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

Quarterly Report

1st Quarter 2007

PIRELLI & C. Società per Azioni

Registered office in Milan, Via G. Negri 10

Share Capital - Euros 2,791,311,344.64

Milan Companies Register No. 00860340157

Economic Administrative File (REA) No. 1055

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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
	Gilberto Benetton
	Alberto Bombassei *
	Franco Bruni * o
	Gabriele Galateri di Genola
	Mario Garraffo *
	Dino Piero Giarda *
	Berardino Libonati * ^
	Giulia Maria Ligresti
	Massimo Moratti
	Giovanni Perissinotto
	Giampiero Pesenti * ^
	Luigi Roth *
	Aldo Roveri * ^
	Carlo Secchi * o
	Paolo Vagnone

* Independent director
o Member of the Internal Control and Corporate Governance Committee
^ Member of the Remuneration Committee

Secretary to the Board	Anna Chiara Svelto

Board of Statutory Auditors [3]

Chairman	Luigi Guatri
Standing members	Enrico Laghi
	Paolo Francesco Lazzati
Alternate members	Franco Ghiringhelli
	Luigi Guerra

General Managers [4]

Operations	Claudio De Conto
Finance and Strategic Planning	Luciano Gobbi

Independent Auditors [5]
PricewaterhouseCoopers S.p.A.

1 Appointment: April 28, 2005. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2007. Alberto Bombassei (co-opted by the board of directors on September 12, 2006) and Luigi Roth were appointed by the shareholders' meeting held on April 23, 2007.
2 Post conferred by the board of directors' meeting held on April 28, 2005.
3 Appointment: April 21, 2006. Expiry: shareholders' meeting called to approve the financial statements at December 31, 2008.
4 Until June 30, 2006, Francesco Gori was the general manager of the Tyre Sector. Beginning July 1, 2006, he is the CEO and general manager of Pirelli Tyre S.p.A..
5 Appointment conferred by the shareholders' meeting held on April 28, 2005.

DIRECTORS' REPORT ON OPERATIONS

Pirelli & C. Group recorded further gains in its operating results in the first quarter of 2007 led by the good performance of the tyre and the real estate sectors. An especially particular feature of the first quarter was the finalization of the acquisition of the German company DGAG Deutsche Grundvermogen AG (DGAG) by Pirelli Real Estate on January 11, 2007.

The customary business model will be applied to DGAG: the reorganization process, begun at the end of the quarter with the deconsolidation of about 40 percent of the assets acquired and with the rest of the process to be completed by the end of the year, calls for the transfer of the residential portfolio to the joint venture between Pirelli RE (35 percent) and the RREEF real estate investment funds (65 percent) and the commercial portfolio to the joint venture between Pirelli RE (35 percent) and the MSREF real estate investment funds of Morgan Stanley (65 percent).

In the interim consolidated income statement of the Pirelli & C. S.p.A. Group for the three months ending March 31, 2007, the deal led to an increase in sales of Euros 507.6 million, due to the aforementioned deconsolidation and a temporary impact of Euro 981 million on the net financial position which will be reduced to about Euros 90 million after completion of the reorganization process.

First-quarter 2007 **revenues** of the Pirelli & C. Group grew by 50.2 percent (+10.8 percent on a comparable basis, net of the DGAG deconsolidation and the foreign exchange effect) and operating profit rose by 8.1 percent.

In the **industrial businesses,** Pirelli Tyre recorded an increase in sales (+6 percent) and operating profit (+4.5 percent) compared to the first quarter of 2006 and confirms its focus on segments with higher value-added.

In the **real estate business**, Pirelli Real Estate registered a growth of 22 percent in the operating profit including earnings from investments.

With regard to the **start-ups**, the sales of Pirelli Broadband Solutions were affected by the different planning of purchases on the market by telecommunications operators that are customers of the company and by the change in the product mix. Sales of Pirelli Ambiente are stable, net of extraordinary components relating to the year 2006.

As for **Olimpia S.p.A.**, on March 12, 2007, the board of directors gave the chairman a mandate to explore all possible options, not excluding the divestiture of the investment, with the aim of obtaining the best value for the asset in the interests of all the shareholders.
As a result, on April 28, 2007 an agreement was reached for the total sale of the investment in Olimpia by Pirelli and Sintonia to leading financial institutional investors and industrial parties.
The investment was consequently classified in "assets held for sale" in accordance with IFRS and its effect on the income statement is only after taxes. For purposes of comparison, this treatment was also adopted for the presentation of the economic data of Olimpia for the year 2006. Olimpia's impact on net income in the first quarter of 2007 is a loss of Euros 90 million as a result of adjusting the company's value to the estimated sales price and without including the share of the result for the period, compared to income of Euros 35 million in the first quarter of 2006.

Net sales of the Pirelli & C. S.p.A. Group for the three months ending March 31, 2007 amount to Euros 1,811.3 million. This is an increase of 50.2 percent compared to Euros 1,206.1 million in the first quarter of 2006. Excluding the sales relating to the deconsolidation of the DGAG real estate assets, sales total Euros 1,303.7 million (+8.1 percent). Excluding the foreign exchange effect, net sales grew by 10.8 percent.

Gross operating profit (EBITDA) is Euros 181.6 million, up 4.3 percent compared to Euros 174.1 million in the first quarter of 2006.

Consolidated **operating profit** (EBIT) amounts to Euros 129.5 million, an increase of 8.1 percent compared to Euros 119.8 million in the first quarter of 2006.

Operating profit including earnings (losses) from investments, up 6.9 percent, rose to Euros 143.2 million from Euros 134 million in the first quarter of 2006. The earnings from investments, which include the effect of earnings or losses from companies accounted for by the equity method and dividends from unconsolidated holdings, is Euros 13.7 million and basically in line with Euros 14.2 million in the first three months of 2006.

Financial income (expenses) show a net financial expense balance of Euros 46.4 million compared to Euros 40.3 million in the first quarter of 2006.

Income from continuing operations in the first quarter 2007 is Euros 55.3 million and largely in line with Euros 56.8 million in the first quarter of 2006.

Income (loss) from discontinued operations for the first quarter ending March 31, 2007 is equal to Euros 1 million and includes, besides the aforementioned negative effect of Olimpia for Euros 90 million (positive impact of Euros 35 million in the first quarter of 2006), the gain on the sale of the warrants on Prysmian (Lux) S.à.r.l. to Goldman Sachs (Euros 91 million).

Total income is equal to Euros 56.3 million compared to Euros 91.8 million (of which Euros 35 million is Olimpia's result) in the first quarter of 2006.

The **income attributable to the equity holders of Pirelli & C. S.p.A.** in the first quarter of 2007 is Euros 24.2 million, compared to income of Euros 74.8 million in the first quarter of 2006.

Total consolidated **equity** at March 31, 2007 is Euros 4,608.8 million, compared to Euros 4,686.6 million at the end of 2006. **Equity attributable to the equity holders of Pirelli & C. S.p.A.** at March 31, 2007 amounts to Euros 3,764.2 million against Euros 3,879.6 million at the end of 2006.

