carlo Secchi (Chairman);
- Carlo Angelici;
- Franco Bruni

two of whom ², as ascertained by the Board of Directors that appointed them, possess adequate accounting and financial experience.

The Secretary to the Board of Directors acts as Secretary to this Committee.

Similarly to the Remunerations Committee, the Board of Directors determined the tasks required of the Committee for Internal Control and Corporate Governance in line with those specified in the Self-Regulatory Code, and also provided that the Committee should continue to maintain the *corporate governance* prerogatives that have characterised it since its establishment.

² Specifically, Mr Bruni and Mr Secchi.

INTERNAL CONTROL SYSTEM

Executive director responsible for the internal control system and Internal Control Officer

After its renewal, the Board of Directors confirmed the Chairman of the Board of Directors as the executive director responsible for the Internal Control system charged with supervising the operation of the internal control system, attributing to him responsibilities in line with the recommendations of the Self Regulatory Code of the Italian stock exchange.

As proposed by the executive director responsible for supervising the operation of the internal control system, with the approval of the Committee for Internal Control and *Corporate Governance* and in accordance with *best practice*, the Board of Directors confirmed the head of the Internal Audit Department (Maurizio Bonzi) as internal control officer, who reports to the Committee for Internal Control and *Corporate Governance* and the Board of Statutory Auditors and hierarchically refers to the Chairman of the Board of Directors.

Organizational Model (ex. Legislative Decree 231/2001)

In its meeting held on 29 April 2008, the Board of Directors appointed the Supervisory Body, the mandate of which had ended with that of the Board of Directors that had appointed it (approval of the financial reports for the financial year ended 31 December 2007).

The Board of Directors, in confirming the attribution to the Supervisory Body of the tasks and powers established in the Company Organisational Model, and in attributing to it full economic and organisational independence, not subject to limits of expenditure, appointed Carlo Secchi, the *Lead Independent Director* and Chairman of the Committee for Internal Control and *Corporate Governance*, Paolo Sfamini, a member of the Board of Statutory Auditors, and Maurizio Bonzi, head of the Internal Audit Department and internal control officer in accordance with the structure specified in the Organisational Model, for the duration of the mandate of

the Board of Directors as members of the Supervisory Body. Carlo Secchi was confirmed as Chairman of the Supervisory Body. Each member of the Statutory Body was awarded a net fee of 15,000 euros net per annum.

It is considered appropriate to give an account of the development of the court case that implicated two ex-heads of the Security Department of the Company, to which reference was made in the Annual Corporate Governance Report for 2007. In particular, it should be noted that the Company has received formal notice that the investigations concerning the pending case before the Milan Criminal Court relating to the activities of the *Security* department (Case no. 30382/03) have been concluded.

Pirelli & C. has taken note of its formal inclusion in the register of investigated persons based on legislative decree 231/2001, and of the fact that it is at the same time an injured party in the same case.

The Company will continue to collaborate with the legal authorities, as in the earlier preliminary investigations, and is certain that it will be able to define its position in this case, and proceed to bring a civil action in the criminal proceedings.

The Committee for Internal Control and *Corporate Governance*, the Supervisory Body and the Board of Statutory Auditors were promptly informed of the circumstance.

External Auditors

With the approval of the 2007 financial statements, the three-year mandate appointing PriceWaterhouseCoopers S.p.A. (and the companies that are part of its network) as external auditors of the accounts of the Pirelli & C. S.p.A. group given by the Shareholders' Meeting on 28 April 2005 has expired. Pursuant to current regulations, this mandate could not be renewed again.

Pursuant to article 159 of the FSA, the shareholders' meeting held on 29 April 2008 appointed Reconta Ernst & Young SpA as external auditors of the statutory and consolidated financial statements, also based on a favourable proposal of the Board of Statutory Auditors, and also approved the engagement the fees for years 2008–2016.

Officer responsible for preparing the company accounting documents

Taking into account the provisions of the bylaws, the appointment of the Responsible Officer expired when the shareholders' meeting approved the financial statements for the year ended 31 December 2007.

In its meeting on 29 April 2008, the Board of Directors, with the favourable opinion of the Board of Statutory Auditors, confirmed Claudio De Conto, General Manager Operations of the Company, to whom all the administrative and tax structures of the Group report, as the Responsible Officer. The Responsible Officer's position expires when the term of the Board of Directors that has appointed him expires (approval of the 2010 financial statements). The Responsible Officer has been given all the organisational and management powers required to perform the tasks attributed by the current regulations, the Company bylaws and the Board of Directors. The Responsible Officer is granted full economic autonomy to exercise the powers attributed to him.

BOARD OF STATUTORY AUDITORS

The shareholders' meeting of 29 April 2008 integrated the Board of Statutory Auditors after the resignation of Paolo Francesco Lazzati with effect from the approval of the financial statements ended 31 December 2007 by the shareholders' meeting. With the procedures and within the terms specified in the Company bylaws, and conforming to the Self Regulatory Code of the Italian stock exchange, the shareholders' meeting appointed Paolo Domenico Sfameni as a Statutory Auditor. The Curriculum Vitae of the newly appointed Statutory Auditor is, as is the practice, available in the *Governance* section of the company website www.pirelli.com.

The current composition of the Board of Directors is, in addition to the usual report at the start of the publication containing this Half-yearly Corporate Governance report, also available in the *Governance* section of the Company website www.pirelli.com.

RELATIONS WITH SHAREHOLDERS

In line with its tradition of transparency and fairness, the Company actively promotes relations with shareholders, institutional and private investors and financial analysts, with other market operators and with the financial community in general, within the proper limits of their respective roles, and periodically organizes meetings both in Italy and abroad. To this end, with the further market development since March 1999 the company established an Investor Relations Department, which reports directly to the General Manager and Chief Operating Officer, Alberto Borgia, to foster relations with the financial community. This department has its own section on the company website at www.pirelli.com.

In the *Investor Relations* section, investors can find every document of interest published by the Company, related to financial reporting (e.g. the annual financial statements and the Half-yearly and quarterly reports) and the corporate governance system of the Company (e.g., the bylaws, the regulations for Shareholders' meetings, the Rules of conduct for transactions with related parties, the procedure for information flows to Directors and Auditors, the procedure for the management and communication to the public of sensitive information and the minutes of Shareholders' Meetings) in English as well as in Italian. The section also gives access to press releases issued by the Company and the documentation that the Company makes available to the financial community during presentations and/or meetings, as well as information on the composition of the share capital of the Company and shareholders (including the publication of any shareholders' agreements).

Pirelli & C. S.p.A. was one of the first companies in Italy and Europe to publish specific inserts giving economic and financial data in the mass media, as well as one of the first to set up a kit on its website for small investors.

Investor queries may be sent to: e-mail: ir@pirelli.com; tel: +39 02.64422949; fax: +39 02.64424686.

The Board of Directors

Milan, August 5, 2008

THE GROUP

**HALF-YEARLY CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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CONSOLIDATED BALANCE SHEET		(in thousands of euros)			
		6/30/2008		12/31/2007	
		<i>of which</i>		<i>of which</i>	
		<i>related parties</i>		<i>related parties</i>	
3	Property, plant and equipment	1,629,115		1,650,485	
4	Intangible assets	1,047,672		672,540	
5	Investments in associates and joint ventures	570,010		534,194	
6	Other financial assets	663,115		958,272	
7	Deferred tax assets	61,872		58,524	
	Trade receivables	420		-	
9	Other receivables	711,363	533,252	672,894	520,827
	Tax receivables	12,736		12,278	
	Financial instruments	4,277		3,849	
NON-CURRENT ASSETS		4,700,580		4,563,036	
10	Inventories	840,725		776,474	
8	Trade receivables	1,008,415	65,049	1,098,927	123,668
9	Other receivables	236,720	38,639	241,475	22,072
11	Securities held for trading	105,155		114,039	
12	Cash and cash equivalents	333,931		2,057,682	
	Tax receivables	40,794		43,281	
	Financial instruments	34,372		58,326	
CURRENT ASSETS		2,600,112		4,390,204	
13	Assets held for sale	35,619		-	
TOTAL ASSETS		7,336,311		8,953,240	
14.1	Attributable to the equity holders of the company:	2,608,128		2,980,231	
	Share capital	1,554,631		1,555,934	
	Reserves	1,089,739		1,259,746	
	Income for the period	(36,242)		164,551	
14.2	Attributable to the minority interest:	394,259		823,840	
	Reserves	367,541		664,799	
	Income for the period	26,718		159,041	
14	TOTAL EQUITY	3,002,387		3,804,071	
18	Borrowings from banks and other financial institutions	537,676		788,198	
20	Other payables	38,487		23,300	
16	Provisions for other liabilities and charges	151,637		146,331	
	Deferred tax liabilities	43,152		44,625	
17	Employee benefit obligations	418,123		349,142	
	Tax payables	9,240		11,211	
21	Financial instruments	8,211		6,782	
NON-CURRENT LIABILITIES		1,206,526		1,369,589	
18	Borrowings from banks and other financial institutions	1,354,820	5,225	871,759	2,869
19	Trade payables	1,089,122	38,182	1,323,588	29,148
20	Other payables	481,820	7,490	1,394,673	21,522
16	Provisions for other liabilities and charges	87,978		71,340	
	Tax payables	52,462	886	45,707	
21	Financial instruments	45,165		72,513	
CURRENT LIABILITIES		3,111,367		3,779,580	
13	Liabilities associated with assets held for sale	16,031		-	
TOTAL EQUITY AND LIABILITIES		7,336,311		8,953,240	

The lines of the financial statements indicating related party transactions are described in Note 37.

CONSOLIDATED INCOME STATEMENT		(in thousands of euros)			
		1 st Half 2008		1 st Half 2007	
		<i>of which related parties</i>		<i>of which related parties</i>	
23	Revenues from sales and services	2,685,350	89,074	3,192,641	135,707
24	Other income	95,275		186,950	48,175
	- of which, nonrecurring events	17,000		2,818	
	Change in inventories of work in process, semifinished and finished products	41,287		26,276	
	Raw materials and consumables used (net of change in inventories)	(979,458)		(1,482,490)	
25	Personnel costs	(579,479)	(1,470)	(582,273)	(1,642)
	- of which, nonrecurring events	(20,171)		5,140	
26	Amortization, depreciation and impairments	(105,318)		(108,631)	
27	Other expenses	(969,881)	(31,903)	(1,017,534)	(72,080)
	- of which, nonrecurring events	(1,018)		-	
	Increase in property, plant and equipment from internal work	2,490		6,381	
OPERATING PROFIT		190,266		221,320	
28	Financial income	197,790	13,543	152,843	15,179
	- of which, nonrecurring events	21,391		42,061	
29	Financial expenses	(324,635)	(84)	(171,424)	(32)
30	Dividends	19,817		13,936	6,602
31	Gains (losses) from changes in fair value of financial assets	(25,530)		(10,130)	
32	Share of earnings (losses) of associates and joint ventures	13,580	13,580	61,033	61,033
INCOME BEFORE INCOME TAXES		71,288		267,578	
33	Income taxes	(68,702)		(79,149)	
INCOME FROM CONTINUING OPERATIONS		2,586		188,429	
34	Income (loss) from discontinued operations	(12,110)		9,915	
INCOME (LOSS) FOR THE PERIOD		(9,524)		198,344	
Attributable to:					
	equity holders of the company	(36,243)		108,242	
	minority interest	26,719		90,102	
35 EARNINGS PER SHARE (euros per thousand of shares)					
	<i>basic earnings per share</i>				
	continuing operations	(4.50)		18.42	
	discontinued operations	(2.26)		1.85	
		(6.76)		20.27	

The lines of the financial statements indicating related party transactions are described in Note 37.

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE

(in thousands of euros)

	1 st Half 2008	1 st Half 2007
A Income (loss) for the year	(9,524)	198,343
(Gains) losses transferred to the income statement relating to available-for-sale financial assets	(4,550)	(119,219)
(Gains) losses transferred to the income statement, previously recognized in equity	(4,550)	(119,219)
Differences on translation of foreign currency financial statements	(32,236)	34,407
Changes in fair value on available-for-sale financial assets	(122,805)	(21,145)
Net actuarial gains (losses) on employee benefits	(109,975)	13,462
Changes in fair value on derivatives designated as cash flow hedges	23,661	1,897
Tax effect	9,413	(6,909)
B Income (expense) recognized directly in equity	(236,492)	(97,507)
A+B Total income (expense) recognized in equity	(246,016)	100,836
Attributable to:		
- equity holders of the company	(273,368)	(15,528)
- minority interest	27,352	116,364

CONSOLIDATED STATEMENT OF CASH FLOWS		(in thousands of euros)	
		1 st Half 2008	1 st Half 2007
		of which related parties	of which related parties
Income before tax from continuing operations	71,288		267,578
Amortization, depreciation / impairment (losses) reversals of intangible assets and property, plant and equipment	105,318		109,131
Financial expenses	324,635		171,424
Financial income	(197,790)		(152,843)
Dividends	(19,817)		(13,936)
Change in fair value of financial assets	25,530		10,130
Share of earnings (losses) of associates and joint ventures (net of dividends received)	14,946		(3,940)
Income taxes	(68,702)		(79,149)
Change in inventories	(64,251)		(1,433)
Change in trade receivables/payables	(143,954)		(126,953)
Change in other receivables/payables	(84,756)		88,906
Change in employee benefit obligations and other provisions	(20,656)		(11,064)
Other changes	7,781		9,386
A Net cash flows provided by (used for) operating activities	(50,428)		267,237
Investments in property, plant and equipment	(138,060)		(112,291)
Disposals of property, plant and equipment including gain/loss	39,400		10,477
Investments in intangible assets	(4,228)		(1,333)
Disposals of intangible assets including gain/loss	1,054		19
Acquisitions of investments in associates and joint ventures	(38,636)		(114,755)
Disposals of investments in associates and joint ventures	957		-
Acquisitions of other financial assets	(6,066)		(16,514)
Disposals of other financial assets	18,770		28,860
Acquisition of Speed S.p.A.	(434,400)		-
Dividends received	19,817		13,936
Net investments/disposals in business combinations	(32,586)		(316,608)
B Net cash flows provided by (used for) investing activities	(573,978)		(508,209)
Other changes in equity	(16,958)		4,995
Sale (purchase) of Pirelli Real Estate treasury shares	-		(16,561)
Change in financial payables	(874,966)	(218,922)	510,409
Change in financial receivables	1,156		165,746
Financial income/expenses (net of gains on avail.-for-sale fin. assets)	(602)		(69,144)
Dividends paid	(167,889)	(22,746)	(74,400)
C Net cash flows provided by (used for) financing activities	(1,059,259)		521,045
Net cash flows provided by (used for) operating activities	-		-
Net cash flows provided by (used for) investing activities	(10,710)		41,662
Net cash flows provided by (used for) financing activities	-		-
D Total cash flows provided by (used for) discontinued operations	(10,710)		41,662
E Total cash flows provided by (used for) during the period (A+B+C+D)	(1,694,375)		321,735
F Cash and cash equivalents, at beginning of the period	2,010,475		259,389
G Exchange differences on translation of cash and cash equivalents	(6,711)		3,605
H Cash and cash equivalents, at end of the period (E+F+G) ^(e)	309,389		584,729
^(e) of which:			
cash	334,201		591,146
bank overdrafts	(24,812)		(6,417)

The consolidated statement of cash flows indicates related party transactions that cannot be directly deduced from the other statements and are described in Note 37.

NOTES TO THE HALF-YEARLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The half-yearly condensed consolidated financial statements at June 30, 2008 was authorized for issue by resolution of the directors on August 5, 2008.

1. ACCOUNTING POLICIES

In accordance with art. 154 ter of Legislative Decree 58/1998 and CONSOB regulations on the subject, the Pirelli & C. Group has prepared its Half-yearly condensed consolidated financial statements in accordance with IAS 34 which prescribes the financial disclosure for condensed interim financial statements.

