



Pirelli & C. Società per Azioni

Interim Management Statement
at September 30, 2009

PIRELLI & C. Società per Azioni

Registered office in Milan, Via G. Negri n. 10

Share Capital - Euro 1,556,692,865.28

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PIRELLI & C. S.p.A. - MILAN

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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 * ^
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	Massimo Moratti
	Renato Pagliaro
	Umberto Paolucci * ^
	Giovanni Perissinotto
	Giampiero Pesenti * ^
	Luigi Roth * ^o
	Carlo Secchi * ^o

* Independent director

^o Member of the Internal Control, Risks and Corporate Governance Committee

[^] Member of the Remuneration Committee

Secretary to the Board	Anna Chiara Svelto
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Board of Statutory Auditors ³

Chairman	Enrico Laghi
Regular Auditors	Paolo Gualtieri
	Paolo Domenico Sfameni
Alternate Auditors	Franco Ghiringhelli
	Luigi Guerra

General Manager

General Management Tyre and Parts	Francesco Gori
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Independent Auditors ⁴

Reconta Ernst & Young S.p.A.

Manager responsible for corporate financial reporting ⁵

Francesco Tanzi

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

² Post conferred by the Board of Directors' on 29 April 2008.

³ Appointment: 21 April 2009. Expiry: Shareholders' meeting called to approve the financial statements at December 31, 2011.

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

⁵ Appointment: Post conferred by the board of directors' meeting held on September 16, 2009. Expiry: Shareholders' meeting called to approve the financial statements at December 31, 2010.

GROUP BUSINESS PERFORMANCE

The first nine months of financial year 2009 of the **Pirelli Group** show positive operating indicators essentially in line with the forecasts of the 2009-2011 business plan, thanks to the positive effects of restructuring and efficiency measures adopted to counter the slowdown in the real estate sector and the automotive industry, which is showing the first signs of recovery. The results achieved enable us to forecast that, in the absence of extraordinary events which are currently unforeseeable, financial year 2009 will end with the Pirelli Group achieving, and for a number of indicators exceeding, the targets identified in the 2009-2011 business plan presented last February, above all thanks to the positive performance of Pirelli Tyre.

Overall, the **Pirelli Group** ended the third quarter with consolidated income attributable to the Group of 11.9 million euro compared with a loss of 15.1 million euro for the corresponding period in 2008, while total consolidated income was 3.7 million euro compared with a loss of 26.8 million euro in third quarter 2008. During the third quarter a total of 123,923,185 ordinary shares of Telecom Italia S.p.A. were sold. As of today Pirelli holds no Telecom Italia S.p.A. shares.

The group's net financial position at September 30, 2009 was a debt position by 691.4 million euro, decidedly better than the 1,107.6 million euro at June 30, 2009 (1,055.7 million euro at September 30, 2008), thanks to the positive contribution of the Pirelli Tyre cash flow, the collection of approximately 130 million euro from the sale of Telecom Italia shares and the success of the Pirelli Re capital increase.

For **Pirelli Tyre** during the third quarter the benefits already evident in the second quarter continued thanks to the positive impact of the reduction in the cost of raw materials, to the efficiencies achieved thanks to the restructuring actions already launched and to the first signs of recovery shown by the market, above all in the consumer segment with positive performance in the Replacements channel and slower reduction in the Original Equipment channel.

From an operating point of view, this led also in the third quarter, as had already occurred in the previous three months, to results that show improved earnings compared with a year ago: the EBITDA margin came out in the third quarter at 13.6% compared with 8.6% in third quarter 2008 and the EBIT margin before restructuring expenses at 9% compared with 3.8% in third quarter 2008.

Thanks above all to higher efficiency in the management of floating capital, Pirelli Tyre's third quarter recorded a positive cash flow from operating activities of 218 million euro and the negative net financial position improved from 1,467 million euro at June, 30 2009 to 1,298.6 million euro at the end of September 2009, after restructuring expenses of 7.4 million euro.

In the first nine months, moreover, increasing efficiency on employment costs, the use of materials and procurement processes, as well as the advantages obtained on the cost of raw materials gross of the foreign exchange effect, enabled the company to achieve 85% of the 2009 target (200 million euro) for the reduction of costs at parity of exchange rates envisaged for Pirelli Tyre by the group's 2009-2011 business plan.

In the third quarter **Pirelli Eco Technology** – after obtaining approval for its particulate filters in China during the first half of the year, and beginning sales there – completed the procedure for the approvals required on the German market for Euro 1 to Euro 3 vehicles in both the Light Duty and Heavy Duty sectors. The two countries are important export markets for the company, whose performance is currently affected, however, by the generalized delay in the operational implementation of existing legislation on traffic pollution and the difficult economic situation, as well as the longer than expected time for obtaining approvals for the development of new markets.

Even in the face of this scenario, the growth in sales of filters enabled the company to maintain a share on the European market of more than 20%, making it one of the major players in retrofit systems, and one of those with the best future growth prospects thanks to the approvals recently obtained and to the recent recovery of national and international programmes for the introduction of low pollutant emission zones.

Pirelli Real Estate is committed to completing the turnaround announced with the 2009-2011 three-year plan. In fact the internal reorganization, the cost cutting plan, launched in 2008 to deal with the changed market conditions, the focus on recurrent revenues deriving from property management and specialist services and the reduction of indebtedness and net invested capital.

In keeping with the strategies announced, the sale of 5% of Pirelli RE SGR to an institutional partner, Intesa Sanpaolo, completed in the third quarter, was aimed at supporting the growth of the assets managed by the fund managers and therefore the development of the fund management business, both central features in the development strategy announced in the 2009-2011 business plan, with the goal of increasing the recurrent profits deriving from the property management business, and the possible aggregation of other operators in the industry. The company is also continuing with the cost savings plan launched in 2008 which, at September 30, had achieved savings of 47 million euro, a figure close to the original target for the year 2009 (50 million euro); the annual forecast was raised further to approximately 65 million euro of total savings. As regards the reinforcement of the equity and financial structure, in the third quarter the share capital increase was completed successfully and a “committed” credit facility – more suited to the company’s new business needs – was obtained from eight leading financial institutions. Despite the effects of the international crisis, which still adversely affects the results, Pirelli RE ended the third quarter with an operating loss including earnings/(losses) from investments before restructuring expenses and property writedowns/revaluations of 7.3 million euro, an improvement, however, on the two previous quarters (-14.7 million euro in the first quarter and -8.2 million euro in the second quarter).

Among the **other businesses**, **Pirelli Broadband Solutions** in particular performed well, ending the period with revenues up by almost 12% and income of 3.5 million euro.

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

The **income** of Pirelli & C. S.p.A. at September 30, 2009 was of 69 million euro compared with a loss of 22.2 million euro in the first nine months of 2008 which was affected in particular by the writedown of the investment held directly or indirectly in Telecom Italia S.p.A. (155.3 million euro).

Equity at September 30, 2009 was 1,795.4 million euro, compared to 1,685.6 million euro at December 31, 2008.

SIGNIFICANT EVENTS IN THE THIRD QUARTER

On **July 2, 2009**, during a press conference held at the Brazilian Santo André factory, the Pirelli Group announced that it intended to continue to reinforce its presence and invest more in Brazil, where this year it is celebrating 80 years of industrial and commercial business.

In keeping with the 2009-2011 business plan, in the three-year period the Group is to invest about 200 million dollars in addition to the 100 million dollars already invested in the previous year. The strategy of reinforcement in the area will consolidate the Pirelli Group's leadership in the South American markets.

The new investments will enable a 20% increase in car and motor-cycle tyre production. The 300 million dollars of total investments in the 2008-2011 period are destined one third for research and development and the remainder for increasing the production capacity.

Pirelli Tyre's growth target in Brazil in the three years 2009-2011 is a total increase of turnover of 10% compared with 2008, despite a 2009 which will be affected by the severe crisis of demand at the global level.

In 2008 South America accounted for 33% of Pirelli Tyre's total turnover. The position of absolute leadership in South America can be seen both in the Original Equipment channel, and in all the main replacement markets. Approximately 90% of the South American production of Pirelli Tyre is concentrated in Brazil, of which more than 35% is destined for export including to the markets of the NAFTA area (United States, Canada, Mexico) for products with high technological content.

On **July 3, 2009** the option rights offer period in relation to the capital increase of Pirelli & C. Real Estate S.p.A., which had begun on June 15, 2009, came to an end.

A total of 41,142,801 option rights were exercised and 793,468,305 newly-issued Pirelli RE ordinary shares were subscribed, representing approximately 99.361% of total shares offered in option, for a total countervalue of approximately 396.7 million euro.

Fulfilling the undertakings given, the controlling shareholder Pirelli & C. S.p.A. exercised all the option rights available to it, subscribing 463,752,540 newly-issued Pirelli RE ordinary shares, representing approximately 58.07% of the shares offered, for a total countervalue of approximately 231.9 million euro. Pirelli & C. S.p.A. subscribed the portion attributable to it converting into capital part of the financial receivable due from Pirelli RE.

At the end of the option offer period 264,768 option rights were therefore not exercised; corresponding to a total of 5,106,240 newly-issued Pirelli RE ordinary shares, for a total countervalue of approximately 2.6 million euro. Under the terms of Art. 2441, Clause 3, of the Civil Code, the unexercised option rights were offered on the Stock Exchange in the sessions of July 13, 14, 15, 16 and 17, 2009.

Through this offer all the unopted rights were placed on the market. The capital increase procedure therefore ended with the subscription of all the remaining 5,106,240 ordinary shares offered in option, at the price of 0.50 euro per share, for a total countervalue of 2,553,120 euro.

The capital increase was therefore completed with the subscription of all the 798,574,545 newly-issued ordinary shares, for a countervalue of 399,287,272.50 euro before expenses.

The new share capital of Pirelli RE is therefore 420,585,888.50 euro, divided into 841,171,777 ordinary shares of a par value of 0.50 euro each. The share capital at September 30, 2009, net of treasury shares in the portfolio, amounted to 419,991,057.50 euro.

As of today Pirelli & C. S.p.A. is thus the holder of an equity interest of 487,798,972 shares representing 57.99% of the new share capital of Pirelli RE.

The portion of the capital increase subscribed by the market, for a total countervalue of approximately 167 million euro, was used to further reduce financial indebtedness.

On **July 31, 2009**, in the context of the activities intended to redefine the structure of the financing relationships of the company, an agreement was entered into with a pool of eight leading financial institutions for the disbursement of a credit facility of a total amount of 320 million euro, maturity July 2012. The operation enabled Pirelli RE to have available 470 million euro in committed bank facilities compared with the 380 million euro which was instead available as of June 30, 2009, with an average residual duration rising from 9 months June 30, 2009 to 26 months at September 30, 2009.

In **July 2009**, 123,923,185 Telecom Italia S.p.A. ordinary shares were sold for total revenue of approximately 129.4 million euro. As of today the Pirelli Group holds no Telecom Italia S.p.A. shares.

On **September 15, 2009** Pirelli signed a Memorandum of Understanding with the Hixih Group (formerly the Yinhe Group), a partner of the group since 2005 in the production of tyres, for the creation of a filter production plant at Yanzhou, in the province of Shandong (China).