The **net financial position** of the group at March 31, 2007 is a net financial debt position of Euros 3,073.8 million, including the aforementioned temporary impact of Euros 981 million on the net financial position of Pirelli Real Estate as a result of the DGAG transaction. This impact will be reduced to about Euros 90 million by the end of 2007 when the deconsolidation process is completed. Net of the DGAG transaction, the net debt position of the Group at March 31, 2007 is 2,092.8 million. The change from Euros 1,979.6 million at the end of 2006 is due to the usual seasonal factors associated with the Group's business, especially the tyre sector. At March 31, 2006, the net debt position of the Group was Euros 1,494.7 million.

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

The net result of Pirelli & C. S.p.A. for the first quarter ending March 31, 2007, prepared in accordance with IFRS, is an income of Euros 62 million compared to a loss of Euros 16 million in the first quarter of 2006.
The 2007 result includes the gain realized on the sale of the warrants on Prysmian (Lux) S.à.r.l. to Goldman Sachs and an accrual of Euros 180 million relating to the estimate of the economic effect of the sale of Olimpia S.p.A..
The equity of the parent, Pirelli & C. S.p.A., is equal to Euros 2,925 million (of which Euros 2,790 million relates to share capital), compared to Euros 2,882 million at the end of 2006.

SIGNIFICANT EVENTS IN THE FIRST QUARTER

- On January 9, 2007, Pirelli & C. S.p.A. and Quattroduedue Holding B.V. (the controlling shareholder of Intek S.p.A.), in view of the project for the merger of Gim S.p.A. in Intek S.p.A., signed a put&call agreement relating to 14,923,526 Gim S.p.A. ordinary shares held by Pirelli & C. S.p.A., equal to approximately 7.04 percent of Gim S.p.A. ordinary share capital.

  The understanding provides that, starting from the date the indicated merger comes into effect, Pirelli and Quattroduedue will have, respectively, the right to sell – up to the limits of the tender offer – and purchase the entire investment acquired by Pirelli as a result of the merger for consideration of Euros 13.1 million.

  The agreement is subject to the merger becoming effective and can be carried out by Quattroduedue Holding B.V. in more than one tranche by and not after May 31, 2008. Subsequent to that date, should Quattroduedue Holding BV not have exercised the option on the entire investment, Pirelli & C. S.p.A. will have the right to sell such shares to third parties and Quattroduedue Holding BV may have to pay compensation if there is a negative difference compared to the agreed price.

- On January 10, 2007, Pirelli & C. Real Estate, purchased approximately 97 percent of Deutsche Grundvermogen AG (DGAG), one of the most important real estate companies in Germany with offices in Hamburg and Kiel. At March 31, 2007, Pirelli & C. Real Estate's investment holding is about 99.4 percent. The purchase price, subject to a price adjustment on the basis of the 2006 financial statements, was set at approximately Euros 465 million for 100 percent of DGAG. Starting from the last days of March, DGAG's operations are being converted to Pirelli & C. Real Estate's customary business model with the deconsolidation of the commercial properties and, in part, the residential properties.

- On January 17, 2007, Pirelli & C. S.p.A. announced that none of the parties in the Pirelli & C. S.p.A. shareholders' agreement indicated the desire to withdraw from the pact within the contractually established expiration date of January 15, 2007. The pact will thus remain in effect, with the same composition, until the new expiration date of April 15, 2010.

- On January 22, 2007, Pirelli & C. Ambiente Eco Technology S.p.A. operating in the sector of technologies for sustainable development, and LiqTech A/S, a Danish company which has operated for years in the sector of silicon carbide filters for the retrofit market, signed an agreement to conduct research into improving the performance of the filters.

  The results generated by the research will be jointly owned by the two companies but Pirelli will have the exclusive rights to exploit them in Europe, Russia and the former Soviet Republics, Brazil and China. Similarly, LiqTech will have the exclusive rights to exploit the results of the research in the U.S.A., Mexico, South Korea, India and Japan.

  Furthermore, under the agreement, LiqTech will support Pirelli & C. Ambiente Eco Technology S.p.A. in the development of the production technology for mass-producing silicon carbide anti-particulate filters which will first be used on diesel engines.

  The results generated by this development work will be the exclusive property of Pirelli & C. Ambiente Eco Technology S.p.A. and will be implemented in the factory which the company is building in Romania, starting from January 2007, for the manufacture of anti-particulate filters for the original equipment market. As already mentioned, the factory will become operational in the second half of 2008 and will have a production capacity of more than 1,300 tons of silicon carbide filters a year.

- On February 12, 2007, Pirelli Tyre S.p.A. successfully concluded the syndication of a five-year multicurrency revolving credit line announced to the market on January 8, 2007. The contract was signed by the company with the mandated lead arrangers BNP Paribas and Banca Monte dei Paschi di Siena, and a pool of leading Italian and international banks (Akbank, Bank of America, Banca Carige, Banco do Brasil, Banca Popolare dell'Emilia Romagna, Banco Santander Central Hispano, Itau Europa, Mizuho, Natixis and Royal Bank of Canada). In view of the high number of commitments, the initial amount of Euros 500 million was increased to Euros 675 million. The loan bears interest at an initial rate equal to the Euribor + 40 basis points. The purpose of the transaction is to allow Pirelli Tyre to improve its financial structure while at the same time increasing its flexibility.

- On February 27, 2007, the world council of the FIA accepted Pirelli's offer to supply tyres for the World Rally Championship (WRC) over the three-year period 2008-2010, appreciating not only the product and Pirelli's capacity for technological innovation, but also its aim to seek out and encourage young talent and to promote national championships. In particular, one of the reasons why the FIA chose Pirelli, is its century-long commitment to motor racing, and car rallies in particular. Pirelli's winning of the bid to supply the WRC was the second victory in the space of a few weeks. At the end of January, the Grand Am series, the most exciting championship for prototypes in the United States and one of the most popular in America, decided to adopt the Pirelli PZero for the three-year period 2008-2010.

- On February 28, 2007, Pirelli & C. Real Estate Facility Management S.p.A. finalized the acquisition of Ingest Facility S.p.A. from Business Solutions (Fiat Group). As a result of this transaction, the company now has the leadership position in facility management in Italy (pro forma sales by the end of 2007 are estimated at more than Euros 400 million and pro forma EBITDA at about Euros 26 million). The facility management operations of DGAG in Germany and Pirelli Pekao Real Estate in Poland will be integrated and other opportunities for growth will continue to be sought with the aim of creating a benchmark hub in Central-Eastern Europe.

- On March 8, 2007, the Sicily Region real estate investment fund "Fondo Immobiliare Pubblico Regione Siciliana" was set up by the contribution and sale on the part of the Region and certain regional entities of 34 buildings mainly used as offices located principally in Palermo and Catania with a transfer value of Euros 263 million. At March 31, 2007, the portfolio of the Fund did not include a building worth Euros 3.8 million as it was covered by a pre-emption right by third parties. The annual return is 7.95 percent. Managed by Pirelli RE SGR, the Fund is held by the Sicily Region with a majority stake of 35 percent, by RREEF Global Opportunities Fund II with a 33 percent holding and by Pirelli RE with a 22 percent stake; RREEF has also subscribed to the remaining 10 percent which will be placed with international institutional investors.

  The launch of this fund brings the real estate investment funds managed by Pirelli RE to 17, 10 of which are ordinary and 7 speculative. With this last fund, Pirelli RE aims to appreciate the real estate portfolio from the Sicily Region which is concentrated mainly in Palermo and Catania.