The accounting principles adopted for the Half-yearly condensed consolidated financial statements are the same as those applied in the preparation of the annual consolidated financial statements at December 31, 2007, except for the application of IFRIC 11 – Group and Treasury Share Transactions, effective January 1, 2008. The application of this interpretation, however, did not have a significant quantitative impact for the Group.

The IFRS in force at December 31, 2008 could be different from those used in the preparation of these Half-yearly condensed consolidated financial statements by reason of the future endorsement by the European Union of new standards, new interpretations and guidelines issued by IFRIC. The consolidated financial statements as at December 31, 2008 could be affected by such changes.

ACCOUNTING STANDARDS AND INTERPRETATIONS EFFECTIVE BEGINNING JANUARY 1, 2008 BUT NOT YET ENDORSED:

IFRIC 12 “Service Concession Arrangements”

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

IFRIC 12, not yet endorsed by the European Union, is effective beginning January 1, 2008 and is applicable to the group but is not expected to have a material impact on the consolidated financial statements.

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

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

IFRIC 14, not yet endorsed by the European Union, is effective beginning January 1, 2008. The future application of this interpretation is not expected to have a material quantitative impact on the financial statements.

ACCOUNTING STANDARDS OR INTERPRETATION NOT YET IN EFFECT

IFRIC 13 “Customer Loyalty Programmes”

IFRIC 13 addresses the accounting treatment that must be adopted by entities that grant loyalty award credits to customers who buy goods or services. It establishes that the fair value of the obligations connected with the loyalty awards must be separated from sales revenues and deferred until the entity has fulfilled its obligation to the customers.

IFRIC 13, not yet endorsed by the European Union, is effective beginning July 1, 2008 and is applicable to the group but is not expected to have a material impact on the consolidated financial statements.

IFRS 8 “Operating Segments”

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

IFRS 8 will become effective beginning January 1, 2009. The future application of this standard is not expected to have a material impact on the Group’s disclosure in the financial statements.

Amendments to IAS 23 “Borrowing Costs”

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

These amendments, not yet endorsed by the European Union, will become effective beginning January 1, 2009. The future application of the amendments to this standard is not expected to have a material impact on the consolidated financial statements since the Group does not avail itself of the option that was eliminated.

Revision to IAS 1 “Presentation of Financial Statements”

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

These revisions, not yet endorsed by the European Union, will become effective beginning January 1, 2009. The future application of the amendments to this standard is not expected to have a material impact on the disclosures in the financial statements.

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

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

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

These amendments, not yet endorsed by the European Union, will become effective beginning January 1, 2009. The future application of the amendments to this standard is not expected to have a material quantitative impact on the financial statements.

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

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

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

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

These amendments, not yet endorsed by the European Union, will become effective beginning January 1, 2009. The future application of the amendments to this standard is not expected to have an impact on the financial statements.

Revision of IFRS 3 “Business Combinations”

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

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

date of acquisition. Subsequent changes in the fair value of such agreements are normally recognized in the income statement.

These revisions, not yet endorsed by the European Union, will apply prospectively for fiscal years beginning after June 30, 2009. The effects on the financial statements in the year of first-time application of the new standard cannot be determined at this time.

Amendments to IAS 27 “Consolidated and Separate Financial Statements”

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

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

These amendments, not yet endorsed by the European Union, will apply prospectively for fiscal years beginning after June 30, 2009. The effects on the financial statements in the year of first-time application of the new standard cannot be determined at this time.

“Improvements” to IFRS

Under the project begun in 2007, the IASB has issued a series of amendments to IFRS in force. The amendments bring about accounting changes for presentation, recognition and measurement and also terminology changes. Such amendments, not yet endorsed by the European Union, will become effective beginning January 1, 2009 (except for improvements to IFRS 5 which will become effective beginning July 1, 2009). The future application of these amendments is not expected to have a material quantitative impact on the financial statements.

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

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

At the date of transition to IFRS, the deemed cost can be the fair value – measured in accordance with IAS 39 – or the previous GAAP carrying amount. Moreover, any distribution by the subsidiary, jointly controlled entity or associate is allowed to be recognized as income in the separate financial statements whether the distribution is from pre-acquisition or post-acquisition reserves.

These amendments, not yet endorsed by the European Union, will become effective beginning January 1, 2009. The future application of these amendments is not expected to have a material impact on the financial statements.

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

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

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

These amendments, not yet endorsed by the European Union, will be applied retrospectively beginning July 1, 2009. The future application of these changes is not expected to have a material impact on the financial statements.

IFRIC 15 – Agreements for the Construction of Real Estate

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

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

IFRIC 15, not yet endorsed by the European Union, will become effective beginning January 1, 2009. The future application of this interpretation is not expected to have a material impact on the financial statements since the Group’s accounting treatment is already in line with the above changes.

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

This interpretation clarifies certain issues relating to the accounting treatment, in consolidated financial statements, of hedges of net investments in foreign operations, explaining which types of risks have the requisites for the application of hedge accounting. IFRIC 16 specifically establishes that hedge accounting is only applicable to the risk which arises from the foreign exchange exposure between the functional currency of the foreign operation and the functional currency of the parent, and not between the functional currency of the foreign operation and the presentation currency of the consolidated financial statements. IFRIC 16, not yet endorsed by the European Union, will become effective beginning October 1, 2008. The application of this interpretation is not expected to have an impact on the financial statements.

The company has applied the provisions of Consob Resolution 15519 of July 27, 2006 for the formats of the financial statements and Consob Communication 6064293 of July 28, 2006 for corporate disclosure.

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

SCOPE OF CONSOLIDATION

On June 30, 2008, Pirelli & C. Real Estate S.p.A. sold an additional one percent interest in the company Pirelli RE Integrated Facility Management B.V. to Intesa Sanpaolo. Following this sale, the investment held in the above company fell to 50 percent and is under joint control. Accordingly, the company is accounted for using the equity method beginning June 30, 2008.

As a result of deconsolidating Pirelli RE Integrated Facility Management B.V., certain lines in the balance sheet are not comparable with those of the prior year. Moreover, in comparing the Half-yearly income statements, it should be noted that the first half of 2007 includes the DGAG Group's operations which were gradually deconsolidated during the course of 2007.

SEASONAL FACTORS AFFECTING REVENUES

Revenues are not significantly affected by seasonal factors.

3. PROPERTY, PLANT AND EQUIPMENT

The composition and movements in property, plant and equipment are as follows:

	6/30/2008			12/31/2007			<i>(in thousands of euros)</i>			
	Gross carrying amount	Accumul. Depreciation	Net carrying amount	Gross carrying amount	Accumul. Depreciation	Net carrying amount				
Land	87,989	-	87,989	83,511	-	83,511				
Buildings	649,398	(303,748)	345,650	658,310	(301,584)	356,726				
Plant and machinery	2,654,519	(1,629,393)	1,025,126	2,652,755	(1,624,730)	1,028,025				
Industrial and commercial equipment	553,711	(438,347)	115,364	574,675	(448,876)	125,799				
Other property, plant and equipment	225,544	(170,558)	54,986	236,540	(180,116)	56,424				
	4,171,161	(2,542,046)	1,629,115	4,205,791	(2,555,306)	1,650,485				
<i>(in thousands of euros)</i>										
Movements in gross carrying amount										
	12/31/2007	Change in scope of consolidation	Discontinued operations	Exchange differences	Increase	Decrease	Reclass.	Other	6/30/2008	
Land	83,511	-	-	(1,651)	8,500	(4,960)	2,589	-	-	87,989
Buildings	658,310	(5,308)	(2,452)	(7,685)	12,109	(4,763)	(561)	(252)	-	649,398
Plant and machinery	2,652,755	(18,985)	(9,611)	(37,451)	83,332	(16,950)	680	749	-	2,654,519
Industrial and commercial equipment	574,675	(2,025)	(23,188)	(9,170)	16,781	(7,887)	4,534	(9)	-	553,711
Other property, plant and equipment	236,540	(8,982)	(2,486)	(3,892)	17,337	(4,841)	(7,242)	(890)	-	225,544
Total	4,205,791	(35,300)	(37,737)	(59,849)	138,059	(39,401)	-	(402)	-	4,171,161
<i>(in thousands of euros)</i>										
Movements in accumulated depreciation										
	12/31/2007	Change in scope of consolidation	Discontinued operations	Exchange difference	Reclass.	Decrease	Depreciation	Other	6/30/2008	
Buildings	(301,584)	2,036	2,452	2,143	(18)	1,786	(10,460)	(103)	-	(303,748)
Plant and machinery	(1,624,730)	6,091	5,522	29,592	(32)	16,166	(61,663)	(339)	-	(1,629,393)
Industrial and commercial equipment	(448,876)	1,725	16,602	7,555	58	6,105	(20,676)	(840)	-	(438,347)
Other property, plant and equipment	(180,116)	8,388	956	3,397	(8)	4,548	(7,795)	72	-	(170,558)
	(2,555,306)	18,240	25,532	42,687	-	28,605	(100,594)	(1,210)	-	(2,542,046)
<i>(in thousands of euros)</i>										
Movements in net carrying amount										
	12/31/2007	Change in scope of consolidation	Discontinued operations	Exchange differences	Increase	Decrease	Reclass.	Depreciation	Other	6/30/2008
Land	83,511	-	-	(1,651)	8,500	(4,960)	2,589	-	-	87,989
Buildings	356,726	(3,272)	-	(5,542)	12,109	(2,977)	(579)	(10,460)	(355)	345,650
Plant and machinery	1,028,025	(12,894)	(4,089)	(7,859)	83,332	(784)	648	(61,663)	410	1,025,126
Industrial and commercial equipment	125,799	(300)	(6,586)	(1,615)	16,781	(1,782)	4,592	(20,676)	(849)	115,364
Other property, plant and equipment	56,424	(594)	(1,530)	(495)	17,337	(293)	(7,250)	(7,795)	(818)	54,986
	1,650,485	(17,060)	(12,205)	(17,162)	138,059	(10,796)	-	(100,594)	(1,612)	1,629,115

The change in the scope of consolidation is mainly due to the deconsolidation of the companies of the Pirelli RE Integrated Facility Management B.V. Group.

“Discontinued operations” refer to the photonics business which was reclassified to “Assets held for sale”.

Increases mainly refer to additions in the Tyre sector, particularly the new operating units in Romania, China and Brazil.

4. INTANGIBLE ASSETS

The composition and movements in intangible assets are as follows:

<i>(in thousands of euros)</i>								
	12/31/2007	Exchange differences	Change in scope of consolidation	Increase	Decrease	Amortization	Other	6/30/2008
Patents and intellectual property rights	574	-	(5)	-	-	(75)	-	494
Concessions, licenses and trademarks	22,356	(1)	(91)	504	(821)	(1,308)	66	20,705
Goodwill	634,953	(61)	-	465,140	(86,752)	-	47	1,013,327
Software	10,442	(1)	475	1,608	(54)	(2,750)	108	9,828
Other intangible assets	4,215	16	(1,694)	2,118	-	(561)	(776)	3,318
	672,540	(47)	(1,315)	469,369	(87,627)	(4,694)	(554)	1,047,672

The increase in “Goodwill” mainly refers to goodwill generated by the repurchase of the 38.9 percent minority interest in Pirelli Tyre S.p.A. following the acquisition of Speed S.p.A. (Euros 450,920 thousand). It also refers to the inclusion in Pirelli Real Estate Group’s scope of consolidation of certain companies in the BauBeCon Group following the acquisition of stakes by Pirelli RE Netherlands B.V. and Pirelli & C. Real Estate Deutschland GmbH (Euros 5,997 thousand).

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

<i>(in thousands of euros)</i>		
	Fair value	Carrying amount
Purchase price (including costs directly attributable to the business combination)	19,139	
Property, plant and equipment	622	622
Intangible assets	2,505	2,505
Investments in associates and joint ventures	9,080	3,996
Deferred tax assets and deferred tax liabilities	(300)	(300)
Trade receivables and trade payables	3,875	3,875
Other receivables and other payables	(801)	(801)
Provisions for other liabilities and charges and employee benefit obligations	(11,268)	(11,268)
Cash and cash equivalents	17,652	17,652
Financial payables	(7,291)	(7,291)
Assets and liabilities acquired	14,074	8,990
Equity attributable to minority interest	932	932
Net assets and liabilities acquired	13,142	8,058
Goodwill	5,997	

Decreases in goodwill refer to the deconsolidation of the Pirelli RE Integrated Facility Management B.V. Group.

5. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Movements during the period are as follows:

	<i>(in thousands of euros)</i>	
	6/30/2008	12/31/2007
Beginning balance	534,194	3,825,928
Acquisition/change in share capital and reserves	37,383	260,103
Distribution of dividends	(28,526)	(164,562)
Disposals and wind-ups	(957)	(3,352,603)
Share of earnings (losses)	13,580	118,608
Reclassifications and other	(968)	(159,359)
Movement in provisions for other liabilities and charges	15,304	6,079
	570,010	534,194

The main movements during the six months refer to the Real Estate Group.

As regards the share of earnings (losses), reference should be made to the comments in the income statement under “Share of earnings (losses) of associates and joint ventures”.

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

6. OTHER FINANCIAL ASSETS

The movements during the period are as follows:

	<i>(in thousands of euros)</i>	
	6/30/2008	12/31/2007
Beginning balance	958,272	1,006,898
Increase	6,066	107,939
Decrease	(19,149)	(24,173)
Impairments	(155,342)	(34,137)
(Gains) losses transferred to the income statement for disposals or impairment losses, previously recognized in equity	(4,550)	1,019
Changes in fair value	(124,461)	(91,842)
Reimbursement of shares	-	(7,374)
Other	2,279	(58)
	663,115	958,272
of which:		
- financial assets measured at fair value through equity	633,156	926,362
- financial assets measured at fair value through profit or loss	29,959	31,910

The **increases** refer mainly to the purchase of RCS S.p.A shares by the parent Pirelli & C. S.p.A. (Euros 3,966 thousand).

The **decreases** refer mainly to the sale of shares of closed real estate funds of the Real Estate Group.

Impairments refer to the adjustment made to the stake held in Telecom Italia S.p.A., equal to 1.36 percent of ordinary share capital. The per share carrying amount of the investment was reduced to Euros 1.27 (market price at June 30, 2008).

Net gains transferred to the income statement refer to the change in the fair value of the fund shares in Berenice Fondo Uffici held by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. (Euros 3,399 thousand) and Intek S.p.A. shares held by Pirelli & C S.p.A. (Euros 1,151 thousand), previously recognized in equity and transferred to the income statement in 2008 following the sale of the fund shares and the equity shares.

The negative **changes in fair value**, of which Euros 122,857 thousand was recognized in equity and Euros 1,604 thousand in the income statement, mainly regard the shares of Mediobanca S.p.A. (negative for Euros 50,801 thousand), RCS Mediagroup S.p.A. (negative for Euros 59,175 thousand) and Fin Priv S.r.l. (negative for Euros 6,607 thousand).

7. DEFERRED TAX ASSETS AND LIABILITIES

These are composed as follows:

	<i>(in thousands of euros)</i>	
	6/30/2008	12/31/2007
Deferred tax assets	61,872	58,524
Deferred tax liabilities	(43,152)	(44,625)
	18,720	13,899

The tax effect of income and expenses recognized directly in equity is a positive Euros 9,413 thousand (negative Euros 2,856 thousand at December 31, 2007) and also includes the portion relating to companies accounted for using the equity method.

The amount is shown in the statement of recognized income and expenses; such movements are mainly due to the tax effect on actuarial gains/losses regarding employee benefits and the change in the fair value of available-for-sale financial assets.

8. TRADE RECEIVABLES

Trade receivables are analyzed as follows:

(in thousands of euros)

	June 30, 2008			December 31, 2007		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures	67,300	-	67,300	122,802	-	122,802
Third parties	995,629	420	995,209	1,020,667	-	1,020,667
Receivables on construction contracts	-	-	-	9,330	-	9,330
	1,062,929	420	1,062,509	1,152,799	-	1,152,799
Provision for impairment of receivables	(54,094)	-	(54,094)	(53,872)	-	(53,872)
	1,008,835	420	1,008,415	1,098,927	-	1,098,927

The decrease in **trade receivables from associates and joint ventures** refers mainly to the Real Estate Group, particularly in reference to the deconsolidation of the companies of Pirelli RE Integrated Facility Management B.V. Group and the consolidation of the company Kappa S.r.l..