The agreement is to be seen in the context of the protocols signed with the Italian Ministry of the Environment and Protection of the Territory and the Sea, the Chinese Ministry for Environmental Protection and the Municipality of Beijing, for the diffusion of advanced technologies for the abatement of pollutant emissions of diesel vehicles in China. The agreement enables Pirelli to reinforce and consolidate its presence established in the country in 2005. The new factory, construction of which is expected to begin by the end of first quarter 2010, will be located in the same area as the two manufacturing facilities developed by the partners for the production of truck and car tyres and will create a real and proper diversified industrial pole, capable of taking maximum advantage of the synergies deriving from the production and sale of the two products.

The plant for particulate filters, for both retrofitting and Original Equipment, will develop gradually. The investment, which was envisaged in the 2009-2011 business plan, will take account of the evolution of the market and may be up to 50 million euro in the three-year period, with a production capacity of approximately 100,000 filters per year and approximately 1,200 employees.

On **September 16, 2009** the Pirelli Board of Directors approved the Group's new organizational framework. In keeping with the strategy and the objectives of the 2009-2011 business plan of focusing on the core business, the company decided to simplify its organizational structure and grouping all the activities in direct support of the core business in the new Tyre and Parts General Management, responsibility for which was entrusted to Francesco Gori, who also maintains the position of Chief Executive Officer of Pirelli Tyre.

The reorganization will enable a significant reduction in the size of the structures at the corporate level, with savings, expected from 2010 onwards, of at least 10 million euro on an annual basis, and grouping together the operating activities necessary for development of the core business: tyres (Pirelli Tyre) and filters (Pirelli Eco Technology), within the new General Management will thus ensure unitary governance of the business processes.

In line with the focus on the industrial activities, the reorganization therefore entails the replacement of the Operational General Management, entrusted to Claudio De Conto, who now concentrates his work, in his capacity as Chief Financial Officer, on Pirelli Real Estate together with the Chief Executive Officer of Pirelli Real Estate, Giulio Malfatto, continuing to manage the turnaround process positively launched and conducted up to now.

On **September 30, 2009** an equity interest of 5% of the subsidiary Pirelli RE SGR was sold to Intesa Sanpaolo, a leader in Italy in the management of real estate funds, for a price of 10 million euro. The agreement also states that, once the necessary authorizations have been obtained from the competent authorities, Intesa Sanpaolo will purchase a further 5% stake in Pirelli RE SGR.

Pirelli RE SGR, on one hand, will be able to grow internally with the development of the real estate funds and the launch of new products reserved for investors; on the other hand, instead, it will be able to seize the opportunities for external growth deriving from consolidation of the managed savings sector, aggregating other fund managers operating on the Italian market.

GROUP: main income, balance sheet and financial data

In the present document, in addition to the financial performance measures laid down by the IFRSs, certain non-IFRS measures originated from the latter are presented although they are not required by the IFRSs (Non-GAAP Measures).

These performance measures are presented to enable a clearer understanding of the trend of the Group's operations and should not be construed as a substitute for the information required by the IFRSs.

Specifically, the Non-GAAP Measures used are the following:

- **Gross operating margin:** this economic measure is used by the Group as a financial target for internal presentations (business plans) and external presentations (to analysts and investors), and is a useful unit of measurement to assess the overall operating performance of the Group and of the individual business sectors in addition to the operating profit. The gross operating margin is an intermediate economic measure deriving from operating profit (EBIT), but excluding depreciation and amortization of tangible and intangible fixed assets;
- **Fixed assets:** this measure consists of the sum of "Property, plant and equipment", "Intangible assets", "Investments in associates and joint ventures" and "Other financial assets";
- **Provisions:** this measure is the sum of "Provisions for other liabilities and charges (current and non-current)", "Employee benefit obligations" and "Deferred tax liabilities";
- **Net working capital:** this measure consists of all the items not included in the two measures above, in "Equity" and "Net financial position";
- **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. The section "Interim Consolidated Financial Statements" presents a table showing the balance sheet amounts used to calculate net financial position.

It is important to remember that the Integrated Facility Management business of Pirelli Real Estate and the Photonics business, which were both sold during 2008, were considered discontinued operations.

The Group's consolidated accounts can be summarized as follows:

<i>(in millions of euro)</i>	Q3 2009	Q3 2008	September 30, 2009	September 30, 2008	December 31, 2008
Net sales	1,169.8	1,213.2	3,307.4	3,668.0	4,660.2
Gross operating margin before restructuring expenses	135.1	85.2	361.2	391.0	396.1
<i>of which property value adjustments</i>	-	-	(4.2)	<i>(0.3)</i>	<i>(9.3)</i>
% of net sales	11.5%	7.0%	10.9%	10.7%	8.5%
Operating profit/(loss) before restructuring expenses	82.8	30.2	205.1	232.3	187.4
<i>of which property value adjustments</i>	-	-	(4.2)	<i>(0.3)</i>	<i>(9.3)</i>
% of net sales	7.1%	2.5%	6.2%	6.3%	4.0%
Restructuring expenses	(20.1)	(28.1)	(41.3)	(49.3)	(144.2)
Operating profit/(loss) (EBIT)	62.7	2.1	163.8	183.0	43.2
<i>of which property value adjustments</i>	-	-	(4.2)	<i>(0.3)</i>	<i>(9.3)</i>
% of net sales	5.4%	0.2%	5.0%	5.0%	0.9%
Earnings/(losses) from investments	(9.3)	10.2	(37.9)	(85.3)	(366.5)
<i>of which property value adjustments</i>	<i>(7.1)</i>	<i>(0.6)</i>	<i>(7.7)</i>	<i>(1.1)</i>	<i>(126.5)</i>
Financial income/(expenses)	(13.6)	(12.6)	(53.0)	(35.1)	(80.0)
Income taxes	(36.1)	(26.2)	(81.6)	(90.9)	(72.6)
Income/(loss) from continuing operations	3.7	(26.5)	(8.7)	(28.3)	(475.9)
% of net sales	0.3%	(2.2%)	(0.3%)	(0.8%)	(10.2%)
Income/(loss) from discontinued operations	-	(0.3)	-	(8.0)	63.4
Total income/(loss)	3.7	(26.8)	(8.7)	(36.3)	(412.5)
Income/(loss) attributable to the equity holders of Pirelli & C. S.p.A.	11.9	(15.1)	18.2	(51.3)	(347.5)
Earnings per share (in euro)			0.003	(0.010)	(0.065)
Fixed assets			3,490.0	3,929.0	3,686.4
Net working capital			511.0	621.5	397.4
Net invested capital			4,001.0	4,550.5	4,083.8
Equity			2,570.7	2,809.0	2,374.4
Provisions			738.9	685.8	681.7
Net financial position: (liquidity)/debt			691.4	1,055.7	1,027.7
Equity attributable to the equity holders of Pirelli & C. S.p.A.			2,244.9	2,499.6	2,171.8
Equity per share (in euro)			0.418	0.466	0.405
Employees (number at end of period)			29,509	31,682	31,056
Factories			23	24	23
Pirelli & C. shares outstanding					
ordinary shares (number in millions)			5,233.1	5,233.1	5,233.1
<i>of which treasury shares</i>			<i>3.9</i>	<i>2.6</i>	<i>3.9</i>
savings shares (number in millions)			134.8	134.8	134.8
<i>of which treasury shares</i>			<i>4.5</i>	<i>4.5</i>	<i>4.5</i>
Total shares outstanding			5,367.9	5,367.9	5,367.9

For a better understanding of the Group's performance, the income data and the net financial position are presented below divided by business segments.

(in millions of euro)

	September 30, 2009					TOTAL
	Tyre Eco Technology	Real Estate	Broadband Access	Other (*)		
Net sales	2,958.6	38.8	199.2	103.1	7.7	3,307.4
Gross operating margin before restructuring expenses	382.8	(7.2)	-	3.6	(18.0)	361.2
<i>of which property value adjustments</i>	-	-	(4.2)	-	-	(4.2)
Operating profit/(loss) before restructuring expenses	240.8	(8.8)	(5.4)	2.9	(24.4)	205.1
<i>of which property value adjustments</i>	-	-	(4.2)	-	-	(4.2)
Restructuring expenses	(18.1)	-	(13.2)	-	(10.0)	(41.3)
Operating profit/(loss) (EBIT)	222.7	(8.8)	(18.6)	2.9	(34.4)	163.8
<i>of which property value adjustments</i>	-	-	(4.2)	-	-	(4.2)
Earnings/(losses) from investments	3.8	-	(36.7)	-	(5.0)	(37.9)
<i>of which property value adjustments</i>	-	-	(7.7)	-	-	(7.7)
Operating profit/(loss) including earnings/(losses) from investments before restructuring expenses and property writedowns/revaluations			(30.2)			
Operating profit/(loss) including earnings/(losses) from investments			(55.3)			
Financial income/(expenses)	(59.7)	(1.9)	1.8	0.1	6.7	(53.0)
Income taxes	(75.9)	-	(5.2)	0.5	(1.0)	(81.6)
Income/(loss) from continuing operations	90.9	(10.7)	(58.7)	3.5	(33.7)	(8.7)
Income/(loss) from discontinued operations	-	-	-	-	-	-
Total income/(loss)	90.9	(10.7)	(58.7)	3.5	(33.7)	(8.7)
Net financial position: (liquidity)/debt	1,298.6	42.9	(43.5)	(17.9)	(588.7)	691.4

(in millions of euro)

	September 30, 2008					TOTAL
	Tyre Eco Technology	Real Estate	Broadband Access	Other (*)		
Net sales	3,229.2	47.5	296.5	92.3	2.5	3,668.0
Gross operating margin before restructuring expenses	378.3	(5.8)	27.3	3.8	(12.6)	391.0
<i>of which property value adjustments</i>	-	-	(0.3)	-	-	(0.3)
Operating profit/(loss) before restructuring expenses	231.8	(6.5)	20.7	3.2	(16.9)	232.3
<i>of which property value adjustments</i>	-	-	(0.3)	-	-	(0.3)
Restructuring expenses	(31.7)	-	(17.6)	-	-	(49.3)
Operating profit/(loss) (EBIT)	200.1	(6.5)	3.1	3.2	(16.9)	183.0
<i>of which property value adjustments</i>	-	-	(0.3)	-	-	(0.3)
Earnings/(losses) from investments	27.6	-	0.3	-	(113.2)	(85.3)
<i>of which property value adjustments</i>	-	-	(1.1)	-	-	(1.1)
Operating profit/(loss) including earnings/(losses) from investments before restructuring expenses and property writedowns/revaluations			22.4			
Operating profit/(loss) including earnings/(losses) from investments			3.4			
Financial income/(expenses)	(43.0)	(1.2)	(9.9)	(1.3)	20.3	(35.1)
Income taxes	(76.4)	-	(8.2)	0.4	(6.7)	(90.9)
Income/(loss) from continuing operations	108.3	(7.7)	(14.7)	2.3	(116.5)	(28.3)
Income/(loss) from discontinued operations	-	-	4.1	-	(12.1)	(8.0)
Total income/(loss)	108.3	(7.7)	(10.6)	2.3	(128.6)	(36.3)
Net financial position: (liquidity)/debt	892.4	12.8	323.8	32.0	(205.3)	1,055.7

(*) the item includes the Environment business, Pzero Moda, all financial companies (including the Parent Company), other service companies and as regards the sales item, all eliminations on consolidation.