  With regard to fund management activities, on January 30, 2007, the board of directors of Pirelli RE SGR approved the management reports of the Tecla Fondo Uffici, Berenice Fondo Uffici and Olinda Fondo Shops at December 31, 2006, again confirming returns for 2006 that were higher than the targets indicated in the placement.

- On March 30, 2007, Pirelli & C. S.p.A. sold the financial instruments from the disposal of the former Cables and Systems sector, concluded on July 28, 2005, to Goldman Sachs for consideration of about Euros 246 million.

  The instruments refer to a loan note granted to the buyer Goldman Sachs Capital Partners (GSCP) and warrants linked to the economic benefits of Prysmian (Lux) S.à.r.l., the vehicle company used by GSCP for the transaction.

THE GROUP

In this 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-IFRS alternative performance 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-IFRS alternative performance 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 subtracted.
- **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 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 (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 Notes present a table that shows the balance sheet amounts used to calculate the net financial (liquidity)/debt position.

The highlights of the consolidated financial statements for the first quarter ending March 31, 2007 can be summarized as follows:

(in millions of euros)

	1st Quarter 2007	1st Quarter 2006	Year 2006
. Net sales	**1,811.3** *	1,206.1	4,841.2
. Net sales (excluding deconsolidation of DGAG)	**1,303.7**	1,206.1	4,841.2
. Gross operating profit	**181.6**	174.1	614.1
% of net sales (excluding deconsolidation of DGAG)	**13.9%**	14.4%	12.7%
. Operating profit	**129.5**	119.8	401.4
% of net sales (excluding deconsolidation of DGAG)	**9.9%**	9.9%	8.3%
. Earnings (losses) from investments	**13.7**	14.2	790.7
. Operating profit (loss) incl. earnings (losses) from investments	**143.2**	134.0	1,192.1
. Financial income (expenses)	**(46.4)**	(40.3)	(143.1)
. Income taxes	**(41.5)**	(36.9)	(127.8)
. Income from continuing operations	**55.3**	56.8	921.2
% of net sales (excluding deconsolidation of DGAG)	**4.2%**	4.7%	19.0%
. Income (loss) from discontinued operations	**1.0**	35.0	(1,970.0)
. Total income (loss)	**56.3**	91.8	(1,048.8)
. Income (loss) attributable to the equity holders of Pirelli & C. S.p.A.	**24.2**	74.8	(1,167.4)
. Earnings (loss) per share (in euros)	**0.005**	0.014	(0.217)
. Total equity	**4,608.8**	5,862.7	4,686.6
. Equity attributable to the equity holders of Pirelli & C. S.p.A.	**3,764.2**	5,451.2	3,879.6
. Equity per share (in euros)	**0.701**	1.025	0.723
. Net financial (liquidity)/debt position	**3,073.8** **	1,494.7	1,979.6
. Employees (number at period-end)	**30,269**	27,447	28,617
. Factories	**24**	24	24
Pirelli & C. shares outstanding			
. ordinary shares (number in millions)	5,233.1	5,182.0	5,233.1
. savings shares (number in millions)	134.8	134.8	134.8
. Total shares outstanding	5,367.9	5,316.8	5,367.9

* of which, impact of partial DGAG deconsolidation is Euros 507.6 million

** of which, temporary impact of DGAG acquisition is Euros 981 million

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

CONTINUING OPERATIONS (in millions of euros)	1st Quarter ending 3/31/2007 Tyre	Broadband	Environment	Real Estate	Other	TOTAL
. Net sales	1,060.0	25.1	17.4	708.6 *	0.2	**1,811.3**
. Net sales (excluding DGAG)				201.0		**1,303.7**
. Gross operating profit (loss)	150.9	(3.4)	(1.5)	36.9	(1.3)	**181.6**
. Operating profit (loss)	103.7	(3.8)	(1.7)	34.5	(3.2)	**129.5**
. Earnings (losses) from investments	-	-	-	12.8	0.9	**13.7**
. Operating profit (loss) incl. earnings (losses) from investments	103.7	(3.8)	(1.7)	47.3	(2.3)	**143.2**
. Financial income (expenses)	(13.8)	(0.4)	0.0	(15.1)	(17.1)	**(46.4)**
. Income taxes	(31.8)	0.0	0.0	(12.4)	2.7	**(41.5)**
. Income (loss) from continuing operations	58.1	(4.2)	(1.7)	19.8	(16.7)	**55.3**
. Net financial (liquidity)/debt position	734.7	20.5	3.0	966.9 (:)	1,348.7	**3,073.8** (:)

* including Euros 507.6 million from partial DGAG deconsolidation
(:) of which DGAG impact in Pirelli RE is Euros 981 million

CONTINUING OPERATIONS (in millions of euros)	1st Quarter ending 3/31/2006 Tyre	Broadband	Environment	Real Estate	Other	TOTAL
. Net sales	1,000.4	38.5	21.4	142.1	3.7	**1,206.1**
. Gross operating profit (loss)	148.7	(0.4)	2.6	27.2	(4.0)	**174.1**
. Operating profit (loss)	99.2	(0.7)	2.4	25.0	(6.1)	**119.8**
. Earnings (losses) from investments	-	-	-	13.9	0.3	**14.2**
. Operating profit (loss) incl. earnings (losses) from investments	99.2	(0.7)	2.4	38.9	(5.8)	**134.0**
. Financial income (expenses)	(10.8)	(0.6)	0.0	0.3	(29.2)	**(40.3)**
. Income taxes	(26.9)	(0.4)	(0.4)	(8.6)	(0.6)	**(36.9)**
. Income (loss) from continuing operations	61.5	(1.7)	2.0	30.6	(35.6)	**56.8**
. Net financial (liquidity)/debt position	719.9	2.2	(3.6)	5.0	771.2	**1,494.7**

Net sales

Net sales amount to Euros 1,811.3 million for the first quarter ending March 31, 2007 and record an increase of 50.2 percent compared to the same period of the prior year.

Excluding the sales of DGAG, the total is Euros 1,303.7 million, with a gain of 8.1 percent.

Excluding the foreign exchange effect (-3.7 percent), the actual change is equal to +10.8 percent.

Gross operating profit

Gross operating profit amounts to Euros 181.6 million (13.9 percent of net sales excluding the deconsolidation of DGAG) compared to Euros 174.1 million in the first quarter of 2006.

Operating profit

Operating profit in the first quarter of 2007 amounts to Euros 129.5 million, representing 9.9 percent of net sales excluding the deconsolidation of DGAG, compared to Euros 119.8 million of the prior year (9.9 percent of net sales).

The change in operating profit can mainly be attributed to the following (in millions of euros):

Operating profit 1st Quarter 2006		**119.8**
. Pirelli Tyre	4.5	
. Pirelli Broadband Solutions	(3.1)	
. Pirelli Ambiente	(4.1)	
. Pirelli Real Estate	9.5	
. Other	2.9	
		9.7
Operating profit 1st Quarter 2007		**129.5**

Earnings (losses) from investments

Earnings (losses) from investments in the first quarter of 2007 amount to earnings of Euros 13.7 million compared to earnings of Euros 14.2 million in the prior year.
The item includes the results of the companies in the real estate sector accounted for by the equity method (Euros 12.8 million).

Income from continuing operations

Income from continuing operations in the first quarter of 2007 is Euros 55.3 million compared to Euros 56.8 million in the same period of the prior year.