Receivables on construction contracts at December 31, 2007 were due from the companies of the Pirelli RE Integrated Facility Management B.V. Group which is no longer included in the scope of consolidation at June 30, 2008.

9. OTHER RECEIVABLES

Other receivables can be analyzed as follows:

(in thousands of euros)

	June 30, 2008			December 31, 2007		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures						
- financial receivables	551,029	532,642	18,387	535,999	520,079	15,920
- other receivables	14,560	834	13,726	4,292	965	3,327
Financial receivables from third parties	96,154	95,765	389	92,087	88,577	3,510
Trade and other accrued income and prepaid expenses/third parties	25,201	16	25,185	21,143	10	21,133
Financial accrued income and prepaid expenses	2,623	1,174	1,449	3,054	1,342	1,712
Receivables from employees	18,647	3,460	15,187	7,297	2,839	4,458
Receivables from social security agencies	3,274	-	3,274	2,923	-	2,923
Receivables from tax authorities non-cur. inc. taxes	72,362	10,187	62,175	99,353	8,860	90,493
Receivables for junior notes	32,308	32,308	-	11,307	11,307	-
Other receivables	139,771	38,594	101,177	143,369	42,525	100,844
Total gross other receivables	955,929	714,980	240,949	920,824	676,504	244,320
Provision for impairment of other receivables	(7,846)	(3,617)	(4,229)	(6,455)	(3,610)	(2,845)
TOTAL	948,083	711,363	236,720	914,369	672,894	241,475

Non-current financial receivables from associates and joint ventures, equal to Euros 532,642 thousand, mainly refer to the Real Estate Group and are classified as non-current since the collection times, connected with the plans for the disposal of the properties held directly and indirectly by the companies, will be concluded on average over a period of between two and six years.

These loans are made at rates in line with those applied by the major market operators except for non-interest bearing loans made to certain companies. The increase is largely due to new loans made to the Polish companies.

The increase in **non-current receivables for junior notes** compared to December 31, 2007 is basically attributable to Class B junior notes relating to the securitization of a portfolio of non-performing loans of the company Vesta Finance S.r.l. subscribed to by Pirelli & C. Real Estate S.p.A..

10. INVENTORIES

Inventories can be analyzed as follows:

	<i>(in thousands of euros)</i>	
	6/30/2008	12/31/2007
Pirelli Tyre	692,969	652,684
Pirelli Real Estate	135,699	114,291
Other	12,057	9,499
	840,725	776,474

	<i>(in thousands of euros)</i>	
	6/30/2008	12/31/2007
Raw materials, auxiliaries and consumables	191,175	168,586
Sundry materials	983	4,782
Trading properties held for sale	24,595	32,882
Work in process and semifinished products	91,131	85,645
Finished products	440,867	422,281
Merchandise purchased for resale	7,641	5,954
Land to be developed	79,207	49,955
Advances to suppliers	5,126	6,389
	840,725	776,474

The increase in Pirelli Tyre's inventories is basically due to the higher cost of raw materials and increased production at the new plant sites in Romania and China.

The decrease in Pirelli Real Estate's inventories of trading properties for sale is largely connected with the sale of the subsidiary Pirelli Pekao Real Estate Sp.zo.o..

The increase in land to be developed can be ascribed to the Real Estate Group, especially the consolidation of the company Kappa S.r.l., in addition to the purchase of new land in the suburbs of Milan.

Inventories include capitalized borrowing costs at June 30, 2008 of Euros 1,581 thousand (Euros 679 thousand at December 31, 2007) and refer to the Real Estate Group.

Impairment losses on inventories recorded during the first half amount to Euros 4,876 thousand (Euros 1,337 thousand at December 31, 2007) and the reversal of previous impairment losses amounts to Euros 1,603 thousand (zero at December 31, 2007).

Inventories are not secured as collateral.

11. SECURITIES HELD FOR TRADING

Securities held for trading mainly include bonds issued and guaranteed by governments and banking institutions. The positions are held at leading banks.

12. CASH AND CASH EQUIVALENTS

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

The decrease from the end of the prior year is due mainly to the distribution of dividends for Euros 826 million and the payment to repurchase the minority interest in Pirelli Tyre for Euros 835 million.

For purposes of the statement of cash flows, the balance of cash and cash equivalents is shown net of bank overdrafts, equal to Euros 24,812 thousand at June 30, 2008 and Euros 6,417 thousand at June 30, 2007.

13. ASSETS HELD FOR SALE AND LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE

As a result of the letter of intent signed in June 2008 and the subsequent agreement sealed on July 24, 2008 with CyOptics Inc., the assets and liabilities relating to the photonics business have been reclassified to “assets held for sale” (for Euros 35,619 thousand) and “liabilities associated with assets held for sale” (for Euros 16,031 thousand). Reference should also be made to the note on “Income (loss) from discontinued operations”.

14. EQUITY

The changes in share capital are analyzed below:

(in millions of euros)	attributable to the equity holders of the company					Total attributable to equity holders of company	Minority interest	Total
	Share capital	Share premium reserve	Legal reserve	Reserve for translation differences	Other reserves / Retained earnings			
Balance at 12/31/2006	2,790	759	89	187	55	3,880	807	4,687
Income and expense recognized directly in equity				18	(142)	(124)	26	(98)
Income for the first half					108	108	90	198
Appropriation of income as per resolution of 4/23/2007:								
- absorption of loss		(748)			748	-		-
Other dividends paid to third parties							(74)	(74)
Movements in Pirelli & C. Real Estate S.p.A. treasury shares					(8)	(8)	(8)	(16)
PRE stock options exercised in the period					1	1	1	2
Acquisition of minority interest							(8)	(8)
Other					2	2	(1)	1
Balance at 6/30/2007	2,790	11	89	205	764	3,859	833	4,692
Income and expense recognized directly in equity				(86)	(10)	(96)	(19)	(115)
Income for the second half					57	57	69	126
Share capital reduction	(1,234)	408				(826)	-	(826)
Movements in Pirelli & C. Real Estate S.p.A. treasury shares					(22)	(22)	(16)	(38)
Purchase of Pirelli & C. Real Estate S.p.A. shares							(24)	(24)
PRE stock options exercised in the period					4	4	2	6
Acquisition of minority interest							(18)	(18)
Other					4	4	(3)	1
Balance at 12/31/2007	1,556	419	89	119	797	2,980	824	3,804
Income and expense recognized directly in equity				(28)	(209)	(237)	1	(236)
Loss for the first half					(36)	(36)	27	(9)
Appropriation of income as per resolution of 4/28/2008:								
- legal reserve			7		(7)	-		-
- dividend payment					(93)	(93)		(93)
Other dividends paid to third parties							(75)	(75)
Purchase of Pirelli & C. Real Estate S.p.A. shares							(13)	(13)
Acquisition of Speed S.p.A.							(386)	(386)
Acquisition of minority interest							9	9
Other	(1)	(2)			(3)	(6)	7	1
Balance at 6/30/2008	1,555	417	96	91	449	2,608	394	3,002

14.1 EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Share capital amounts to Euros 1,554,631 thousand at June 30, 2008 and consists of 5,233,142,003 ordinary shares and 134,764,429 savings shares, all with a par value of Euros 0.29 per share and normal dividend rights.

The changes in share capital are detailed below:

	Number of ordinary shares (thousands) (*)	Number of savings shares (thousands)	Ordinary shares (€ thousands)	Savings shares (€ thousands)	Total (€ thousands)
Balance at December 31, 2007	5,230,524	134,764	1,516,852	39,082	1,555,934
Changes		-		(1,303)	(1,303)
Balance at June 30, 2008	5,230,524	134,764	1,516,852	37,779	1,554,631

(*) Net of 2,617,500 treasury shares in portfolio

14.2 EQUITY ATTRIBUTABLE TO THE MINORITY INTEREST

The minority interest in equity decreased from Euros 823,840 thousand at December 31, 2007 to Euros 394,259 thousand at June 30, 2008. The change is mainly due to the repurchase of the 38.9 percent interest in Pirelli Tyre S.p.A. in addition to the payment of dividends and the exchange effect of the translation of foreign currency financial statements to euros.

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

	6/30/2008	12/31/2007
Drahtcord Saar GmbH & Co. K.G. (Germany)	50.00%	50.00%
Pirelli & C. Eco Technology (Italy)	49.00%	49.00%
Celikord A.S. (Turkey)	49.00%	49.00%
Pirelli & C. Ambiente S.p.A. (Italy)	49.00%	49.00%
Euro Driver Car S.L. (Spain)	48.85%	48.85%
Pirelli & C. Real Estate S.p.A. (Italy)	42.85%	44.64%
Pirelli Tyre S.p.A. (Italy)	-	38.94%
Turk Pirelli Lastikleri A.S. (Turkey)	30.41%	30.41%
Driver Italia S.p.A. (Italy)	26.93%	26.93%
Pirelli Tyre Co. Ltd (China)	25.00%	25.00%
S.C. Cord Romania S.R.L (Romania)	20.00%	20.00%
Alexandria Tire Co. S.A.E. (Egypt)	10.90%	10.90%
Pirelli de Venezuela C.A. (Venezuela)	3.78%	3.78%

15. STOCK OPTION PLANS

Stock option plans of Pirelli & C. S.p.A.

During the period ended June 30, 2008, the company did not introduce any stock option plans.

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

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

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

	<i>Pirelli to People</i>	<i>Group Senior Executives</i>
Plan features	Option rights granted, non-transferable to third parties, for the subscription of future new issues of Pirelli & C. ordinary shares or, as decided by the latter, for the purchase of treasury shares of Pirelli & C..	Option rights granted, non-transferable to third parties, for the subscription of future new issues of Pirelli & C. ordinary shares or, as decided by the latter, for the purchase of treasury shares of Pirelli & C..
Recipients at June 30, 2008	243 employees (senior executives, cadres, key employees) of the companies of the group. Originally 725 persons at the date of approval of the plan.	22 senior executives of the companies of the group. Originally 51 persons at the date of approval of the plan.
Conditions for exercising options	Continuance of employment.	(a) continuance of employment, and (b) the reaching, in the two-year period 2001-2002, of specific targets, assigned to each recipient.
Subscription/purchase price per share	Each option right granted gives the right to subscribe/purchase one Pirelli & C. ordinary share at the price of Euros 0.996 ⁽¹⁾ .	Each option right granted gives the right to subscribe/purchase one Pirelli & C. ordinary share at the price of Euros 0.996 ⁽¹⁾ .
Vesting period of options	Up to nine years from the date the options are granted (which took place on November 5, 2001), but not before one year has passed from that date for 50 percent of the options granted, two years for another 25 percent and three years for the remaining 25 percent.	As regards the options granted on November 5, 2001, up to nine years from the date the options are granted, but not before one year has passed from that date for 50 percent of the options, two years for another 25 percent and three years for the remaining 25 percent. For the options granted definitively on May 10, 2002, up to May 31, 2009 but not before June 1, 2002 for 50 percent of the options and not before January 1, 2003 for the remaining 50 percent.
Maximum number of options for which the offer was open at December 31, 2007	18,175,604 options equal to about 0.35 percent of outstanding ordinary shares destined for 255 recipients.	11,541,015 options equal to about 0.22 percent of outstanding ordinary shares destined for 25 recipients.
Maximum number of options for which the offer was open at June 30, 2008	16,912,936 options equal to about 0.32 percent of outstanding ordinary shares destined for 243 recipients.	9,924,780 options equal to about 0.19 percent of outstanding ordinary shares destined for 22 recipients.
Options forfeit during the first half of 2008 as a result of persons leaving the group	1,262,668	1,616,235
Shares issued during the period	None	None

(1) This amount was reduced (from Euros 1.15) following the resolution passed by the shareholders' meeting to reduce share capital on December 12, 2007.

Plans of the subsidiary Pirelli & C. Real Estate S.p.A.

On March 6, 2008, the Pirelli & C. Real Estate S.p.A. board of directors, as proposed by the Remuneration Committee, approved the guidelines for two compensation plans based on financial instruments, later approved by the shareholders' meeting which convened on April 14, 2008 (together called the "Plans"):

- a stock grant plan, which calls for granting Pirelli & C. Real Estate S.p.A. shares to grantees at no charge ("Stock Grant Plan 2008" or "SGP 2008");
- a stock option plan, which calls for granting stock options to grantees for the purchase of Pirelli & C. Real Estate S.p.A. ("Stock Option Plan 2008-2010" or "SOP 2008-2010").

16. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

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

<i>(in thousands of euros)</i>	
Provisions for other liabilities and charges - non-current	
Beginning balance at 12/31/2007	146,331
Exchange differences	3,309
Increase	3,253
Utilization/Release	(1,985)
Other	729
Ending balance at 6/30/2008	151,637
<i>(in thousands of euros)</i>	
Provisions for other liabilities and charges - current	
Beginning balance at 12/31/2007	71,340
Exchange differences	(960)
Liabilities associated with assets held for sale	(2,356)
Increase	24,744
Utilization/Release	(5,185)
Other	395
Ending balance at 6/30/2008	87,978

The **non-current** portion mainly refers to legal and tax disputes of the subsidiary Pirelli Pneus S.A. (Brazil) and the parent Pirelli & C. S.p.A..

The **current portion** refers to product claims, contractual guarantees and liabilities on investments accounted for using the equity method. The increase during the first six months is mainly due to adjustments in relation to the application of the equity method of accounting to certain companies of the Real Estate Group.

17. EMPLOYEE BENEFIT OBLIGATIONS

Employee benefit obligations include:

	<i>(in thousands of euros)</i>	
	6/30/2008	12/31/2007
Pension funds:		
- funded	205,679	118,234
- unfunded	94,011	88,050
Employees' leaving indemnity (Italian companies)	56,076	74,559
Medical care plans	18,839	21,839
Other benefits	43,518	46,460
	418,123	349,142

Pension funds

The composition of pension funds at June 30, 2008 is as follows:

	<i>(in thousands of euros)</i>					
	6/30/2008					
	Germany	Total unfunded pension funds	USA	UK	Other countries	Total funded pension funds
Funded						
Present value of funded obligations			109,246	865,381	2,510	977,137
Fair value of plan assets			(91,665)	(677,765)	(2,028)	(771,458)
Unfunded						
Present value of unfunded obligations	94,011	94,011				
Net liability in the balance sheet	94,011	94,011	17,581	187,616	482	205,679
of which:						
- Tyre	85,155	85,155	17,581	97,355	482	115,418
- Real Estate	8,856	8,856	-	-	-	-
- Other	-	-	-	90,261	-	90,261

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

(in thousands of euros)

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

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

(in thousands of euros)

	6/30/2008	12/31/2007
Beginning balance	1,113,853	1,193,755
Exchange differences	(75,701)	(99,276)
Change in scope of consolidation	9,033	752
Movements through the income statement	31,712	63,598
Actuarial (gains) losses recognized in equity	17,030	7,230
Employee contributions	742	1,620
Benefits paid	(24,761)	(53,760)
Other	(760)	(66)
Closing balance	1,071,148	1,113,853

The change in the scope of consolidation for Euros 9,033 thousand is attributable to the inclusion in consolidation of some German companies of the Real Estate Group, which have employee benefit obligations relating to unfunded defined benefit pension funds.

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

	<i>(in thousands of euros)</i>	
	6/30/2008	12/31/2007
Beginning balance	(907,569)	(937,597)
Exchange differences	67,199	85,947
Movements through the income statement	(32,821)	(67,042)
Actuarial (gains) losses recognized in equity	95,433	(3,030)
Employer contributions	(11,312)	(31,288)
Employee contributions	(3,913)	(1,620)
Benefits paid	21,230	47,004
Other	295	57
Closing balance	(771,458)	(907,569)

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

	<i>(in thousands of euros)</i>	
	6/30/2008	6/30/2007
Current service costs	2,367	3,702
Interest cost	29,345	29,883
Expected return on plan assets	(32,821)	(34,170)
	(1,109)	(585)

The amounts recognized in the income statement are included in "Personnel costs".