Net sales

Net sales in the first nine months of 2009 amounted to 3,307.4 million euro, down 9.8% compared with 3,668 million euro in the first nine months of 2008.

The table below gives the percentage breakdown of net sales according to business segment:

	September 2009	September 2008
Tyre	89.5%	88.0%
Eco Technology	1.2%	1.3%
Real Estate	6.0%	8.1%
Broadband Access	3.1%	2.5%
Other	0.2%	0.1%
	100.0%	100.0%

The change in sales broken down according to the Group's business segments was as follows:

Tyre	-	5.8%	
Eco Technology	-	18.3%	
Real Estate	-	32.8%	
Broadband Access	+	11.7%	
Group Total		-	7.7%
Foreign exchange effect		-	2.1%
Total change		-	9.8%

The geographical areas of destination can be broken down as follows:

(in millions of euro)				
	September 30, 2009		September 30, 2008	
Europe:				
. Italy	625.8	18.92%	630.8	17.20%
. Rest of Europe	989.8	29.93%	1,271.8	34.67%
North America	236.8	7.16%	217.7	5.93%
Central and South America	969.6	29.32%	1,052.9	28.71%
Oceania, Africa and Asia	485.4	14.67%	494.8	13.49%
	3,307.4	100.00%	3,668.0	100.00%

In the **third quarter**, in particular, revenues amounted to 1,169.8 million euro, up by 6.9% compared with 1,094.6 million euro in second quarter 2009; in third quarter 2008 revenues were 1,213.2 million euro.

Operating profit/(loss)

Operating profit (EBIT) at September 30, 2009 was 163.8 million euro, 5% in proportion to revenues, in line with the targets set in the 2009-2011 business plan, and comparable with the profit for the first nine months of 2008 of 183.0 million euro. Restructuring expenses amounted in the period to 41.3 million euro (of which 18.1 million euro for Tyres, 13.2 million euro for Real Estate and 10 million euro as the first tranche of the parent company's new organizational framework announced in September) compared with 49.3 million euro in the first nine months of 2008 (of which 31.7 million euro for Tyres and 17.6 million euro for Real Estate).

In the **third quarter** operating profit (EBIT) was 62.7 million euro, up from 2.1 million in the corresponding period of 2008 and the 54.3 million euro of second quarter 2009.

The table below shows the trend in operating profit in the three quarters, broken down for the individual businesses:

(in millions of euro)

	2009			2008		
	Q1	Q2	Q3	Q1	Q2	Q3
Eco Technology	(2.8)	(2.7)	(3.3)	(2.1)	(1.8)	(2.6)
Real Estate	(2.2)	(4.0)	0.8	22.7	(2.7)	0.7
Broadband Access	2.5	0.2	0.2	1.1	2.1	0.0
Other	(8.2)	(7.0)	(9.2)	(4.6)	(3.6)	(8.7)
Operating profit before restructuring expenses	50.3	72.0	82.8	119.9	82.2	30.2
Restructuring expenses	(3.5)	(17.7)	(20.1)	(4.8)	(16.4)	(28.1)
Operating profit (EBIT)	46.8	54.3	62.7	115.1	65.8	2.1

In relation to the Group's businesses, the change was as follows (in euro millions):

Operating profit (EBIT) September 30, 2008	183.0
Pirelli Tyre	9.0
Pirelli EcoTechnology	(2.3)
Pirelli Real Estate	(26.1)
Pirelli Broadband Access	(0.3)
Restructuring expenses	8.0
Other	(7.5)
	(19.2)
Operating profit (EBIT) September 30, 2009	163.8

Earnings/(losses) from investments

Earnings/(losses) from investments, which includes the share of the profits of companies carried at equity, the effects of sales or impairment losses and dividends from unconsolidated investments, were negative by 37.9 million euro, compared with a negative figure of 85.3 million euro in the first nine months of 2008.

Among the most significant events were lower dividends (down from 24.2 million euro in the first nine months of 2008 to 8.5 million euro in the first nine months of 2009) but above all the further reduction in the share of profits of associates and joint ventures in relation to the Real Estate group, which went from a negative effect of 8.2 million euro to a negative effect of 48.9 million euro for the same period of 2009. The period was affected by both the adjustment of the value of the investment in Telecom Italia S.p.A. following the alignment to the market value at June 30, 2009 (0.99 euro per share) with a negative impact of 19.8 million euro, and the sale of all these shares with the realization of a capital gain of 2.3 million euro. In the corresponding period of 2008 these stocks had been written down by 155.3 million euro.

Total income/(loss)

The **total loss** was 8.7 million euro compared with a loss of 36.3 million euro for the corresponding period of 2008. In the third quarter there was a total consolidated income of 3.7 million euro compared with a loss of 26.8 million euro in third quarter 2008.

In the first nine months of 2008 there was a **loss from discontinued operations** of 8 million euro in relation to the negative effect deriving from the Photonics business (12.1 million euro) partially offset by the positive effect of the Facility Management business of Pirelli Real Estate (4.1 million euro).

The **income attributable to Pirelli & C. S.p.A.** at September 30, 2009 was 18.2 million euro (0.003 euro per share), compared with a loss of 51.3 million euro in the first nine months of 2008 (-0.01 euro per share). In the third quarter, in particular, the consolidated income attributable was 11.9 million euro compared with a loss of 15.1 million euro for the corresponding period of 2008.

Equity

The **equity** increased from 2,374.4 million euro at December 31, 2008 to 2,570.7 million euro at September 30, 2009. The changes can be summarized as follows:

(in millions of euro)

	Group	Minority interests	Total
Equity at December 31, 2008	2,171.8	202.6	2,374.4
Translation differences	57.9	(2.0)	55.9
Income/(loss) for the period	18.2	(26.9)	(8.7)
Pirelli Real Estate capital increase	(4.5)	167.4	162.9
Payment of dividends	-	(2.3)	(2.3)
Tyre minorities acquisition	-	(7.4)	(7.4)
Adjustment to fair value of available-for-sale financial assets/derivatives	36.6	0.3	36.9
Share of other components recognised in equity related to associates and joint ventures	(9.3)	(6.4)	(15.7)
Net actuarial gain/(loss) on employee benefits	(24.8)	(0.2)	(25.0)
Other changes	(1.0)	0.7	(0.3)
Total changes	73.1	123.2	196.3
Equity at September 30, 2008	2,244.9	325.8	2,570.7

Equity attributable to equity holders of Pirelli & C. S.p.A. as of September 30, 2009 was 2,244.9 million euro (0.418 euro per share) compared to 2,171.8 million euro (0.405 euro per share) as of December 31, 2008.

Net financial position

The Group's net indebtedness declined from 1,027.7 million euro at December 31, 2008 to 691.4 million euro at September 30, 2009.

The change in the period is summarised in the following cash flow:

(in millions of euro)

	2009			Progressive	
	Q1	Q2	Q3	September 30, 2009	September 30, 2008
Operating profit/(loss) before restructuring expenses	50.3	72.0	82.8	205.1	232.3
Amortization	51.4	52.4	52.3	156.1	158.7
Net investments	(42.9)	(37.4)	(32.0)	(112.3)	(217.3)
Change in working capital/other	(262.8)	96.7	84.4	(81.7)	(328.3)
Free cash flow	(204.0)	183.7	187.5	167.2	(154.6)
Financial income/(expenses)	(20.2)	(19.2)	(13.6)	(53.0)	(35.1)
Income taxes	(26.3)	(19.2)	(36.1)	(81.6)	(90.9)
Operating cash flow	(250.5)	145.3	137.8	32.6	(280.6)
Impact of Speed S.p.A. acquisition	-	-	-	-	(835.5)
Financial investments/divestments	37.9	78.1	129.4	245.4	(54.1)
Dividends paid	-	(2.4)	-	(2.4)	(168.0)
Cash out for restructuring expenses	(45.8)	(25.1)	(15.7)	(86.6)	(13.8)
PRE capital increase subscribed by minorities	-	-	167.4	167.4	-
Exchange differences/other	7.2	(24.6)	(2.7)	(20.1)	(5.8)
Net cash flow	(251.2)	171.3	416.2	336.3	(1,357.8)

The table below shows a breakdown of the net financial position divided by business segment:

(in millions of euro)

	Tyre	Real Estate	Other Businesses	Corporate	Consolidated
Gross debt	1,615	502	62	253	1,842
of which due to Corporate	445	69	61	-	-
Financial receivables	(91)	(506)	(22)	(574)	(603)
Cash equivalents and securities held for trading	(225)	(40)	(4)	(279)	(548)
Net financial position: (liquidity)/debt	1,299	(44)	36	(600)	691

A breakdown of the structure of gross financial indebtedness, divided by type and maturity, is shown below:

(in millions of euro)

	Financial statements September 30, 2009	2009	Year of maturity		2012
			2010	2011	
Utilization of committed lines	1,075	85	-	30	960
Other loans	767	399	233	9	126
Total gross financial debt	1,842	484	233	39	1,086
		<i>26.3%</i>	<i>12.6%</i>	<i>2.1%</i>	<i>59.0%</i>

At September 30, 2009 unused Committed credit facilities amounted to 870 million euro compared with 700 million euro at June 30, 2009.

TRANSACTIONS WITH RELATED PARTIES

Related party transactions, including intragroup transactions, are neither unusual nor exceptional, but fall under the ordinary course of business of the Group companies. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted on terms in line with those of the market.

On April 2, 2009 the shareholders of Orione Immobiliare Prima S.p.A. – a company in which Pirelli & C. Real Estate S.p.A. has a 40.1% interest and the related party Gruppo Partecipazioni Industriali S.p.A. a 29.3% interest – signed an agreement for the assignment to the shareholders themselves, other than Pirelli & C. Real Estate S.p.A., of the real estate property assets held by the company in proportion to their respective equity interests. Again on the basis of this agreement the shareholders also proceeded to transfer their respective stakes in Orione Immobiliare Prima S.p.A. to Pirelli & C. Real Estate S.p.A. which therefore, after the above transaction, holds 100% of the capital of this company.

Furthermore on June 26, 2009 Pirelli RE Netherlands B.V. acquired from the related party Roev Italia S.p.A. 10.5% of the share capital of the company S.I.G. RE B.V.. After this transaction the interest in the company is 47.20%.

As of September 30, 2009 no asset, liability, income or expense items are recognised in the consolidated financial statements in relation to the above transactions.

The effects of related party transactions on the consolidated income statement and balance sheet of the Pirelli & C. Group as of September 30, 2009 are shown below.