Income (loss) from discontinued operations

The income from discontinued operations in the first quarter ending March 31, 2007 is Euros 1 million.
This includes the estimate to adjust the value of Olimpia S.p.A. to the sales price following the previously mentioned agreement with leading financial institutional investors and industrial operators (a negative Euros 90 million) and the gain of Euros 91 million on the sale to Goldman Sachs of the warrants obtained as part of the sale agreement in July 2005 for the Energy and Telecommunications Cables and Systems business and linked to the economic benefits of Prysmian (Lux) S.à.r.l..
The income from discontinued operations in the first quarter of 2006 of Euros 35 million referred entirely to the valuation of the investment in Olimpia S.p.A. using the equity method.

Total net income

Total consolidated net income in the first quarter of 2007 is Euros 56.3 million compared to Euros 91.8 million in the first quarter of 2006.

Income attributable to the equity holders of Pirelli & C. S.p.A. is Euros 24.2 million against Euros 74.8 million in the corresponding period quarter of 2006.

Equity

Consolidated equity went from Euros 4,686.6 million at December 31, 2006 to Euros 4,608.8 million at March 31, 2007. The change in equity can be summarized as follows:

		(in millions of euros)
. Translation differences		9.0
. Income for the period		56.3
. Dividends to third parties paid by:		(1.0)
- Other Group companies	(1.0)	
. Pirelli & C. Real Estate S.p.A. treasury share purchases/sales		(6.0)
. Fair value adjustment of available-for-sale financial assets		(39.0)
. Capital increase by minority interest (China)		5.0
. Realization of Olimpia S.p.A. value adjustments previously recognized in equity		(103.0)
. Other changes		0.9
		(77.8)

The equity attributable to the equity holders of Pirelli & C. S.p.A. at March 31, 2007 is equal to Euros 3,764.2 million (Euros 0.701 per share) compared to Euros 3,879.6 million at December 31, 2006 (Euros 0.723 per share).

Net financial position

The net financial position of the group went from a debt position of Euros 1,979.6 million at December 31, 2006 to Euros 3,073.8 million at March 31, 2007, of which Euros 981 million refers to the temporary impact of the DGAG deal in Germany by Pirelli Real Estate which will be reduced to approximately Euros 90 million by the end of the year.

Employees

At March 31, 2007, there are 30,269 employees compared to 28,617 at December 31, 2006, with an increase of 1,652 (including 265 with temporary contracts) due primarily to the expansion of activities in the tyre and real estate sectors.

RELATED PARTY DISCLOSURES

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

The income statement and balance sheet effect of transactions with related parties on the consolidated financial statements of the Pirelli & C. Group at March 31, 2007 are as follows.

Transactions with associates and joint ventures:

(in millions of euros)

Revenues for sales and services	37	These mainly refer to the supply of services to associates and joint ventures of Pirelli & C. Real Estate
Other expenses	2	
Financial income	5	
Trade receivables	107	These mainly refer to receivables from associates and joint ventures of Pirelli & C. Real Estate
Non-current other receivables	1	
Financial receivables	367	These refer to receivables from associates and joint ventures of Pirelli & C. Real Estate
Current other receivables	177	These mainly refer to receivables from associates and joint ventures of Pirelli & C. Real Estate
Trade payables	9	These mainly refer to payables to associates and joint ventures of Pirelli & C. Real Estate
Current other payables	3	These mainly refer to payables to associates and joint ventures of Pirelli & C. Real Estate

Transactions with parties related to Pirelli through directors:

(in millions of euros)

Revenues for sales and services	29	These refer to revenues Pirelli & C S.p.A., Pirelli & C. Real Estate S.p.A. and Pirelli Broadband Solutions S.p.A. from the Telecom Italia group (Euros 27 million); revenues of Pirelli & C. Ambiente Eco Technology S.p.A. from the Camfin group (Euros 1 million) and revenues from F.C. Internazionale Milano S.p.A. (Euros 1 million)
Other income	23	These refer to services rendered by Shared Service Center s.c.r.l. to the Telecom Italia group
Other expenses	23	These refer to telephone, computer and power services received from the Telecom Italia group (Euros 7 million); the supply of natural gas received from the Camfin Group (Euros 14 million) and costs for the sponsorship of F.C. Internazionale Milano S.p.A. (Euros 2 million)
Current trade receivables	61	These refer to receivables connected with the revenues and income above (from the Telecom Italia group for Euros 58 million, the Camfin group Euros 1 million and F.C. Internazionale Milano S.p.A. Euros 2 million)
Current trade payables	19	These refer to payables connected with the expenses above (relating to the Telecom Italia group for Euros 7 million, the Camfin group Euros 11 million and F.C. Internazionale Milano S.p.A. Euros 1 million)

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FIRST QUARTER

- On April 1, 2007, the board of directors of Pirelli & C. S.p.A. met after the company received two proposals for the purchase of two stakes of Olimpia S.p.A., submitted by AT&T, an American telecommunications company, and América Móvil , the Mexican mobile phone operator.

  The proposals regarded the purchase, by each of the two companies, of an interest equal to one-third of the share capital of Olimpia S.p.A..

  The board of directors of Pirelli & C. S.p.A. viewed the proposals favorably and gave the chairman a mandate to proceed with the negotiations of the relative understandings in the best interest of the company and its shareholders and to submit the final terms of the deal to the board.

  Mediobanca S.p.A. and Generali S.p.A. have first refusal on the Olimpia S.p.A. shares on the basis of the shareholders' agreement signed on October 18, 2006. The proposals had a duration until April 30, 2007 and, unless otherwise agreed by the parties, the proposals would no longer be valid if the relative contracts had not been signed by that date. Up to that date, there would be exclusive negotiations by Pirelli with AT&T and American Móvil.

  Subsequently, on April 16, 2007, Pirelli & C. S.p.A. took note of the withdrawal of the offer submitted on April 1 by AT&T for one-third of the share capital of Olimpia S.p.A., motivated by possible regulatory difficulties connected with the deal.

- On April 13, 2007, Pirelli & C. Real Estate Facility Management S.p.A. (wholly-owned by Pirelli & C. Real Estate S.p.A.), as the head of a Temporary Group of Companies (R.T.I.) was awarded four lots of the tender for bids called by Consip for the activations of agreements for the supply of facility management services for properties used by the public administration mainly as offices. The 4-year service supply contracts are worth approximately Euros 274.5 million.

- On April 28, 2007, Pirelli & C. S.p.A., Sintonia S.p.A. and Sintonia S.A. announced that they had reached an agreement with leading financial institutional investors and industrial operators for the sale of 100 percent of the share capital of Olimpia S.p.A., a company 80 percent-owned by Pirelli & C. S.p.A. and 20 percent-owned together by Sintonia S.p.A. and Sintonia S.A..

  The acquisition will be effected by a vehicle company in which investments are held by Assicurazioni Generali S.p.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A., Sintonia S.A. and Telefonica S.A..

  The provisional sales price is approximately Euros 4.1 billion. The agreed consideration will be determined as the difference between 2,407,345,359 Telecom Italia shares held by Olimpia S.p.A., valued at Euros 2.82 each, and the net debt of Olimpia S.p.A., calculated at the date of executing the agreement which will also include Euros 337 million of dividends collected from Telecom Italia S.p.A..

  The operation will have a positive impact of approximately Euros 3.3 billion on the net financial position of Pirelli & C. S.p.A..