- Employees' leaving indemnity – Italian companies

The movements during the first half of 2008 in employees' leaving indemnity are as follows:

	<i>(in thousands of euros)</i>	
	6/30/2008	12/31/2007
Beginning balance	74,559	96,824
Change in scope of consolidation	(10,727)	(5,491)
Movements through the income statement (excluding curtailment)	2,003	8,270
Curtailment	-	(5,186)
Actuarial (gains) losses recognized in equity	(1,014)	(5,358)
Benefits paid	(8,390)	(14,467)
Liabilities associated with assets held for sale	(669)	-
Other	314	(33)
Closing balance	56,076	74,559
of which:		
- Tyre	36,108	38,912
- Broadband, Access & Photonics	631	1,128
- Real Estate	7,757	21,283
- Other	11,580	13,236

The change in the scope of consolidation is due to the deconsolidation of the companies of the Pirelli RE Integrated Facility Management B.V. Group.

The movements through the income statement during the first six months of 2008 relate only to the interest expense accrued on employees' leaving indemnity at December 31, 2006. Following the leaving indemnity reform introduced by Italian Budget Law 2007, employees' leaving indemnity was in fact transformed into a defined contribution plan.

- Medical care plans

The composition of medical care plans is as follows:

	<i>(in thousands of euros)</i>
	USA
Liability in the balance sheet at June 30, 2008	18,839
Liability in the balance sheet at December 31, 2007	21,839

The medical care plan in existence in the Tyre subsidiary in the United States refers almost entirely to retirees.

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

	<i>(in thousands of euros)</i>	
	6/30/2008	12/31/2007
Beginning balance	21,839	28,362
Exchange differences	(1,462)	(3,081)
Movements through the income statement	605	1,373
Actuarial (gains) losses recognized in equity	(1,369)	(1,355)
Benefits paid	(774)	(1,863)
Other	-	(1,597)
Closing balance	18,839	21,839

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

<i>(in thousands of euros)</i>		
	6/30/2008	6/30/2007
Current service costs	4	5
Interest cost	601	742
	605	747

The amounts recognized in the income statement are included in “Personnel costs”.

- Other information

Net actuarial gains referring to the first half of 2008 recognized directly in equity amount to Euros 109,975 thousand (net gains of Euros 2,589 thousand in 2007) and include the portion relating to the companies accounted for using the equity method.

The cumulative amount at June 30, 2008, equal to a net loss of Euros 174,803 thousand (net loss of Euros 64,326 thousand at December 31, 2007), is made up as follows:

<i>(in thousands of euros)</i>						
Cumulative at 6/30/2008						
	Italy	Germany	USA	UK	Other countries	Total
Pension funds	-	8,046	(12,955)	(184,066)	(482)	(189,457)
Medical care plans	-	-	474	-	-	474
Employees' leaving indemnity	14,180	-	-	-	-	14,180
Total actuarial gains (losses) recognized in equity	14,180	8,046	(12,481)	(184,066)	(482)	(174,803)

The main actuarial assumptions used at June 30, 2008, which have changed from those used at December 31, 2007, are as follows:

	Italy	Germany	Netherlands	UK	USA
Discount rate	6.00%	6.00%	6.00%	5.90% - 6.10%	6.50%
Inflation rate	2.25%	2.25%	2.25%	3.80%	

The main actuarial assumptions used at December 31, 2007 are as follows:

	Italy	Germany	Netherlands	UK	USA
Discount rate	5.50%	5.50%	5.50%	5.60%	6.0%
Inflation rate	2.00%	2.00%	2.00%	3.15%	
Expected return on plan assets				7.78%	7.67%
Expected remuneration increase rate	3.5% - 4.5%*	2.50%	2.00%	3.15%	
Medical care cost trend rate - initial					9.0%
Medical care cost trend rate - final					4.5%

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

18. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

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

(in thousands of euros)

	June 30, 2008			December 31, 2007		
	Total	Non-current	Current	Total	Non-current	Current
bonds	650,000	-	650,000	650,000	150,000	500,000
borrowings from banks	1,009,165	442,783	566,382	872,768	536,616	336,152
borrowing from other financial institutions	67,394	64,797	2,597	69,433	67,936	1,497
finance lease payables	33,207	29,565	3,642	35,652	32,271	3,381
financial accrued liabilities and deferred income	31,884	309	31,575	17,693	420	17,273
other financial payables	100,846	222	100,624	14,411	955	13,456
	1,892,496	537,676	1,354,820	1,659,957	788,198	871,759

Bonds – current portion (Euros 650,000 thousand) – refer to 4.875 percent bonds issued on October 21, 1998 by Pirelli & C. S.p.A. for Euros 500,000 thousand, repayable in a one-time payment on October 21, 2008 and 5.125 percent bonds issued in 1999 by Pirelli & C. S.p.A. for Euros 150,000 thousand maturing on April 7, 2009.

These bonds do not contain either financial covenants or clauses which could cause the early redemption of the bonds due to events other than insolvency.

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

With regard to the syndicated revolving credit line obtained in 2005 by Pirelli & C. Real Estate S.p.A. expiring in August 2010 (the “Syndicated Line”), in which 20 banks participate for a total amount of Euros 750 million, at June 30, 2008, the company had no draw downs and on July 29, 2008, in part due to the liquidity situation at the Pirelli & C. S.p.A. Group level, a formal agreement was reached to temporarily suspend the contract while retaining the right to reactivate it by May 15, 2009.

As to the credit line secured on June 29, 2007 from Mizuho Corporate Bank Ltd, Milan Branch, by Pirelli & C. Real Estate S.p.A. for an amount of Euros 50,000 thousand, on June 30, 2008, Pirelli & C. Real Estate S.p.A. had no draw downs and on July 31, 2008 voluntarily cancelled the credit line which is therefore no longer in force.

The syndicated 5-year multi-currency revolving credit line for Euros 675 million obtained by Pirelli Tyre and Pirelli International Limited was drawn down for Euros 300 million at June 30, 2008. The companies signed the contract with BNP Paribas and Banca Monte dei Paschi di Siena, which acted as the mandated lead arrangers, and a syndicate of leading Italian and international banks (Akbank, Bank of America, Banca Carige, Banco do Brasil, Banca Popolare dell'Emilia Romagna, Banco Santander Central Hispano, Banco Itau Europa, Mizuho, Natixis, Royal Bank of Canada). The loan bears interest equal to the Euribor + a spread, in relation to the ratio of the debt financed, currently equal to 40 basis points.

Borrowings from banks do not contain either financial covenants or clauses which could cause the early repayment of the loans due to events other than insolvency; furthermore, there are no significant negative pledge clauses.

The increase in **current – other financial payables** is mainly due to borrowings secured from Mediobanca by Pirelli & C. S.p.A. for Euros 83,365 thousand in connection with the purchase of a 19.19 percent stake in the company Speed S.p.A., put into a wind-up on July 9, 2008.

19. TRADE PAYABLES

Trade payables are analyzed as follows:

(in thousands of euros)

	June 30, 2008			December 31, 2007		
	Total	Non-current	Current	Total	Non-current	Current
associates and joint ventures	46,914	-	46,914	24,458	-	24,458
third parties	1,026,047	-	1,026,047	1,198,417	-	1,198,417
notes payable	14,521	-	14,521	97,073	-	97,073
payables on construction contracts	1,640	-	1,640	3,640	-	3,640
	1,089,122	-	1,089,122	1,323,588	-	1,323,588

The decrease in **trade payables to third parties** is mainly due to the deconsolidation of the companies in the Pirelli RE Integrated Facility Management B.V. Group.

20. OTHER PAYABLES

Other payables are analyzed as follows:

(in thousands of euros)

	June 30, 2008			December 31, 2007		
	Total	Non-current	Current	Total	Non-current	Current
associates and joint ventures	7,684	-	7,684	21,466	-	21,466
trade and other accrued liabilities and deferred income	101,434	4,324	97,110	130,776	4,869	125,907
tax payables	76,236	10,674	65,562	98,433	10,288	88,145
payables to employees	128,888	11	128,877	131,031	77	130,954
payables to social security agencies	33,583	3,448	30,135	48,308	2,934	45,374
payables for stock options	629	-	629	494	-	494
dividends payable	1,751	-	1,751	827,252	-	827,252
advances from customers	8,441	-	8,441	4,979	-	4,979
other payables	161,661	20,030	141,631	155,234	5,132	150,102
	520,307	38,487	481,820	1,417,973	23,300	1,394,673

The reduction in **dividends payable** refers to the reimbursement of share capital to the shareholders of Pirelli & C. S.p.A. for Euros 826,254 thousand, approved by the shareholders' meeting held on December 12, 2007.

21. FINANCIAL INSTRUMENTS

(in thousands of euros)

	6/30/2008		12/31/2007	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Non-current financial instruments	4,277	8,211	3,849	6,782
Current financial instruments	34,372	45,165	58,326	72,513

The **current assets** comprise:

- Euros 25,787 thousand relating to the fair value measurement of forward currency purchases and sales in place at June 30, 2008. These are derivative transactions which, although used for purposes of hedging commercial transactions, are not designated as such under IFRS. The fair value is determined by using the forward exchange rate at the balance sheet date;
- Euros 6,794 thousand relating to the fair value measurement of interest rate derivatives which qualify for hedge accounting under IAS 39. Specifically, Euros 3,541 thousand refers to the measurement of the “plain vanilla” interest rate collar purchased in 2006 by the Pirelli Real Estate Group as protection against a rise in interest rates on a notional amount of Euros 120 million; Euros 3,253 thousand relates to a “plain vanilla” interest rate derivative put into place during the first half by the subsidiary Pirelli International Ltd to hedge the risk of cash flow variations resulting from fluctuations in interest rates on a notional amount of Euros 100 million.

The amounts included in **non-current assets**, **current liabilities** and **non-current liabilities** refer to the fair value measurement of forward currency purchases and sales existing at June 30, 2008. These are derivative transactions which, although used for purposes of hedging commercial transactions, are not designated as such under IFRS. The fair value is determined by using the forward exchange rate at the balance sheet date.

22. COMMITMENTS AND CONTINGENCIES

Guarantees provided at the time of Olimpia S.p.A.'s sale

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

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

In brief, Olimpia S.p.A. had been assessed for IRAP taxes for 2001 on alleged financial income from the Bell bonds repayable in Olivetti shares for an amount of Euros 26.5 million, in addition to penalties of the same amount.

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

In September 2007, the Tax Commission of the First Instance, on justified grounds, ruled in favor of the appeal filed by the company and completely canceled the above-mentioned assessment.

The Tax Revenues Agency still has time to file an appeal.

At the end of the year, another assessment was received for the year 2002: the relative IRPEG tax amounts to Euros 29.3 million in addition to penalties for the same amount.

This assessment was also considered to be totally devoid of foundation and the company filed an appeal with the Tax Commission of the First Instance. In the meantime, the company obtained the suspension of the payment of the tax bill for Euros 17.4 million provisionally issued for the tax assessed. The Commission has also already set a date for a hearing to discuss the matter which will be held this November.

Also for this second dispute, advised by our consultants, we feel confident that the arguments presented, which the Commission has already preliminarily accepted during the examination of the petition to suspend the tax bill, will be upheld in the ruling, without any increase in taxes.

Personal guarantees**Sureties**

Sureties were provided to guarantee loans made by credit institutions to associates and joint ventures for a total of Euros 17,273 thousand consisting of the shares of the associates and joint ventures pledged for an amount of Euros 134,459 thousand.

Various sureties were provided by banking institutions and insurance companies to third parties and in the interests of Pirelli & C. Real Estate S.p.A. mainly to fulfill contractual obligations of the Pirelli & C. Real Estate Group for a total of Euros 163,018 thousand.

Commitments for purchases of investments / fund shares

These refer to purchase options and regard the commitment undertaken by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. to subscribe to shares of the closed-end ethical real estate investment fund for qualified investors “Fondo Abitare Sociale 1” for a total amount of Euros 2,422 thousand.

Other guarantees

Other guarantees refer to the Real Estate Sector as follows:

- guarantees provided as part of securitization transactions conducted by vehicle companies for the correct and precise fulfillment of payment obligations for a total of Euros 52,896 thousand;
- guarantees provided as part of the transaction for the sale of junior notes relating to a non-performing loan portfolio of ex-Banco di Sicilia on behalf of a third-party joint venture. These guarantees, counter-guaranteed by the partner in the venture, involve a net exposure for Pirelli & C. Real Estate S.p.A. of Euros 26,717 thousand;
- guarantees provided to third parties for the fulfillment of various commitments undertaken by the companies of the Pirelli & C. Real Estate Group for a total of Euros 8,214 thousand;
- guarantees provided to ex-Banco di Sicilia for Euros 8,135 thousand against payment of a loan portfolio purchased from International Credit Recovery 8 S.r.l. and later to form part of a securitization transaction;
- guarantees provided to Unicredit for Euros 5,638 thousand against payment of a loan portfolio purchased from International Credit Recovery 8 S.r.l. and partly forming part of a securitization transaction.

Moreover, in the process of acquiring the DGAG Group, Pirelli & C. Real Estate S.p.A. provided guarantees mainly in respect of bank loans made to the vehicle company. Pirelli & C. Real Estate S.p.A.'s exposure for such guarantees is net of the counter-guarantees provided by the partner in the venture, quantified at Euros 69,512 thousand.

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

Commitments for purchases of properties

Commitments for the purchase of properties refer to Pirelli & C. Real Estate S.p.A. obligation to purchase certain buildings if they remain unsold, owned by Imser 60 S.r.l., for a maximum amount of Euros 320,000 thousand. The purchase price of these buildings is established by contract at about 20 percent of their market value. This option may be exercised by the counterpart up to May 31, 2022.

Commitments for purchases of property, plant and equipment

Commitments for the purchase of property, plant and equipment refer to the Tyre Sector and total Euros 110,500 thousand, mainly in reference to the companies in Brazil, Romania, China and Italy.

23. REVENUES FROM SALES AND SERVICES

Revenues from sales and services can be analyzed as follows:

	<i>(in thousands of euros)</i>	
	1st Half 2008	1st Half 2007
Revenues from sales of products	2,298,799	2,803,817
Revenues from services	348,084	383,517
Revenues on construction contracts	38,467	5,307
	2,685,350	3,192,641

The decrease in **revenues from sales of products** compared to the first half of 2007 is mainly due to the deconsolidation of the companies of the DGAG Group.

Revenues on construction contracts largely include revenues received from the companies Ingest Facility S.p.A. (Euros 16,725 thousand), Ingest Facility Polska Sp.zo.o. (Euros 18,650 thousand) and Iniziativa Immobiliari 3 S.r.l. for work relating to the construction of a second corporate headquarters at Milano Bicocca.

24. OTHER INCOME

“Other income” amounts to Euros 95,275 thousand compared to Euros 186,950 thousand in the first half of 2007 and includes rent income, commissions, royalties, compensation, insurance refunds and other minor items.

The decrease compared to the first half of 2007 is due to lower royalties received by the parent Pirelli & C. S.p.A. from Prysmian for Euros 10,000 thousand, lower revenues from the Telecom Italia S.p.A. Group following the sale of the company Shared Service Center s.c.r.l. for Euros 48,175 thousand and the remaining difference is largely on account of lower income of the Real Estate Group.

Lastly, this line also includes income of Euros 17,000 thousand (equal to 18 percent of other income) relating to the consideration received by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. on the sale of the management of Fondo Berenice to another SGR. The amount, in fact, represents an advance on what would have been earned as fees in future years. The amount qualifies as a nonrecurring event.

In the first half of 2007, income from nonrecurring events totaled Euros 2,818 thousand. The amount referred to compensation received for the expropriation of land located in Settimo Torinese for Euros 1,746 thousand and the refund of the events tax for the years it was not due for Euros 1,072 thousand (equal to 1.5 percent of other income).