Transactions with associates and joint ventures

(in millions of euro)

Revenues from sales and services	80.6	These refer essentially to mandates signed with the associates and joint ventures of the Real Estate group relating to fund and asset management and technical and commercial services.
Other expenses	6.0	These mainly refer to various types of amounts recharged to Pirelli & C. Real Estate, connected, among other things, also to consortium expenses.
Financial income	23.8	This mainly includes interest income relating to financial receivables from associates and joint ventures of Pirelli & C. Real Estate.
Financial expenses	4.3	
Current trade receivables	81.7	These are mainly receivables for services rendered to associates and joint ventures of Pirelli & C. Real Estate.
Other non-current receivables	0.7	
Non-current financial receivables	481.5	These mainly refer to loans made for real estate initiatives managed by the individual companies of the Pirelli & C. Real Estate Group.
Other current receivables	6.4	These refer to Pirelli & C. Real Estate and mainly include a receivable to be collected for dividends approved.
Current financial receivables	16.1	These are attributable essentially to current accounts held by the new businesses which possess real estate assets in Germany.
Current trade payables	17.2	These payables relate mainly to various types of amounts recharged to Pirelli & C. Real Estate.
Other current payables	7.0	These are mainly various types of amounts recharged to Pirelli & C. Real Estate companies.
Current borrowings from banks and other financial institutions	5.9	These mainly include negative balances on intercompany current accounts of Pirelli & C. Real Estate companies.
Provisions for other liabilities and charges	79.0	These include provisions to cover losses of associates and joint ventures exceeding their carrying amounts.
Current tax payables	1.1	These refer to the payable of Pirelli & C. Real Estate S.p.A. to Trixia S.r.l. for expenses arising from this latter company's participation in the fiscal transparency regime pursuant to Art. 115 of the Consolidated Income Tax Act (TUIR), by virtue of which shareholders are responsible for the taxable income or loss of the company.

Transactions with parties related to Pirelli through directors

(in millions of euro)

Revenues from sales and services	0.8	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	7.5	These refer to costs for the sponsorship of F.C. Internazionale Milano S.p.A..
Current trade receivables	0.6	These refer to receivables connected with the aforementioned services rendered to Camfin.
Current trade payables	2.7	These are payables connected with the aforementioned expenses relating to F.C. Internazionale Milano S.p.A..

SIGNIFICANT EVENTS AFTER THE END OF THE QUARTER

No significant events occurred subsequent to the end of the quarter.

OUTLOOK FOR THE CURRENT YEAR

In the light of the results achieved in the first nine months, and in the absence of extraordinary events which are currently unforeseeable, it is likely that financial year 2009 will end with the **Pirelli Group** achieving, and for a number of indicators exceeding, the targets identified in the 2009-2011 business plan presented last February, thanks above all to the positive performance of Pirelli Tyre. Consolidated turnover is expected to be more than 4.3 billion euro and the EBIT margin approximately 4.5%, even after higher restructuring expenses than provided for in the business plan.

As regards the Group's financial position – the 2009 target for which of net indebtedness of approximately 1 billion euro as envisaged in the business plan had already been improved by approximately 800 million euro by the end of the first half of the year – a further improvement is expected to a level of approximately 700 million euro of net debt, thanks to the positive contribution of the Pirelli Tyre cash flow, the disposal of non-core assets and the success of the Pirelli Re capital increase.

For **Pirelli Tyre**, in particular, the results recorded in the first nine months make it possible to increase the 2009 turnover target from 3.8 billion euro to approximately 3.9 billion euro. The EBIT margin after restructuring expenses is expected to be 7% or more of earnings (6.5%-7% the range envisaged by the business plan), despite the rising prices of certain raw materials (in particular natural rubber), thanks to the benefits arising from restructuring activities, the positive channel mix and the stability of both Consumer and Industrial prices.

The 2009 target for net financial position (-1.3 billion euro) was achieved three months early and is expected to have improved slightly by the end of the year.

For **Pirelli Eco Technology**, the delay in operational implementation of existing legislation on the limitation of polluting traffic, accompanied by a difficult economic situation and longer-than-expected times for obtainment of approvals for the development of new markets, lead us to believe that financial year 2009 will end with another operating loss (indicated as close to the break-even point at the end of the first half of 2009).

For **Pirelli Real Estate** we can confirm the target of an operating loss, inclusive of earnings from investments before restructuring expenses and property writedowns/revaluations previously communicated, of between 25 and 35 million euro, if there are no external factors outside of the company's control, such as changes in the macroeconomic scenario, the trend on the real estate market, movements in interest rates and the terms of access to credit.

PIRELLI TYRE

The table below illustrates the consolidated economic and financial results achieved in the third quarter of 2009 and progressively to September 2009, compared with the same periods in 2008:

(in millions of euro)

	Q3 2009	Q3 2008	September 30, 2009	September 30, 2008	December 31, 2008
Net sales	1,042.7	1,062.9	2,958.6	3,229.2	4,100.2
Gross operating margin before restructuring expenses	142.0	91.8	382.8	378.3	441.2
% of net sales	13.6%	8.6%	12.9%	11.7%	10.8%
Operating profit/(loss) before restructuring expenses	94.3	40.8	240.8	231.8	250.7
% of net sales	9.0%	3.8%	8.1%	7.2%	6.1%
Restructuring expenses	(8.4)	(26.7)	(18.1)	(31.7)	(100.0)
Operating profit/(loss) (EBIT)	85.9	14.1	222.7	200.1	150.7
% of net sales	8.2%	1.3%	7.5%	6.2%	3.7%
Earnings/(losses) from investments	-	27.3	3.8	27.6	27.8
Financial income/(expenses)	(16.7)	(13.3)	(59.7)	(43.0)	(82.8)
Income taxes	(32.5)	(21.5)	(75.9)	(76.4)	(70.1)
Total income/(loss)	36.7	6.6	90.9	108.3	25.6
% of net sales	3.5%	0.6%	3.1%	3.4%	0.6%
Net financial position: (liquidity)/debt			1,298.6	892.4	1,266.8
Employees (number at end of period)			27,283	29,151	28,601
Factories (number)			23	24	23

Net sales at September 30, 2009 reached 2,958.6 million euro, a total decrease of 8.4% compared with the same period last year.

The like-for-like change, excluding the effect of fluctuations in exchange rates, was a drop of 5.8%, with a negative change in volumes (-11.6%) and a positive price/mix change (+5.8%). The exchange rate effect was a negative 2.6%, mainly due to the devaluation of the average exchange rate in the period against the Brazilian currency.

Third-quarter sales, unlike in the two previous quarters, recorded instead a significant increase in turnover (+ 1.4%) compared with the same period in 2008, owing to a significant reduction in the negative trend in volumes (-3.3%) compared with the two previous quarters, confirming a strong positive component in the price/mix variant (+ 4.7%).

The table below summarises the individual components of the changes in turnover in the three quarters and cumulatively:

	Q1	Q2	Q3	September 30, 2009
Volumes	-18.1%	-13.3%	-3.3%	-11.6%
Prices/Mix	6.9%	5.6%	4.7%	5.8%
Change on a like-for-like basis	-11.2%	-7.7%	1.4%	-5.8%
Foreign exchange effect	-2.7%	-1.5%	-3.3%	-2.6%
Total change	-13.9%	-9.2%	-1.9%	-8.4%

The distribution of net sales by geographical area and product category is as follows:

Geographical Area	September 30, 2009	September 30, 2008
Italy	9%	10%
Rest of Europe	34%	36%
North America	8%	7%
Central and South America	33%	32%
Oceania, Africa, Asia	16%	15%
	100%	100%

Product category	September 30, 2009	September 30, 2008
Car tyres	62%	58%
Truck tyres	27%	28%
Motorcycle tyres	9%	9%
Steelcord / other tyres	2%	5%
	100%	100%

In a recessive market scenario, above all on the mature markets, there was confirmation of a lower proportion of turnover in Europe compared with 2008 (from 46% in the first 9 months of 2008 to 43% in the corresponding period of 2009), owing mainly to the reduction in volumes in the Original Equipment channel, with consequent growth in the proportion in other areas. As regards sales in North America it should be stressed that these were also positively affected by the rise in the average exchange rate over the period of the US Dollar against the Euro compared with the same period in 2008.

The reduction in sales was particularly concentrated in the Industrial segment (-16.7%) with respect to the Consumer segment (-4.5%), causing the proportion of turnover of the Consumer business to grow (71% compared with 68%) relative to the Industrial business (29% compared with 32%).

As regards **operating profit**, the following table shows the quarterly and cumulative trend compared with the corresponding periods of the previous year:

(in millions of euro)

	Q1		Q2		Q3		progressive	
	2009	2008	2009	2008	2009	2008	September 30, 2009	September 30, 2008
Net sales	926.9	1,076.9	989.0	1,089.4	1,042.7	1,062.9	2,958.6	3,229.2
Gross operating margin before restructuring expenses	107.8	151.0	133.0	135.5	142.0	91.8	382.8	378.3
<i>% of net sales</i>	11.6%	14.0%	13.4%	12.4%	13.6%	8.6%	12.9%	11.7%
Operating profit/(loss) before restructuring expenses	61	102.8	85.5	88.2	94.3	40.8	240.8	231.8
<i>% of net sales</i>	6.6%	9.5%	8.6%	8.1%	9.0%	3.8%	8.1%	7.2%
Operating profit/(loss) (EBIT)	57.5	100.3	79.3	85.7	85.9	14.1	222.7	200.1
<i>% of net sales</i>	6.2%	9.3%	8.0%	7.9%	8.2%	1.3%	7.5%	6.2%

The third quarter profit was up compared with both the same period last year, and the previous quarters and specifically:

- the total **gross operating margin before restructuring expenses** was 142 million euro (13.6% of net sales), up 55% over the corresponding period of 2008, when it amounted to 91.8 million euro (8.6% of net sales);
- the **operating profit before restructuring expenses** reached 94.3 million euro (9.0% of net sales), 53.5 million euro higher than in the corresponding period of 2008 when it amounted to 40.8 million euro (3.8% of net sales).

The positive elements of **third quarter operating profit** were mainly due to:

- continuation of the positive impact deriving from the reduction in the cost of raw materials for an amount of 36.5 million euro, after that of 18.0 million euro already recorded in second quarter 2009, compared with the peak of the increase recorded in third quarter 2008;
- accentuation of the benefits deriving from the restructuring work undertaken, in the presence also of greater use of production capacity compared with the previous quarters;
- a positive market trend in the Consumer segment – Replacements channel – with lowers rates of decline in the Original Equipment channel, while the market for the Industrial segment continued to shrink compared with 2008, although in the Replacements channel at lower rates of decline than in the previous quarters;
- total net sales higher than the market trend, with generalized improvements of our shares in the main Consumer and Industrial markets.

Progressively in the nine months of 2009 the **gross operating margin before restructuring expenses** was 382.8 million euro (12.9% of net sales), up 4.5 million euro over the corresponding period of 2008, when it amounted to 378.3 million euro (11.7% of net sales).

At September 30, 2009 the **operating profit before restructuring expenses** came to 240.8 million euro (8.1% of net sales), an improvement of 9.0 million euro compared with the corresponding period of 2008 when it amounted to 231.8 million euro (7.2% of net sales).