  The execution of the agreement is scheduled to take place by October 2007.

  The deal, approved by the board of directors of Pirelli & C. S.p.A, which met on the same date, and by the competent bodies of Sintonia S.p.A. and Sintonia S.A., is subject to the approval and authorization of the competent authorities.

- On May 4, 2007, Pirelli & C. S.p.A. sold 10,432,346 Intek S.p.A. ordinary shares, equal to 3 percent of ordinary share capital, to Quattroduedue Holding B.V. for approximately Euros 8.3 million. The deal was finalized under the put&call agreement between the two companies announced on January 9, 2007.

  Following the sale, Pirelli & C. S.p.A. still holds 6,149,354 Intek S.p.A. ordinary shares, equal to 1.768 percent of the ordinary share capital of the company, which, on the basis of the above agreement, can be sold to third parties after May 31, 2008, if Quattroduedue Holding B.V. should elect not to exercise the option on the entire investment.

  Quattroduedue Holding B.V. now holds 144,024,907 ordinary shares, equal to 41.417 percent of share capital with voting rights.

- On May 9, 2007, the joint venture between Pirelli RE (33 percent) and Calyon (67 percent) finalized the acquisition of a non-performing loan portfolio from BNL- BNP Paribas Group with a gross book value of approximately Euros 1.5 billion; BNP – Paribas will make a joint investment with a 10 percent interest. The amount of non-performing mortgages managed exclusively by Pirelli RE totals approximately Euros 9.2 billion at gross book value (approximately Euros 2.2 billion at net book value). The Group therefore consolidates its leadership position in Italy in the asset management and special servicing of non-performing mortgages.

OUTLOOK FOR THE CURRENT YEAR

The strategy of focusing on segments with higher valued-added and the good trend of the major businesses in the first quarter allow the Group to confirm a further improvement in results for the full-year 2007, unless external factors of an extraordinary nature intervene which cannot be foreseen at this time.

PIRELLI TYRE

The highlights of the consolidated financial statements of Pirelli Tyre can be summarized as follows:

(in millions of euros)

	1st Quarter 2007	1st Quarter 2006	Year 2006
. Net sales	**1,060.0**	1,000.4	3,949.5
. Gross operating profit	**150.9**	148.7	533.7
% of net sales	**14.2%**	14.9%	13.5%
. Operating profit	**103.7**	99.2	342.3
% of net sales	**9.8%**	9.9%	8.7%
. Earnings (losses) from investments	**-**	-	(2.4)
. Operating profit incl. earnings (losses) from investments	**103.7**	99.2	339.9
. Financial income (expenses)	**(13.8)**	(10.8)	(54.1)
. Income taxes	**(31.8)**	(26.9)	(86.5)
. Income	**58.1**	61.5	199.3
% of net sales	**5.5%**	6.1%	5.0%
. Net financial (liquidity)/debt position	**734.7**	719.9	601.5
. Employees (number at period-end)	**25,947**	24,262	25,169
. Factories (number)	**24**	24	24

Net sales for the first quarter of 2007 total Euros 1,060.0 million, with an increase of 6 percent compared to Euros 1,000.4 million in the first quarter of 2006. Excluding the foreign exchange effect, the increase is 9.1 percent.

The change can be summarized as follows:

Volumes	+	3.9%
Prices/mix	+	5.2%
Change on a comparable basis	**+**	**9.1%**
Foreign exchange effect	-	3.1%
Total change	**+**	**6.0%**

Operating profit is Euros 103.7 million (ROS at 9.8 percent), up 4.5 percent compared to Euros 99.2 million in the first quarter of 2006. The return on sales is basically unchanged compared to the prior year despite higher raw material prices.

The change can be summarized as follows (in millions of euros):

Operating profit 1st Quarter 2006		**99.2**
. Foreign exchange effect	(3.5)	
. Prices/mix	11.9	
. Volumes	15.9	
. Production factors per unit cost	(24.6)	
. Efficiencies	4.1	
. Depreciation and other	0.7	
		4.5
Operating profit 1st Quarter 2007		**103.7**

Income in the first quarter of 2007 is Euros 58.1 million (after financial expenses of Euros 13.8 million and income tax expenses of Euros 31.8 million) compared to Euros 61.5 million in the corresponding quarter of 2006 (after financial expenses of Euros 10.8 million and income taxes of Euros 26.9 million).

The **net financial position** is a net debt position of Euros 734.7 million compared to Euros 601.5 million at December 31, 2006 and Euros 719.9 million at March 31, 2006. The increase from December 31, 2006 is principally due to seasonal factors affecting working capital.

At March 31, 2007, there are 25,947 **employees** (including 3,526 with temporary contracts) compared to 25,169 (including 3,265 with temporary contracts) at December 31, 2006.

Consumer Market

During this quarter there was an overall growth, both in terms of sales and results compared to the corresponding period of 2006. In particular, revenues amount to Euros 740 million, an increase of 6 percent compared to the prior year, while the operating profit is Euros 77.6 million (with a ROS of 10.5 percent), up more than 8 percent as a result of higher volumes and a better price/mix ratio.

In the **Car/LT segment**, sales amount to Euros 625 million, gaining 6.8 percent, while the operating profit rose by 9 percent compared to the first quarter of 2006.
The result was driven by higher volumes and by the continuous growth of high-performance tyres, where Pirelli confirmed its leadership yet again with the launch of the new P Zero, the top tyre of its product lineup.
This tyre has already obtained numerous original equipment homologations for the most recent supercars and is already being supplied for the Ferrari 599 GTB Fiorano, the Lamborghini Murciélago and Gallardo, the Audi R8 and S8, the Aston Martin DB9, the Maserati Quattroporte, the Jaguar XK and the Mercedes AMG, confirming the solid basis of the partnerships existing between Pirelli and the most prestigious car manufacturers.

Motorcycle sales increased compared to the first quarter of 2006 for both the Pirelli and Metzeler brands. In the **Replacements** channel, significant gains were reported in Latin America, North America and Japan, whereas, in Europe, sales were in line with 2006 levels, despite a downturn in the market.
Sales in the **Original Equipment** channel reported positive results, especially in Europe and Latin America. Pirelli obtained important homologations like the MV F4 312 equipped with Dragon Supercorsa PRO, the Ducati Hypermotard S fitted with Diablo Corsa III and the scooters Gilera GP800, Gilera Fuoco 500 and Honda SH 300.

For Metzeler there were homologations with the Moto Guzzi Bellagio 940 motorcycle fitted with Roadtec Z6, the Aprilia Shiver 750 with Sportec M3, and the Benelli TRE-K Amazzonas 1100 with the Tourance.
Pirelli again affirms its lead on the racing scene. This is Pirelli's fourth year as the official tyre supplier for the World Superbike Championship where the performance of its tyres is making constant advances, while, in off-road, Pirelli stands confirmed a winner in World Motocross.
The Metzeler brand continues to dominate the Enduro World Championship, with victory in all categories. There were also important results in the National Road Racing Championships.

Industrial Market

In the **Industrial** market, sales total Euros 320 million, with an increase of 6 percent compared to the same period of 2006. However, operating profit, which is Euros 26.1 million (with a ROS of 8.2 percent), contracted compared to the first quarter of 2006 because operating efficiencies and the price/mix were not able to compensate the increase in raw material costs.

