



PRESS RELEASE

PIRELLI & C. SPA BOARD OF DIRECTORS APPROVES RESULTS AS OF 30 JUNE 2007:

- **REVENUES (ON A LIKE-FOR-LIKE BASIS): 2,666.8 MILLION EUROS (+10.6%)**
- **EBIT INCLUDING INCOME FROM EQUITY PARTICIPATIONS: 341.6 MILLION EUROS (+10.2%)**
- **NET INCOME OF BUSINESSES IN OPERATION: 181.2 MILLION EUROS (+48.6%). NET INCOME INCLUDING DISCONTINUED OPERATIONS: 198.3 MILLION EUROS (+2.7%), OF WHICH 108.2 MILLION EUROS ATTRIBUTABLE NET INCOME**
- **NET FINANCIAL POSITION: -2,969.2 MILLION EUROS (-3,073.8 MILLION EUROS AS OF 31 MARCH 2007). NET OF THE TEMPORARY IMPACT OF DGAG: -2,080.2 MILLION EUROS (-2,182.8 MILLION EUROS AS OF 31 MARCH 2007)**
- **PIRELLI TYRE: REVENUES 2,151.4 MILLION EUROS (+6.6%), EBIT 206.3 MILLION EUROS (+6%), NET INCOME 117.4 MILLION EUROS (IN LINE WITH THE FIGURE AS OF 30 JUNE 2006)**
 - **PIRELLI RE: PRO-QUOTA AGGREGATE REVENUES (NET OF DECONSOLIDATION OF DGAG) 811.9 MILLION EUROS (+21%), EBIT INCLUDING INCOME FROM EQUITY PARTICIPATIONS 125.4 MILLION EUROS (+36%), NET INCOME 80.1 MILLION EUROS (+14%)**
 - **FOR 2007 THE PIRELLI & C. SPA GROUP CONFIRMS ITS EXPECTATIONS OF IMPROVEMENT OF RESULTS**

Milan, 11 September 2007 – The **Board of Directors** of **Pirelli & C. SpA**, which met today, reviewed the **definitive results** of the Company regarding the **half-year** period ended **30 June 2007**.

Pirelli & C. SpA Group

In the first half of 2007 the **Pirelli & C. SpA Group** continued in the direction of **growth** of results and **development**, particularly in the **tyre** and **real estate** businesses. In the January – June period, at consolidated level, there was a **double-digit increase** in **revenues** (+10.6% on a like-for-like basis) and of **EBIT including income from equity participations** (+10.2%). The *double digit* increase also regarded **net income** of businesses in operation, which rose **48.6%** in particular thanks to an increase in the results of Pirelli RE and an improvement in the financial results at corporate level compared with 2006.

In **industrial activities**, **Pirelli Tyre** realized an **increase in revenues (+6.6%)** and **operating income (+6%)**, in a competitive market characterized by the consolidation of raw materials costs at high levels, greater than those in the corresponding period of last year. Focus on greater added value segments and growth in emerging markets were confirmed. In **real estate activities**, **Pirelli RE** registered **significant growth in EBIT including income from equity participations (+36%)** and in **net income (+14%)**. In the start-up businesses, revenues of **Pirelli Broadband Solutions** suffered from a change in product mix in broadband access, and from a reduction in photonics sales linked to slowing investments in infrastructure by major telecommunications operators worldwide. Revenues of **Pirelli Ambiente**, net of the extraordinary components which characterized 2006, were substantially stable.

At consolidated level, **revenues** of the Group as of 30 June 2007 amounted to **3,196.7 million euros**, **up 30.7%** compared with 2,445.9 million euros in the same period of 2006. Excluding revenues relating to the partial deconsolidation of DGAG real estate assets, revenues amounted to **2,666.8 million euros**. Also considering the exchange rate effect, revenues, on a like-for-like basis, rose **10.6%** compared with the first half of 2006.