The change in operating profit before restructuring expenses compared with the previous year in the various periods can be summarized as follows:

<i>(in millions of euro)</i>				
	Q1	Q2	Q3	September 30, 2009
2008 operating profit/(loss) before restructuring expenses	102.8	88.2	40.8	231.8
Foreign exchange effect	(1.6)	1.4	(3.1)	(3.3)
Prices/mix	43.0	35.6	39.1	117.7
Volumes	(28.7)	(46.1)	(12.7)	(87.5)
Cost of production factors (raw materials)	(37.3)	18.0	36.5	17.2
Cost of production factors (labour/energy/others)	(16.6)	(4.2)	(18.5)	(39.3)
Efficiencies	(1.2)	4.8	16.7	20.3
Amortization, depreciation and other (*)	0.6	(12.2)	(4.5)	(16.1)
Change	(41.8)	(2.7)	53.5	9.0
2009 operating profit/(loss) before restructuring expenses	61.0	85.5	94.3	240.8
(*) of which fixed from/to stock	(2.7)	(5.1)	(10.1)	(17.9)

The price/mix variant and the efficiencies achieved (which were even more important because they were obtained despite a business scenario characterized in the nine months by overcapacity, in addition to the positive trend in the costs of factors of production, thanks in particular to the reduction of the cost of raw materials) made it possible to improve in absolute terms, with the profit for the third quarter, the results achieved progressively in 2008, more than offsetting the negative effect of the reduction in sales volumes. The percentage return also grew over the nine months, by approximately 1 point at the level of operating profit before restructuring expenses.

As far as restructuring work is concerned, Pirelli Tyre continued the actions envisaged, in the context of the ongoing process of increasing efficiency, improving the industrial framework, and adjusting the overheads structure to the new market scenario.

The actions are essentially based on the reduction of 15% of workforces in Western Europe by the end of 2009, including the decision to suspend before the end of the period the production of tyres at the factory in Manresa, Spain, which has already been reduced by 40% from February onwards.

These internal efficiencies involving labour costs, together with all those deriving from the work done on the use of materials and on the procurement process and with the advantage obtained on the cost of raw materials before the exchange rate effect, made it possible to complete in the first nine months 85% of the actions planned in the first year of the Business Plan for an amount of 200 million euro.

The **operating profit** (after restructuring expenses) **at September 30, 2009** was 222.7 million euro (7.5% of net sales), an improvement over the result for the corresponding period of 2008, when it amounted to 200.1 million euro (6.2% of net sales). In the **third quarter** the result achieved was 85.9 million euro (8.2% of sales), compared with 14.1 million euro for the corresponding period of the previous year (which had already begun to feel the effect of provisions for the first restructuring actions in Europe).

Total income at September 30, 2009 was 90.9 million euro (after financial expenses and earnings from investments of 55.9 million euro and income taxes amounting to 75.9 million euro) and compares with a figure for the previous year of 108.3 million euro (after financial expenses and earnings from investments of 15.4 million euro and income taxes amounting to 76.4 million euro).

It should be recalled that the result for last year benefited from a positive impact of 27.6 million euro in relation to the purchase of most of the minority interests in associates in Turkey, deriving from the positive difference between the purchase price and the equity acquired; in the first quarter of this year the purchase of the minority interests in associates in Turkey was substantially completed, at a cost of 4 million euro, and with a further positive impact on earnings from investments of 3.5 million euro.

The **net financial position** showed debts of 1,298.6 million euro, down by 168.4 million euro compared with June 2009; at December 31, 2008 net indebtedness was 1,266.8 million euro.

The change is summarised below:

(in millions of euro)

	2009			Progressive	
	Q1	Q2	Q3	September 30, 2009	September 30, 2008
Operating profit/(loss) before restructuring expenses	61.0	85.5	94.3	240.8	231.8
Amortization	46.8	47.5	47.7	142.0	146.5
Investments	(36.8)	(27.6)	(33.2)	(97.6)	(205.4)
Change in working capital/other	(255.4)	77.4	109.6	(68.4)	(257.9)
Free cash flow	(184.4)	182.8	218.4	216.8	(85.0)
Financial/tax expenses	(46.4)	(40.0)	(49.2)	(135.6)	(119.4)
Operating cash flow	(230.8)	142.8	169.2	81.2	(204.4)
Dividends paid	(0.2)	(66.3)	-	(66.5)	(93.2)
Purchase of minorities in Turkey and asset sales	11.0	-	-	11.0	(32.3)
Cash out for restructuring	(39.0)	(8.3)	(7.4)	(54.7)	(5.2)
Exchange differences/other	4.0	(13.4)	6.6	(2.8)	2.3
Net cash flow	(255.0)	54.8	168.4	(31.8)	(332.8)

It is worth noting the ongoing efficiency associated with management of working capital, in particular on the asset side in relation to inventories and receivables and the containment of investments corresponding with the period of underuse of production capacity.

The number of **factories** is still 23, as at the end of 2008.

At September 30, 2009 there were 27,283 **employees**, a reduction of 1,318 compared with December 31, 2008. In Western Europe the reduction of resources, both office staff and workers, was approximately 1,400 units mainly in Spain (-437), Italy (-371), Germany (-214) and the UK (-371).

Consumer Business

The following table below shows the consolidated economic and financial results obtained in the third quarter of 2009, the progressive results to September, and comparisons with the corresponding periods of 2008:

(in millions of euro)

	Q3 09	Q3 08	Progressive September 30, September 30, 2009 2008	
Net sales	736.0	713.6	2,108.0	2,207.9
Gross operating margin before restructuring expenses	100.3	51.0	268.2	249.1
<i>% of net sales</i>	<i>13.6%</i>	<i>7.1%</i>	<i>12.7%</i>	<i>11.3%</i>
Operating profit/(loss) before restructuring expenses	64.1	12.7	160.5	139.0
<i>% of net sales</i>	<i>8.7%</i>	<i>1.8%</i>	<i>7.6%</i>	<i>6.3%</i>

At September 30, 2009 net sales of the Consumer segment totalled 2,108.0 million euro (-4.5% from 2008); the gross operating margin before restructuring expenses amounted to 268.2 million euro, or 12.7% of net sales (+7.7% from 2008), while the operating profit before restructuring expenses reached 160.5 million euro, with a return on sales (ROS) of 7.6%, compared with 139.0 million euro achieved in the corresponding period of 2008, which showed an ROS of 6.3%.

The **third quarter** brought in revenues of 736.0 million euro (+3.1% from the same period of 2008), with higher earnings than in the previous year in both absolute terms (gross operating margin at 100.3 million euro compared with 51.0 million euro and operating profit at 64.1 million euro compared with 12.7 million euro, both before restructuring expenses) and in percentage terms, rising to a gross operating margin of 13.6% of sales (+ 6.5 points from 2008) and operating profit of 8.7% in ratio to sales (+ 6.9 points from 2008).

The positive factors that led to a substantial improvement of the levels of profitability in the third quarter were the benefit deriving from the lower costs of raw materials, concentration on the price/mix, actions to improve the competitive setup and a recovery on the market (which showed, in the Replacements channel, higher growth rates than in the corresponding period of 2008, and in the Original Equipment channel lower rates of decline than those of the previous quarters) accompanied by growth in sales at a higher rate than the market trend in all areas.

In particular at the market level in the **Original Equipment** channel after a first half of the year with a sharp reduction, lower rates of decline were recorded and, in some months for some countries, also positive growth rates, as the positive effects of government incentives for the sale of motor vehicles came into play. As a whole in the different areas, the tyre market in the third quarter recorded -1% in Europe, -22% in North America, -8% in the Mercosur area, compared with a first half at -27% in Europe, -49% in North America, -14% in the Mercosur area, with recoveries, therefore, in all the areas of interest.

In progressive terms at September the market is still showing sharp rates of decline: -20% in Europe, -41% in North America, -12% in the Mercosur area, compared with the corresponding period of 2008 (a crisis in the motor industry which began in second quarter 2008).

In the **Replacement** channel, in the third quarter the market grew in comparison with the corresponding period of 2008 in all areas, with Europe +1% (with a positive progressive trend in the winter segment, thanks to the destocking process seen at the end of the last season), North America +3%, and significant growth in the Mercosur area with +11% (compared with a first half with -6% in Europe, -11% in North America, a reduction of 1% in the Mercosur area).

In progressive terms in September the market stood at -4% in Europe, -6% in North America, +3% in the Mercosur area, compared with the corresponding period of 2008.

With reference to the market trends described above which determined a total reduction of sales volumes of 7.8% in nine months (with +1.7%, however, in the third quarter), Pirelli Tyre concentrated on the price/mix lever, which was a positive 5.2% in cumulative terms and 3.6% in the third quarter, incorporating the overall reduction of turnover by 2.6% in cumulative terms and presenting growth of 5.3% in the third quarter, again in comparable terms. The negative change in exchange rates was 1.9% in progressive terms (-2.2% in the third quarter).

Industrial Business

The following table below shows the consolidated economic and financial results obtained in the third quarter of 2009, the progressive results to September, and comparisons with the corresponding periods of 2008:

(in millions of euro)

	Q3 09	Q3 08	Progressive	
			September 30, 2009	September 30, 2008
Net sales	306.7	349.3	850.6	1021.3
Gross operating margin before restructuring expenses	41.7	40.8	114.7	129.2
<i>% of net sales</i>	<i>13.6%</i>	<i>11.7%</i>	<i>13.5%</i>	<i>12.7%</i>
Operating profit/(loss) before restructuring expenses	30.2	28.1	80.3	92.8
<i>% of net sales</i>	<i>9.8%</i>	<i>8.0%</i>	<i>9.4%</i>	<i>9.1%</i>

At September 30, 2009 net sales reached 850.6 million euro (-16.7% from 2008); the gross operating margin before restructuring expenses amounted to 114.7 million euro, (-11.2% from 2008), or 13.5% of net sales, while the operating profit before restructuring expenses reached 80.3 million euro, with an ROS of 9.4%, compared with 92.8 million euro achieved in the corresponding period of 2008, which showed an ROS of 9.1%.

The **third quarter** recorded revenues of 306.7 million euro (-12.2% from 2008), reaching a gross operating margin before restructuring expenses of 41.7 million euro, which represents an improvement in terms of percentage returns (13.6% in ratio to sales compared with 11.7% of 2008) and, despite the reduction in turnover, also an improvement in absolute terms of 0.9 million euro.

The **operating profit before restructuring expenses** presents a similar trend amounting to 30.2 million euro compared with 28.1 million euro of 2008, reaching 9.8% in ratio to turnover (compared with 8.0% in third quarter 2008).

The results of the Industrial segment also continued to show the positive effects in the third quarter of both the benefit arising from the reduction in raw material costs, and the significant growth of the price/mix, in the presence of strategic concentration of the business line in the emerging markets which suffered less the crisis in the international markets.

In the Industrial segment, in fact, the market scenario was again negative in both sales channels, in particular in the mature markets, but the strategic positioning of Pirelli Tyre, with both production and marketing focused on the emerging markets, facilitated the maintenance of good levels of returns.

The Industrial segment is, in fact, generally the most cyclical, being directly affected by the general trend of the entire economy and of certain specific sectors, such as public works, large construction projects, etc.. Therefore the general drop recorded in the Industrial market in the first half of 2009 (Original Equipment Europe -67%, Original Equipment Mercosur -27%, Replacements Europe -29%, Replacements Mercosur -19%) which was only partially attenuated in the third quarter with lower rates of decline in the Replacements channel in Europe (-14% from the previous year) and in the Mercosur area (-10%) – was due to the general slowdown of the economy and the lower need of industrial transport of goods, factors which again adversely affected the market in the third quarter in the other channel (Original Equipment Europe -66%, Original Equipment Mercosur -27%).