Sales of tyres for **Industrial Vehicles** amount to Euros 242 million, a gain of 6 percent compared to the same period of the prior year, as a result of the positive trend in demand and the coming-on-line of the new production plant at Gravatai in Brazil, as well as the increase in production capacity at the Yanzhou plant in China.
Profitability is down because operational efficiencies, the trend in prices and the mix do not compensate the increase in the cost of raw materials, especially the cost of natural rubber.

Steelcord products closed the quarter with a 3 percent increase in sales compared to the prior year, in line with market growth.

OUTLOOK FOR THE CURRENT YEAR

For the current year, forecasts are again for a growth in sales above the market average, thanks to the focus on the premium segments in the Consumer area and in the rapidly growing markets of the Industrial area. In a scenario where the cost of raw materials stabilizes at current levels, a further improvement in the operating result is forecast in all areas of business.

PIRELLI BROADBAND SOLUTIONS

The highlights of Pirelli Broadband Solutions can be summarized as follows:

(in millions of euros)

	1st Quarter 2007	1st Quarter 2006	Year 2006
. Net sales	**25.1**	38.5	129.4
. Gross operating profit (loss)	**(3.4)**	(0.4)	1.1
% of net sales	**n.s.**	n.s.	n.s.
. Operating loss	**(3.8)**	(0.7)	(0.3)
% of net sales	**n.s.**	n.s.	n.s.
. Earnings (losses) from investments	**-**	-	(1.0)
. Operating loss incl. earnings (losses) from	**(3.8)**	(0.7)	(1.3)
. Financial income (expenses)	**(0.4)**	(0.6)	(1.6)
. Income taxes	**0.0**	(0.4)	(0.4)
. Loss	**(4.2)**	(1.7)	(3.3)
% of net sales	**n.s.**	n.s.	n.s.
. Net financial (liquidity)/debt position	**20.5**	2.2	13.1
. Employees (number at period-end)	**182**	132	166

Net sales in the first quarter of 2007 amount to Euros 25.1 million compared to Euros 38.5 million in the first quarter of 2006 and decreased due to the different planning of purchases on the market by telecommunications operators that are customers of the company and by the change in the product mix.

The **operating result** in the first quarter of 2007 owing to the trend and the composition of sales, is a loss of Euros 3.8 million compared to a loss of Euros 0.7 million in the first quarter of 2006.

The **loss** for the first quarter of 2007 is Euros 4.2 million against a loss of Euros 1.7 million in the first quarter of 2006.

The **net financial position** is a net debt position of Euros 20.5 million compared to Euros 13.1 million at the end of 2006. The change is due to an extension of payment terms for the major customers and higher investments in research and development which is typical of companies in the start-up stage, especially in the photonics business.

At March 31, 2007, there are 182 **employees** compared to 166 at December 31, 2006. The increase is concentrated in the Engineering and Sales functions.

OUTLOOK FOR THE CURRENT YEAR

Despite the contraction of sales in the first quarter of 2007, a growth in business is forecast for the whole of 2007 compared to the prior year, thanks partly to the introduction of new products, both in the access business (the Router for ADSL2+ and the Set-top Box) and in second-generation photonics (the Dynamically Tunable Laser and the Transponder).

PIRELLI & C. REAL ESTATE

Pirelli Real Estate is a management company that manages real estate investment funds and companies that own real estate and non-performing loans in which it invests by acquiring minority stakes (Investment & Asset Management). It also provides these and other clients with every kind of specialist real estate service (service provider) both directly and through the franchising network.

In the first three months of 2007, the operating profit including earnings from investments amounts to Euros 47.3 million compared to Euros 38.9 million in the first quarter of 2006, with an increase of 22 percent, outperforming target growth (+10%/15%).

Income, instead, is Euros 19.0 million compared to Euros 30.1 million in the first quarter of 2006. The change is largely due to the significant increase in financial expenses as a result of the acquisition of DGAG, still consolidated in the first quarter of 2007.

At the end of March, the first stage of the German company's conversion to fit the Pirelli RE business model began with the deconsolidation of about 40 percent of the real estate assets acquired; in the second part of the year, the rest of the deconsolidation process will be completed.

Economic review

In reading the income statement presented below, it should be noted that the share of aggregate revenues and the operating profit including earnings from investments, because of the type of business conducted by the group, are the most important indicators and express, respectively, the group's share of business volumes and the trend in earnings.

(in millions of euros)	1st Quarter 2007	1st Quarter 2006
Total aggregate revenues (1)	944.9	717.8
Share of aggregate revenues (2)	**405.8**	**293.4**
Consolidated revenues (3)	708.6	142.1
Consolidated revenues (4)	201.0	142.1
Operating profit including earnings from investments (5)	**47.3**	**38.9**
Income attributable to the equity holders of the company	**19.0**	**30.1**

(1) Aggregate revenues express total business volumes and include consolidated revenues and revenues of the associates, joint ventures and Funds in which Pirelli RE has holdings.
The amount for the first quarter of 2007 is shown net of the component relating to the first stage of the deconsolidation of DGAG equal to Euros 507.6 million and also excludes the revenues relating to the Upim-Rinascente holding.

(2) The share of aggregate revenues expresses the share of business volumes and includes consolidated revenues and the share of the revenues of associates, joint ventures and Funds in which Pirelli RE has holdings.
The share of aggregate revenues in the first quarter of 2007 is shown net of the component relating to the first stage of the deconsolidation of DGAG of Euros 507.6 million.

(3) The amount in the first quarter of 2007 is shown gross of the component relating to the first stage of the deconsolidation of DGAG equal to Euros 507.6 million.

(4) The amount in the first quarter of 2007 is shown net of the component relating to the first stage of the deconsolidation of DGAG equal to Euros 507.6 million.

(5) Operating profit including earnings from investments comprises the operating profit (Euros 34.5 million in the first quarter of 2007) in addition to the share of earnings of companies accounted for by the equity method (Euros 10.8 million in the first quarter of 2007) and income from real estate investment funds (Euros 1.9 million in the first quarter of 2007).

The **share of aggregate revenues,** net of the component relating to the first stage of the deconsolidation of DGAG, amounts to Euros 405.8 million, an increase of 38 percent compared to Euros 293.4 million in the first quarter of 2006.

Consolidated revenues amount to Euros 708.6 million compared to Euros 142.1 million in the first quarter of 2006. Net of the component relating to the first stage of the deconsolidation of DGAG, equal to Euros 507.6 million, consolidated revenues amount to Euros 201.0 million (+41 percent). The deconsolidation, which took place at the end of March 2007, related to almost 30 percent of the residential portfolio which was transferred to the joint venture between Pirelli RE (35 percent) and the RREEF real estate investment funds of Deutsche Bank (65 percent) and the entire commercial portfolio which was taken over by the joint venture between Pirelli RE (35 percent) and the MSREF real estate investment funds of Morgan Stanley (65 percent).

Operating profit including earnings from investments is Euros 47.3 million, with an increase of 22 percent compared to Euros 38.9 million in the first quarter of 2006.

Income attributable to the equity holders of the company is Euros 19.0 million compared to Euros 30.1 million in the first quarter of 2006 and was affected, as mentioned previously, by the financial expenses connected with the DGAG deal.

