



Half-yearly Financial Report
at June 30, 2010

PIRELLI & C. Società per Azioni

Registered office in Milan

Viale Piero e Alberto Pirelli n. 25

Share Capital Euro 1,556,692,862.67

Milan Companies Register No. 00860340157

Economic Administrative File (REA) n. 1055

PIRELLI & C. S.p.A. - MILAN
Half-yearly Financial Report at June 30, 2010

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Board of Directors ¹

Chairman ²	Marco Tronchetti Provera
Deputy Chairman ²	Alberto Pirelli
Directors:	Carlo Acutis * Carlo Angelici * ^o Cristiano Antonelli * Gilberto Benetton Alberto Bombassei * [^] Franco Bruni * ^o Luigi Campiglio * Enrico Tommaso Cucchiani Berardino Libonati * [^] Giulia Maria Ligresti Vittorio Malacalza 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
Standing members	Paolo Gualtieri Paolo Domenico Sfameni
Alternate members	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 the preparation of financial reports ⁵

Francesco Tanzi

¹ Appointment: April 29, 2008. Expiry: Shareholders' Meeting called to approve the financial statements at December 31, 2010. On 29 July 2010 the Board of Directors coopt Vittorio Malacalza and took note of the resignation of Director and Vice Chairman Carlo Puri Negri.

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

³ Appointment: April 21, 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 on September 16, 2009. Expiry: Shareholders' Meeting called to approve the financial statements at December 31, 2010.

PIRELLI & C. REAL ESTATE BUSINESS SPIN OFF

On May 4, 2010 the Board of Directors of Pirelli & C. S.p.A. passed resolution in favour of presenting to the Shareholders an operation (“the Operation”) to separate the businesses controlled by Pirelli & C. Real Estate S.p.A. (Pirelli RE) from the others carried out by the Pirelli Group, in order to concentrate the Company’s activities in the tyres segment, at the same time allowing the Company shareholders, already indirect holders of the real estate business equity, to directly hold Pirelli RE shares. The Operation was approved by the Extraordinary Shareholders’ Meeting of July 15, 2010.

The Operation falls within the sphere of the management rationalisation and optimisation process started in 2008 and continued in 2009, and according to the strategic course outlined in the three-year industrial plan 2009-2011 of focusing on the industrial core business in the tyre sector.

The Operation will improve the equity and financial structure of the Pirelli Group, it will simplify the corporate structure of Pirelli & C. S.p.A., and will allow for a more immediate comprehension of the industrial strategy and of the economic-equity data of the Pirelli group on the part of the market, with a potentially positive effect in terms of further reduction in the holding discount.

The Operation will take place through the assignment to the Pirelli & C. S.p.A. shareholders of almost all the ordinary Pirelli RE shares held by the Company, amounting to about 58% of the share capital, to be achieved through a reduction of the share capital, the amount of which was determined by the Extraordinary Shareholders’ Meeting of Pirelli & C. S.p.A. of July 15, 2010, of the same value of the Pirelli RE shares assigned (Euro 178,813,982.89), determined in turn on the basis of the official price of the Pirelli RE shares (equal to euro 0.367) registered on July 14, 2010, the latest Stock Exchange business day prior to the date of above mentioned Extraordinary Shareholder’s Meeting.

The share capital reduction of the above-indicated amount will also facilitate to adjust the level of equity of the Company to the new operating structure subsequent to the Operation.

The above mentioned Shareholders' Meeting of July 15, 2010 also passed resolution in favour of.

- eliminating the par value of the Company's ordinary and savings shares which will therefore remain unexpressed;
- grouping the Company's ordinary and savings shares at the ratio of 1 new ordinary or savings share for every 11 shares of the same category held (the grouping operation started on July 26, 2010).

By effect of the Operation, the Pirelli & C. shareholders will be assigned proportionately 487,231,561 ordinary Pirelli RE shares at the ratio of one Pirelli RE share for one Pirelli & C. ordinary or savings share held after the aforesaid grouping. The non-assignment of all the Pirelli RE shares held by the company (amounting to 487,798,972) is merely for technical reasons, in order to determine a non-fractioned assignment ratio to the Pirelli & C. S.p.A. shareholders.

The Operation, pursuant to article 2445, clause 3, of the Italian civil code, may be carried out only after the ninety day term from the date of the registration of the resolution of the Pirelli & C. Extraordinary Shareholders' Meeting on the Companies Register, always providing no opposition is raised by any subject which was a creditor of the company before the registration. Pursuant to article 2445, clause 4, of the civil code, if opposition is raised within the aforesaid term, the Court may allow the Operation to take place in any case if the risk of prejudice to the creditors is considered unfounded or if the Company provides suitable guarantees.

The assignment of the Pirelli RE shares to the Pirelli & C. shareholders is therefore expected to be completed by October 2010.

According to IFRS 5 (“*Non-current assets held for sale and for discontinued operations*”), the assets and liabilities related to the Pirelli RE shares to be assigned, which represent a group being disposed of, are classified in the condensed consolidated interim financial statement at June 30, 2010 as “held for distribution”; the net book value of the group subject to disposal has been aligned to the fair value at June 30, 2010, equal to the official price of Pirelli RE shares at that date, Euro 0.3339, resulting in a loss of Euro 235.8 million recorded in the consolidated income statement.

Since the group subject to disposal is qualified as a “discontinued operation”, the above-mentioned loss due from the adjustment to fair value (Euro 235.8 million) together with the result of discontinued operations of the six-month term (minus Euro 20.4 million) and the costs directly attributable to the distribution (Euro 0.2 million) have been reclassified in the income statement in the line item “Net income from discontinued operations” (for a total negative amount of Euro 256.4 million).

Such result does not include the related tax effect as future recovery is not expected.

Successively, on the date of the Extraordinary Shareholders’ Meeting of July 15, 2010, pursuant to the interpretation of IFRIC 17 “*Distribution to shareholders of non-cash assets*”, the Company registered a liability as a payable to shareholders amounting to the fair value of the Pirelli RE shares to be assigned, determined on the basis of the official listed price of Pirelli RE shares on July 14, 2010.

On the date of the effective assignment of the Pirelli & C. Real Estate S.p.A. shares to the shareholders, the Company will recalculate the liability on the basis of the official listed price of the Pirelli RE shares on that date (the resulting difference will be posted in the shareholders' equity), and any positive or negative further difference between the book value of the Pirelli RE shares and their fair value on that date will be posted in the consolidated income statement.

The loss of control of Pirelli RE will lead to the reclassification in the Pirelli & C. consolidated income statement of all gains and losses related Pirelli & C. Real Estate Group, recorded in equity.

THE GROUP

The first six month of the year recorded a significant improvement of the operating income compared to the same period of the previous year, mainly due to the growth of in the Pirelli Tyre net sales volumes, already occurred in the last months of 2009, and to the continued benefits relating to the management rationalisations and optimisation process started in 2008 and continued in the following years.

Overall, the **Group** closed the period with net sales of 2,426.5 million euro representing an increase of 19.8% compared to the same period of 2009, and operating profit of 193.4 million euro showing an increase of 62.8%. EBIT margin showed growth of 8%, against 5.9% for the first half of 2009. In this first half-year, the net income before the deduction of assets classified as “discontinued operations” has strongly increased and amounts to 80.8 million euro compared to 30.3 million euro for the same period in 2009.

The continual growth in volumes and in the price/mix component has fully compensated the increased cost of raw materials, and has allowed **Pirelli Tyre** to register a significant improvement of the operating profit. In the second quarter in particular, Pirelli Tyre achieved the best quarterly operating profit ever amounting to 121.8 million euro (+54% compared to the same period of 2009) and an incidence of 10% (8% in the same period of 2009) on revenues up 22.9% to 1,215.3 million euro. In the first half-year, operating profit after restructuring expenses reached 217.3 million euro, representing an increase of 59% compared to the 136.8 million euro of the first half of 2009, and an incidence of 9.3% (7.1% in the first half of 2009) on revenues equal to 2,325.3 million euro (+21.4% compared to the first half of 2009).

On June 23, 2010 Pirelli was chosen as the exclusive supplier for the F1 tyres for the three-year period 2011-2013. The Formula One will become an important driver for further development of the Pirelli brand and its growing business and industry without involving any change to the Company's economic-financial plans. Also for the three-year term 2011-2013, Pirelli was also chosen as the exclusive supplier for the GP2 Series World Championship. Since Pirelli is also a supplier for the GP3 Series, it is now the official supplier for the most prestigious car racing world.

Consolidated net operating cash flow was positive for 55.6 million euro (negative for 18.5 million euro in the first half of 2009), while investments almost double compared with the corresponding same period of 2009 (135.5 million euro compared to 65.4 million euro), in particular under the planned growth of production capacity.

Group's net financial position at June 30, 2010 was negative for 696.9 million euro, compared to a negative amount of 528.8 million euro at the end of December 2009 (-678.4 million euro at March 31, 2010); the difference is mainly due to the cash out for restructuring (44.4 million euro) and the dividends paid (85.1 million).

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

Net income of Pirelli & C. S.p.A. at June 30, 2009 was negative for 27.1 million euro, against a profit of 83.8 million euro in the first half of 2009.

The result of the first half-year of 2010 includes the loss of Euro 167.1 million deriving from the difference between the fair value of the Pirelli & C. Real Estate S.p.A. shares to be assigned (corresponding to the market value at June 30, 2010, equal to Euro 0.3339 per share) and the book value of the investment at the same date (Euro 0.6765 per share), partially offset by the dividends received from companies of the Group for Euro 161.1 million.

Shareholders' equity at June 30, 2010 was 1,671.2 million euro, compared to 1,822.8 million euro at December 31, 2009.

SIGNIFICANT EVENTS IN THE FIRST HALF YEAR

On **January 19, 2010** the Pirelli & C. S.p.A. Block Shareholders Agreement was renewed, with expiry on April 15, 2013. All the parties to the agreement had expressed their intention of renewing the agreement by January 15, 2010, the contractual deadline for any withdrawals.