EBITDA stood at **319.7 million euros**, slightly down (**-1.4%**) compared with the 324.2 million euros as of 30 June 2006. Consolidated **operating income (EBIT)** amounted to **214.1 million euros**, substantially in line with the 216.1 million euros of the first half of 2006. Operating income, in 2006, included non-recurring costs of 12.5 million euros linked to the Pirelli Tyre IPO project. Compared with last year, at EBITDA and EBIT level, the contribution of real estate activities was lessened, though the real estate activities registered a significant increase in income from equity participations.

EBIT including income from equity participations, which includes the effect of the results of the companies valued according to the shareholders' equity method, and the dividends from the other non consolidated equity participations, amounted to **341.6 million euros**, **up 10.2%** from 310.1 million euros as of 30 June 2006.

The item **financial charges and income** had a negative balance of **81.2 million euros**, compared with a negative amount of 110.7 million euros as of 30 June 2006.

Net income of businesses in operation amounted to **181.2 million euros**, **up 48.6%** compared with 121.9 million euros in the first half of 2006.

Olimpia, following the sale agreement reached on 28 April 2007, is considered on the basis of IFRS as "*discontinued operations*" (businesses sold/destined to be sold) and contributes only to the net result after taxes. The impact of Olimpia on the net result of the first half of 2007 was negative for 73.9 million euros and is linked to alignment of the value of the company to the sale price (estimated as a hypothesis as of the latest closing date for the transaction) and without including the pro-quota result for the period, compared with a positive figure of 71 million euros as of 30 June 2006. Among the discontinued operations the capital gain linked to the sale of warrants on Prysmian (Lux) to Goldman Sachs, which occurred in the first quarter (91 million euros), is also

included. **Net income including discontinued operations** was therefore **198.3 million euros**, up **2.7%** compared with 193.1 million euros as of 30 June 2006. The **attributable net income** of Pirelli & C. SpA as of 30 June 2007 amounted to **108.2 million euros**, compared with 153 million euros in the first half of 2006.

Net income of the parent company Pirelli & C. SpA amounted to **139 million euros**, up **5.4%** compared with 131.9 million euros as of 30 June 2006.

Consolidated shareholders' equity as of 30 June 2007 was **4,692.3 million euros**, compared with 4,686.6 million euros at the end of 2006. The **attributable shareholders' equity** of Pirelli & C. SpA was **3,859.2 million euros** (0.719 euros per share), compared with 3,879.6 million euros at the end of 2006.

The **net financial position** of the Group as of 30 June 2007 was **negative for 2,969.2 million euros** (an improvement over the -3,073.8 million euros as of 31 March 2007), including a **temporary impact of 979 million euros** on the net financial position of Pirelli RE deriving from the DGAG transaction. That impact, as already communicated, **will fall** to about **90 million euros** by the end of 2007, at the conclusion of the deconsolidation process. Excluding temporary effects of the DGAG transaction, the net financial position of the Group as of 30 June 2007 was negative for **2,080.2 million euros**, an improvement compared with -2,182.8 million euros as of 31 March 2007. As of 30 June 2006, the net financial position of the Group was negative for 1,574.9 million euros.

The **net financial position** at corporate level as of 30 June 2007 was negative for **1,150.3 million euros**.

Spending on **research and development** in the first half of 2007 amounted to **88 million euros (3.3% of sales)**, substantially in line with the figure as of 30 June 2006 (87 million euros).

The **personnel** of the Group as of 30 June 2007 counted **31,270** compared with 28,617 as of 31 December 2006, with an increase of 2,653 units linked mainly to expansion of the tyre and real estate businesses.

Pirelli Tyre

Revenues of Pirelli Tyre as of 30 June 2007 amounted to **2,151.4 million euros**, with an **increase of 6.6%** compared with 2,018.4 million euros in the first half of 2006 (+**8.4%** net of the exchange rate effect) determined mainly by growth in volumes and the focus on product mix, even in the presence of a negative exchange rate effect.

EBITDA was equal to **301.7 million euros (14% of sales)**, up **3.1%** compared with 292.6 million euros in the first half of 2006.