Balance sheet and financial review

(in millions of euros)	March 31, 2007	December 31, 2006
Fixed assets	**598.5**	**581.7**
. including investments in funds and investment companies (1)	*346.4*	*426.1*
Net working capital	**1,182.8**	**283.3**
Net invested capital	**1,781.3**	**865.0**
Equity	**725.0**	**708.7**
. of which equity attributable to the equity holders of the company	*715.5*	*700.3*
Provisions	**89.4**	**59.9**
Net financial (liquidity)/debt position	**966.9**	**96.4**
. of which shareholder loans	*(332.8)*	*(334.1)*
Total net invested capital financed	**1,781.3**	**865.0**
Net financial (liquidity)/debt position gross of shareholder loans	**1,299.7**	**430.5**
Gearing ratio (2)	**1.79**	**0.61**
Gearing ratio net of DGAG transaction	**0.43**	

(1) This item includes investments in associates and joint ventures, investments in real estate investment funds and junior notes.

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

Equity attributable to the equity holders of the company at March 31, 2007 is Euros 715.5 million compared to Euros 700.3 million at December 31, 2006, with an increase of Euros 15.2 million. The change is mainly due to the combined effect of an increase from the income for the period (+Euros 19.0 million) and a reduction due to the purchase of treasury shares (-Euros 5.9 million).

The **net financial position** shows a net debt position of Euros 966.9 million (net debt position of Euros 96.4 million at December 31, 2006) of which Euros 981 million is attributable to the acquisition of DGAG. The pro forma net financial position at March 31, 2007 post-deconsolidation of the German company is estimated in about Euros 76 million.

The **adjusted net financial position** (expressed gross of shareholder loans made to minority-owned companies) is a net debt position of Euros 1,299.7 million (net debt position of Euros 430.5 million at December 31, 2006). The adjusted net financial position at March 31, 2007 post-deconsolidation of the German company is estimated at about Euros 455 million. The gearing ratio is 1.79, while the pro forma gearing ratio is approximately 0.6 (0.61 at December 31, 2006).

Fixed assets total Euros 598.5 million compared to Euros 581.7 million at the end of December 2006, with an increase of Euros 16.8 million. The change is due, on one hand, to investments in Ingest Facility and DGAG (+Euros 91.1 million) and an increase in the value of the investments in associates, joint ventures and Funds (+Euros 3.6 million) and, on the other, to the sale, in the area of non-performing loans, of the securities from the ex-Banco di Sicilia transaction (-Euros 83.4 million) to the joint venture between Pirelli RE (33 percent) and Calyon (67 percent) set up in November 2006.

Net working capital is equal to Euros 1,182.8 million compared to Euros 283.3 million at the end of 2006. The increase of Euros 899.5 million is mainly due to the increase in inventories, consolidated assets and liabilities following the acquisition of DGAG at the beginning of 2007.

OUTLOOK FOR THE CURRENT YEAR

Based on the results in the first quarter and available information, the Group confirms the growth forecast for operating profit including earnings from investments for the full-year 2007 to outperform the targets set in the 2006-2008 three-year plan (CAGR 10/15%).

PIRELLI & C. AMBIENTE

The highlights of Pirelli & C. Ambiente can be summarized as follows:

(in millions of euros)

	1st Quarter 2007	1st Quarter 2006	Year 2006
. Net sales	**17.4**	21.4	69.0
. Gross operating profit (loss)	**(1.5)**	2.6	0.5
% of net sales	**n.s.**	n.s.	n.s.
. Operating profit (loss)	**(1.7)**	2.4	(0.2)
% of net sales	**n.s.**	n.s.	n.s.
. Financial income (expenses)	**-**	-	(0.1)
. Income taxes	**0.0**	(0.4)	(0.5)
. Income (loss)	**(1.7)**	2.0	(0.8)
% of net sales	**n.s.**	n.s.	n.s.
. Net financial (liquidity)/debt position	**3.0**	(3.6)	-
. Employees (number at period-end)	**62**	46	52

Net sales amount to Euros 17.4 million, a result much in line with that of Euros 21.4 million in the first quarter of 2006 net of the positive effect of the agreement with the British company ReEnergy which took place during the previous year.

The **operating loss** is Euros 1.7 million compared to operating profit of Euros 2.4 millions in the first quarter of 2006 which mainly included the positive effect of the agreement with ReEnergy. Other factors include the costs for the start-up of new production and marketing activities for the diesel post-treatment particulate filtering systems.

A summary of the results of the three wholly-owned operating companies is as follows:

Pirelli & C. Ambiente Eco Technology S.p.A. (PAET)

During the first quarter of 2007, the decrease in the volumes of Gecam sold in Italy, equal to about 24.7 million liters (-9 percent compared to the same period of 2006), is the result of the contraction of the sales of the company's partners, equal to about 28 percent, and the simultaneous increase of 10 percent in direct sales with a higher per unit margin. This made it possible to report a contribution margin during the period in line with that of the prior year. This was due partly to the positive contribution of the subsidiary Gecam France, which reported sales volumes in line with those of the first quarter of 2006, but with a higher per unit margin.

With regard to diesel post-treatment particulate filtering systems, despite the persisting slowness with which the regulatory framework is evolving at both a regional and national level, 400 orders have already been acquired which, compared to the approximately 250 during the whole year of 2006, suggest that business will develop favorably and that objectives will be achieved, partly due to the imminent start-up of the factory at Arese within the first half of 2007.

Work on the investment project in Romania, aimed at building a plant for the manufacture of silicon carbide filters for the original equipment market, is going according to plan.

Pirelli & C. Ambiente Renewable Energy S.p.A. (PARE)

During the first quarter of 2007, work continued to provide assistance to the U.K. and Northern Ireland start-up by Pirelli & C Ambiente Renewable Energy S.p.A. to ReEnergy Group Plc. This operation, which had a positive start in the prior year, constitutes the business model which will be re-proposed at an international level.

At a national level, corporate activities to produce quality fuel (RDF-P) from solid urban waste continued through the affiliate I.D.E.A. Granda S.Cons.R.L.. The company also pursued its activities of developing negotiations with a view to starting similar projects elsewhere.

Pirelli & C. Ambiente Site Remediation S.p.A. (PASR)

During the first quarter of 2007, the company continued its work on the full-scale management of environmental problems principally for the companies of the group and related companies, with particular reference to Environmental Due Diligence, evaluation, planning and management of activities such as demolition and land reclamation conducted by specialist companies which are authorized to conduct such work.