On **April 14, 2010** Pirelli inaugurated the Pirelli Foundation and opened to the city its own Historic Archives representing the “heart” of the Foundation.

Marco Tronchetti Provera, Pirelli’s Chairman, Alberto Pirelli, Pirelli’s deputy chairman, Cecilia Pirelli, honorary president of the Foundation, and Antonio Calabrò, a Foundation director, attended the presentation. The Pirelli Foundation, founded last year, promotes and spreads awareness of the Group’s cultural, historic and documental heritage, which is an essential part of our Country’s entrepreneurial and social history and of its ideas, with an international outlook. The Foundation’s objectives also include the promotion and appreciation of cultural initiatives which have features similar to and coherent with the Pirelli corporate culture.

The Historic Archives preserves documents, writings, films, articles, artworks and photographs which cover the 138 years of the Company's industrial and cultural history, since its formation in 1872 until today.

On **June 22, 2010** Pirelli Ambiente S.p.A., the company of the Pirelli group active in renewable energy sources, signed a licensing agreement with Bosco International, active in the promotion of environmentally sustainable industrial systems and processes; the agreement will allow the Australian company to use the Pirelli patent to produce quality fuel from quality waste.

Pirelli technology will initially be used in the Latrobe area, in the Australian state of Victoria, within the programme “Towards Zero Waste Policy” introduced by the local government to contain waste, with the aim of converting into fuel the 600 thousand tonnes of solid urban waste produced by the city of Melbourne every year. In particular, after obtaining the authorisations of the local authorities, the technological exchange involves an investment on the part of Bosco International for the construction of a plant in the Country for the production of quality fuel from quality waste.

The integrated system promoted by Pirelli Ambiente has been running successfully since 2002 in the province of Cuneo, where Idea Granda operates, a mixed public-private company partly owned by Pirelli (49%) and by the municipal company ACSR (51%), and where the cement factory Buzzi-Unicem of Robilante uses the fuel from quality waste in its main burner replacing more than 40% of its coal-petcoke need.

Since its start up, the system meant that the percentage of energy obtained from waste in the area to rise more than 32%, higher than the Italian average (7%) and, above all, higher than the European average (27%).

Moreover, according to a study of the Milan Bicocca University, carried out with the Life Cycle Assessment method (LCA), the use of Pirelli’s quality waste from fuel is respectively 90 and 72 times more advantageous for the environment than alternative systems such as dumps and other waste to energy plants.

On **June 23, 2010** Pirelli declared that it would supply tyres to the Formula 1 World Championship for the three-year term 2011-2013.

The FIA (Fédération Internationale de l'Automobile), the Teams, represented by the FOTA (Formula One Team Association), and the Formula 1 organisation, represented by the FOM (Formula One Management), have chosen Pirelli as the exclusive supplier, having approved the solutions proposed by the Italian group aimed at guaranteeing technological and qualitative continuity to the competing teams.

In line with present Formula 1 regulations established by the FIA, pursuant to the supply contract Pirelli will make available to the teams six different types of tyres for the whole season: four slick, with different compounds and destined for races on dry asphalt; one rain tyre, developed for intense rain; one intermediate tyre, for damp asphalt and light rain. The new economic scenario has imposed a realistic and collaborative approach with the Teams in the sharing of industrial and logistics costs related to the supply of tyres.

Pirelli's return to Formula 1 involves the intention, shared with the Teams, to start a wide research to find technically innovative solutions for a technological evolution of current tyres on several fronts.

Also for the three years term 2011-2013, Pirelli has also been awarded the contract as exclusive supplier for the GP2 Series World Championship.

The Company is not only involved in these championships, but also, from this year on, those of the GP3 Series of which it is also a partner, making Pirelli the official supplier for the most prestigious car racing competitions in the world.

Pirelli will also make investment in advertising, aimed at promoting the industrial and technological commitment required by the involvement in Formula 1, dedicating to this new initiative resources already allocated and included in the Company's budget. The advertising will mainly be in support of Pirelli's contemplated growth in the so-called emerging areas: Latin America, the Middle East and Pacific Asia: areas where the Formula 1 calendar provides several scheduled appointments.

Formula 1 will thus become an important driving force for the further promotion of the Pirelli brand and its commercial and industrial growth, without involving modification to the Company's economic-financial plans. The worldwide visibility deriving from Formula 1 media coverage and the activities for appreciating and promoting the brand strictly linked to the Company's core business will thus allow Pirelli to maximise the return on the advertising investment.

The Formula 1 supply completes Pirelli's commitment in the world of motor racing, in which the Italian group has been involved since 1907 when it won the Paris-Peking Raid. Pirelli is currently the exclusive supplier of the most important car and motorcycle competitions in the world, such as the GP3 World Championship, the WRY World Rally, the Rolex Sports Car Series in North America, the Superbike World Championship and the World Cross Championship. It is also involved in over 70 national and international other championships.

The last Formula 1 Grand Prix in which Pirelli took part was in 1991 in Canada, as a partner of the Benetton team.

THE GROUP: main financial and economic figures

In this report, in addition to the financial performance measures established by IFRS, certain measures not foreseen by the IFRS are also presented although (Non-GAAP Measures).

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

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

- **Gross Operating Profit:** this item is used by the Group as the financial target for internal business plans and in external presentations (to analysts and investors). It represents a useful unit of measurement, in addition to the Operating Profit, to assess the operating performance of the Group as a whole and of each single segment. The Gross Operating Profit is an intermediate performance measure represented by the Operating Profit from which depreciation and amortization are excluded.
- **Fixed assets:** this measure consists of the sum of "Property, plant and equipment", "Intangible assets", "Investments in associates and JV" and "Other financial assets";
- **Provisions:** this measure consists of the sum of "Provisions for 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 above mentioned measures, the "Shareholders' equity" and "Net financial position";
- **Net financial position:** this performance measure is represented by the gross financial debt minus cash and cash equivalents plus other interest-earning financial receivables. The explanatory notes section within the condensed half-yearly consolidated financial statements presents a table showing the balance sheet items used to calculate the net financial position.

The Group's consolidated financial statements can be summarized as follows:

(in millions of euro)

	06/30/2010	06/30/2009	12/31/2009
Net sales	2,426.5	2,026.2	4,198.5
Gross operating profit before restructuring expenses	307.1	228.7	513.1
% of net sales	12.7%	11.3%	12.2%
Operating profit before restructuring expenses	201.3	128.5	309.4
% of net sales	8.3%	6.3%	7.4%
Restructuring expenses	(7.9)	(9.7)	(55.7)
Operating profit	193.4	118.8	253.7
% of net sales	8.0%	5.9%	6.0%
Net income from equity investments	(4.0)	(7.0)	(11.6)
Financial income/(expenses)	(38.0)	(38.4)	(69.8)
Income tax	(70.6)	(43.1)	(90.1)
Net income from continuing operations	80.8	30.3	82.2
Net income from discontinued operations	(256.4)	(42.7)	(104.8)
Total net income	(175.6)	(12.4)	(22.6)
Total net income attributable to equity holders of Pirelli & C. S.p.A.	(165.5)	6.3	22.7
Earnings per share (in euro)	(0.031)	0.001	0.004
Fixed assets in continuing operations	3,022.3	3,581.9	3,596.2
Working capital in continuing operations	296.5	627.3	221.8
Net capital invested in continuing operations	3,318.8	4,209.2	3,818.0
Net capital invested in discontinued operations	557.6		
Total net invested capital	3,876.4	4,209.2	3,818.0
Total shareholders' equity	2,316.3	2,369.6	2,494.7
Provisions for continuing operations	803.1	732.0	794.5
Provisions for discontinued operations	60.1		
Net financial (liquidity)/debt position – continuing operations	635.1	1,107.6	528.8
Net financial (liquidity)/debt position – discontinued operations	61.8		
Total shareholders' equity attributable to equity holders of Pirelli & C. S.p.A.	2,004.9	2,202.1	2,175.0
Shareholders' equity per share attributable to equity holders of Pirelli & C. S.p.A. (in euro)	0.373	0.410	0.405
Employees (number at end of period)	30,989	29,525	29,570
Industrial sites n.	21	21	21
Pirelli & C. S.p.A. shares outstanding			
Ordinary shares (number in millions)	5,233.1	5,233.1	5,233.1
of which treasury shares	3.9	3.9	3.9
Savings shares (number in millions)	134.8	134.8	134.8
of which treasury shares	4.5	4.5	4.5
Total shares (number in millions)	5,367.9	5,367.9	5,367.9

For a clearer understanding of the Group's performance, the following income statement data and the net financial position are broken down according to business segment.