Operating income amounted to **206.3 million euros**, up **6%** compared with 194.6 million euros in the first half of 2006, with a **ROS of 9.6%**, in line with last year. The

increase in revenues and efficiencies compensated the rise in the cost of raw materials that had a negative effect on results, net of exchange rates, equal to 29.5 million euros.

Net income in the half amounted to **117.4 million** euros (after financial charges of 28.3 million euros and tax charges of 61 million euros), substantially in line with the 118.3 million euros of the first half of 2006 (after financial charges of 24.6 million euros and tax charges of 52.1 million euros). The result, compared with the first half of 2006, was also affected by the increase in financial charges following the change in the equity structure which occurred during the second quarter of last year.

The **net financial position** was **negative** for **695.5 million** euros, improved from the -734.7 million euros as of 31 March 2007 and compared with the -739.6 million euros as of 30 June 2006.

As of 30 June 2007, **employees** of Pirelli Tyre numbered **26,876**, including 3,984 workers with temporary contracts, compared with 25,169 (of which 3,265 temporary) as of 31 December 2006, thanks to growth of businesses, especially in the new industrial facilities in Romania and China.

In the **Consumer** business, the first half showed overall growth both in terms of sales and of profitability compared with the same period in 2006, thanks to greater volumes and to a better price/mix component. In particular, revenues amounted to 1,492 million euros (+6.4% compared with the first half of 2006) and operating income from ordinary business amounted to 149.1 million euros (+8.5%), with a ROS of 10%. In the *Car/Light Truck* segment, Pirelli grew at double digit rates in North America, despite stable demand in replacement tyres and falling demand in original equipment, and benefited from an increase in demand in South America, in particular in original equipment. In Europe as well, volumes growth was realized mainly in original equipment. The *Motorcycle* segment also grew, in all major markets (Europe, North and South America), where the Pirelli and Metzeler brands further strengthened.

In the **Industrial** business, the first half closed with revenues of 659 million euros, up 7% compared with the same period of 2006, despite the negative exchange rate trend. Operating income of ordinary business was 57.2 million euros, in line with the first half of 2006 net of the increase in cost factors, of natural rubber and of energy. The ROS was 8.7%. In the *tyres for industrial vehicles* segment, Pirelli grew in China and consolidated its market share in its areas of reference (the Mediterranean and South America), while in *steeltcord* the Company had an increase in volumes compared with the same period of the previous year, in a market characterized by stable demand (excluding China, where demand was rising).

Pirelli RE

Pirelli RE is a **management company** that manages funds and companies that own real estate and non-performing loans, in which it coinvests with minority stakes (investment and asset management business) and to which it provides, as well as to other customers, every kind of specialized real estate service, both directly and through a network of franchised agencies (service provider business). Consequently, in reading the amounts

reported below, the most significant indicators to express the Group's share of turnover and trend in earnings are respectively **pro-quota aggregate revenues** and **EBIT including income from equity participations**.

Pro-quota aggregate revenues, net of the component relating to the DGAG deconsolidation (equal to 529.9 million euros), amounted to **811.9 million** euros, up **21%** compared with the first half of 2006 (673.5 million euros). **Consolidated revenues**, net of the component relating to DGAG deconsolidation, amounted to 421.8 million euros, with an increase of 36.8% (308.4 million euros as of 30 June 2006). Total consolidated revenues were 951.7 million euros.

EBIT including income from equity participations amounted to **125.4 million** euros, with an increase of **36%** compared with 92.3 million euros in the first half of 2006. In particular, Investment and Asset Management activities saw an increase in results of 14% (from 78.7 million euros in the first half of 2006 to 89.4 million euros as of 30 June 2007), while strengthening of the Facility business through the entry of a 49% partner (Intesa Sanpaolo), for development of the sector in a European perspective, contributed significantly to the strong growth in operating income of Services (+92%).

Attributable **net income** was **80.1 million** euros, up **14%** compared with 70 million euros as of 30 June 2006.