25. PERSONNEL COSTS

Personnel costs consist of the following:

	<i>(in thousands of euros)</i>	
	1st Half 2008	1st Half 2007
Salaries and wages	442,628	446,719
Social security costs	96,254	100,506
Leaving indemnity and similar costs (*)	14,472	14,225
Defined contribution pension fund costs	10,329	6,232
Defined benefit pension fund costs	(1,109)	(586)
Defined benefit medical care plan costs	605	747
Long-service bonus costs	569	1,081
Defined contribution medical care plan costs	11,456	9,705
Other costs	4,275	3,644
	579,479	582,273

(*) Includes Italian and foreign companies.

Personnel costs for the first half of 2008 include Euros 20,171 thousand of employee termination benefit incentives under a broad restructuring plan (equal to 3.5 percent of other income) which qualifies as a nonrecurring event. In the first half of 2007, other income included the positive effect of the curtailment relating to the provision for employees' leaving indemnity, due to the leaving indemnity reform introduced by the Budget Law 2007, equal to Euros 5,140 thousand, which also qualified as a nonrecurring event.

“Salaries and wages” include Euros 1,814 thousand relating to the new stock grant plan 2008 and the line benefits by Euros 1,639 thousand from the revision of the probability of reaching the targets established for the stock option plan 2006-2008; both plans relate to the Real Estate Group.

26. AMORTIZATION, DEPRECIATION AND IMPAIRMENTS

Amortization, depreciation and impairments are as follows:

<i>(in thousands of euros)</i>		
	1st Half 2008	1st Half 2007
Amortization of intangible assets	4,694	4,493
Depreciation of property, plant and equipment	100,594	100,595
Impairment loss on intangible assets	30	3,533
Impairment loss on property, plant and equipment	-	10
	105,318	108,631

27. OTHER EXPENSES

Other expenses include the following:

<i>(in thousands of euros)</i>		
	1st Half 2008	1st Half 2007
Selling expenses	150,092	155,662
Utilities and power	102,600	93,994
Purchases of merchandise for resale	83,652	57,780
Contractual work expenses	76,805	23,505
Advertising expenses	75,541	68,462
Maintenance	72,656	91,831
Consulting fees	47,679	81,956
Rent and hires	40,549	38,995
Commissioned work by third parties	33,252	60,978
Cleaning expenses	23,276	23,869
Traveling expenses	21,142	24,294
Software and information services expenses	16,654	19,997
Insurance	13,251	16,115
Revenues stamps, duties and local taxes	13,274	13,160
Other accruals	10,024	18,874
Receivables impairment	9,846	8,739
Operating lease payments	6,966	4,228
Outside work on construction contracts	956	15,314
Other	171,666	199,781
	969,881	1,017,534

Other expenses include Euros 1,018 thousand relating to the Real Estate Sector in reference to an onerous contract for the Hamburg office, which qualifies as a non-recurring event (equal to 0.1 percent of the line total).

28. FINANCIAL INCOME

Financial income includes the following:

	<i>(in thousands of euros)</i>	
	1st Half 2008	1st Half 2007
Interest	44,459	36,018
Other financial income	5,265	7,352
Gains on exchange	118,967	58,904
Gains on disposal of available-for-sale financial assets	6,858	8,508
Gains on disposal of investments in subsidiaries	22,241	42,061
	197,790	152,843

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

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

Gains on the disposal of investments in subsidiaries mainly include Euros 21,391 thousand and results from the release of accruals set aside at the time of the sale of a stake in Pirelli Tyre S.p.A. and now, following the repurchase of this stake, are no longer required. This qualifies as a nonrecurring event (equal to 10.8 percent of the line).

In the first half of 2007, the amount of Euros 42,061 thousand referred to the sale of a 49 percent stake in Pirelli RE Integrated Facility Management B.V. to Intesa Sanpaolo, which also qualified as a nonrecurring event.

29. FINANCIAL EXPENSES

Financial expenses include the following:

	<i>(in thousands of euros)</i>	
	1st Half 2008	1st Half 2007
Bank interest	48,971	107,409
Other financial expenses	14,151	21,287
Losses on exchange	106,170	42,728
Impairment loss on available-for-sale financial assets	155,343	-
	324,635	171,424

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

Impairment losses on available-for-sale financial assets refer to the impairment loss recognized on the investment in Telecom Italia S.p.A., as described in the note “Other financial assets”.

30. DIVIDENDS

The amount of Euros 19,817 thousand primarily refers to dividends received from Telecom Italia S.p.A. for Euros 14,569 thousand, RCS Mediagroup S.p.A. for Euros 4,300 thousand, Gruppo Banca Leonardo S.p.A. for Euros 278 thousand and Intek S.p.A. for Euros 154 thousand.

In the first half of 2007, the amount of Euros 13,936 thousand primarily referred to dividends received from RCS Mediagroup S.p.A. for Euros 3,871 thousand, Telecom Italia S.p.A. for Euros 6,602 thousand and Servizio Titoli S.r.l. for Euros 873 thousand.

31. GAINS (LOSSES) FROM CHANGES IN FAIR VALUE OF FINANCIAL ASSETS

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

	<i>(in thousands of euros)</i>	
	1st Half 2008	1st Half 2007
Measurement of financial assets at fair value through profit or loss	(6,451)	1,273
Measurement of currency derivatives at fair value	(20,009)	(21,002)
Measurement of other derivatives at fair value	930	9,599
	(25,530)	(10,130)

The **measurement of financial assets at fair value through profit or loss** mainly refers to the measurement at fair value of shares held in the fund Cloe Fondo Uffici – Closed-end unlisted reserved real estate investment fund (a loss of Euros 1,604 thousand) and other shares and securities in portfolio held for trading.

The **measurement of currency derivatives at fair value** refers to forward currency purchases and sales. For open items at June 30, 2008, the fair value is determined by applying the forward exchange rate at the balance sheet date.

The **measurement of other derivatives at fair value**, a gain of Euros 930 thousand, almost entirely includes the measurement at fair value of derivatives connected with interest rate risk.

32. SHARE OF EARNINGS (LOSSES) OF ASSOCIATES AND JOINT VENTURES

The share of earnings (losses) of associates and joint ventures accounted for using the equity method is an earnings figure of Euros 13,580 thousand (Euros 61,033 thousand in the first half of 2007), and mainly refers to the Real Estate sector (Euros 12,905 thousand, Euros 60,037 thousand in the first half of 2007).

This line includes a positive effect of Euros 5.7 million resulting from the change in the fair value of investment properties compared to a positive effect of Euros 49.3 million in the first half of 2007.

33. INCOME TAXES

Income taxes for the period are composed as follows:

	<i>(in thousands of euros)</i>	
	1st Half 2008	1st Half 2007
Current income taxes	68,013	66,451
Deferred income taxes	689	12,698
	68,702	79,149

34. INCOME (LOSS) FROM DISCONTINUED OPERATIONS

In June 2008, a letter of intent was signed between Pirelli & C. S.p.A. and CyOptics Inc. for the formation of a strategic alliance in the field of new generation integrated photonics. On July 24, 2008, the parties reached an agreement to integrate PGT Photonics (the Pirelli Group photonics company), valued at approximately U.S. dollars 40 million including available cash, and CyOptics, (a privately-held American leader in optical components based on indium phosphide technology). At the same time, Pirelli subscribed to a CyOptics capital increase with a cash contribution of U.S. dollars 20 million.

Following the transaction, Pirelli holds an approximate 30 percent stake in the new CyOptics that will have annual sales of about U.S. dollars 80 million.

Therefore, at June 30, 2008, the photonics business was considered as a discontinued operation.

The amount of Euros 12,110 thousand in the first half of 2008 includes the result of the photonics business in the first half (a loss of Euros 10,910 thousand) and the costs directly related to its sale (Euros 1,200 thousand).

In the first half of 2007, the income of Euros 9,915 thousand included the estimate to align Olimpia S.p.A.'s value to its sale price following the agreement reached with leading institutional financial and industry investors (a loss of Euros 73,885 thousand, without considering the share of the result for the period), the gain of Euros 91,000 thousand on the sale of the warrants obtained under the agreement for the sale of the Energy and Telecom Cables and Systems activities in July 2005 to Goldman Sachs and linked to the economic benefits on Prysmian (Lux) S.à.r.l., and the result of the photonics activities (a loss of Euros 7,200 thousand).

35. EARNINGS PER SHARE

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

	1st Half 2008	1st Half 2007
Income (loss) from continuing operations for the period attributable to the equity holders of the company	(24,133)	98,327
Result attributable to savings shares considering the extra 2% *	608	(2,518)
Income (loss) from adjusted continuing operations for the period attributable to the equity holders of the company	<u>(23,525)</u>	<u>95,809</u>
Weighted average number of outstanding ordinary shares (in thousands)	<u>5,230,525</u>	<u>5,230,525</u>
Basic earnings per ordinary share from continuing operations (in euros per thousand of shares)	<u>(4.50)</u>	<u>18.42</u>
	1st Half 2008	1st Half 2007
Income (loss) from discontinued operations for the period attributable to the equity holders of the company	(12,110)	9,915
Result attributable to savings shares considering the extra 2% *	305	(254)
Income (loss) from discontinued operations for the period attributable to the equity holders of the company	<u>(11,805)</u>	<u>9,661</u>
Weighted average number of outstanding ordinary shares (in thousands)	<u>5,230,525</u>	<u>5,230,525</u>
Basic earnings per ordinary share from discontinued operations (in euros per thousand of shares)	<u>(2.26)</u>	<u>1.85</u>

* This right is cumulative with the right for the year 2006 which closed with a loss.

Diluted earnings per share has not been calculated since the company, at both June 30, 2008 and June 30, 2007, has only one category of potentially dilutive ordinary shares: shares from exercising stock options. However, since the price to exercise the stock options is higher than market value, the stock options have not been considered as exercised.

36. DIVIDENDS PER SHARE

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

37. RELATED PARTY DISCLOSURES

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

The following table summarizes the balance sheet and income statement captions which include related party transactions and the relative percentage of the total:

(in millions of euros)

	Total in balance sheet at June 30, 2008			Total in balance sheet at December 31, 2007		
	of which related parties	% of total	of which related parties	% of total		
Balance sheet						
<u>Non-current assets</u>						
Other receivables	711.4	533.3	75.0%	672.9	520.8	77.4%
<u>Current assets</u>						
Trade receivables	1,008.4	65.0	6.5%	1,098.9	123.7	11.3%
Other receivables	236.7	38.6	16.3%	241.5	22.1	9.1%
<u>Current liabilities</u>						
Borrowings from banks and other financial institutions	1,354.8	5.2	0.4%	871.8	2.9	0.3%
Trade payables	1,089.1	38.2	3.5%	1,323.6	29.1	2.2%
Other payables	481.8	7.5	1.6%	1,394.7	21.5	1.5%
Tax payables	52.5	0.9	1.7%	45.7	-	0.0%
	Total in balance sheet at June 30, 2008	of which related parties	% of total	Total in balance sheet at June 30, 2007	of which related parties	% of total
Income statement						
Revenues from sales and services	2,685.4	89.1	3.3%	3,192.6	135.7	4.3%
Other income	95.3	-	0.0%	187.0	48.2	25.8%
Personnel costs	(579.5)	(1.5)	0.3%	(582.3)	(1.6)	0.3%
Other expenses	(969.9)	(31.9)	3.3%	(1,017.5)	(72.1)	7.1%
Financial income	197.8	13.5	6.8%	152.8	15.2	9.9%
Financial expenses	(324.6)	(0.1)	0.0%	(171.4)	-	0.0%
Dividends	19.8	-	0.0%	13.9	6.6	47.4%
Share of earnings (losses) of associates and joint	13.6	13.6	100.0%	61.0	61.0	100.0%

The income statement, balance sheet and cash flow effects of transactions with related parties on the condensed consolidated financial statements of the Pirelli Group for the period ended June 30, 2008 are as follows.

Transactions with associates and joint ventures:

<i>(in millions of euros)</i>		
Revenues for goods and services	88.6	These mainly refer to mandates with the Real Estate group companies relating to fund and asset management and technical and commercial services
Other expenses	23.3	These mainly refer to sundry types of amounts recharged of Pirelli & C. Real Estate, connected, among other things, also to consortium expenses
Financial income	13.5	This mainly includes interest income relating to financial receivables of associates and joint ventures of Pirelli & C. Real Estate
Share of earnings (losses) of associates and joint ventures	13.6	This refers to the earnings or losses from the investments accounted for by the equity method
Financial expenses	0.1	
Current trade receivables	64.6	These mainly refer to receivables for services rendered to associates and joint ventures of Pirelli & C. Real Estate
Non-current other receivables	0.8	These refer to the receivables of Pirelli & C. Real Estate
Non-current financial receivables	532.4	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	20.3	These refer to Pirelli & C. Real Estate and mainly include a receivable to be collected for dividends declared
Current financial receivables	18.4	These mainly refer to current account balances with the new companies that hold real estate assets in Germany
Current trade payables	34.4	These mainly refer to sundry types of amounts recharged of Pirelli & C. Real Estate
Current other payables	7.5	The mainly include sundry types of amounts recharged of the companies of Pirelli & C. Real Estate
Current borrowings from banks and other financial institutions	5.2	These mainly include the liability balances on the intercompany current accounts of the companies of Pirelli & C. Real Estate
Current taxes payable	0.9	These refer to the payable of Pirelli & C. Real Estate S.p.A. to Trixia S.r.l. for expenses arising from this company's participation in the regime for fiscal transparency under art. 115 of TUIR, by virtue of which taxable income and loss of the company are allocated to the shareholders

Transactions with parties related to Pirelli through directors:

<i>(in millions of euros)</i>		
Revenues for goods and services	0.5	These refer to services rendered by Pirelli & C. Real Estate S.p.A. and Pirelli & C. S.p.A. to the Camfin group
Other expenses	4.4	These refer to costs for the sponsorship of F.C. Internazionale Milano S.p.A.
Current trade receivables	0.4	These refer to receivables for the supply of the above services to the Camfin group
Current trade payables	3.8	These refer to payables for the supply of the above services to F.C. Internazionale Milano S.p.A.
Dividends paid (cash flows)	22.7	Dividends to Camfin S.p.A. (Euros 21.9 million and C.M.C. S.p.A. (Euros 0.8 million) from Pirelli & C. S.p.A.
Change in financial payables (cash flows)	218.9	Capital reimbursed to Camfin S.p.A (Euro 211.1 million) and C.M.C. S.p.A. (Euro 7.8 million) by Pirelli & C. S.p.A.

Benefits to key executives

In the first half of 2008, the compensation due key executives, being those who have the power and responsibility, directly or indirectly, for the planning, direction and control of the activities of Pirelli & C. S.p.A., including executive and non-executive directors, amounts to Euros 5,716 thousand (Euros 7,808 thousand in the first half of 2007). The part relating to the payment of employee benefits was charged to the income statement in “Personnel costs” for Euros 1,470 thousand (Euros 1,642 thousand in the first half of 2007), of which the part relating to employees’ leaving indemnity amounted to Euros 228 thousand (Euros 197 thousand in the first half 2007), and the part relating to the compensation to directors was charged to the income statement in “Other expenses” for Euros 4,246 thousand (Euros 6,166 thousand in the first half of 2007).

38. SIGNIFICANT SUBSEQUENT EVENTS

On July 15, 2008, Pirelli announced a restructuring plan for the Manresa factory in order to protect its presence in Spain. In fact, for some time now, a large part of the production at the Catalan plant occurs at conditions that are not competitive. The situation is further complicated by a difficult economic and market scenario which is increasingly deteriorating. The pivotal element of the plan will consist of focusing the Manresa plant on products with a better margin and reducing articles that are manufactured at a loss. The restructuring plan calls for a reduction in production capacity and in the factory's workforce by about 30 percent by the end of 2008 and will affect approximately 280 workers.