SITUATION at 06/30/2010 (in millions of euro)

	Tyre	Eco Technology	Broadband Access	Other (*)	Total
Net sales	2,325.3	35.1	57.8	8.3	2,426.5
Gross operating profit before restructuring expenses	323.9	(2.3)	1.9	(16.4)	307.1
Operating profit before restructuring expenses	225.2	(3.5)	1.5	(21.9)	201.3
Restructuring expenses	(7.9)	-	-	-	(7.9)
Operating profit	217.3	(3.5)	1.5	(21.9)	193.4
Net income from equity investments	0.4	-	-	(4.4)	(4.0)
Financial income/(expenses)	(38.7)	(0.9)	2.5	(0.9)	(38.0)
Income tax	(68.6)	(0.6)	(0.2)	(1.2)	(70.6)
Net income from continuing operations	110.4	(5.0)	3.8	(28.4)	80.8
Net income from discontinued operations	-	-	-	-	(256.4)
Net income	110.4	(5.0)	3.8	(28.4)	(175.6)
Net financial (liquidity)/debt position – continuing operations	1,212.9	37.2	(24.3)	(590.7)	635.1
Net financial (liquidity)/debt position – discontinued operations					61.8
Total net financial position: (liquidity)/debt					696.9

SITUATION at 06/30/2009 (in millions of euro)

	Tyre	Eco Technology	Broadband Access	Other (*)	Total
Net sales	1,915.9	28.3	72.8	9.2	2,026.2
Gross operating profit before restructuring expenses	240.8	(4.4)	3.2	(10.9)	228.7
Operating profit before restructuring expenses	146.5	(5.5)	2.7	(15.2)	128.5
Restructuring expenses	(9.7)	-	-	-	(9.7)
Operating profit	136.8	(5.5)	2.7	(15.2)	118.8
Net income from equity investments	3.8	-	-	(10.8)	(7.0)
Financial income/(expenses)	(43.0)	(1.1)	0.7	5.0	(38.4)
Income tax	(43.4)	-	0.7	(0.4)	(43.1)
Net income from continuing operations	54.2	(6.6)	4.1	(21.4)	30.3
Net income from discontinued operations	-	-	-	-	(42.7)
Net income	54.2	(6.6)	4.1	(21.4)	(12.4)
Net financial position: (liquidity)/debt	1,467.0	32.8	(31.9)	(697.7)	1,107.6

(*) The item includes the Environment division, Pzero S.r.l., all financial companies (including the Parent companies), other service companies and as regards the sales item, all eliminations on consolidation

Net sales

In the first half year of 2010, sales amount to 2,426.5 million euro, showing growth of 19.8% compared to the 2,026.2 million euro in the same period last year.

The table below set forth the percentage breakdown of net sales according to business segment on a like-for-like basis:

	1st half 2010	1st half 2009
Tyre	95.9%	94.6%
Eco Technology	1.4%	1.4%
Broadband Access	2.4%	3.6%
Other	0.3%	0.4%
	100.0%	100.0%

The following table presents the breakdown of the change in net sales according to business segment on a like-for-like basis:

Tyre	+ 18.2%
Eco Technology	+ 24.0%
Broadband Access	- 20.6%
Group Total	+ 16.8%
Foreign exchange effect	+ 3.0%
Total change	+ 19.8%

The breakdown according to geographical area of destination is as follows:

(in thousands of euro)

	1st half 2010		1st half 2009	
Europe:				
- Italy	294,251	12.12%	293,841	14.50%
- Rest of Europe	742,300	30.58%	650,951	32.12%
North America	204,200	8.42%	155,724	7.69%
Central and South America	821,800	33.87%	610,032	30.11%
Oceania, Africa and Asia	363,900	15.01%	315,616	15.58%
	2,426,451	100.00%	2,026,164	100.00%

Operating profit

Operating profit before restructuring expenses at June 30, 2010 is 201.3 million euro, showing a net improvement on the 128.5 million euro in the first half of 2009.

Restructuring expenses (7.9 million euro at June 30, 2010 compared to 9.7 million euro in the first half of 2009) are concentrated in the Tyre sector where rationalisation of staff structures and of production base in Europe continue.

Operating profit (EBIT) at June 30, 2010 amounts to 193.4 million euro, a net improvement (+62.8%) on the 118.8 million euro of the same period in 2009, also representing a higher percentage of net sales compared to the first six months of 2009 (8% compared to 5.9%).

Net income from equity investments

Net income from equity investments at June 30, 2010 is negative for 4 million euro; however, although negative, it represents an improvement on the loss of 7 million euro of the first half of 2009.

Such negative result mainly includes the value recognised in shareholders' equity of the shareholding in RCS Media Group S.p.A.

The result of the first half of 2009 includes the write-down of the equity investment in Telecom Italia S.p.A. (19.8 million euro), partly offset by the positive effect of the gain achieved by the sale of the shareholding in Alcatel-Lucent Submarine Networks (11.2 million euro).

Net income

Net income from continuing operations is 80.8 million euro compared to 30.3 million euro in the first half of 2009.

Net income from discontinued operations is negative, with a loss of 256.4 million. The loss is due both to the result of the real estate business (20.4 million euro compared to 42.7 million in the first half of 2009) and to the loss of 236 million euro resulting from the assignment of the Pirelli RE shares.

Total net income is therefore negative, at minus 175.6 million euro, compared to a loss of 12.4 million euro in the first half of 2009.

Total net income attributable to the equity holders of Pirelli & C. S.p.A. is negative, at minus 165.5 million euro (Euro 0.031 per share), compared with a positive figure of 6.3 million euro in the first half year of 2009 (Euro 0.001 per share).

Shareholders' equity

Consolidated shareholders' equity has decreased slightly from 2,494.7 million at December 31, 2009 to 2,316.3 million euro at June 30, 2010.

Shareholders' equity attributable to equity holders of Pirelli & C. S.p.A. as of June 30, 2010 was 2,004.9 million euro (Euro 0.373 per share) compared to 2,175 million euro (Euro 0.405 per share) as of December 31, 2009.

The change is summarised below:

(in millions of euro)

	Group	Minorities	TOTAL
Shareholders' equity at 12.31.09	2,175.0	319.7	2,494.7
Translation differences	142.5	6.4	148.9
Net income for the period	(165.5)	(10.1)	(175.6)
Adjustment to fair value of available-for-sale financial assets/derivatives	(50.0)	0.3	(49.7)
Distribution of dividends	(81.1)	(4.0)	(85.1)
Net actuarial gain/(loss) on employee benefits	(26.6)	(0.4)	(27.0)
Other changes	10.6	(0.5)	10.1
Total changes	(170.1)	(8.3)	(178.4)
Shareholders' equity at 06.30.10	2,004.9	311.4	2,316.3

Net financial position

Group's total financial position has increased from 528.8 million at December 31, 2009 to Euro 696.9 million at June 30, 2010.

Net of assets held for distribution, the **net financial position of continuing operations** amounts to 635.1 million euro.

Net operating cash flow is positive at 55.6 million euro (negative at 18.5 million euro in the first half of 2009), while investments that have almost doubled compared to the same period of 2009 (135.5 million euro compared to 65.4 million euro), especially within the sphere of the production capacity growth projects.

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

(in millions of euro)						
	Q1 2010	Q1 2009	Q2 2010	Q2 2009	1st half 2010	1st half 2009
Operating profit (EBIT) before restructuring expenses	90.4	52.5	110.9	76.0	201.3	128.5
Amortization & Depreciation	51.8	49.7	54.0	50.5	105.8	100.2
Investments in property, plant and equipment and in intangibles	(50.1)	(36.3)	(85.4)	(29.1)	(135.5)	(65.4)
Change in working capital/other	(156.7)	(258.8)	40.7	77.0	(116.0)	(181.8)
Operating cash flow	(64.6)	(192.9)	120.2	174.4	55.6	(18.5)
Financial income/(expenses)	(16.5)	(20.4)	(21.5)	(18.0)	(38.0)	(38.4)
Income tax	(30.5)	(24.2)	(40.1)	(18.9)	(70.6)	(43.1)
Net operating cash flow	(111.6)	(237.5)	58.6	137.5	(53.0)	(100.0)
Financial investments/divestments	-	37.9	-	78.1	-	116.0
Dividends paid	-	-	(85.1)	(2.4)	(85.1)	(2.4)
Cash Out for restructuring expenses	(34.0)	(39.0)	(10.4)	(8.3)	(44.4)	(47.3)
Net cash flow of Pirelli & C. Real Estate	(14.0)	(19.8)	(6.5)	(28.1)	(20.5)	(47.9)
Exchange differences/other	10.0	7.2	24.9	(5.5)	34.9	1.7
Change in total net financial position	(149.6)	(251.2)	(18.5)	171.3	(168.1)	(79.9)

The table below shows the financial position of continuing operations broken down according to business segment:

(in millions of euro)				
	Tyre	Other Businesses	Corporate	Consolidated assets in continuing operations
Gross debt	1,779	101	277	1,299
<i>of which due to Corporate</i>	738	65	-	-
Financial receivables	(154)	(26)	(871)	(193)
Cash equivalents and securities held for trading	(412)	(10)	(49)	(471)
Net financial position	1,213	65	(643)	635

The column "Other Business" includes Eco Technology, Pirelli Broadband, Pirelli Ambiente and Pzero.

The structure of gross financial debt of continuing operations, broken down according to maturity and type, is as follows:

(in millions of euro)

	Financial Statements 06.30.2010	Year of maturity			
		2010	2011	2012	2013 and beyond
Utilization of committed lines	425	-	-	425	-
Other loans	874	276	72	149	377
Total gross debt	1,299	276	72	574	377
		21.2%	5.5%	44.2%	29.1%

At June 30, 2010 undrawn Committed credit facilities amounted to Euro 1,050 million.

Employees

At June 30, 2010 the Group had 30,989 employees (3,252 of which were temporary workers) compared to 29,570 at December 31, 2009 (of which 2,245 were temporary).

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

	06/30/2010		12/31/2009	
GEOGRAPHICAL AREA				
Europe:				
- Italy	4,294	13.86%	4,454	15.06%
- Rest of Europe	8,365	26.99%	8,131	27.50%
North America	231	0.75%	230	0.78%
Central and South America	12,405	40.03%	11,754	39.75%
Oceania, Africa and Asia	5,694	18.37%	5,001	16.91%
	30,989	100.00%	29,570	100.00%

	06/30/2010		12/31/2009	
BUSINESS SEGMENTS				
Tyre	29,048	93.74%	27,481	92.94%
Eco Technology	282	0.91%	284	0.96%
Real Estate	1,086	3.50%	1,139	3.85%
Broadband Access	139	0.45%	128	0.43%
Other businesses	434	1.40%	538	1.82%
	30,989	100.00%	29,570	100.00%

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FIRST HALF

On July 16, 2010 Pirelli Ambiente, through the subsidiary Solar Utility S.p.A., and the GWM Group through its subsidiary GWM Renewable Energy, signed a strategic agreement for the joint development of activities in the photovoltaic sector in Italy.