The **net financial position** was **negative** for **1,094.8 million** euros (966.9 million euros as of 31 March 2007), of which 979 million euros attributable to the acquisition of DGAG. The **net financial position**, considering the DGAG deconsolidation concluded, is estimated to be negative for about 206 million euros.

Employees of Pirelli RE as of 30 June 2007 counted **2,782** (1,864 at the end of 2006).

For further information on the performance of the real estate business please refer to the press release issued on 10 September by Pirelli & C. Real Estate.

Pirelli Broadband Solutions

Revenues as of 30 June 2007 amounted to **55.8 million** euros, down from 72.7 million euros in the first half of 2006. The variation was due to a change in the product mix in the broadband access business and to a shifting of orders to the second half of the year in the world photonics market.

EBITDA of the company was negative for **5.9 million** euros, compared with a substantial break-even as of 30 June 2006.

Operating income was negative for **6.9 million** euros, compared with -0.6 million euros in the same period of 2006. In addition to the contraction in revenues and relating margins, the increase of **research costs** sustained by new generation photonics for development and customizing of products also affected the change in operating results.

The **net result** of the company as of 30 June 2007 was negative for **7.9 million** euros, compared with -3.3 million euros in the first half of 2006.

The **net financial position** of the company was negative for **22.3 million** euros compared with -20.5 million euros as of 31 March 2007 (positive for 1 million euros as of 30 June 2006).

Employees as of 30 June counted **185**, compared with 166 as of 31 December 2006.

In the **broadband access** business, the first six months of the year were characterized by consolidation of the product portfolio. Volumes of set-top boxes, in particular, rose, while the transition to new generation access gateways was completed. Development of power line technology and diffusion of “dual-mode” phones are continuing. In the **photonics** business, development activity in the first half focused mainly on the three main areas of action: innovative optical components, optic modules and transportation systems. In the optical systems area, despite the decline in sales due to a slowdown in IPTV investments by the main telecommunications operators, the company passed a ceiling of 2,000 Coarse WDM (City8) sold in Europe and the United States. In the second half of the year the company expects growth in production volumes of tunable laser and placement on the market of innovative optoelectronic modules.

Pirelli Ambiente

Pirelli Ambiente reached **revenues** of **35 million** euros as of 30 June 2007, substantially stable compared with 39.3 million euros in the first half of 2006 net of the positive effect of the agreement with UK company ReEnergy that had characterized the previous period.

Operating income as of 30 June 2007, **negative** for **3.1 million** euros, was affected by start-up costs of the new businesses of manufacturing and sales of particulate filters. In the first half of 2006, operating income was positive for 1.5 million euros, mainly thanks to the effect of the agreement with ReEnergy.

The **net result** of the company was negative for **3.2 million** euros, compared with a positive figure of 1.1 million euros as of 30 June 2006.

The **net financial position** was negative for **6.3 million** euros compared with -3 million euros as of 31 March 2007 (it was positive for 1.6 million euros as of 30 June 2006).

Employees as of 30 June counted **71**, compared with 52 as of 31 December 2006.

Sales of the company were mainly linked to sales of low environmental impact fuel Gecam-Il Gasolio Bianco, including in the French market through the Gecam France subsidiary, and to development of the new line of business of particulate filters for reduction of diesel vehicle emissions. During the half-year period, work began on realization of the new particulate filter factory for original equipment in the county of Gorj, in Romania, which will be operative in the second half of 2008. In addition,

activities linked to waste recovery for energy and environmental site remediation are continuing.

Prospects for the current year

The strategy of focusing on segments of greater added value and the good performance of the main businesses in the first half allow the **Pirelli & C. SpA Group** to confirm for the full year 2007 **further improvement of results**, assuming no external elements of an extraordinary nature unpredictable as of today.