On July 28, 2008, the Consortium formed by RREEF Alternative Investment, Pirelli RE, the Generali Group and the Borletti Group completed the acquisition of a 49 percent stake in Highstreet, an investment company that owns the properties leased to the German Karstadt department store chain. Highstreet has a portfolio consisting of 164 properties located throughout the German territory. The total gross area is 3.2 million square meters (the gross sales area is 2.1 million square meters). The enterprise value is equal to approximately Euros 4.56 billion, with approximately Euros 3.5 billion of loans secured by the properties.

39. OTHER INFORMATION

Exchange rates

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

	(local currency against Euros)					
	Period-end		Change in	Average		Change in
	12/31/2007	12/31/2006	%	2007	2006	%
British pound	0.7923	0.7334	8.03%	0.7754	0.6748	14.91%
Swiss franc	1.6056	1.6547	(2.97%)	1.6059	1.6319	(1.59%)
Slovakian koruna	30.2050	33.5830	(10.06%)	32.2312	28.1491	14.50%
American dollar	1.5764	1.4721	7.09%	1.5308	1.3294	15.15%
Canadian dollar	1.5942	1.4449	10.33%	1.5410	1.5084	2.16%
Brazilian real	2.5095	2.6075	(3.76%)	2.5973	2.7190	(4.48%)
Venezuela bolivar	3.3893	3.1650	7.09%	3.2912	2.8530	15.36%
Argentinean peso	4.7689	4.6356	2.88%	4.8030	4.1078	16.92%
Australian dollar	1.6371	1.6757	(2.30%)	1.6555	1.6444	0.67%
Chinese renminbi	10.8050	10.7516	0.50%	10.8022	10.2599	5.29%
Singapore dollar	2.1446	2.1163	1.34%	2.1231	2.0316	4.51%
Egyptian pound	8.3987	8.1039	3.64%	8.2989	7.5631	9.73%
Turkish lira	1.9364	1.7102	13.23%	1.8875	1.8183	3.81%

Net financial position
(non-GAAP measure)

The composition of the net financial position is as follows:

	<i>(in millions of euros)</i>	
	6/30/2008	12/31/2007
. Borrowings from banks and other financial institutions - current	1,325	854
. Financial accrued liabilities and deferred income - current	48	46
. Borrowings from banks and other financial institutions - non-current	546	795
. Payables to shareholders for capital reduction	-	826
Total gross debt	1,918	2,521
. Cash and cash equivalents	(334)	(2,058)
. Securities held for trading	(105)	(114)
. Financial receivables - current	(19)	(19)
. Financial accrued income and prepaid expenses - current	(3)	(18)
Net financial debt	1,457	312
. Financial receivables - non-current	(628)	(609)
. Financial accrued income and prepaid expenses - non-current	(5)	(5)
Total net financial (liquidity)/debt position	823	(302)

The change during the first half is mainly due to the effects of the repurchase of the minority stake in Pirelli Tyre, normal changes in the working capital of the businesses, the payment of dividends, the purchase of Pirelli Real Estate shares and the deconsolidation of the facility management business.

Companies consolidated line-by-line

Company	Business	Headquarters	Share Capital	% holding	Held by
Europe					
Austria					
ECO-Immobilien Gmbh	Real Estate	Vienna	Euro	35.000	100,00% Pirelli RE Residential Investments Gmbh
Pirelli Gmbh	Tyre	Vienna	Euro	726.728	100,00% Pirelli Tyre (Europe) S.A.
Belgium					
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700.000	100,00% Pirelli Tyre (Europe) S.A.
Bulgaria					
Pirelli RE Bulgaria AD	Real Estate	Sofia	Bgn	50.000	75,00% Pirelli RE Netherlands B.V.
France					
Gecam France S.a.S	Sustainable mobility	Paris	Euro	750.000	70,00% Pirelli & C. Eco Technology S.p.A.
Pirelli Broadband Solutions France S.a.r.l.	Telecommunications	Roissy en France	Euro	10.000	99,00% Pirelli Broadband Solutions S.p.A. 1,00% Maristel S.p.A.
Pneus Pirelli S.a.S	Tyre	Roissy en France	Euro	1.515.858	100,00% Pirelli Tyre (Europe) S.A.
Germany					
Deutsche Pirelli Reifen Holding Gmbh	Financial	Breuberg/Odenwald	Euro	7.694.943	100,00% Pirelli Tyre Holland N.V.
DGAG Grundstücksbeteiligung Gmbh	Real Estate	Kiel	Euro	25.000	100,00% Pirelli & C. Real Estate Deutschland Gmbh
DGAG Immobilien Management Gmbh	Real Estate	Amburg	Euro	5.150.000	100,00% Pirelli & C. Real Estate Deutschland Gmbh
DGAG Shopping Immobilien Gmbh	Real Estate	Amburg	Euro	153.400	100,00% Pirelli & C. Real Estate Deutschland Gmbh
Drahtcord Saar Geschaefsfuehrungs Gmbh	Tyre	Merzig	Deut. Mark	60.000	50,00% Pirelli Deutschland Gmbh
Drahtcord Saar Gmbh & Co. K.G.	Tyre	Merzig	Deut. Mark	30.000.000	50,00% Pirelli Deutschland Gmbh
Driver Fleet Solution Gmbh	Tyre	Breuberg/Odenwald	Euro	26.000	100,00% Deutsche Pirelli Reifen Holding Gmbh
Mertus Achtunddreissigste Gmbh	Real Estate	Frankfurt	Euro	25.000	80,00% Pirelli RE Netherlands B.V.
Pirelli & C. Real Estate Deutschland Gmbh	Real Estate	Amburg	Euro	5.000.000	100,00% Pirelli & C. Real Estate S.p.A.
Pirelli Deutschland Gmbh	Tyre	Breuberg/Odenwald	Euro	26.334.100	100,00% Deutsche Pirelli Reifen Holding Gmbh
Pirelli Personal Service Gmbh	Tyre	Breuberg/Odenwald	Euro	25.000	100,00% Deutsche Pirelli Reifen Holding Gmbh
Pirelli RE Agency Deutschland Gmbh	Real Estate	Kiel	Euro	25.000	100,00% Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Asset Management NPL Deutschland Gmbh	Real Estate	Berlin	Euro	25.000	100,00% Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Facility Management Deutschland Gmbh (ex- PSG Parkhaus Service Gmbh)	Real Estate	Amburg	Euro	25.600	100,00% Pirelli & C. Real Estate Deutschland Gmbh Pirelli RE Facility Management Deutschland Gmbh (ex- PSG Parkhaus Service Gmbh)
Pirelli RE Hausmeister Service Deutschland Gmbh	Real Estate	Kiel	Euro	25.000	100,00% Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Management Services Deutschland Gmbh	Real Estate	Amburg	Euro	25.000	100,00% Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Property Management Deutschland Gmbh	Real Estate	Kiel	Euro	25.000	100,00% Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Residential Investments Gmbh	Real Estate	Amburg	Euro	570.000	100,00% Pirelli & C. Real Estate S.p.A.
PK Grundstueckverwaltung Gmbh	Tyre	Hoechst/Odenwald	Euro	26.000	100,00% Deutsche Pirelli Reifen Holding Gmbh
Pneumobil Gmbh	Tyre	Breuberg/Odenwald	Euro	259.225	100,00% Deutsche Pirelli Reifen Holding Gmbh
Projekt Bahnhof Hamburg-Altona Verwaltungs Gmbh	Real Estate	Amburg	Euro	25.000	100,00% Projektentwicklung Bahnhof Hamburg-Altona Gmbh & Co. KG
Projektentwicklung Bahnhof Hamburg-Altona Gmbh & Co. KG	Real Estate	Amburg	Euro	8.000.000	74,90% Pirelli & C. Real Estate Deutschland Gmbh
Greece					
The Experta in Wheels - Driver Hellas S.A.	Tyre	Athens	Euro	100.000	72,00% Elastika Pirelli S.A.
Elastika Pirelli S.A.	Tyre	Athens	Euro	1.192.000	99,90% Pirelli Tyre (Europe) S.A. 0,10% Pirelli Tyre S.p.A.
Pirelli Hellas S.A. (in liquidation)	Sundry	Athens	US \$	22.050.000	79,86% Pirelli Holding N.V.
Hungary					
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3.000.000	100,00% Pirelli Tyre (Europe) S.A.
Ireland					
Pirelli Reinsurance Company Ltd	Reinsurance	Dublin	US \$	7.150.000	100,00% Pirelli Finance (Luxembourg) S.A.

Company	Business	Headquarters	Share Capital	% holding	Held by
Italy					
Acquario S.r.l. (in liquidation)	Real Estate	Genoa	Euro 255.000	100,00%	Pirelli & C. Real Estate S.p.A.
Alfa S.r.l.	Real Estate	Milan	Euro 2.600.000	100,00%	Pirelli & C. Real Estate S.p.A.
Beta S.r.l.	Real Estate	Milan	Euro 26.000	100,00%	Pirelli & C. Real Estate S.p.A.
Botticino S.r.l.	Real Estate	Milan	Euro 10.000	100,00%	Pirelli & C. Real Estate S.p.A.
Casaclick S.p.A.	Real Estate	Milan	Euro 299.000	100,00%	Pirelli & C. Real Estate Agency S.p.A.
Centrale Immobiliare S.p.A.	Real Estate	Milan	Euro 5.200.000	100,00%	Pirelli & C. Real Estate S.p.A.
Centro Servizi Amministrativi Pirelli S.r.l.	Services	Milan	Euro 51.000	34,00%	Pirelli & C. S.p.A.
				33,00%	Pirelli Tyre S.p.A.
				33,00%	Pirelli & C. Real Estate S.p.A.
CFT Finanziaria S.p.A.	Real Estate	Florence	Euro 16.410.004	100,00%	Pirelli & C. Real Estate S.p.A.
Dolcetto sei S.r.l.	Real Estate	Milan	Euro 10.000	100,00%	Pirelli & C. Real Estate S.p.A.
Driver Italia S.p.A.	Commercial	Milan	Euro 350.000	72,37%	Pirelli Tyre S.p.A.
Edilnord Gestioni S.p.A.	Real Estate	Milan	Euro 517.000	100,00%	Pirelli & C. Real Estate S.p.A.
Elle Dieci Società Consortile a.r.l.	Real Estate	Milan	Euro 100.000	100,00%	Pirelli & C. Real Estate Property Management S.p.A.
Elle Tre Società Consortile a.r.l.	Real Estate	Milan	Euro 100.000	100,00%	Pirelli & C. Real Estate Property Management S.p.A.
Elle Uno Società Consortile a.r.l. (in liquidation)	Real Estate	Milan	Euro 100.000	100,00%	Edilnord Gestioni S.p.A.
Erato Finance S.r.l. (in liquidation)	Real Estate	Milan	Euro 600.000	53,85%	Pirelli & C. Real Estate S.p.A.
Geoldro S.p.A.	Real Estate	Naples	Euro 3.099.096	100,00%	Centrale Immobiliare S.p.A.
Iniziative Immobiliari 3 S.r.l.	Real Estate	Milan	Euro 10.000	100,00%	Iniziative Immobiliari 3 B.V.
Kappa S.r.l.	Real Estate	Milan	Euro 10.400	100,00%	Pirelli & C. Real Estate S.p.A.
Lambda S.r.l.	Real Estate	Milan	Euro 578.760	100,00%	Pirelli & C. Real Estate S.p.A.
Maristel S.p.A.	Telecommunications	Milan	Euro 1.020.000	100,00%	Pirelli Broadband Solutions S.p.A.
NewCo RE 1 S.r.l.	Real Estate	Milan	Euro 30.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 4 S.r.l.	Real Estate	Milan	Euro 10.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 5 S.r.l.	Real Estate	Milan	Euro 40.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 6 S.r.l.	Real Estate	Milan	Euro 40.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 8 S.r.l.	Real Estate	Milan	Euro 40.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 9 S.r.l.	Real Estate	Milan	Euro 40.000	100,00%	Pirelli & C. Real Estate S.p.A.
Parcheggi Bicoeca S.r.l.	Real Estate	Milan	Euro 1.500.000	75,00%	Pirelli & C. Real Estate S.p.A.
PBS S.C. a.r.l.	Real Estate	Milan	Euro 100.000	60,00%	Pirelli & C. Real Estate Property Management S.p.A.
PGT Photonics S.p.A. (ex- PGM S.r.l.)	Photonics	Milan	Euro 6.010.000	100,00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente Renewable Energy S.p.A.	Environment	Milan	Euro 3.060.000	100,00%	Pirelli & C. Ambiente S.p.A.
Pirelli & C. Ambiente S.p.A.	Environment	Milan	Euro 6.120.000	51,00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente Site Remediation S.p.A.	Environment	Milan	Euro 155.700	100,00%	Pirelli & C. Ambiente S.p.A.
Pirelli & C. Eco Technology S.p.A.	Sustainable mobility	Milan	Euro 33.120.000	51,00%	Pirelli & C. S.p.A.
Pirelli & C. Opere Generali S.p.A.	Real Estate	Milan	Euro 104.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Agency S.p.A.	Real Estate	Milan	Euro 1.000.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Franchising Servizi Finanziari S.r.l.	Real Estate	Milan	Euro 10.000	100,00%	Pirelli & C. Real Estate Agency S.p.A.
Pirelli & C. Real Estate Opportunities Società di Gestione del Risparmio S.p.A.	Real Estate	Milan	Euro 1.000.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Property Management S.p.A.	Real Estate	Milan	Euro 114.400	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate S.p.A.	Real Estate	Milan	Euro 21.298.616	55,40%	Pirelli & C. S.p.A.
				3,05%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A.	Real Estate	Milan	Euro 24.458.763	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli Broadband Solutions S.p.A.	Telecommunications	Milan	Euro 9.120.000	100,00%	Pirelli & C. S.p.A.
Pirelli Cultura S.p.A.	Sundry	Milan	Euro 1.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Industrie Pneumatiche S.r.l.	Tyre	Settimo Torinese (To)	Euro 1.000.000	100,00%	Pirelli Tyre S.p.A.
Pirelli Labs S.p.A.	Research and Development	Milan	Euro 5.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Nastri Tecnici S.p.A. (in liquidation)	Sundry	Milan	Euro 384.642	100,00%	Pirelli & C. S.p.A.
Pirelli RE Credit Servicing S.p.A.	Real Estate	Milan	Euro 1.809.500	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli Servizi Finanziari S.p.A.	Financial	Milan	Euro 1.976.000	100,00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Information Systems	Milan	Euro 1.010.000	100,00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro 256.820.000	61,06%	Pirelli & C. S.p.A.
Progetto Bicoeca Università S.r.l.	Real Estate	Milan	Euro 50.360	50,50%	Pirelli & C. Real Estate S.p.A.
Progetto Lainate S.r.l. (in liquidation)	Real Estate	Milan	Euro 25.500	100,00%	Pirelli & C. Real Estate S.p.A.
Progetto Perugia S.r.l.	Real Estate	Milan	Euro 100.000	100,00%	Pirelli & C. Real Estate S.p.A.
Progetto Vallata S.r.l.	Real Estate	Milan	Euro 1.500.000	80,00%	Pirelli & C. Real Estate S.p.A.
				9,00%	Pirelli & C. Real Estate Integrated Facility Management S.p.A.
Pzero S.r.l.	Sundry	Milan	Euro 10.000	100,00%	Pirelli & C. S.p.A.
Sarca 222 S.r.l.	Travel Agency	Milan	Euro 46.800	100,00%	Pirelli & C. S.p.A.
Servizi Amministrativi Real Estate S.p.A.	Real Estate	Milan	Euro 520.000	100,00%	Pirelli & C. Real Estate S.p.A.
Servizi Aziendali Pirelli S.C. p.A.	Services	Milan	Euro 104.000	89,30%	Pirelli & C. S.p.A.
				2,00%	Pirelli Tyre S.p.A.
				2,00%	Pirelli & C. Real Estate S.p.A.
				1,00%	Pirelli & C. Ambiente S.p.A.
				0,95%	Centro Servizi Amministrativi Pirelli S.r.l.
				0,95%	Pirelli Broadband Solution S.p.A.
				0,95%	Pirelli Labs S.p.A.
				0,95%	Pirelli Sistemi Informativi S.r.l.
				0,95%	Pzero S.r.l.
				0,95%	Pirelli & C. Eco Technology S.p.A.
SIB S.r.l.	Real Estate	Milan	Euro 10.100	100,00%	Pirelli RE Credit Servicing S.p.A.
Speed S.p.A.	Tyre	Milan	Euro 199.988	80,81%	Pirelli & C. S.p.A.
Luxembourg					
Pirelli Finance (Luxembourg) S.A.	Financial	Luxembourg	Euro 270.228.168	100,00%	Pirelli & C. S.p.A.
Mistral RE S.à.r.l.	Real Estate	Luxembourg	Euro 12.500	100,00%	Pirelli & C. Real Estate S.p.A.
Sigma RE S.à.r.l.	Real Estate	Luxembourg	Euro 12.500	100,00%	Pirelli RE Netherlands B.V.