According to the agreement, Solar Utility S.p.A., a company held 100% by Pirelli Ambiente S.p.A. and active in the photovoltaic sector, will confer its production business – with a total capacity of 11 Megawatts of which 7 are already operative – to a new company called GP Energia S.p.A. of which GWM Renewable Energy, a company of the GWM Group specialised in investments in renewable energies, will buy 60% of the capital. The remaining 40% will remain in the hands of Solar Utility S.p.A. The initial value of the joint venture is around 20 million euro, and the target is to acquire about 100 MW in Italy.

The joint skills and projects developed in the sector by Solar Utility and by GWM Renewable Energy will allow for the creation of an important player in the domestic photovoltaic sector.

OUTLOOK FOR THE CURRENT YEAR

The positive trend of Pirelli Tyre in the first half of the year and the present market scenario allows for further improvement of targets for the current year; they were already raised in May last, on presentation of the results of the first quarter of 2010.

For the **Pirelli group**, excluding Pirelli Re, revenues of around 4.8-4.9 billion euro are expected, representing growth of the 4.6-4.7 billion forecast in May, with an improved EBIT of about 7% instead of the previous estimate of 6.5%.

The investment plans for the development of production capacity are expected to increase to over 350 million euro, compared to the previous estimate of at least 300 million, with confirmation of negative net financial position target of about minus 700 million euro.

For **Pirelli Tyre**, the results of the first half year show a significant growth in volumes which, together with wise use of the price/mix lever and of industrial efficiencies, allow for contrasting the increase in raw material costs and the trend of the exchange rates between the euro and the main currencies. If the markets maintain the positive trend, growth of net sales of up to 15% net of the exchange effect can be expected – an improvement on the over 10% forecast in May – and an absolute EBIT value of 360 million euro instead of the 320-330 million euro previously estimated.

In November Pirelli will present the new three-year plan for 2011-2013 to the financial community.

PIRELLI TYRE

The table below illustrates the consolidated economic and financial results achieved in the first half of 2010 compared with the same period in 2009:

	(in millions of euro)		
	06/30/2010	06/30/2009	12/31/2009
. Net sales	2,325.3	1,915.9	3,992.9
. Gross operating profit before restructuring expenses	323.9	240.8	538.0
% of net sales	13.9%	12.6%	13.5%
. Gross operating profit before restructuring expenses	225.2	146.5	345.5
% of net sales	9.7%	7.6%	8.7%
. Restructuring expenses	(7.9)	(9.7)	(37.0)
. Operating profit	217.3	136.8	308.5
% of net sales	9.3%	7.1%	7.7%
. Net income from equity investments	0.4	3.8	4.2
. Financial income/(expenses)	(38.7)	(43.0)	(76.1)
. Income tax	(68.6)	(43.4)	(90.0)
. Net income	110.4	54.2	146.6
% of net sales	4.7%	2.8%	3.7%
. Net financial position: (liquidity)/debt	1,212.9	1,467.0	1,027.3
. Net operating cash flow	(10.8)	(88.0)	395.4
. Employees (number at end of period)	29,048	27,241	27,481
. Industrial sites n.	20	21	20

Net sales reached 2,325.3 million euro, with an increase of 21.4% compared to the 1,915.9 million euro of the same period last year.

The like-for-like change in the **first half year** represents an increase of 18.2% compared to last year, with a positive contribution for both volumes (+12.3%) and price/mix component (+5.9%). Exchange rates led to an increase of 3.2%, mainly due to the strengthening of the Brazilian real compared to the average of the first half of last year, and to the stronger American dollar against the euro in the second quarter.

In the **second quarter** in particular, net sales reached 1,215.3 million, with growth of 22.9% compared to the 989.0 million euro for the same quarter of 2009; organic growth in the period was 17.6%.

In the second quarter, there was also growth of the two components analysed, with an increase of 7.5% in volumes and an increase of 10.1% in the price/mix component; the contribution of the exchange rates component, at plus 5.3%, was particularly important in the quarter.

Overall, significant growth was registered in both business segments: the Consumer segment with total change of +17.8%, with +16.5% in the first quarter and +19.1% in the second; total change of +30.3% in the Industrial segment, with +28.4% in the first quarter and +32.0% in the second.

The variation in net sales broken down into the single components is given below:

	Q1 2010	Q2 2010	1st half 2010	1st half 2009
• Volumes	17.4%	7.5%	12.3%	-15.7%
• Prices/Mix	1.4%	10.1%	5.9%	6.4%
Change on a like-for-like basis	18.8%	17.6%	18.2%	-9.3%
• Foreign exchange effect	1.0%	5.3%	3.2%	-2.3%
Total change	19.8%	22.9%	21.4%	-11.6%

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

Geographical Area	1st half 2010			1st half 2009	
		<i>Euro\mln</i>	<i>°) .µ</i>		<i>Euro\mln</i>
Italy	8%	193.1	5.2%	10%	183.6
Rest of Europe	32%	742.3	14.0%	34%	651.0
North America	9%	204.2	31.1%	8%	155.7
Central and South America	35%	821.8	34.7%	32%	610.0
Africa\Asia\Pacific	16%	363.9	15.3%	16%	315.6
TOTAL	100%	2325.3		100%	1915.9

Product category	1st half 2010			1st half 2009	
		<i>Euro\mln</i>	<i>°) .µ</i>		<i>Euro\mln</i>
Car tyres	60%	1400.5	18.1%	62%	1185.6
Motorcycle and cycle tyres	10%	216.2	16.0%	10%	186.4
Consumer	70%	1616.7	17.8%	72%	1372.0
Truck tyres	28%	656.6	30.3%	26%	503.9
Steelcord	2%	52.0	30.0%	2%	40.0
Industrial	30%	708.6	30.3%	28%	543.9

In terms of geographic area, there was particularly strong growth in the half year in Central and South America (+35%) and in North America (+31%), both partly due to exchange rate trends.

With regard to the **operating profit**, the **second quarter** has confirmed the growth already seen in the first quarter, with volumes remaining positive and a significant contribution from the price/mix component which more than offset the increased cost of raw materials.

At the **progressive** level, the growth in operating profit from operations at June 2010, compared to the first half of 2009, can be summed up as follows:

- positive impact of changes in trade receivables with growth in both volumes, also due to the recovery of the markets, and in the price/mix component, thanks to the product strategy adopted and the need to contrast increased raw material costs;
- negative impact deriving from increased raw material costs, with greater effect in the second quarter;
- efficiencies deriving from industrial activities, also thanks to the greater exploitation of production capacity compared to the first half of 2009;

allowing for achieving the operating profit illustrated in the following table, which shows growth in both absolute terms and in terms of returns on sales, with ROS net of restructuring expenses showing growth in both quarters and in the progressive figure.

(in millions of euro)	Q1 2010	Q1 2009	Q2 2010	Q2 2009	1st half 2010	1st half 2009
• Net sales	1,110.0	926.9	1,215.3	989.0	2,325.3	1,915.9
<i>°)</i>	<i>19.8%</i>	<i>-13.9%</i>	<i>22.9%</i>	<i>-9.2%</i>	<i>21.4%</i>	<i>-11.6%</i>
• Gross operating profit before restructuring expenses	146.4	107.8	177.5	133.0	323.9	240.8
<i>% of net sales</i>	<i>13.2%</i>	<i>11.6%</i>	<i>14.6%</i>	<i>13.4%</i>	<i>13.9%</i>	<i>12.6%</i>
• Operating profit before restructuring expenses	98.1	61.0	127.1	85.5	225.2	146.5
<i>% of net sales</i>	<i>8.8%</i>	<i>6.6%</i>	<i>10.5%</i>	<i>8.6%</i>	<i>9.7%</i>	<i>7.6%</i>
• Operating profit	95.5	57.5	121.8	79.3	217.3	136.8
<i>% of net sales</i>	<i>8.6%</i>	<i>6.2%</i>	<i>10.0%</i>	<i>8.0%</i>	<i>9.3%</i>	<i>7.1%</i>

Total gross operating profit before restructuring expenses at June 30, 2010 was 323.9 million euro (13.9% of net sales), up 34% over the corresponding period of 2009, when it amounted to 240.8 million euro (12.6% of net sales). In the **second quarter** it was 177.5 million euro, against 133.0 million euro in the second quarter of 2009 (+33%).

Operating profit before restructuring expenses at June 30, 2010 came to 225.2 million euro (9.7% of net sales), an improvement of 54% compared with the corresponding period of 2009 when it amounted to 146.5 million euro (7.6% of net sales).

In the **second quarter** it was 127.1 million euro, against 85.5 million euro in the second quarter of 2009.

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

(in millions of euro)	Q1 2010	Q2 2010	1st half 2010
2009 operating profit before restructuring expenses	61.0	85.5	146.5
. Foreign exchange effect	(5.2)	2.2	(3.0)
. Prices/mix	6.1	86.6	92.7
. Volumes	50.8	25.2	76.0
. Cost of production factors (raw materials)	(6.7)	(62.1)	(68.8)
. Cost of production factors (labour/energy/others)	(7.4)	(12.8)	(20.2)
. Efficiencies	7.6	5.3	12.9
. Depreciation and other	(8.1)	(2.8)	(10.9)
Total change	37.1	41.6	78.7
2010 operating profit before restructuring expenses	98.1	127.1	225.2

At **June 30, 2010**, the **operating profit after restructuring expenses** is 217.3 million euro (9.3% of net sales), an improvement over the result for the corresponding period of 2009, when it amounted to 136.8 million euro (+59% and 7.1% of net sales). In the **second quarter**, the net income achieved was 121.8 million euro (10.0% of net sales) representing a record quarterly increase for the business (+54%), against 79.3 million euro of the same period last year (8.0% of net sales).

Total net income at June 30, 2010 was 110.4 million euro (after financial expenses of 38.3 million euro and taxes of 68.6 million euro), compared to 54.2 million euro (after financial expenses of 39.2 million euro and taxes of 43.4 million euro) of last year.