Relevant facts which occurred after 30 June 2007

On 3 July, Pirelli Ambiente and Global Cleantech Capital (GCC), a private equity fund specialized in clean energy investments, signed an agreement to set up Solar Utility SpA, a joint venture in the photovoltaic energy sector. Solar Utility SpA will be owned 50% each by Pirelli Ambiente and GCC. The new JV plans to invest about 24 million euros of equity, in the next 5 years, in roof-based solar energy systems for the production, in Italy, of about 50MW of clean electricity.

On 5 July, the public purchase offer on the quotas of the Tecla fund by Gamma RE, a joint venture between Morgan Stanley Real Estate Special Situations Fund (51%) and Pirelli RE (49%), closed successfully, reaching more than 86% of quotas with voting rights.

On 17 July, Pirelli RE and the real estate funds of RREEF (Deutsche Bank Group) signed a binding agreement for purchase of 100% of BauBeCon, an important German real estate group active mainly in the residential segment, from US private equity fund Cerberus.

On 18 and 19 July 2007, agreements were signed, respectively, for joint ventures setting up Pirelli RE Romania, 80% Pirelli RE and 20% UniCredit Tiriac Bank, one of the main banking institutions in Romania, and Pirelli RE Bulgaria, 75% Pirelli RE and 25% UniCredit Bulbank, the main Bulgarian financial institution.

On 19 July, Pirelli presented in Slatina (province of Olt) development plans and activities of the new industrial and technology pole of the Group in Romania. The presentation was held on the occasion of the ceremony for manufacturing the millionth high-performance tyre in Romania. The new Pirelli pole in Romania is made up of three manufacturing facilities, two already functioning (high-performance tyres and steelcord) and one under construction (particulate filters), for a total investment of about 235 million euros.

On 27 July, Pirelli & C. SpA acquired from a primary institutional investor 859,741 shares in Pirelli RE, equal to about 2% of the share capital, for about 34.4 million euros, bringing its overall stake to 52.3%.

Bonds maturing in the 18 months following 30 June 2007

On 21 October 2008, the 500 million euro bond issued by Pirelli & C. SpA in 1998 at a fixed rate of 4.875% will mature.

Conference call

The results of operations relating to the first half of 2007 will be illustrated at 5:30 p.m. CEST, during a conference call in which the Chairman of Pirelli & C. SpA, Marco Tronchetti Provera, will intervene.

Journalists will be able to follow the presentation by telephone, without the possibility to ask questions, by calling the number **+39 06 33485042**.

The presentation will also be available via audio streaming – in real time – on the website www.pirelli.com, in the Investor Relations section, where it will be possible to consult the slides.

The Manager mandated to draft corporate accounting documents of Pirelli & C. S.p.A., Claudio De Conto, attests – as per art. 154-bis, comma 2 of the Testo Unico della Finanza (D. Lgs. 58/1998) – that the accounting information contained in this press release corresponds to the documented results, books and accounting registers of the Company.

In this press release, 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 (EBITDA): 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 Income. The Gross Operating Profit is an intermediate performance measure represented by the Operating Income from which depreciation and amortization are subtracted.

Income from participations: income from participations consists 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 of available-for sale financial assets and gains (losses) on the disposal of available-for-sale financial assets.

Movements in the fair value of assets available-for-sale that are recognized directly in equity are excluded.

Net financial position: this performance measure is represented by the gross financial debt less cash and cash equivalents as well as other interest-earning financial receivables.

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For the purpose of allowing for more complete information on the results as of 30 June 2007, attached are the consolidated summary figures of the balance sheet and profit and loss account included in the Report approved by the Board of Directors. It should be noted that such tables are not the object of review by the auditor, and that this latter has not yet completed its review of the half year report.