Company	Business	Headquarters	Share Capital	% holding	Held by
Poland					
Driver Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	100.000	70,00% Pirelli Polska Sp.ZO.O.
Pirelli Pekao Real Estate Sp.ZO.O.	Real Estate	Warsaw	Pol. Zloty	35.430.000	75,00% Pirelli & C. Real Estate S.p.A.
Pirelli Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	625.771	100,00% Pirelli Tyre (Europe) S.A.
Romania					
Pirelli & C. Eco Technology RO S.A.(ex- Pirelli & C. Ambiente Eco Technology RO S.A.)	Sustainable mobility	Oras Bumbesti-Ju	Rom. Leu	50.000.000	95,00% P.A.E.T. B.V. 5,00% Pirelli & C. Eco Technology S.p.A.
Pirelli RE Romania S.A.	Real Estate	Bucarest	Rom. Leu	100.000	80,00% Pirelli RE Netherlands B.V.
S.C. Cord Romania S.R.L.	Tyre	Slatina	Rom. Leu	36.492.150	80,00% Pirelli Tyre Holland N.V.
S.C. Pirelli Tyres Romania S.R.L.	Tyre	Slatina	Rom. Leu	77.169.800	95,00% Pirelli Tyre Holland N.V. 5,00% Pirelli Tyre S.p.A.
Russia					
OOO Pirelli Tyre Russia	Commercial	Moscow	Russian Rouble	50.485.259	95,00% Pirelli Tyre (Europe) S.A. 5,00% Pirelli Tyre Holland N.V.
Slovakia					
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Slov. Koruna	200.000	100,00% Pirelli Tyre (Europe) S.A.
Spain					
Euro Driver Car S.L.	Tyre	Barcelona	Euro	804.000	25,00% Pirelli Neumaticos S.A. 26,12% Proneus S.L.
Omnia Motor S.A.	Tyre	Barcelona	Euro	1.502.530	100,00% Pirelli Neumaticos S.A.
Pirelli Neumaticos S.A.	Tyre	Barcelona	Euro	45.075.908	100,00% Pirelli Tyre Holland N.V.
Proneus S.L.	Tyre	Barcelona	Euro	3.005	100,00% Pirelli Neumaticos S.A.
Tyre & Fleet S.L.	Tyre	Barcelona	Euro	20.000	100,00% Pirelli Neumaticos S.A.
Sweden					
Pirelli Tyre Nordic A.B.	Tyre	Bromma	Swed. Krona	950.000	100,00% Pirelli Tyre (Europe) S.A.
Switzerland					
Agom S.A.	Tyre	Conthey	Swiss Franc	50.000	80,00% Pirelli Tyre (Europe) S.A.
Agom S.A. Bioggio	Tyre	Bioggio	Swiss Franc	590.000	100,00% Pirelli Tyre (Europe) S.A.
Pirelli Societé de Services S.à.r.l.	Financial	Basel	Swiss Franc	50.000	100,00% Pirelli Tyre (Europe) S.A.
Pirelli Societé Générale S.A.	Financial	Basel	Swiss Franc	28.000.000	100,00% Pirelli & C. S.p.A.
Pirelli Tyre (Europe) S.A.	Tyre	Basel	Swiss Franc	1.000.000	100,00% Pirelli Tyre Holland N.V.
The Netherlands					
Iniziativa immobiliari 3 B.V.	Real Estate	Amsterdam	Euro	4.500.000	100,00% Pirelli & C. Real Estate S.p.A.
P.A.E.T. B.V.	Sustainable mobility	Amsterdam	Euro	18.000	100,00% Pirelli & C. Eco Technology S.p.A.
Pirelli China Tyre N.V.	Tyre	Heineoord	Euro	8.045.000	100,00% Pirelli Tyre Holland N.V.
Pirelli Holding N.V.	Holding Company	Heineoord	Euro	60.000.000	100,00% Pirelli & C. S.p.A.
Pirelli RE Agency Netherlands B.V.	Real Estate	Amsterdam	Euro	18.000	100,00% Pirelli RE Netherlands B.V.
Pirelli RE Netherlands B.V.	Real Estate	Amsterdam	Euro	21.000	100,00% Pirelli & C. Real Estate S.p.A.
Pirelli RE Property Management Netherlands B.V.	Real Estate	Amsterdam	Euro	18.000	100,00% Pirelli & C. Real Estate S.p.A.
Pirelli Tyre Holland N.V.	Tyre	Heineoord	Euro	3.045.000	100,00% Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Heineoord	Euro	18.152	100,00% Pirelli Tyre (Europe) S.A.
Sipir Finance N.V.	Financial	Heineoord	Euro	13.021.222	100,00% Pirelli & C. S.p.A.
Valeratofin B.V.	Real Estate	Amsterdam	Euro	18.000	100,00% Pirelli RE Netherlands B.V.
Turkey					
Celikord A.S.	Tyre	Istanbul	YTL000	29.000.000	50,733% Pirelli Tyre Holland N.V. 0,27% Pirelli Tyre S.p.A.
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	YTL000	140.000.000	69,44% Pirelli Tyre Holland N.V. 0,15% Pirelli Tyre S.p.A.
United Kingdom					
Central Tyre Ltd	Tyre	London	British Pound	100.000	100,00% Pirelli UK Tyres Ltd
CPK Auto Products Ltd	Tyre	London	British Pound	10.000	100,00% Pirelli UK Tyres Ltd
CTC 1994 Ltd	Tyre	London	British Pound	984	100,00% Central Tyre Ltd
Pirelli International Ltd	Financial	London	Euro	250.000.000	75,00% Pirelli UK Tyre Holding Ltd 25,00% Pirelli Tyre S.p.A.
Pirelli Tyres Ltd	Tyre	London	British Pound	16.000.000	100,00% Pirelli UK Tyres Ltd
Pirelli UK Ltd	Finance Holding Company	London	British Pound	97.161.278	100,00% Pirelli & C. S.p.A.
Pirelli UK Tyre Holding Ltd	Holding Company	London	British Pound	96.331.000	100,00% Pirelli Tyre Holland N.V.
Pirelli UK Tyres Ltd	Tyre	London	British Pound	85.000.000	75,00% Pirelli UK Tyre Holding Ltd 25,00% Pirelli Tyre S.p.A.
North America					
Canada					
Pirelli Tire Inc.	Tyre	Fredericton (New Brunswick)	Can. \$	6.000.000	100,00% Pirelli Tyre (Europe) S.A.
U.S.A.					
PGT Photonics North America Inc.	Photonics	Wilmington (Delaware)	US \$	1	100,00% PGT Photonics S.p.A.
Pirelli North America Inc.	Tyre	Atlanta	US \$	10	100,00% Pirelli Tyre Holland N.V.
Pirelli Tire LLC	Tyre	Wilmington (Delaware)	US \$	1	100,00% Pirelli North America Inc.

Company	Business	Headquarters	Share Capital	% holding	Held by
Central/South America					
Argentina					
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	101.325.176	95,00% Pirelli Tyre Holland N.V. 5,00% Pirelli Tyre S.p.A
Pirelli Soluciones Tecnologicas S.A. (ex- Pirelli Argentina de Mandatos S.A.)	Telecommunications	Buenos Aires	Arg. Peso	1.283.070	95,00% Pirelli Broadband Solution S.p.A. 5,00% Pirelli & C. S.p.A.
Brazil					
Comercial e Importadora de Pneus Ltda	Tyre	Sao Paulo	Bra. Real	12.913.526	100,00% Pirelli Pneus Ltda
Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda	Tyre	Santo André	Bra. Real	84.784.342	100,00% Pirelli Pneus Ltda
Pirelli & C. Real Estate Ltda	Real Estate	Santo André	Bra. Real	2.000.000	100,00% Pirelli Ltda
Pirelli Ltda	Financial	Sao Paulo	Bra. Real	49.189.271	100,00% Pirelli & C. S.p.A.
Pirelli Pneus Ltda	Tyre	Feira de Santana	Bra. Real	341.145.811	100,00% Pirelli Tyre S.p.A
TLM - Total Logistic Management Serviços de Logística Ltda	Holding Company	Santo André	Bra. Real	6.000	99,98% Pirelli Pneus Ltda 0,02% Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda
Chile					
Pirelli Neumaticos Chile Limitada	Tyre	Santiago	Chile Peso	1.918.451	99,98% Pirelli Pneus Ltda 0,02% Comercial e Importadora de Pneus Ltda
Colombia					
Pirelli de Colombia S.A.	Tyre	Santa Fe De Bogota	Col. Peso/000	3.315.069	92,91% Pirelli Pneus Ltda 2,28% Pirelli de Venezuela C.A. Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda 1,60% Ltda 1,60% Pirelli Pneus Nordeste Ltda 1,60% Comercial e Importadora de Pneus Ltda
Mexico					
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	35.098.400	99,98% Pirelli Pneus Ltda 0,02% Comercial e Importadora de Pneus Ltda
Servicios Pirelli Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	50.000	99,00% Pirelli Pneus Ltda 1,00% Comercial e Importadora de Pneus Ltda
Venezuela					
Pirelli de Venezuela C.A.	Tyre	Valencia	Ven. Bolivar/000	20.062.679	96,22% Pirelli Tyre Holland N.V.
Africa					
Egypt					
Alexandria Tire Company S.A.E.	Tyre	Alexandria	Egy. Pound	393.000.000	89,08% Pirelli Tyre S.p.A 0,03% Pirelli Tyre (Europe) S.A.
International Tire Company Ltd	Tyre	Alexandria	Egy. Pound	50.000	99,80% Alexandria Tire Company S.A.E.
South Africa					
Pirelli Tyre (Pty) Ltd	Tyre	Sandton	S.A. Rand	1	100,00% Pirelli Tyre (Europe) S.A.
Oceania					
Australia					
Pirelli Tyres Australia Pty Ltd	Tyre	Pymble - N.S.W.	Aus. \$	150.000	100,00% Pirelli Tyre (Europe) S.A.
New Zealand					
Pirelli Tyres (NZ) Ltd	Tyre	Wellington	N.Z. \$	100	100,00% Pirelli Tyres Australia Pty Ltd
Asia					
China					
Pirelli Scientific and Technological Consulting (Shanghai) Co. Ltd	Tyre	Shanghai	US \$	200.000	100,00% Pirelli China Tyre N.V.
Pirelli Tyre Co. Ltd	Tyre	Yanzhou	China Renmimbi	800.000.000	75,00% Pirelli China Tyre N.V.
Japan					
Pirelli Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2.700.000.000	100,00% Pirelli Tyre Holland N.V.
Singapore					
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. \$	2	100,00% Pirelli Tyre (Europe) S.A.