Progressively the trend in the reference markets was negative for the Replacements channel in Europe (-24%) and in the Mercosur area (-16%), while for the Original Equipment channel the reduction was -68% in Europe and -28% in the Mercosur area. The exception was the Chinese market which again saw positive growth rates. Sales volumes for Pirelli Tyre in progressive terms were 19.8% less than in the corresponding period of 2008 (-13.4% in the third quarter), with a positive price/mix variation of 7.3% (+7.0% in the third quarter), bringing the overall change to a reduction of 12.5% in cumulative terms (-6.4% in the third quarter). The change in exchange rates was a negative 4.2% in progressive terms (-5.8% in the third quarter).

Outlook for the current year

The fourth quarter is expected to be favourable in terms of volumes in comparison with the corresponding period of 2008 in both sales channels.

In the light of the results achieved up to September, despite an increase recorded in the cost of certain types of raw materials from August onwards (in particular natural rubber), and thanks to the increase in cost competitiveness deriving from the restructuring work, the positive channel mix and concentration on green products (Cinturato P7 and Snowcontrol II) in the Consumer sector, and concentration in the Industrial sector on emerging markets, it is considered feasible to increase the 2009 turnover target from 3.8 billion euro to approximately 3.9 billion euro. The EBIT margin after restructuring expenses is expected to come out at 7% or more of revenues (6.5%-7% the range envisaged in the business plan).

PIRELLI ECO TECHNOLOGY

The relevant data can be summarised as follows:

(in millions of euro)

	Q3 2009	Q3 2008	September 30, 2009	September 30, 2008	December 31, 2008
Net sales	10.5	14.1	38.8	47.5	62.9
Gross operating margin before restructuring expenses	(2.8)	(2.5)	(7.2)	(5.8)	(11.0)
Operating profit/(loss) (EBIT)	(3.3)	(2.6)	(8.8)	(6.5)	(11.8)
Financial income/(expenses)	(0.8)	(0.4)	(1.9)	(1.2)	(1.6)
Income taxes	-	-	-	-	0.2
Total income/(loss)	(4.1)	(3.0)	(10.7)	(7.7)	(13.2)
Net financial position: (liquidity)/debt			42.9	12.8	19.0
Employees (number at end of period)			296.0	169.0	218.0

Sales at September 30, 2009 amounted to 38.8 million euro (of which 25% relating to the Particle Filter business) compared with 47.5 million euro in 2008 (of which 7% relating to the Particulate Filter business).

The **gross operating margin before restructuring expenses** was a negative 7.2 million euro compared with the previous year's negative figure of 5.8 million euro.

The **operating loss (EBIT)** was 8.8 million euro compared with the previous year's loss of 6.5 million euro.

The profitability of the GECAM business was positive, while the Particulate Filter business was affected, not only by the startup costs of the new production facility in Romania and the reinforcement of the commercial structure, but also by delays in the reference markets associated both with the current economic situation and with the delayed operational implementation of the relevant legislation.

The **total loss** was 10.7 million euro after deduction of financial expenses of 1.9 million euro.

The **net financial position** showed net debts of 42.9 million euro, an increase compared with December 31, 2008 when they amounted to 19.0 million euro.

On September 30, 2009, there were 296 **employees**, an increase compared with December 31, 2008, mostly factory workers and office staff at the production site in Bumbesti Jiu, Romania.

Gecam – White Diesel

In the first nine months of 2009 there was an 18.6% drop in sales volumes with respect to the same period of 2008 and the average unit price fell by 27.2% owing to the lower price of diesel and the different weight of the sales channel, with a recovery of profitability of 1.2 points. The reduction of sales volumes in Italy was due in part to the lack of purchases by ATMs (Municipal Transport Companies) and Bertoni, partially offset by an increase in business in France (+10% compared with the first nine months of 2008).

Particulate filters.

The economic situation affected the market for particulate filters in the first nine months of 2009, through a generalized delay in the adoption of legislation on Low Emission Zones in most of the European regions.

During these months Pirelli Eco Technology reinforced its range of homologated systems, obtaining – the only manufacturer up to now – the complex German approval for Light Duty applications for the entire Euro 1 - Euro 3 range and – from the end of September – homologation also for Euro 1 - Euro 3 Heavy Duty applications (Trucks and Buses) .

Following the Chinese homologations obtained in May and June, marketing activity was launched also in the Beijing area, with sales of the first systems in the third quarter.

The growth in sales to 9.7 million euro compared with 2.8 million euro at September 2008 – with the European market stagnant – confirmed a market share of more than 20% which places the company among the major players in the European market for retrofit systems.

During the first nine months of the year the production facility at Bumbesti Jiu in Romania was definitively launched, enabling the company to serve both the already active markets, and the automobile Original Equipment market for which supplies have already begun.

Outlook for the current year

During the current year the work is focused on the development of the Retrofits line (Feelpure Filtering Systems) and of the product range, and on commercial expansion with the structuring of adequate pre and post-sales services – distinguishing factors with respect to the competitors working in the industry.

The production of Silicon Carbide Filters has been concentrated since the end of June at the Bumbesti Jiu works.

The autumn, a critical period for pollution-related issues in large conurbations, will see a resumption of national or local air quality improvement programmes.

From the middle of October new Euro 2 traffic bans have been introduced in Lombardy, with an increase in the regional subsidy up to 75% of the cost of the system and a stricter system for checking that vehicles in circulation comply with the legislation.

In Germany from January 1, 2010 most of the low emission zones will further restrict access by vehicles of less than Euro 3, with Berlin and other large conurbations adopting “Euro 4 LEZs”. Many of the exceptions seen in the early months of 2009 will be removed; these enabled free circulation also by commercial and public transport vehicles non-compliant with the legislation.

China is rapidly limiting access to Beijing to Euro 3 vehicles or Euro1-2 vehicles with filters and five Shandong provinces are finalising legislation to limit the circulation of polluting vehicles.

We believe that Pirelli Eco Technology is in a condition to be able to serve as first mover the growing demand on the Italian and German markets for light commercial vehicles and – through the consolidated presence in Shandong of Pirelli Tyre’s industrial segment – to fulfil the great growth potential of the Chinese market for particulate filters with the entire production cycle combined with customer care and after-sales support services available on site.

PIRELLI & C. REAL ESTATE

The company is continuing the cost-cutting and internal reorganization process begun last year to take account of the changing market conditions, together with the aims of focusing on core activities and in particular on fund management by Pirelli RE SGR and on reducing indebtedness and the net invested capital.

As regards the first of these objectives, the sale of 5% of Pirelli RE SGR to Intesa Sanpaolo completed in the third quarter, as described in more detail in the section on significant events, was aimed at supporting the growth of the assets managed by the fund managers and therefore the development of the fund management business, both central features of the development strategy announced in the 2009-2011 business plan, with the goal of increasing the recurrent profits deriving from the property management business, and the aggregation of other operators in the industry.

As regards instead the reinforcement of the financial and capital structure of the company, it is important to note the success of the share capital increase evident from full subscription by the market of the portion attributed and the obtainment from eight leading financial institutions of a committed credit facility more adequate for the company's new business needs, both in the amount (320 million euro) and in the maturity (July 2012).

Although there was a gradual reduction in losses in the last two quarters, the negative effects of the serious international crisis still in progress continue to be reflected in the results for the period; it is therefore in this context that the comparison with the figures for the first nine months of 2008 should be interpreted.

Economic and financial analysis

With regard to the main income statement figures presented below, it must be taken into account that the operating profit including earnings/(losses) from investments before restructuring expenses and property writedowns/revaluations must be considered, owing to the type of business carried on by the Group, the most significant indicator to represent the trend of the results.

On examining the following data it is important to remember that the Integrated Facility Management activities, sold during 2008, are considered discontinued operations and therefore were counted only in total income/(loss) for the previous period and not in operating profit; for correct interpretation, therefore, the figures for the first nine months of 2008 were restated with a uniform perimeter.

<i>(in millions of euro)</i>	Q3 2009	Q3 2008	September 30, 2009	September 30, 2008	December 31, 2008
Consolidated net sales	83.4	103.7	199.2	296.5	365.1
Operating profit/(loss) before restructuring expenses and property writedowns/revaluations	0.7	0.7	(1.3)	21.0	(17.7)
Earnings/(losses) from investments before property writedowns/revaluations	(8.0)	(16.0)	(28.9)	1.4	(42.0)
Operating profit/(loss) including earnings/(losses) from investments before restructuring expenses and property writedowns/revaluations	(7.3)	(15.3)	(30.2)	22.4	(59.7)
Restructuring expenses	(1.6)	(1.4)	(13.2)	(17.6)	(44.2)
Property writedowns/revaluations	(7.1)	(0.7)	(11.9)	(1.4)	(135.8)
Operating profit/(loss) including earnings/(losses) from investments	(16.0)	(17.3)	(55.3)	3.4	(239.7)
Financial income from investments	7.6	10.5	21.3	24.1	23.0
Financial expenses	(4.8)	(13.1)	(19.5)	(34.0)	(49.0)
Income taxes	(2.8)	(1.8)	(5.2)	(8.2)	(1.9)
Income/(loss) before discontinued operations	(16.0)	(21.7)	(58.7)	(14.7)	(267.6)
Discontinued operations		(0.3)		4.1	74.6
Total income/(loss)	(16.0)	(22.0)	(58.7)	(10.6)	(193.0)
Income/(loss) attributable to the equity holders of the company			(57.9)	(12.9)	(195.0)
Equity			687.0	616.7	366.4
<i>- of which attributable to the equity holders of the company</i>			<i>679.9</i>	<i>609.8</i>	<i>361.7</i>
Net financial position: (liquidity)/debt <i>- Receivables for Shareholder Loans</i>			(43.5) <i>490.9</i>	323.8 <i>610.7</i>	289.5 <i>572.3</i>
Net financial position (liquidity)/debt gross of shareholder loans			447.4	934.5	861.8
Gearing ratio			0.65	1.52	2.35

In the first nine months of 2009 the actions undertaken enabled the company to achieve structural savings of 47 million euro, a figure close to the original target for the year 2009 (50 million euro); the annual forecast was raised further to 65 million euro.

The businesses of management (fund & asset management) and of real estate services (property and facility management, real estate agency), including also the costs of the central holding company, recorded in the first nine months of 2009 a significantly improved result thanks to cost-cutting actions (-0.5 million euro of operating loss before restructuring and adjustment of assets compared with -5.2 million for the first nine months of 2008 which included 17.0 million euro relating to the compensation received for the replacement of Pirelli RE SGR in the management of the Berenice Fund). This result also includes the capital gain on the sale of 5% of Pirelli RE SGR.