The Board of Directors
Milan, May 10, 2007

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AND
NOTES

(in thousands of euros)

CONSOLIDATED BALANCE SHEET	3/31/2007	12/31/2006
Property, plant and equipment	1,590,377	1,574,589
Intangible assets	606,687	516,374
Investments in associates and joint ventures	336,666	3,825,928
Available-for-sale financial assets	969,338	1,006,898
Deferred tax assets	61,799	64,230
Other receivables	491,279	705,828
Tax receivables	11,331	10,917
NON-CURRENT ASSETS	4,067,477	7,704,764
Inventories	1,502,845	715,533
Trade receivables	1,287,118	999,669
Other receivables	733,246	356,205
Securities held for trading	134,572	119,174
Cash and cash equivalents	406,137	269,574
Tax receivables	56,565	33,432
Financial instruments	25,629	29,147
CURRENT ASSETS	4,146,112	2,522,734
Assets held for sale (Olimpia)	3,294,855	
TOTAL ASSETS	11,508,444	10,227,498
Attributable to the equity holders of the company:	3,764,207	3,879,591
Share capital	2,789,950	2,789,950
Other reserves	2,306,385	1,971,026
Retained earnings (Accumulated deficit)	(1,356,247)	286,057
Income (loss) for the year	24,119	(1,167,442)
Attributable to the minority interest:	844,551	806,966
Reserves	812,392	688,351
Income for the year	32,159	118,615
TOTAL EQUITY	4,608,758	4,686,557
Borrowings from banks and other financial institutions	1,631,017	1,377,426
Other payables	46,880	156,886
Provisions for other liabilities and charges	137,227	145,119
Deferred tax liabilities	50,058	42,931
Employee benefit obligations	417,449	415,850
Tax payables	9,619	9,708
Financial instruments	4,856	4,751
NON-CURRENT LIABILITIES	2,297,106	2,152,671
Borrowings from banks and other financial institutions	2,622,080	1,562,262
Trade payables	1,153,549	1,102,456
Other payables	595,954	512,896
Provisions for other liabilities and charges	99,488	116,525
Tax payables	78,690	48,769
Financial instruments	52,819	45,362
CURRENT LIABILITIES	4,602,580	3,388,270
TOTAL EQUITY AND LIABILITIES	11,508,444	10,227,498

(in thousands of euros)

CONSOLIDATED INCOME STATEMENT	1st Quarter 2007	1st Quarter 2006
Revenues from sales and services	**1,811,290** *	1,206,120
Other income	**78,538**	71,467
Change in inventories of work in process, semifinished and finished products	**41,556**	(14,102)
Raw materials and consumables used	**(983,614)** *	(403,592)
Personnel costs	**(280,648)**	(270,601)
Amortization, depreciation and impairments	**(52,133)**	(54,308)
Other expenses	**(487,063)**	(416,385)
Increase in property, plant and equipment from internal work	**1,554**	1,197
OPERATING PROFIT	**129,480**	**119,796**
Financial income	**49,751**	73,039
Financial expenses	**(86,440)**	(88,870)
Dividends	**159**	256
Valuation of financial assets	**(7,082)**	(22,565)
Share of earnings (losses) of associates and joint ventures	**10,882**	12,102
INCOME BEFORE INCOME TAXES	**96,750**	**93,758**
Income taxes	**(41,472)**	(36,921)
INCOME FROM CONTINUING OPERATIONS	**55,278**	**56,837**
Income from discontinued operations	**1,000**	34,966
INCOME FOR THE PERIOD	**56,278**	**91,803**
Attributable to:		
Equity holders of the company	**24,119**	74,763
Minority interest	**32,159**	17,040

* of which Euros 507.6 million relates to the partial deconsolidation of Pirelli Real Estate's DGAG

Form and content

The interim consolidated quarterly report is prepared in accordance with art. 82 of Consob regulation 11971 of May 14, 1999, as amended and supplemented.

The content and form are consistent with the minimum requirements indicated in attachment 3D "Content of quarterly reports".

The accounting policies and principles used in the preparation of this Quarterly Report are consistent with those used in the preparation of the financial statements at December 31, 2006, to which reference should be made for additional information.

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

Assets held for sale

As for **Olimpia S.p.A.**, on March 12, 2007, the board of directors gave the chairman a mandate to explore all possible options, not excluding the divestiture of the investment, with the aim of obtaining the best value for the asset in the interests of all the shareholders.

As a result, on April 28, 2007 an agreement was reached for the total sale of the investment in Olimpia by the shareholders Pirelli and Sintonia to leading financial institutional investors and industrial parties.

The investment was consequently classified on balance sheet in "assets held for sale" at March 31, 2007 and the economic effects were classified in income from discontinued operations. For purposes of comparison, this treatment was also adopted for the presentation of the economic data of Olimpia for the first quarter of 2006. Olimpia's impact on net income in the first quarter of 2007 is a loss of Euros 90 million as a result of adjusting the company's value to the estimated sales price and without including the share of the result for the period, compared to income of Euros 35 million in the first quarter of 2006.

Sales

Sales in the first quarter of 2007 amount to Euros 1,811.3 million (including sales connected with the deconsolidation of DGAG equal to Euros 507.6 million) compared to Euros 1,206.1 million in the first quarter of 2006.

The increase compared to the corresponding period of 2006, net of the foreign exchange effect, can be analyzed as follows:

. Pirelli Tyre	+	9.1%
. Pirelli Broadband Solutions	-	34.8%
. Pirelli Ambiente	-	18.7%
. Pirelli Real Estate	+	41.4%
Total group	**+**	**10.8%**
. Foreign exchange effect	-	3.7%
. Sales for DGAG deconsolidation	+	43.1%
Total change	**+**	**50.2%**

The breakdown by geographical area of destination (net of the deconsolidation of DGAG) is the following:

(in millions of euros)

	1st Quarter 2007		1st Quarter 2006	
Geographical Area				
Europe:				
. Italy	367.5	28.19%	327.9	27.19%
. Other European countries	416.6	31.96%	384.2	31.86%
North America	83.7	6.42%	81.8	6.78%
Central and South America	274.7	21.07%	257.9	21.38%
Oceania, Africa and Asia	161.2	12.36%	154.3	12.79%
	1,303.7	**100.00%**	**1,206.1**	**100.00%**

Personnel costs

Personnel costs for the first quarter of 2007 amount to Euros 280.6 million and represent 21.5 percent of net sales (excluding DGAG sales) compared to Euros 270.6 million in the first quarter of 2006 (22.4 percent of sales).

Operating profit

Operating profit is Euros 129.5 million (9.9 percent of sales excluding the DGAG deconsolidation) and compares to Euros 119.8 million (9.9 percent of net sales) in the same period of 2006.

Income from discontinued operations

Income from discontinued operations of Euros 1 million includes the estimate to adjust the value of Olimpia S.p.A. to the sales price following the previously mentioned agreement with leading financial institutional investors and industrial operators (a negative Euros 90 million) and the gain of Euros 91 million on the sale to Goldman Sachs of the warrants obtained as part of the sale agreement in July 2005 for the Energy and Telecommunications Cables and Systems business and linked to the economic benefits of Prysmian (Lux) S.à.r.l.

The income from discontinued operations in the first quarter of 2006 of Euros 35 million referred entirely to the valuation of the investment in Olimpia S.p.A. using the equity method.

Net financial position
(non-IFRS alternative performance measure)

The composition of the net financial position is as follows:

(in millions of euros)

Net financial (liquidity)/debt position	3/31/2007	12/31/2006
. Borrowings from banks and other financial institutions - current	2,569	1,522
. Financial accrued liabilities and deferred income - current	85	60
. Cash and cash equivalents	(406)	(270)
. Securities held for trading	(135)	(119)
. Financial receivables - current	(251)	(27)
. Financial accrued income and prepaid expenses - current	(15)	(7)
. Borrowings from banks and other financial institutions - non-current	1,636	1,382
Net financial debt	**3,483**	**2,541**
. Financial receivables - non-current	(407)	(553)
. Financial accrued income and prepaid expenses - non-current	(2)	(8)
Total net financial (liquidity)/debt position	**3,074**	**1,980**

The change during the period is not only due to the usual effects of seasonal factors on the net working capital of the operating businesses, especially Pirelli Tyre, but also to the temporary effects of the acquisition of the business of the German company DGAG by Pirelli Real Estate for Euros 841 million.