Investments accounted for by the equity method

Company	Business	Headquarters	Share Capital	% holding	Held by
Europe					
Germany					
Beteiligungsgesellschaft Einkaufszentrum Mülheim GmbH	Real Estate	Amburg	Euro 31.000	41,17%	Pirelli & C. Real Estate Deutschland GmbH
City Center Mülheim Grundstücksgesellschaft mbh & Co. KG	Real Estate	Amburg	Euro 25.684.000	41,17%	Pirelli & C. Real Estate Deutschland GmbH
Einkaufszentrum Mülheim GmbH & Co. KG	Real Estate	Amburg	Euro 26.075.856	41,18%	Pirelli & C. Real Estate Deutschland GmbH
Einkaufszentrum Mülheim KG	Real Estate	Amburg	Euro 18.884.000	41,17%	Pirelli & C. Real Estate Deutschland GmbH
Gatus 372 GmbH	Real Estate	Berlin	Euro 25.000	40,00%	Pirelli RE Residential Investment GmbH
Grundstücksgesellschaft Merkur Hansaallee mbh & Co. KG	Real Estate	Amburg	Euro 22.905.876	33,75%	Pirelli & C. Real Estate Deutschland GmbH
Industriekraftwerk Breuberg GmbH	Cogeneration	Hoechst/Odenwald	Euro 1.533.876	26,00%	Pirelli Deutschland GmbH
Kurpromenade 12 Timmendorfer Strand Grundstücksgesellschaft mbh & Co. KG	Real Estate	Amburg	Euro 6.237.761	50,00%	Pirelli & C. Real Estate Deutschland GmbH
Landgesellschaft Schleswig Holstein mbh	Real Estate	Kiel	Euro 27.500.000	18,36% DGAG Grundstücksbeteiligung GmbH 46,16% Landgesellschaft Schleswig Holstein mbh	
Möller & Company Verwaltungsgesellschaft mbh	Real Estate	Amburg	Euro 25.000	40,00%	Pirelli & C. Real Estate Deutschland GmbH
Resident Berlin 1 P&K GmbH	Real Estate	Berlin	Euro 125.000	40,00%	Pirelli RE Residential Investments GmbH
SCM Finanzierungsberatungsgesellschaft mbh	Real Estate	Amburg	Euro 25.000	50,00%	Pirelli & C. Real Estate Deutschland GmbH
Tizian Wohnen 1 GmbH	Real Estate	Berlin	Euro 1.114.400	40,00%	Pirelli RE Residential Investments GmbH
Tizian Wohnen 2 GmbH	Real Estate	Berlin	Euro 347.450	40,00%	Pirelli RE Residential Investments GmbH
Verwaltung Büro - und Lichtspielhaus Hansaallee GmbH	Real Estate	Amburg	Euro 50.000	27,00%	Pirelli & C. Real Estate Deutschland GmbH
Verwaltung City Center Mülheim Grundstücksgesellschaft mbh	Real Estate	Amburg	Euro 31.000	20,00% Grundstücksgesellschaft Merkur Hansaallee mbh & Co. KG 41,17%	Pirelli & C. Real Estate Deutschland GmbH
Verwaltung Kurpromenade 12 Timmendorfer Strand Grundstücksgesellschaft mbh & Co. KG	Real Estate	Amburg	Euro 25.565	50,00%	Pirelli & C. Real Estate Deutschland GmbH
Verwaltung Mercado Otensen Grundstücksgesellschaft mbh	Real Estate	Amburg	Euro 25.565	44,00%	Pirelli RE Netherlands B.V. 50,00% Mistral Real Estate B.V.
Italy					
A.P.I.C.E. - società per azioni	Environment	Rome	Euro 200.000	50,00%	Pirelli & C. Ambiente Renewable Energy S.p.A.
Aree Urbane S.r.l.	Real Estate	Milan	Euro 307.717	34,60%	Pirelli & C. Real Estate S.p.A. 0,28% Pirelli & C. S.p.A.
Cairoli Finance S.r.l.	Real Estate	Milan	Euro 10.000	35,00%	Pirelli & C. Real Estate S.p.A.
Capitol Immobiliare S.r.l.	Real Estate	Milan	Euro 10.000	33,00%	Pirelli & C. Real Estate S.p.A.
Castello S.r.l.	Real Estate	Milan	Euro 1.170.000	49,10%	Pirelli & C. Real Estate S.p.A.
Continuum S.r.l.	Real Estate	Milan	Euro 500.000	40,00%	Pirelli & C. Real Estate S.p.A.
Dixia S.r.l.	Real Estate	Milan	Euro 2.500.000	30,00%	Pirelli & C. Real Estate S.p.A.
Erice S.r.l.	Real Estate	Milan	Euro 10.000	40,00%	Pirelli & C. Real Estate S.p.A.
Eurostazioni S.p.A.	Holding	Rome	Euro 160.000.000	32,71%	Pirelli & C. S.p.A.
Fimprema S.p.A.	Real Estate	Milan	Euro 120.000	35,00%	Pirelli & C. Real Estate S.p.A.
G6 Advisor	Real Estate	Milan	Euro 50.000	42,30%	Pirelli & C. Real Estate Agency S.p.A.
Galatea S.r.l. (in liquidation)	Real Estate	Milan	Euro 10.000	30,00%	Pirelli & C. Real Estate S.p.A.
Golfo Aranci S.p.A. - Società di Trasformazione Urbana	Real Estate	Golfo Aranci (O)	Euro 1.000.000	43,80%	Pirelli & C. Real Estate S.p.A. 1,20% Pirelli & C. Real Estate Integrated Facility Management S.p.A. 5,00% Centrale Immobiliare S.p.A.
Idea Granda Società Consortile r.l.	Environment	Cunco	Euro 1.292.500	49,00%	Pirelli & C. Ambiente Renewable Energy S.p.A.
Immobiliare Prizia S.r.l.	Real Estate	Milan	Euro 469.000	36,00%	Pirelli & C. Real Estate S.p.A.
Induxia S.r.l.	Real Estate	Milan	Euro 836.300	18,00%	Pirelli & C. Real Estate S.p.A.
Iniziative Immobiliari S.r.l.	Real Estate	Milan	Euro 5.000.000	49,46%	Pirelli & C. Real Estate S.p.A.
Le Case di Capalbio S.r.l.	Real Estate	Milan	Euro 10.000	20,00%	Pirelli & C. Real Estate S.p.A.
Localto ReoCo S.r.l.	Real Estate	Milan	Euro 10.000	35,00%	Pirelli & C. Real Estate S.p.A.
Manifatture Milano S.p.A. (ex- Quadrioglio Milano S.p.A.)	Real Estate	Rome	Euro 11.230.000	50,00%	Pirelli & C. Real Estate S.p.A.
Maro S.r.l.	Real Estate	Milan	Euro 20.000	25,00%	Pirelli & C. Real Estate S.p.A.
Orione Immobiliare Prima S.p.A.	Real Estate	Milan	Euro 104.000	40,10%	Pirelli & C. Real Estate S.p.A.
Perso S.r.l.	Services	Milan	Euro 20.000	50,00%	Pirelli & C. S.p.A.
Progetto Bicocca la Piazza S.r.l.	Real Estate	Milan	Euro 3.151.800	26,00%	Pirelli & C. Real Estate S.p.A.
Progetto Corsico S.r.l.	Real Estate	Milan	Euro 100.000	49,00%	Pirelli & C. Real Estate S.p.A.
Progetto Fontana S.r.l. (in liquidation)	Real Estate	Milan	Euro 10.000	23,00%	Pirelli & C. Real Estate S.p.A.
Progetto Gioberti S.r.l.	Real Estate	Milan	Euro 100.000	50,00%	Pirelli & C. Real Estate S.p.A.
Resi S.r.l.	Real Estate	Milan	Euro 10.000	25,00%	Pirelli & C. Real Estate S.p.A.
Rinascente/Upim S.r.l.	Real Estate	Rozzano (Milan)	Euro 10.000	20,00%	Pirelli & C. Real Estate S.p.A.
Riva dei Ronchi S.r.l.	Real Estate	Milan	Euro 100.000	35,00%	Pirelli & C. Real Estate S.p.A.
Roca S.r.l.	Real Estate	Milan	Euro 20.000	25,00%	Pirelli & C. Real Estate S.p.A.
Serenergy S.r.l.	Environment	Milan	Euro 25.500	50,00%	Pirelli & C. Ambiente Renewable Energy S.p.A.
Solaris S.r.l.	Real Estate	Milan	Euro 20.000	40,00%	Pirelli & C. Real Estate S.p.A.
Solar Utility S.p.A.	Environment	Milan	Euro 9.000.000	50,00%	Pirelli & C. Ambiente S.p.A.
Tamerice Immobiliare S.r.l.	Real Estate	Milan	Euro 500.000	20,00%	Pirelli & C. Real Estate S.p.A.
Trixia S.r.l.	Real Estate	Milan	Euro 1.209.700	36,00%	Pirelli & C. Real Estate S.p.A.
Turismo e Immobiliare S.p.A.	Real Estate	Milan	Euro 120.000	33,30%	Pirelli & C. Real Estate S.p.A.
Vesta Finance S.r.l.	Real Estate	Milan	Euro 10.000	35,00%	Pirelli & C. Real Estate S.p.A.

Company	Business	Headquarters	Share Capital	% holding	Held by
Luxembourg					
Afrodite S à r.l.	Real Estate	Luxembourg	Euro	4.129.475	40,00% Pirelli & C. Real Estate S.p.A.
Alimede Luxembourg S à r.l.	Real Estate	Luxembourg	Euro	12.945	35,00% Pirelli & C. Real Estate S.p.A.
Alintak S à r.l.	Real Estate	Luxembourg	Euro	4.452.500	35,00% Pirelli & C. Real Estate S.p.A.
Artemide S à r.l.	Real Estate	Luxembourg	Euro	2.857.050	35,00% Pirelli & C. Real Estate S.p.A.
Austin S à r.l.	Real Estate	Luxembourg	Euro	125.000	28,46% Pirelli & C. Real Estate S.p.A.
Bicoeca S à r.l.	Real Estate	Luxembourg	Euro	12.500	35,00% Pirelli & C. Real Estate S.p.A.
Colombo S à r.l.	Real Estate	Luxembourg	Euro	960.150	35,00% Pirelli & C. Real Estate S.p.A.
Dallas S à r.l.	Real Estate	Luxembourg	Euro	125.000	28,46% Pirelli & C. Real Estate S.p.A.
Delamain S à r.l.	Real Estate	Luxembourg	Euro	12.500	49,00% Pirelli & C. Real Estate S.p.A.
Doria S à r.l.	Real Estate	Luxembourg	Euro	992.850	35,00% Pirelli & C. Real Estate S.p.A.
European NPL S.A.	Real Estate	Luxembourg	Euro	2.486.174	33,00% Pirelli & C. Real Estate S.p.A.
IN Holdings I S à r.l.	Real Estate	Luxembourg	Euro	2.595.725	20,50% Pirelli & C. Real Estate S.p.A.
Inimm Due S à r.l.	Real Estate	Luxembourg	Euro	240.950	25,00% Pirelli & C. Real Estate S.p.A.
Nashville S à r.l.	Real Estate	Luxembourg	Euro	125.000	28,46% Pirelli & C. Real Estate S.p.A.
Sicily Investments S à r.l.	Real Estate	Luxembourg	Euro	12.500	40,00% Pirelli & C. Real Estate S.p.A.
Solaia RE S à r.l.	Real Estate	Luxembourg	Euro	12.500	35,00% Pirelli & C. Real Estate S.p.A.
Trinacria Capital S à r.l.	Real Estate	Luxembourg	Euro	12.500	40,00% Pirelli & C. Real Estate S.p.A.
Trinoro S à r.l.	Real Estate	Luxembourg	Euro	30.000	35,00% Pirelli & C. Real Estate S.p.A.
Vespucci S à r.l.	Real Estate	Luxembourg	Euro	960.150	35,00% Pirelli & C. Real Estate S.p.A.
Portugal					
Espelha - Serviços de Consultadoria Lda	Real Estate	Madeira	Euro	5.000	49,00% Pirelli & C. Real Estate S.p.A.
Romania					
SC Eco Envelope S.A.	Tyre	Bucarest	Ron	160.000	20,00% S.C. Pirelli Tyres Romania S.R.L.
Spain					
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200.000	20,00% Pirelli Neumaticos S.A.
The Netherlands					
Aida RE B.V.	Real Estate	Amsterdam	Euro	18.000	40,00% Pirelli RE Netherlands B.V.
Alcoo B.V.	Real Estate	Amsterdam	Euro	18.000	33,00% Pirelli & C. Real Estate S.p.A.
Gamma RE B.V.	Real Estate	Amsterdam	Euro	18.000	49,00% Pirelli RE Netherlands B.V.
M.S.M.C. Italy Holding B.V.	RE Holding	Amsterdam	Euro	20.000	25,00% Pirelli & C. Real Estate S.p.A.
Masseto I B.V.	Real Estate	Amsterdam	Euro	19.000	33,00% Pirelli & C. Real Estate S.p.A.
Max B.V.	Real Estate	Amsterdam	Euro	18.000	45,00% Pirelli & C. Real Estate S.p.A.
Mistral Real Estate B.V.	Real Estate	Amsterdam	Euro	18.000	35,00% Pirelli & C. Real Estate S.p.A.
Pirelli RE Integrated Facility Management B.V.	Real Estate	Amsterdam	Euro	18.000	50,00% Pirelli & C. Real Estate S.p.A.
Polish Investments Real Estate Holding B.V.	RE Holding	Amsterdam	Euro	20.000	40,00% Pirelli & C. Real Estate S.p.A.
Polish Investments Real Estate Holding II B.V.	RE Holding	Amsterdam	Euro	18.000	40,00% Pirelli & C. Real Estate S.p.A.
Popoy Holding B.V.	RE Holding	Amsterdam	Euro	26.550	25,00% Pirelli & C. Real Estate S.p.A.
S.I.G. RE B.V.	Real Estate	Amsterdam	Euro	18.000	36,70% Pirelli RE Netherlands B.V.
Sigma RE B.V.	Real Estate	Amsterdam	Euro	18.000	24,66% Pirelli RE Netherlands B.V.
SI Real Estate Holding B.V.	RE Holding	Amsterdam	Euro	763.077	25,00% Pirelli & C. Real Estate S.p.A.
Theta RE B.V.	Real Estate	Amsterdam	Euro	18.005	40,00% Pirelli RE Netherlands B.V.
North America					
U.S.A.					
Sci Roev Texas Partners L.P.	Real Estate	Dallas	US \$	12.000.000	10,00% Pirelli & C. Real Estate S.p.A.
Central/South America					
Argentina					
Lineas de Transmision de Buenos Aires S.A. (in liquidation)	Services	Buenos Aires	Arg. Peso	12.000	Pirelli Soluciones Tecnologicas S.A. (ex- Pirelli Argentina de 20,00% Mandatos S.A.)

Other investments considered significant as per Consob resolution no. 11971 of May 14,1999

Company	Business	Headquarters	Share Capital	% holding	Held by
Belgium					
Euroqube S.A. (in liquidation)	Services	Brussels	Euro	84.861.116	17,79% Pirelli & C. S.p.A.
France					
Aliapur S.A.	Tyre	Lion	Euro	262.500	14,29% Pirelli Tyre S.p.A
Germany					
Elbflorenz Hotelgesellschaft mbh & Co. KG	Real Estate	Amburg	Euro	28.223.312	19,00% Pirelli & C. Real Estate Deutschland Gmbh
Verwaltung Elbflorenz Hotelgesellschaft mbh	Real Estate	Amburg	Deut. Mark	60.000	19,00% Pirelli & C. Real Estate Deutschland Gmbh
Hungary					
HUREC Tyre Recycling Non-Profit Company	Tyre	Budapest	Hun. Forint	50.000.000	17,00% Pirelli Hungary Tyre Trading and Services Ltd
Italy					
Fin. Priv. S.r.l.	Financial	Milan	Euro	20.000	14,29% Pirelli & C. S.p.A.
Tecnocittà S.r.l. (in liquidation)	Real Estate	Milan	Euro	547.612	12,00% Pirelli & C. Real Estate S.p.A.
Poland					
Centrum Utylizacji Opon Organizacja Odzysku S.A.	Tyre	Warsaw	Pol. Zloty	1.008.000	14,29% Pirelli Polska Sp. ZO O.
The Netherlands					
MB Venture Capital Fund I Participating Company G.N.V.	Financial	Amsterdam	Euro	50.000	14,00% Pirelli Finance (Luxembourg) S.A.
Spazio Investment N.V.	Financial	Amsterdam	Euro	6.096.020	14,91% Pirelli RE Netherlands B.V.
Tunisia					
Société Tunisienne des Industries de Pneumatiques S.A.	Tyre	Tunis	Tun. Dinar	42.078.240	15,83% Pirelli Tyre S.p.A
United Kingdom					
Tlcom I Ltd Partnership	Financial	London	Euro	1.204	10,40% Pirelli Finance (Luxembourg) S.A.
U.S.A.					
Avanex Corporation	Telecommunication	Fremont	US \$	226.793.103	12,48% Pirelli Finance (Luxembourg) S.A.

**Attestation of the Half-yearly Condensed Consolidated Financial
Statements pursuant to
art. 154-bis of Legislative Decree 58 dated February 24, 1998**

1. We, the undersigned, Marco Tronchetti Provera, chairman of the board of directors and Claudio De Conto, manager responsible for the preparation of Pirelli & C. S.p.A.'s financial reports, attest to, having also considered the provisions of art. 154-bis, paragraphs 3 and 4, of Legislative Decree 58 dated February 24, 1998:
 - the adequacy in relation to the characteristics of the company and
 - the effective application,
 of the administrative and accounting procedures used in the preparation of the Half-yearly condensed consolidated financial statements during the first half of 2008.

2. To this end:
 - there have been no situations of particular interest in terms of operations or strategies to report nor have there been any problems and/or anomalies noted also with regard to the effective application of the procedures;
 - the evaluation of the adequacy of the administrative and accounting procedures used in the preparation of the Half-yearly condensed consolidated financial statements at June 30, 2008 is based upon an assessment of the system of internal control. This assessment is based upon a process defined by Pirelli & C. S.p.A. consistently with the "Internal Control – Integrated Framework" model issued by the "Committee of Sponsoring Organizations of the Treadway Commission" (COSO), an internationally-accepted reference framework.

3. We also certify that:
 - 3.1. the condensed Half-yearly consolidated financial statements:
 - a. have been prepared in accordance with the applicable international accounting standards as endorsed by the European Union under EC regulation 1606/2002 of the European Parliament and Council of July 19, 2002
 - b. agree with the results of the accounting records and entries;
 - c. are suitable for providing a true and fair representation of the financial condition, results of operations and cash flows of the company and the aggregate of the companies included in consolidation.

 - 3.2. the interim management report contains references to important events which took place during the first six months of the year 2008 and their impact on the Half-yearly condensed consolidated financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the year. The interim management report also contains information concerning related party transactions.

August 5, 2008

Marco Tronchetti Provera
Chairman of the Board of Directors

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

Auditors' review report on the interim condensed consolidated financial statements

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

1. We have reviewed the interim condensed consolidated financial statements of Pirelli & C. S.p.A. as of June 30, 2008, comprising the balance sheet, the statement of income, the statement of recognized income and expense and cash flows and the related explanatory notes. Management of Pirelli & C. S.p.A. is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standards applicable to interim financial reporting as adopted by the European Union ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.
2. We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. A review consists primarily of obtaining information on the accounts included in the interim condensed consolidated financial statements and the consistency of the accounting principles applied, through discussions with management and by applying analytical and other review procedures. A review does not include the application of audit procedures such as tests of compliance and substantive procedures on assets and liabilities and is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements as we express on the annual consolidated financial statements.

The consolidated financial statements of the prior year and the interim condensed consolidated financial statements of the corresponding period of the prior year, have been, respectively, audited and reviewed by other auditors. Accordingly, reference should be made to the reports of the other auditors issued on April 9, 2008 and on September 26, 2007, respectively.
3. Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Pirelli & C. S.p.A. as of June 30, 2008 are not prepared, in all material respects, in conformity with IAS 34.

Milan, August 8, 2008

Reconta Ernst & Young S.p.A.

Signed by:
Pellegrino Libroia
(Partner)

This report has been translated into the English language solely for the convenience of international readers