At September 30, 2009 **sales** of properties were completed (amount determined adding to the sales of properties made by consolidated companies, sales of properties by associated companies, joint ventures and funds in which the Group holds an interest) for 657.6 million euro compared with 714.5 million euro at September 30, 2008 and NPLs were collected (amount determined adding to the collections of NPLs made by consolidated companies, collections of NPLs by associated companies and joint ventures in which the Group holds an interest) for 226.7 million euro compared with collections of 321.3 million euro at September 30, 2008. Despite the unfavourable trend in the macroeconomic situation Pirelli RE managed in the period to complete its property transactions at amounts generally in line with those of the valuations. The **sales margin** at September 30, 2009 was approximately 12%, while in the same period of 2008 it was 19%. **Rents** (amount determined adding to the rents collected by consolidated companies, rents collected by associated companies, joint ventures and funds in which the Group holds an interest) at September 30, 2009 totalled 599.4 million euro (464.2 million in the first nine months of 2008, a figure that includes only for three months rents received on the Highstreet portfolio); the Pirelli RE share of rents amounted to 148.3 million euro (118.3 million at September 2008).

Consolidated net sales amounted to 199.2 million euro compared with 296.5 million euro at September 30, 2008. It must be remembered that in 2008 the company benefited from approximately 49 million euro of revenues attributable to the sale made of a single asset in Poland. In particular in the first nine months of 2009 revenues from services represented 69% of the total, while in the same period of 2008 revenues from services accounted for 58%.

The operating loss including earnings/(losses) from investments before restructuring expenses and property writedowns/revaluations at September 30, 2009 was 30.2 million euro compared with a profit of 22.4 million euro in the first nine months of 2008. The company can confirm the target of a 2009 operating loss of between -25 and -35 million euro, as previously communicated. The difference with respect to September 2008 (-52.6 million euro) is a consequence, however, of one-off income from which the company benefited in the previous period of more than 30 million euro relating to the sale of a single asset in Poland and to the compensation received for replacement of Pirelli RE SGR in the management of the Berenice Fund. Moreover, while in the first nine months of 2008 there had been a positive economic impact deriving from measurement at fair value of derivative hedging instruments (2.8 million), in the first nine months of 2009 the impact on the income statement was a negative 9.9 million, owing to the trend in interest rates.

It should also be noted that, adding to the operating loss including earnings/(losses) from investments before restructuring expenses and property writedowns/revaluations, income from shareholder loans, the operating loss for the first nine months of 2009 comes down to 8.9 million euro recording in the third quarter a profit of 0.3 million euro. The loss at September 30, 2009 is attributable for 8.4 million euro to vehicle companies and funds in which the company holds an interest and for 0.5 million euro to the provision of services, including the costs of the central holding.

With reference to property **writedowns/revaluations**, the first nine months of 2009 show a negative balance of 11.9 million euro compared with another negative balance of 1.4 million euro at September 2008. The revaluations made were the result of the formalization of the “hold” strategy for most of the residential properties in Germany and for selected prestigious assets in Italy, which are expected to be kept in the portfolio for the medium term: the carrying amounts of these assets have been revalued, with a positive economic impact of 45.5 million euro, in accordance with IAS 40, which allows for the possibility of adjusting real estate properties with strategic importance within the portfolio to their appraised value.

The amount of the revaluations is however more than offset by writedowns of other portfolios of 57.4 million euro, (of which 30.6 million euro referring to the investment in the German Highstreet portfolio).

The **loss attributable to the equity holders of the company** was 57.9 million euro compared with a loss of 12.9 million euro in the first nine months of 2008.

The **equity attributable to the equity holders of the company** amounted to 679.9 million euro compared with 361.7 million euro at December 31, 2008. The change of 318.2 million euro was substantially due to the effect of the capital increase carried out at the beginning of July net of the closing costs (+394.8 million euro), for the purpose of a reduction recognizable in total income for the period (-57.9 million euro) and to other changes (-18.7 million euro) attributable mainly to provisions for interest rate hedging instruments.

The **net financial position** at September 30, 2009 was a liquidity position of 43.5 million euro compared with a debt position of 289.5 million euro at December 31, 2008 (a debt position of 337.3 million euro at June 30, 2009).

The **net financial position gross of shareholder loans** at September 30, 2009 was a debt position of 447.4 million euro compared with a debt position of 861.8 million euro at December 31, 2008 (828.5 million euro at June 30, 2009).

The improvement with respect to December 31, 2008, of 414.4 million euro, was due to a positive effect of 399.3 million euro deriving from the capital increase and of 99.2 million euro referable to the sale of 20% of Credit Servicing (which enabled Pirelli RE at the same time to recover its shareholder loan to the European NPL investment platform) and of 5% of Pirelli RE SGR. This was offset by the negative effect arising from the capital conferred to initiatives in which the company has an interest and from investments in the period (47.4 million euro), as well as from the payment of restructuring expenses of 31.9 million euro.

Thanks to the work done on redefining the structure of the Group's borrowing relationships and to the aforementioned capital increase, the **gearing ratio** came out at 0.65 compared with 2.35 at December 31, 2008.

The **net cash flow**, which was affected by the payment of certain restructuring expenses, was positive, thanks to the flow deriving from the capital increase, by 333.0 million euro compared with a negative figure of 34.1 million euro at September 30, 2008.

Performance of the divisions

The company is organized with a structure divided into geographical areas. The business performance in these areas is described below, divided into income deriving from the operations of funds and vehicle companies and income provided by the operations of the service and holding platform.

The operating profit/(loss) including earnings/(losses) from investments before restructuring expenses and property writedowns/revaluations, was also supplemented by financial income from shareholder loans granted to the individual entities.

Italy Real Estate

The **operating profit including earnings/(losses) from investments before restructuring expenses and property writedowns/revaluations and inclusive of financial income from investments** at September 30, 2009 was 4.3 million euro compared with a profit of 28.1 million euro at September 30, 2008. EBIT comprises 19.5 million euro of income from services (an improvement on the 18.9 million euro in 2008) and 15.1 million euro of losses from vehicle companies and funds (9.2 million in 2008). It should be noted that the amount at September 30, 2008 included one-off income of 17 million euro relating to the compensation received for replacement of Pirelli RE SGR in the management of the Berenice Fund. The amount at September 30, 2009 includes 6.1 million euro of capital gain on the sale of 5% of Pirelli RE SGR.

At September 30, 2009 sales of properties amounted to 356.4 million euro compared with 480.5 million euro in the first nine months of 2008. Total rents were 229.3 million euro (252.1 million euro in the same period of 2008). Total capital gains realized at September 30, 2009 amounted to 43.7 million euro (93.4 million euro at September 30, 2008), while pro-rata capital gains in the first nine months of 2009 were 19.3 million euro (35.0 million euro at September 30, 2008).

Germany Real Estate

The **operating loss including earnings/(losses) from investments before restructuring expenses and property writedowns/revaluations and inclusive of financial income from investments** at September 30, 2009 was 0.4 million euro compared with a loss of 3.6 million euro at September 30, 2008. EBIT comprises 2.2 million euro of income from services (-6.4 million euro in the first nine months of 2008) and -2.6 million euro of losses from real estate vehicle companies and funds (2.8 million in the first nine months of 2008).

At September 30, 2009 sales of properties amounted to 274.9 million euro compared with 173.7 million euro in the first nine months of 2008. Total rents were 369.8 million euro (211.8 million euro in the same period of 2008). Total capital gains realized at September 30, 2009 amounted to 30.3 million euro (26.5 million euro at September 30, 2008), while pro-rata capital gains in the first nine months of 2009 were 10.5 million euro (8.4 million euro in 2008).

Poland Real Estate

The **operating profit including earnings/(losses) from investments before restructuring expenses and property writedowns/revaluations and inclusive of financial income from investments** at September 30, 2009 was 0.9 million euro compared with a profit of 18 million euro at September 30, 2008, a figure that benefited from the one-off income attributable to the sale of an important asset in Poland.

The operating profit comprises -1.1 million euro in total income from services (-0.4 million euro in the first nine months of 2008) and 2.0 million euro of income from real estate vehicle companies (18.5 million euro in the first nine months of 2008).

At September 30, 2009 sales of properties amounted to 26.3 million euro compared with 60.3 million euro in the first nine months of 2008. Total rents were 0.3 million euro as in the same period of 2008. Total capital gains realized at September 30, 2009 amounted to 6.8 million euro (17.4 million euro at September 30, 2008), while pro-rata capital gains in the first nine months of 2009 were 2.8 million euro (17.4 million euro at September 30, 2008).

Non Performing Loans

The **operating profit including earnings/(losses) from investments before restructuring expenses and property writedowns/revaluations and inclusive of financial income from investments** at September 30, 2009 was 2.1 million euro compared with a profit of 21.0 million euro at September 30, 2008. EBIT comprises - 5.2 million euro of income from services (0.2 million euro in the first nine months of 2008) and 7.3 million euro of income from real estate vehicle companies and funds (20.8 million in the first nine months of 2008).

Outlook for the current year

For the whole of 2009 the company, committed as it is to the turnaround, confirms the target for operating profit including earnings/(losses) from investments before restructuring expenses and property writedowns/revaluations communicated previously (-25/-35 million euro).

Considering the preliminary contracts signed, the offers received and the negotiations in progress, the company confirms that it can achieve the asset sales target of 1 billion euro by the end of 2009, of which it will benefit for the share attributable to it. It is worth remembering that the projections for 2009 could be heavily influenced by uncontrollable exogenous factors, such as changes in the macroeconomic scenario, the trend on the real estate market, movements in interest rates and the terms of access to credit.

PIRELLI BROADBAND ACCESS

The relevant data can be summarised as follows:

(in millions of euro)

	Q3 2009	Q3 2008	September 30, 2009	September 30, 2008	December 31, 2008
Net sales	30.3	28.9	103.1	92.3	124.6
Gross operating margin before restructuring expenses	0.4	0.2	3.6	3.8	4.8
Operating profit/(loss) (EBIT)	0.2	-	2.9	3.2	3.9
Financial income/(expenses)	(0.6)	1.5	0.1	(1.3)	(2.6)
Income taxes	(0.2)	0.6	0.5	0.4	0.7
Total income/(loss)	(0.6)	2.1	3.5	2.3	2.0
Net financial position: (liquidity)/debt			(17.9)	32.0	(15.0)
Employees (number at end of period)			127	113	113

Net sales at September 30, 2009 amounted to 103.1 million euro, an increase of 11.7% over the first nine months of 2008 (92.3 million euro).

The **gross operating margin before restructuring expenses** was 3.6 million euro, slightly down from 3.8 million euro in the corresponding period of the previous year.

The **operating profit (EBIT)** was 2.9 million euro, compared with 3.2 million euro for the same period of 2008. The slight reduction in operating profit is attributable to sharply falling prices, only partially offset by an increase in volumes and the positive effect of the product mix sold.

Total income was 3.5 million euro (after financial income and income taxes of 0.6 million euro) compared to a total income of 2.3 million euro for the first nine months of 2008 (after financial expenses and tax charges of 0.9 million euro).

The **net financial position** was a liquidity position of 17.9 million euro compared to 15.0 million euro at December 31, 2008.

At September 30, 2009, there were 127 **employees**, compared to a workforce of 113 at December 31, 2008.