It may be remembered that the purchase of the minority interests in the associated companies in Turkey, for 4 million euro, was practically completed in the first quarter of 2009, with a further positive impact on the net income from equity investments for 3.5 million euro, deriving from the fact that the purchase value was lower than the book value.

Net financial position shows debts of 1,212.9 million euro, compared to 1,027.3 million euro at December 31, 2009; dividends of 156.0 million euro were paid to the parent company in the period. The net cash flow, before payment of the said dividends, resulted in a negative balance of minus 29.6 million euro, while in the second quarter it was plus 65.6 million euro.

The overall **operating cash flow in the half year** was negative, at minus 10.7 million euro, compared to minus 88 million euro in the first half of 2009.

The increase in investments, linked essentially to the projects for increased production capacity in Brazil and Romania, and to the definition of the new production centre in Italy, at Settimo Torinese, was balanced out by improvements in operating profit and by limiting absorption by the management of working capital, notwithstanding the increased activity.

Breakdown of the cash flow in the period is shown in the following table:

	Q1 2010	Q1 2009	Q2 2010	Q2 2009	<i>(in millions of euro)</i>	
					06/30/2010	06/30/2009
Operating profit (EBIT) before restructuring expenses	98.1	61.0	127.1	85.5	225.2	146.5
Total amortisation/depreciation	48.3	46.8	50.4	47.5	98.7	94.3
Investments in property, plant and equipment(intangibles)	(47.6)	(36.8)	(84.5)	(27.6)	(132.1)	(64.4)
Change in working capital/other	(132.2)	(255.4)	37.0	77.4	(95.2)	(178.0)
OPERATING CASH FLOW	(33.4)	(184.4)	130.0	182.8	96.6	(1.6)
Financial/tax expenses	(45.6)	(46.4)	(61.7)	(40.0)	(107.3)	(86.4)
NET OPERATING CASH FLOW	(79.0)	(230.8)	68.3	142.8	(10.7)	(88.0)
Dividends paid to minorities	-	-	(3.8)	(2.3)	(3.8)	(2.3)
Purchase of minorities in Turkey and asset sales	-	11.0	-	-	-	11.0
Cash out for restructuring	(22.2)	(39.0)	(8.3)	(8.3)	(30.5)	(47.3)
Exchange differences/other	6.0	3.8	9.4	(13.2)	15.4	(9.4)
NET CASH FLOW before dividends paid to Parent Company	(95.2)	(255.0)	65.6	119.0	(29.6)	(136.0)
Dividends paid to Parent Company	-	-	(156.0)	(64.2)	(156.0)	(64.2)
NET CASH FLOW	(95.2)	(255.0)	(90.4)	54.8	(185.6)	(200.2)

At June 30, 2010 employees were 29,048; this figure is 1,567 more than at December 31, 2009. Such increase is mainly due to the increase in volumes in Romania (+185), in China (+177) and in Brazil (+593), and to the usual seasonal phenomenon (about 600 temporary workers) in Turkey and Germany to cover the holiday periods of permanent workers in order to maintain constant production volumes.

Consumer Business

The following table shows the consolidated economic and financial results obtained in the second quarter of 2010, the progressive figures for the first half of the year, and comparison with the corresponding periods of 2009:

<i>(in millions of euro)</i>		Q1 2010	Q1 2009	Q2 2010	Q2 2009	1st half 2010	1st half 2009
Net sales		780.9	670.5	835.8	701.5	1616.7	1372.0
	<i>. 0</i>	16,5%	-10,4%	19,1%	-6,0%	17,8%	-8,2%
Gross operating profit before restructuring expenses		106.0	77.4	122.4	90.4	228.4	167.8
	<i>% of net sales</i>	13,6%	11,5%	14,6%	12,9%	14,1%	12,2%
Gross operating profit before restructuring expenses		69.5	41.9	84.7	54.5	154.2	96.4
	<i>% of net sales</i>	8,9%	6,2%	10,1%	7,8%	9,5%	7,0%

Net sales at June 30, 2010 amounted to a total of 1,616.7 million euro (+17.8% compared to the same period of 2009); the **operating profit** relative to **ordinary management before restructuring expenses** was 154.2 million euro, with 9.5% ROS, against 96.4 million euro of the same period of 2009, with a 7.0% ROS.

In the **second quarter** net sales amounted to 835.8 million (+19.1% compared to the same period of 2009), with higher margins than last year both in absolute value (operating profit before restructuring expenses at 84.7 million compared to 54.5 million in 2009) and in percentage terms, reaching an operating profit before restructuring expenses of 10.1% of net sales (2.3 percentage points higher than the same period of 2009).

In the half-year, both in the **Original Equipment** channel and in the **Spare Parts** channel, business activities have recovered compared to the same period of 2009. There has been growth in the Original Equipment channel in all areas of reference, with +22% for Europe, +73% for Nafta, and +17% for Mercosur; while for Spare Parts the change has been +11% for Europe, +8% for Nafta and +20% for Mercosur.

The overall increase in net sales volumes for Pirelli Tyre was 10.5%, with the addition of a positive variation in the price/mix variation of 5.0%, resulting in organic increase in net sales amounted to 15.5%. The positive exchange rate variation of 2.3% brought the overall increase in net sales to 17.8%.

Industrial Business

The following table shows the economic and financial results of the Industrial segment obtained in the second quarter of 2010, the progressive figures for the first half of the year, and comparison with the corresponding periods of 2009:

<i>(in millions of euro)</i>		Q1 2010	Q1 2009	Q2 2010	Q2 2009	1st half 2010	1st half 2009
Net sales		329.1	256.4	379.5	287.5	708.6	543.9
	9α	28,4%	-2200,0%	32,0%	-1630,0%	30,3%	-1910,0%
Gross operating profit before restructuring expenses		40.4	30.4	55.1	42.6	95.5	73.0
	% of net sales	12,3%	11,9%	14,5%	14,8%	13,5%	13,4%
Gross operating profit before restructuring expenses		28.6	19.1	42.4	31.0	71.0	50.1
	% of net sales	8,7%	7,5%	11,2%	10,8%	10,0%	9,2%

Net sales at June 30, 2010 amounted to a total of 708.6 million euro (+30.3% compared with the same period of 2009); the **operating profit of ordinary management before restructuring expenses** was 71.0 million euro, with 10.0% ROS, against 50.1 million euro of the same period of 2009, with 9.2% ROS.

In the **second quarter** net sales amounted to 379.5 million euro (+32.0 compared to the same period last year), reaching an operating profit before restructuring expenses equal to 42.4 million euro, against 31.0 million euro for the same period of 2009, with 11.2% ROS compared to 10.8% for the second quarter of 2009.

The market trend of the Industrial segment also recovered in both sales channels compared to the critical scenario of the first half of 2009, especially in the Mercosur area (+63% for Original Equipment and +23% for Spare Parts); the change was also positive in Europe, with +27% for Spare Parts and + 30% for Original Equipment. Overall net sales volumes for Pirelli Tyre are 16.9% more than in the first half of 2009 with a positive change in the price/mix component of 8.0%, bringing the overall increase in organic sales to 24.9%. A positive exchange effect of 5.4% gives final total growth in net sales of 30.3% compared to the corresponding period of 2009.

Outlook for the current year

The results of the first six months show significant growth in volumes which, together with wise use of the price/mix lever and of industrial efficiencies, allow for contrasting the increase in raw material costs and the trend of the exchange rates between the euro and the main currencies. If the markets maintain the positive trend, growth of net sales of up to 15% net of the exchange effect can be expected – an improvement on the over 10% forecast in May – and an absolute EBIT value of 360 million euro instead of the 320-330 million euro previously estimated.

PIRELLI ECO TECHNOLOGY

The consolidated data can be summarised as follows:

(in millions of euro)

	06/30/2010	06/30/2009	12/31/2009
Net sales	35.1	28.3	56.6
Gross operating profit	(2.3)	(4.4)	(9.1)
Operating profit	(3.5)	(5.5)	(10.8)
Financial income/(expenses)	(0.9)	(1.1)	(2.5)
Income tax	(0.6)	-	(0.4)
Net income	(5.0)	(6.6)	(13.7)
Net financial position: (liquidity)/debt	37.2	32.8	47.2
Employees (number at end of period)	282	283	284

Net sales at June 30, 2010 amount to 35.1 million euro, against 28.3 million euro in 2009; 20.2 million euro are for the GECAM product and 14.9 million euro for the Particulate Filter business.

Gross operating profit is negative at minus 2.3 million euro, although better than last year's figure of minus 4.4 million euro.

Operating profit is negative at 3.5 million euro, an improvement on the previous year loss of 5.5 million euro.

Profitability of the GECAM business is negatively affected by excise duties and the concentration of net sales volumes, and although the Particulate Filters business has increased (+77% compared to the first half of 2009), the result is negative because of the saturation of the factory in Romania and the investment for starting up business in China.

After deduction of financial expenses of 1.5 million euro, **net result** is a loss of 5.0 million euro.

Net financial position is negative for 37.2 million euro, showing a significant improvement on the 47.2 million euro at December 31, 2009, mainly due to the improved management of the working capital.

At June 30, 2010 **employees** were 282; this figure, excluding the workforce in Romania and China, is substantially in line with the figure at December 31, 2009.

GECAM – White Diesel

In the first half of 2010 sales volumes are 30% lower than those of the first half of 2009. The decrease regards mainly Italy (-46%), although this is partially compensated by the development of business in France (+6% more than the first half of 2009). Net sales are in line with the first half of 2009 due to the effect of an increase in average unit prices caused by the application of the new minimum Community excise duty.

Particulate filters.

In the first half year 3,457 Feelpure filtering systems have been sold (1,948 at June 2009) for a total of 14.9 million euro (8.2 million euro at June 2009). Revenues correspond to 42% of total net sales (29% in 2009) and are concentrated mainly in Italy.