PIRELLI & C. S.p.A. GROUP			
	(million euros)		
	30/06/2007	30/06/2006	31/12/2006
. Sales	3.196,7 *	2.445,9	4.841,2
. Sales (excluding DGAG)	2.666,8	2.445,9	4.841,2
. EBITDA	319,7	324,2	614,1
% on sales (excluding DGAG)	12,0%	13,3%	12,7%
. EBIT	214,1	216,1	401,4
% on sales (excluding DGAG)	8,0%	8,8%	8,3%
. Income from equity participations	127,5	94,0	790,7
. Operat. income incl. income from equity part.	341,6	310,1	1.192,1
. Financial charges/income	(81,2)	(110,7)	(143,1)
. Tax charges	(79,2)	(77,5)	(127,8)
. Net result businesses in operation	181,2	121,9	921,2
% on sales (excluding DGAG)	6,8%	5,0%	19,0%
. Net result discontinued operations	17,1	71,2	(1.970,0)
. Total net result	198,3	193,1	(1.048,8)
. Net profit attributable to Pirelli & C. S.p.A.	108,2	153,0	(1.167,4)
. Attributable net profit per share (in euro)	0,020	0,029	(0,217)
. Shareholders' equity	4.692,3	5.714,6	4.686,6
. Shareholders' equity attributable to Pirelli & C. S.p.A.	3.859,2	5.342,0	3.879,6
. Shareholders' equity per share (in euro)	0,719	0,995	0,723
. Net financial position (assets)/liabilities	2.969,2 **	1.574,9	1.979,6
. Investments	116	126	255
. R&D investments	88	87	171
. Employees n. (at the end of the period)	31.270	28.455	28.617
. Number of plants	24	24	24
Pirelli & C. shares in circulation			
. ordinary (n. million)	5.233,1	5.233,1	5.233,1
. savings (n. million)	134,8	134,8	134,8
. Total shares in circulation	5.367,9	5.367,9	5.367,9
* of which DGAG deconsolidation impact 529,9 million euros			
** of which DGAG impact 979 million euros (140 million euros on 31/12/2006)			

Attachment 2

(million euros)						
BUSINESSES IN OPERATION						
30.06.2007						
(million euros)	Tyre	Broadband	Ambiente	Real Estate	Others	TOTAL
. Sales	2.151,4	55,8	35,0	951,7 *	2,8	3.196,7
. Sales (excluding DGAG)				421,8		2.666,8
. EBITDA	301,7	(5,9)	(2,8)	24,2	2,5	319,7
. EBIT	206,3	(6,9)	(3,1)	19,5	(1,7)	214,1
. Income from equity participations	0,4	-	-	105,9	21,2	127,5
. Operating income incl. income from eq. part.	206,7	(6,9)	(3,1)	125,4	19,5	341,6
. Financial charges/income	(28,3)	(1,0)	(0,1)	(23,5)	(28,3)	(81,2)
. Tax charges	(61,0)	0,0	0,0	(16,6)	(1,6)	(79,2)
. Net result businesses in operation	117,4	(7,9)	(3,2)	85,3	(10,4)	181,2
. Net financial position (assets)/liab.	695,5	22,3	6,3	1.094,8 (:)	1.150,3	2.969,2 (:)
*includes 529,9 million euros DGAG deconsolidation (:) of which DGAG impact on Pirelli RE 979 million euros						
(million euros)						
BUSINESSES IN OPERATION						
30.06.2006						
(million euros)	Tyre	Broadband	Ambiente	Real Estate	Others	TOTAL
. Sales	2.018,4	72,7	39,3	308,4	7,1	2.445,9
. EBITDA	292,6	(0,1)	1,9	41,9	(12,1)	324,2
. EBIT	194,6	(0,6)	1,5	37,7	(17,1)	216,1
. Income from equity participations	0,4	-	-	54,6	39,0	94,0
. Operating income incl. income from eq. part.	195,0	(0,6)	1,5	92,3	21,9	310,1
. Financial charges/income	(24,6)	(2,3)	0,0	(0,6)	(83,2)	(110,7)
. Tax charges	(52,1)	(0,4)	(0,4)	(21,1)	(3,5)	(77,5)
. Net result businesses in operation	118,3	(3,3)	1,1	70,6	(64,8)	121,9
. Net financial position (assets)/liab.	739,6	(1,0)	(1,6)	82,3	755,6	1.574,9