In the first nine months of 2009 Pirelli Broadband Solutions recorded a significant increase in revenues compared with the previous year owing above all to the increase in the sales volumes of Residential Access Gateways both in the high range (in particular on IAD ADSL2+ lines, which remain the core product in terms of continuity of volumes with leading customers) and in the mid-low range, as the latter contributed to acquisition of new customers and to the expansion of earnings from others.

In terms of geographical positioning, the company is consolidating its expansion into Europe, in particular directed towards Eastern markets, which maintained strong signs of growth despite the financial crisis. Growth on the South American market is in line with expectations and is supported by the opening of branches in the area and by the establishment a local team.

In terms of product, developments are proceeding substantially according to the guidelines set forth in the business plan. During the period the product range was developed and consolidated further, and is now made up of six different lines: Residential Access Gateways, Small Business Gateways, Set-top Boxes, Extenders (products to create domestic broadband networks), Terminals (developed with a view to fixed-mobile convergence) and PMP (Pirelli Management Platform, a platform used for the remote management of terminals).

Outlook for the current year

The outlook for the current year remains in line with the moderate growth envisaged last year in the Business Plan and also in line with the objective of diversifying the client base with particular regard to Europe and Latin America.

These development lines should enable the company to maintain also towards the end of the year the good performance achieved in the first nine months and to preserve its profitability, despite the ongoing financial crisis which tends to exacerbate phenomena already typical of the reference market such as price erosion.

The Board of Directors

Milan, November 5, 2009

**INTERIM CONSOLIDATED FINANCIAL
STATEMENTS**

(in thousands of euro)		
CONSOLIDATED BALANCE SHEET	September 30, 2009	December 31, 2008
Property, plant and equipment	1,612,163	1,598,046
Intangible assets	1,035,312	1,046,108
Investments in associates and joint ventures	523,446	515,300
Other financial assets	319,080	527,229
Deferred tax assets	79,937	72,426
Other receivables	640,551	701,674
Tax receivables	9,287	10,264
Derivative financial instruments	-	3,161
NON CURRENT ASSETS	4,219,776	4,474,208
Inventories	673,400	921,110
Trade receivables	922,984	787,951
Other receivables	204,883	239,956
Securities held for trading	135,010	115,800
Cash and cash equivalents	413,062	253,905
Tax receivables	38,946	46,246
Derivative financial instruments	27,604	94,042
CURRENT ASSETS	2,415,889	2,459,010
TOTAL ASSETS	6,635,665	6,933,218
Attributable to the equity holders of the company:	2,244,925	2,171,804
Share capital	1,554,269	1,554,269
Reserves	672,475	965,037
Income (loss) for the period	18,181	(347,502)
Attributable to the minority interests:	325,798	202,558
Reserves	352,650	267,582
Income (loss) for the period	(26,852)	(65,024)
TOTAL EQUITY	2,570,723	2,374,362
Borrowings from banks and other financial institutions	1,355,023	1,375,747
Other payables	24,934	48,472
Provisions for other liabilities and charges	163,862	141,191
Deferred tax liabilities	42,727	38,372
Employee benefit obligations	374,168	366,535
Tax payables	9,925	9,706
Derivative financial instruments	-	2,139
NON CURRENT LIABILITIES	1,970,639	1,982,162
Borrowings from banks and other financial institutions	448,727	695,561
Trade payables	833,372	1,108,573
Other payables	513,378	482,401
Provisions for other liabilities and charges	158,151	135,650
Tax payables	55,454	44,036
Derivative financial instruments	85,221	110,473
CURRENT LIABILITIES	2,094,303	2,576,694
TOTAL EQUITY AND LIABILITIES	6,635,665	6,933,218

(in thousands of euro)		
CONSOLIDATED INCOME STATEMENT	September 30, 2009	September 30, 2008
Revenues from sales and services	3,307,474	3,667,986
Other income	119,216	122,446
Change in inventories of work in process, semifinished and finished products	(130,354)	70,140
Raw materials and consumables (net of change in inventories)	(1,010,922)	(1,428,967)
Personnel costs	(753,863)	(843,153)
Amortization, depreciation and impairments	(161,341)	(158,763)
Other expenses	(1,208,171)	(1,250,323)
Increase in property, plant and equipment from internal work	1,714	3,490
OPERATING PROFIT	163,753	182,856
Earnings/(losses) from equity investments	(37,769)	(85,248)
<i>of which:</i>		
- <i>share of earnings/(losses) of associates and joint ventures</i>	(50,545)	(9,119)
- <i>gains on equity investments</i>	28,392	56,602
- <i>losses on equity investments</i>	(24,146)	(156,946)
- <i>dividends</i>	8,530	24,215
Financial income	319,748	288,471
Financial expenses	(372,779)	(323,566)
INCOME (LOSS) BEFORE INCOME TAXES	72,953	62,513
Income taxes	(81,626)	(90,812)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(8,673)	(28,299)
Income (loss) from discontinued operations	-	(7,997)
INCOME (LOSS) FOR THE PERIOD	(8,673)	(36,296)
Attributable to:		
Shareholders of the parent company	18,179	(51,324)
Minority interests	(26,852)	15,028

FORM AND CONTENT

The present Interim Management Statement at September 30, 2009 has been prepared in accordance with Art. 154 ter of Legislative Decree 58/1998 and with the Consob regulations on the subject.

The valuation and measurement of accounting amounts are based upon the 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), endorsed by the European Commission and in force at the time of the approval of this Statement.

The accounting policies and principles adopted are consistent with those used in the preparation of the financial statements at December 31, 2008, to which reference should be made for additional details. The exceptions are in respect of the following principles and interpretations in effect as from January 1, 2009, and endorsed by the European Union, the application of which did not have a significant quantitative impact for the group.

- IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions
- IFRIC 13 – Customer Loyalty Programmes
- IFRIC 14 – IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRS 8 – Operating Segments
- Amendments to IAS 23 “Borrowing costs”
- Revision of IAS 1 “Presentation of Financial Statements”
- Amendments to IFRS 2 “Share-based Payment: vesting conditions and cancellations”

- Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements”: Puttable Financial Instruments and Obligations Arising on Liquidation
- “Improvements” to the IFRSs
- Amendments to IFRS 1 “First-time Adoption of the IFRSs” and IAS 27 “Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate”

In examining the data it is important to remember that the Pirelli Real Estate Integrated Facility Management business and the Photonics business, which were sold during 2008, are considered discontinued operations and are therefore included only in total income. For a true representation, the economic data for 2008 have been restated to allow the comparison.

It should also be noted that a new item has been created in the income statement “earnings/(losses) from investments”, made up of the following sub-items:

- share of earnings/(losses) of associates and joint ventures;
- gains on investments: the sub-item includes gains on the sale of available-for-sale financial assets, subsidiaries, associates and joint ventures, gains on business combinations, previously classified among financial income, and the positive valuation of investments designated at fair value through profit or loss, previously included under the item “Gains/(losses) on financial assets carried at fair value”;
- losses on investments: the sub-item includes losses on the sale of available-for-sale financial assets, subsidiaries, associates and joint ventures and impairment of available-for-sale financial assets, associates and joint ventures, previously classified among financial expenses, and the negative valuation of investments designated at fair value through profit or loss, previously included under the item “Gains/(losses) on financial assets carried at fair value”;

- dividends: besides dividends received from investments other than subsidiaries/associates/joint ventures, the sub-item includes revenues received from real estate investment funds, previously classified as financial income.

Finally, the fair value measurements of securities held for trading and derivatives were reclassified from the item “gains/(losses) on financial assets carried at fair value” to the items “financial expenses” or “financial income” depending on the sign. The item “gains/(losses) on financial assets carried at fair value” was therefore eliminated.

The income statement for the first nine months of 2008, presented for comparative purposes, was consequently reclassified.

With respect to the consolidated financial statements published at December 31, 2008, receivables for junior notes relating to the Real Estate sector, previously classified under the item “other non-current receivables”, were reclassified to the item “other financial assets”. The balance sheet at December 31, 2008, which is presented for comparative purposes, presents a similar reclassification for an amount of 21,330 thousand euro.

Net financial position**(alternative performance measure not envisaged by the accounting standards)**

The breakdown of the net financial position is as follows:

(in thousands of euro)

	September 30, 2009	December 31, 2008
Current borrowings from banks and other financial institutions	439,862	676,803
Current financial accrued liabilities and deferred income	47,333	59,017
Non current borrowings from banks and other financial institutions	1,355,023	1,377,886
Total gross debt	1,842,218	2,113,706
Cash and cash equivalents	(413,062)	(253,905)
Securities held for trading	(135,010)	(115,800)
Current financial receivables	(21,909)	(28,562)
Current financial accrued income and prepaid expenses	(9,145)	(31,085)
Net financial debt (*)	1,263,093	1,684,354
Non-current financial receivables	(570,951)	(652,478)
Non-current financial accrued income and prepaid expenses	(766)	(4,165)
Total net financial (liquidity)/debt position	691,376	1,027,711

(*) Pursuant to Consob Communication of 28 July 2006 and in accordance with the CESR recommendation of 10 February 2005 "Recommendation for implementation of the European Commission regulation on alternative performance measures".

Exchange Rates

	(local currency against Euro)					
	Period-end		Change in	Average		Change in
	09/30/2009	12/31/2008	%	2009	2008	%
British pound	0.9093	0.9525	(4.54%)	0.8864	0.7820	13.35%
Swiss franc	1.5078	1.4850	1.54%	1.5106	1.6078	(6.05%)
Slovakian koruna	30.1260	30.1260	0.00%	30.1260	31.5815	(4.61%)
American dollar	1.4643	1.3917	5.22%	1.3660	1.5221	(10.26%)
Canadian dollar	1.5709	1.6998	(7.58%)	1.5936	1.5491	2.88%
Brazilian real	2.6037	3.2524	(19.95%)	2.8404	2.5670	10.65%
Venezuela bolivar	3.1483	2.9922	5.22%	2.9368	3.2725	(10.26%)
Argentinean peso	5.6273	4.8055	17.10%	5.0571	4.7284	6.95%
Australian dollar	1.6596	2.0274	(18.14%)	1.8233	1.6690	9.24%
Chinese renminbi	9.9997	9.4991	5.27%	9.3324	10.6298	(12.20%)
Singapore dollar	2.0654	2.0040	3.06%	2.0115	2.1156	(4.92%)
Egyptian pound	8.0005	7.6544	4.52%	7.6064	8.2162	(7.42%)
Turkish lira	2.1707	2.1511	0.91%	2.1479	1.8657	15.13%

**Certification pursuant to Art. 154-bis, paragraph 2 of
Legislative Decree No. 58 dated February 24, 1998 (TUF)**

The undersigned Francesco Tanzi, Chief Financial Officer and Manager Responsible for Corporate Financial Reporting of Pirelli & C. S.p.A., with registered offices in Milan, Via Gaetano Negri 10, share capital of Euro 1,556,692,865.28, tax code, VAT and registration number in the Milan Companies Register 00860340157

attests

in accordance with paragraph 2, Article 154 bis of the Consolidated Law on Financial Intermediation (TUF) that the accounting disclosure made in these Interim Management Statements at September 30, 2009 corresponds to the accounting documents, records and entries.

Milan, November 5, 2009

Mr Francesco Tanzi
Manager Responsible for Corporate
Financial Reporting