Outlook for the current year

This year activity is mainly concentrated on developing and expanding the range of the Retrofits line (Feelpure filtering systems) and on the penetration of new markets. In the fourth quarter of this year Silicon Carbide Filters will be produced in China for the emerging local market. At present, a delay in reaching the set object of this business is predicted, essentially due to lower than expected sales volumes of both the Retrofit systems and the GECAM products.

PIRELLI BROADBAND ACCESS

The relevant data can be summarised as follows:

(in millions of euro)

	06/30/2010	06/30/2009	12/31/2009
Net sales	57.8	72.8	132.1
Gross operating profit	1.9	3.2	5.3
Operating profit	1.5	2.7	4
Financial income/(expenses)	2.5	0.7	0.3
Income tax	(0.2)	0.7	0.3
Net income	3.8	4.1	4.6
Net financial position: (liquidity)/debt	(24.3)	(31.9)	(35.7)
Employees (number at end of period)	139	123	128

Net sales at June 30, 2010 amount to 57.8 million euro, a decrease of 20.6% compared to the first six months of 2009 (72.8 million euro) essentially for lower volumes on the Italian market.

Gross operating profit is positive, for 1.9 million euro, slightly down from 3.2 million euro in the corresponding period of the previous year.

Operating profit is 1.5 million euro, compared to 2.7 million euro for the same period of last year. The negative trend is mainly attributable to lower net sale volumes only partially compensated by a positive effect of the product mix.

Net income is positive for 3.8 million euro (after financial income and taxes positive for 2.3 million euro) compared to a profit of 4.1 million euro for the first half of 2009 (after financial income and tax positive for 1.4 million euro).

At June 30, 2010, there were 139 **employees**, compared to a workforce of 128 at December 31, 2009.

Business performance

In spite of the general economic situation which is still substantially adverse and a significant fall in the demand for products on the part of the main customer Telecom Italia, the Company has closed the first six months of the year with a positive result, albeit lower than that of the first half of 2009, mainly thanks to the results of the diversification process carried out with success towards other operators and markets. In terms of product, developments are proceeding according to the industrial plan.

With regard to the portfolio of “**Networking**” products (including the Access Gateways and Extenders lines), in the first half of 2010 the results reflect the fact that the company is the first supplier to Swisscom of the new generation of the IAD product in VDSL2 technology; the company has also been selected by Telekom Austria as supplier of the same type of product.

Still within the sphere of applications for new generation ultra large band networks (“NGA” – Next Generation Access), Pirelli has been selected by Du, the operator of the Arab Emirates, for the supply of Access Gateways in fibre (FTTH) belonging to the platform produced and supplied also to Fastweb and Swisscom.

The growth trend in the high bracket of the market compensates the trend, visible in the case of other operators such as Telecom Italia, to shift the mix towards low bracket products as a result of the austere provisioning policies in the wake of the unfavourable financial situation.

However, also in the low bracket product lines we have created the conditions for maximising opportunities within the sphere of new global calls for tender, activated by the Telefonica Group, in coordination with Telecom Italia, through preparing a new product platform at low cost based on Broadcom chipset.

The first half year has, in any case, confirmed the validity of the company's foreign customer base created by the diversification process (the main customers now include BTC of Bulgaria, Telekom Serbia and Telecom Argentina) which, albeit through a mix of medium-low bracket products, has succeeded in expressing a stable demand in continuity with the growth trends of the respective national markets. Lastly, the first contracts of the Telefonica Group in Latin America have been signed in the half-year term, with an order in Brazil and another in Argentina.

With regard to the “**Multimedia**” product portfolio, including essentially the Set-top Box (STB) lines, in the first six months of the year the profitable collaboration has continued with Ericsson, as integrator of the IPTV solution, which has led to the selection of our product by Romtelecom (the main Romanian operator), as well as the recently concluded contract with OTE in Greece.

While on the Italian front there is sluggishness on the part of Telecom Italia for the Alice Home TV service, with consequent decrease in the expected STB demand levels for 2010, the development lines for renewal of the range of hybrid models (IPTV + Digital Terrestrial, IPTV + Satellite, IPTV + Internet TV) continue in line with the market trend which is already apparent in other European countries, which the company considers as a further opportunity for outlet expansion in the medium term.

With regard to the “**Software**” products portfolio, including the embedded applications (inbuilt into the product), the backend applications (localised on remote servers to allow for interaction with the embedded applications) and the professional services, development continues, recognised by the Company as a customer retention instrument, as valid support for the overall average profitability, and added value through the involvement of new market production and distribution chains. Following the direction indicated by these advanced products, with the launching of sales planned for 2011, the project development of the new software architecture EpicentroTM, embedded in the Pirelli Stacks continues, representing a new software platform for access gateways, and with the backend part representing service

applications which offer, in addition to the already existing PMP (“Pirelli Management Platform”), new “Portal” applications which can generate an integrated interface accessible to the user via the television set through our Set Box Top.

Outlook for the current year

This year the company is mainly concentrating on geographic and channel diversification, aiming to maintain its leading position on the CPE market through technological renewal of the products portfolio.

Certification and partnership procedures are in progress, which could develop commercially favourable opportunities deriving from sales through system integrators such as Ericsson.

The strategic innovation policy also continues with the creation of new value chains involving the new software architecture of Pirelli’s open, modular and expandable CPEs which are expected to answer the new emerging needs of fixed telephony operators.

OTHER BUSINESSES

Other business includes the Environment segment, the PZero S.r.l. company and all the Group's financial and services companies, including the Parent company.

In the first half of 2010, the Company's operating profit was negative at 21.9 million euro, compared to a loss of 15.2 million euro in the same period last year. The change is essentially due to non-repetitive costs relative to studies for defining the new organisational structure of the group and to the allocation of funds for a lawsuit linked to activities discontinued in the 1990s.

TREND OF ASSETS FROM DISCONTINUED OPERATIONS

PIRELLI & C. REAL ESTATE

The Company has continued to improve all its key performance indicators in the first half of 2010 relative to the same period in 2009. In terms of operating results, EBIT is Euro 17.9 million (- Euro9.2 million in the first half of 2009), while EBIT from service activities has climbed to Euro 11.2 million (- Euro 3.2 million in the same period of 2009). Given these results, the Company confirms all its EBIT and other financial targets for full year 2010.

A number of major transactions were completed during the period which, in keeping with the Group's business model, have increased the value of mandates to manage third-party assets by an estimated Euro 1.6 to Euro 2.2 billion between 2010 and 2012: 1) a portfolio worth Euro 0.6 billion for an international investor; 2) award of one of the two contracts tendered by Enasarco for the creation of a reserved real estate fund (for estimated AUM of between Euro 0.6 and Euro1 billion by 2012); 3) investment in the Fedora fund by certain pension providers for estimated AUM of between Euro 0.1 and Euro 0.3 billion by 2012; 4) the imminent official launch of the Anastasia Fund, due by the end of July, for Euro 0.3 billion in AUM.

Group performance in first half 2010

Consolidated revenues amount to Euro 135.1 million, up 16.7% from Euro 115.8 million in the first half of 2009.

EBIT has reached Euro 17.9 million, showing a strong improvement compared to the loss of Euro 9.2 million reported in the first half of 2009.

Service activities report a positive EBIT of Euro 11.2 million, marking a major improvement on the negative result of Euro 3.2 million in the same period of 2009. On the basis of this result, the Company confirms the previously announced full-year target of between +Euro 20 and +Euro 30 million.

Investment activities also report a positive result of Euro 6.7 million at June 30th, 2010 versus – Euro 6 million in the first half of 2009. This improvement is attributable to a lower impact from hedging derivatives and the disposal of non-strategic equity investments which had generated losses in the past.

Consolidated net result is a loss of Euro 20.9 million, more than halved compared with the loss of Euro 42.3 million in the first half of 2009. This result is almost entirely attributable to property write-downs of some Euro 18.3 million, versus write-downs of Euro 50.3 million in the first half of 2009, and positive adjustments following the adoption of IAS 40 of Euro 45.5 million (with a total negative impact of Euro 4.8 million).

Real estate sales amount to Euro 562.1 million in the first half of 2010 (Euro 351.9 million in the first half of 2009), reporting an overall positive margin on book value. Following the imminent launch of the Anastasia Fund, year-to-date sales will rise to Euro 771.3 million. On the basis of the current trend, the Company confirms the previously announced target for real estate sales in 2010 of between Euro 1.3 and Euro 1.5 billion.

Assets Under Management are valued at Euro 15.6 billion (of which Euro 14.1 billion in real estate and Euro 1.5 billion in NPLs) compared with Euro 16.0 billion at the end of December 2009. The proportion of non-invested real estate has risen from Euro 0.4 billion in December 2009 to Euro 1.0 billion at the end of June 2010.

With regard to the cost-saving plan, the Company has already achieved fixed cost savings of approximately Euro 25.4 million in the first half of 2010, thus reaching the full-year target range (Euro 25-Euro 30 million) six months early.

Group net equity is Euro 629.9 million at June 30th, 2010 (Euro 653.4 million at December 31st, 2009).

Net financial position reports net debt of Euro 61.8 million at June 30th, 2010 (net debt of Euro 41.3 million at December 31st, 2009 and Euro 55.3 million at March 31st, 2010).

Net financial position, excluding shareholder loans granted, reports net debt of Euro 452.3 million, compared with Euro 445.8 million at December 31st, 2010 (and Euro 458.6 million at March 31st, 2010). Gearing (given as the ratio between net financial position, excluding shareholder loans granted, and net equity) is unchanged with respect to December 31st, 2009 at 0.7.

Divisional performance in first half 2010

ITALY

Real estate sales amount to around Euro 460.9 million, almost double the figure of Euro 273.3 million in the same period of last year.

EBIT is a positive Euro18.0 million compared with a loss of Euro 3.6 million at June 30th, 2009. EBIT comprises Euro 15.2 million in net income from services (Euro 6.7 million in first half 2009) and Euro 2.8 million in net income from investment activities (- Euro10.3 million in 2009).

GERMANY

Real estate sales amount to Euro 76.6 million, up from Euro 55.1 million in the same period of last year.

EBIT is a positive Euro 7.1 million, well up on the Euro 1.8 million at June 30th, 2009. EBIT comprises Euro 2.8 million in net income from services (Euro 2.7 million in first half 2009) and Euro 4.3 million in net income from investment activities (- Euro 0.9 million in 2009).

POLAND

Real estate sales amount to around Euro 24.6 million, staying largely unchanged compared with Euro 23.5 million in the same period of last year.

EBIT is Euro 0.2 million compared with Euro 1.6 million at June 30th, 2009. EBIT comprises Euro 0.9 million in net losses from services (- Euro 0.1 million in first half 2009) and Euro 1 million in income from investment activities (Euro 1.7 million in 2009).

NPL

Collections of non performing loans amount to Euro 142.3 million compared with Euro 175.8 million in the same period of last year.

EBIT is negative (Euro 2.1 million) compared with Euro 1 million at June 30th, 2009. EBIT comprises - Euro 0.6 million in net losses from services (- Euro 2.4 million in first half 2009) and - Euro 1.5 million in net losses from investment activities (income of Euro 3.4 million in 2009).

Foreign subsidiaries not in the European Union (Non-EU Companies)

Pirelli & C. S.p.A. controls, directly or indirectly, a number of companies with registered offices in States which are not members of the European Community (Non-EU Companies)¹ which are of significant importance under the terms of Art. 36 of Consob Regulation 16191/2007 on control of the markets (“Market Regulations”).

Also for this reason, the Company has in place specific and appropriate “Group Operating Rules” which ensure immediate, constant and full compliance with the provisions contained in the said Consob Regulations²

Under the terms of the said Operating Rules, the competent corporate functions of the Parent Company, precisely and periodically identify and disclose all non-EU companies significant under the Market Regulations, and – with the necessary and timely collaboration of the companies involved – guarantee collection of the data and information and verification of the circumstances as required by Article 36, ensuring that the information and figures provided by the subsidiaries are available in the event of a request by Consob. Furthermore, a regular flow of information is provided for in order to ensure that the Board of Statutory Auditors of the Company can carry out the required and appropriate audits. Finally, the above “Operating Rules”, in keeping with the regulatory provisions, prescribe how the financial statements (the balance sheet and income statement) of significant non-EU companies prepared for the purpose of the consolidated financial statements are to be made available to the public.

It can therefore be stated that the company has fully complied with the provisions of Article 36 of the aforementioned Consob Regulation 16197/2007 and that the conditions required by the same have been fulfilled.

¹ Non-EU companies controlled, directly and indirectly, by Pirelli & C. S.p.A., significant under Article 36 of the Market Regulations are: Pirelli Pneus Ltda; Pirelli Tire LLC; Pirelli Tyre (Suisse) Sa (ex Pirelli Tyre (Europe) S.A. - Svizzera); Pirelli Tyre Co. Ltd; Turk Pirelli Lastikleri A.S. and Pirelli de Venezuela CA (Venezuela)

² It should be noted that even before adoption of the aforementioned “Operating Rules” the administrative, accounting and reporting systems in place in the Pirelli Group already enabled the Companies to be substantially in line with the requirements of the regulatory prescriptions.

HALF YEARLY REPORT ON CORPORATE GOVERNANCE AND SHARE OWNERSHIP

Pirelli & C. has adhered to the Self Regulatory Code of Borsa Italiana³ since it was first issued. In the March 2007, it formalised its adhesion to the new release of the same Code⁴.

The Company is aware of the importance of an efficient and effective Corporate Governance system in fulfilling its objective of creating value and making progress in sustainable development, and this induces the Company to keep its own corporate governance system constantly in line with national and international best practices.

The Company adopts the traditional administration and control model, founded on the central role of the Board of Directors, on the presence of consolidated disclosure practices regarding the choices and the procedures for decision-making within the Company, on an effective system of internal controls, on effective rules about potential clashes of interest and on an adequate code of conduct for transactions with related parties.

The system of governance is documented in the Code of Ethics, the Company Bylaws, the regulations regarding shareholders' meetings, and a series of principles, rules and procedures (periodically updated and available on the Company website)⁵ and in the approach and policies of the Board of Directors.

In accordance with best practice, Pirelli is publishing this Half Yearly Report on Corporate Governance and Share Ownership (the "Report") to inform about the principal amendments and additions made in the first half of the financial year to the date of this report, to the corporate governance system as described in the Annual Report on Corporate Governance published with the financial statements.

³ Published in July 2002.

⁴ Published in March 2006, an updated version of which is available on the website www.borsaitaliana.it

⁵ Cf. www.pirelli.com, *Governance* section

On 15 July 2010 the shareholders meeting resolved to reduce the share capital by 178,813,982.89 euros. Regarding this, it should in fact be recalled that the transaction to separate Pirelli RE from the Pirelli Group by assigning almost all the ordinary shares of Pirelli & C. Real Estate S.p.A. held by the Company, equivalent to approximately 58% of the share capital, to the shareholders of Pirelli & C. S.p.A. to be implemented by reducing the share capital by an amount equivalent to the value of the shareholding in Pirelli & C. Real Estate, determined, in turn, by the official price of the Pirelli RE shares (0.367 euro) on July 14 2010, the Italian Stock Exchange trading date immediately before the Shareholders' Meeting .

The execution of the capital reduction transaction may only take place, pursuant to article 2445, subsection 3 of the Italian Civil Code, once a period of ninety days has elapsed since the resolution of the Extraordinary Shareholders' Meeting of Pirelli & C. was registered in the Business Register, provided that no creditor of the company prior to the registration has opposed the operation within this period. Pursuant to article 2445, subsection 4 of the Italian Civil Code, if oppositions are filed within this period, the Court may order that the transaction should still take place if it believes the detriment for the creditors is unfounded or if the Company has provided suitable guarantee.

The same Shareholders' Meeting of July 15, 2010 also resolved:

- the cancellation of the par value of the ordinary and savings shares of the Company, which thus will remain unexpressed;
- the reverse split of the ordinary and savings shares of the Company in the ratio of 1 new ordinary or savings share for every 11 shares of the same category held, after cancellation of 1 ordinary share and 8 savings shares with a corresponding reduction in capital of 2.61 euro, solely for the purpose of completing the reverse split operation. (the reverse split operations started on July 26, 2010).

After the reverse split and cancellation of the par value, the share capital of Pirelli & C., equal to 1,556,692,862.67 euro, is composed of a total of 487,991,493 shares with no declared par value, of which 475,740,182 (1,517,611,180.58 euro) ordinary shares and 12,251,311 (39,081,682.09 euro) savings shares.

As a consequence of the aforementioned resolutions, the meeting, among other things, resolved to amend article 18 of the Company Bylaws concerning the distribution of profits. In particular, it specifies that the net annual profits are divided as follows, after the legal allocations have been made: a) savings shares are attributed a sum totalling seven percent of 3.19 euro; if a dividend of less than seven percent of 3.19 euro has been assigned to the savings share in a financial year, the difference is calculated by increasing the privileged dividend in the two subsequent years; the profits remaining after assignment of the above dividend to the savings shares are split between all the shares so that the savings shares are entitled to a total dividend that is two percent of 3.19 euro higher than the dividend payable to the ordinary shares; b) without prejudice to the above provisions concerning the increased total dividend payable on savings shares, ordinary shares are attributed a sum totalling five percent of their accounting parity value (understood to be the total share capital divided by the total number of shares issued).

The remaining profits will be distributed to all the shares, in addition to the sums assigned as described in letters a) and b) above, unless the shareholders' meeting should decide to approve the Board's proposal to make special allocations to extraordinary reserves or other uses, or should carry forward part of said share of the profits.

As already described in the Annual Report on Corporate Governance, the Shareholders' Meeting of April 21, 2010 approved some modifications to the bylaws related to the introduction, into Italian Law, of the regulations implementing Directive 2007/36/EC of the European Parliament and of the Council of July 11, 2007 on the exercise of certain rights of shareholders in listed companies.

Specifically, the Shareholders' Meeting approved the proposal to modify subsection 4 of article 7 of the Company bylaws, specifying that the shareholders' meeting to approve the financial statements may be called – pursuant to article 2364 of the Italian Civil Code – within 180 days of the end of the financial year.

The Shareholders' Meeting also approved the proposal to reduce (from 2% to 1.5%) the share capital rate required by the Bylaws for the submission of slates for the renewal of the Board of Statutory Auditors, for the purpose of further facilitating the submission of lists by "minorities".

The Company took note of the provisions of Legislative Decree 39/2010 (the so-called Consolidated Audit Law, which implemented Directive 2006/43/CE on statutory audits of the annual accounts and consolidated accounts in Italy. In particular, the Company immediately implemented the provisions that came into force after the ordinary *vacatio legis*⁶, acknowledging that the full effectiveness of many of the other provisions of the aforementioned Consolidated Law depends on the issue of implementing regulations, and that the provisions that have governed the matter up to now continued to be applied, insofar as they were compatible.

Although the Committee for Internal Control is an internal advisory body of the Board of Directors, and the Board of Statutory Auditors is itself a control body, it nevertheless proved necessary to coordinate the activity of the two bodies even before the Consolidated Law comes into force.

In this sense, Pirelli has for some time expected the entire Board of Directors to have the right to participate in the activities of the Committee for Internal Control. The Board of Directors and the Board of Statutory Auditors agreed that the exchange of information between the two bodies already permits effective coordination.

External auditors Reconta Ernst & Young S.p.A. informed the Company that starting from June 25, 2010 Mr. Pietro Carena replaced of Mr Pellegrino Libroia as partner responsible for the external audit of Pirelli & C. S.p.A..

After the Consob Regulation on transactions with related parties, the Company immediately started the research necessary to draft the procedures prescribed in this Regulation and the Board of Directors, having determined that its composition is coherent with the requirements of the Regulation, has identified the Committee for Control Risks and Corporate Governance as the committee called on to express an opinion of the procedure itself and, subsequently, on the transactions that exceed a specific threshold of relevance.

⁶ the deferment of the coming into force of a law

The work to implement the “new” model for managing company risks which was extensively reported on in the Annual Report on Corporate Governance and Share Ownership continues. In particular, the risk assessment activity started by the Risk Management Committee is reaching completion; subject to the approval of the Committee for Control Risks and Corporate Governance, this will lead to the formulation of the Annual Risk Assessment and Management Plan.

The tools and arrangements for managing the risks of the characteristic activity of the company have been illustrated to all directors in a specific extra-board work session, taking an important business profile, raw materials procurement, as an example.

Lastly, it seems opportune to give an account of the evolution of the criminal proceedings pending before the Milan Court, involving two ex-managers of the of Security division of the Company, as explained in previous Corporate governance Reports, and which has been constantly monitored by the Board of Directors and the Committee for Internal Control, Risks and Corporate Governance, together with the Board of Statutory Auditors and the Supervisory Body.

In particular, the Judge for the Preliminary Hearing in Milan has declared his approval of the application for settlement proposed by the Company with the consent of the Office of the Public Prosecutor.

THE GROUP

**CONDENSED INTERIM FINANCIAL
STATEMENTS
AT JUNE 30, 2010**

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CONSOLIDATED BALANCE SHEET (in thousands of euro)

	06/30/2010		12/31/2009	
		of which related parties		of which related parties
3 Property, plant and equipment	1,867,212		1,727,391	
4 Intangible assets	850,158		1,047,474	
5 Equity investments in associates and joint ventures	131,586		593,237	
6 Other financial assets	173,335		228,106	
7 Deferred tax assets	72,339		91,164	
9 Other receivables	162,473	215	557,230	395,220
Tax receivables	10,810		9,578	
Non-current assets	3,267,913		4,254,180	
10 Inventories	669,812		678,977	
8 Trade receivables	791,075	6,914	735,792	91,484
9 Other receivables	253,987	1,795	197,144	19,094
11 Securities held for trading	136,394		161,024	
12 Cash and cash equivalents	334,507		632,113	
Tax receivables	43,428		41,464	
20 Derivative financial instruments	71,223		26,567	
31 Assets held for distribution to shareholders	1,232,942	493,853		
Current assets	3,533,368		2,473,081	
Total Assets	6,801,281		6,727,261	
13.1 Equity attributable to equity holders of the Group:	2,004,894		2,175,023	
- Share capital	1,554,269		1,554,269	
- Reserves related to continuing operations	655,029		598,009	
- Reserves related to assets/liabilities held for distribution to shareholders	(38,917)		-	
- Net income for the period	(165,487)		22,745	
13.2 Equity attributable to minority interests:	311,415		319,648	
- Reserves	321,498		364,979	
- Net income for the period	(10,083)		(45,331)	
13 Total equity	2,316,309		2,494,671	
17 Borrowings from banks and other financial institutions	1,012,759		1,505,805	
19 Other payables	37,435		34,008	2,608
15 Provisions for liabilities and charges	159,553		167,793	
7 Deferred tax liabilities	42,341		44,000	
16 Provisions for employee benefits	484,074		451,880	
Tax payables	16,810		10,037	
Non-current liabilities	1,752,972		2,213,523	
17 Borrowings from banks and other financial institutions	267,272	352	289,305	2,473
18 Trade payables	994,606	666	987,873	24,067
19 Other payables	379,129		491,035	10,798
15 Provisions for liabilities and charges	117,082		130,783	3,279
Tax payables	65,280		43,918	1,080
20 Derivative financial instruments	111,201		76,153	
31 Liabilities associated with assets held for distribution to shareholders	797,430	48,007		
Current liabilities	2,732,000		2,019,067	
Total Liabilities and equity	6,801,281		6,727,261	

The accounting items in respect of related party transactions are presented in Note 34 of the Explanatory Notes to which the reader is referred.

CONSOLIDATED INCOME STATEMENT (in thousands of euro)

	1st half 2010		1st half 2009	
		of which related parties		of which related parties
22 Revenues from sales and services	2,426,451	2,312	2,026,164	3,296
23 Other income	58,920	204	74,011	
Change in inventories of work in process, semi-finished and finished products	(16,608)		(81,846)	
Raw materials and consumables (net of change in inventories)	(911,785)		(652,263)	
24 Personnel expenses	(512,654)	(1,425)	(436,368)	(1,826)
- of which non-recurring events	(7,908)		(9,726)	
25 Amortization, depreciation and impairments	(106,023)		(100,391)	
26 Other expenses	(746,087)	(11,452)	(711,708)	(7,966)
Increase in property, plant and equipment from internal work	1,171		1,253	
Operating income	193,385		118,852	
27 Net income from equity investments	(4,047)		(6,947)	
- share of net income of associates and joint ventures	(3,246)	(3,246)	(2,068)	(2,068)
- gains on equity investments	15		15,385	
- losses on equity investments	(3,742)		(27,053)	
- dividends	2,926		6,789	
28 Financial income	172,598		214,653	524
29 Financial expenses	(210,642)		(253,087)	
Net income before income taxes	151,294		73,471	
30 Income taxes	(70,492)		(43,091)	
Net income from continuing operations	80,802		30,380	
31 Net income from discontinued operations	(256,372)	28,395	(42,737)	25,282
Net income for the period	(175,570)		(12,357)	
Attributable to:				
Equity holders of the parent company	(165,487)		6,334	
Minority interests	(10,083)		(18,691)	
32 Earnings/(losses) per share (euro per thousand shares)				
basic earnings per share				
- continuing operations	15.42		5.76	
- discontinued operations	(46.28)		(4.58)	
	(30.86)		1.18	

The accounting items in respect of related party transactions are presented in Note 34 of the Explanatory Notes to which the reader is referred

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands of euro)

		1st half 2010		
		Gross	Income taxes	Net
A	Net income for the period			(175,570)
	Other components recognised in equity:			
	Portion of (gains)/losses on associates and joint ventures transferred to income statement, previously recognised directly in equity	1,591	-	1,591
	(Gains)/losses on other financial assets transferred to income statement, previously recognised in equity	353	-	353
	(Gains)/losses on cash flow hedges transferred to income statement, previously recognised directly in equity	3,908	(1,094)	2,814
B	(Gains)/losses transferred to income statement previously recognised directly in equity	5,852	(1,094)	4,758
	Exchange differences from translation of foreign financial statements	148,919	-	148,919
	Adjustment to fair value of other financial assets	(35,145)	(34)	(35,179)
	Net actuarial Gains/(losses) on employee benefits	(27,000)	4,112	(22,888)
	Adjustment to fair value of derivatives designated as cash flow hedges	(14,523)	5,039	(9,484)
	Share of other components recognised in equity related to associates and joint ventures	(5,959)	61	(5,898)
C	Income/(losses) recognised directly in equity in the period	66,292	9,178	75,470
B+C	Total other components recognised in equity	72,144	8,084	80,228
A+B+C	Total Comprehensive income/(losses)			(95,342)
Attributable to:				
	- Equity holders of the company			(89,867)
	- Minority interests			(5,475)

(in thousands of euro)

		1st half 2009		
		Gross	Income taxes	Net
A	Net income for the period			(12,357)
	Other components recognised in equity:			
	(Gains)/losses on available for sale financial assets transferred to income statement, previously recognised in equity	(792)	-	(792)
	(Gains)/losses on cash flow hedges transferred to income statement, previously recognised directly in equity	(2,086)	-	(2,086)
B	(Gains)/losses transferred to income statement previously recognised in equity	(2,878)	-	(2,878)
	Exchange differences from translation of foreign financial statements	42,731	-	42,731
	Changes in fair value on available-for-sale financial assets	22,139	-	22,139
	Net actuarial gains/(losses) on employee benefits	(29,284)	2,480	(26,804)
	Adjustment to fair value of derivatives designated as cash flow hedges	(6,453)	2,117	(4,336)
	Share of other components recognised in equity related to associates and joint ventures	(14,692)	389	(14,303)
C	Income/(losses) recognised directly in equity in the period	14,441	4,986	19,427
B+C	Total other components recognised in equity	11,563	4,986	16,549
A+B+C	Total Comprehensive income/(losses)			4,192
Attributable to:				
	- Equity holders of the company			30,670
	- Minority interests			(26,478)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of euro)

	Attributable to the Parent Company						Minorities	Total
	Share capital	Translation reserve	Total IAS Reserves (*)	Other reserves/ Retained earnings	Reserves relating to assets/liabilities held for distribution to shareholders	Total attributable to the Parent Company		
Total at 12/31/2009	1,554,269	25,234	(346,227)	941,747		2,175,023	319,648	2,494,671
Total other components recognised in equity	-	142,497	(66,876)	-	-	75,621	4,608	80,229
Net income for the period	-	-	-	(165,487)	-	(165,487)	(10,083)	(175,570)
Total income/(losses)	-	142,497	(66,876)	(165,487)	-	(89,866)	(5,475)	(95,341)
Reserves relating to assets/liabilities held for distribution to shareholders	-	930	37,987		(38,917)	-	-	-
Payment of dividends	-	-	-	(81,114)	-	(81,114)	(3,968)	(85,082)
Other	-	-	(447)	1,298	-	851	1,210	2,061
Total at 06/30/2010	1,554,269	168,661	(375,563)	696,444	(38,917)	2,004,894	311,415	2,316,309

(in thousands of euro)

	DETAILS OF IAS RESERVES (*)						Total IAS reserves
	Reserve for adjustment to FV of available-for-sale financial assets	Reserve for cash flow hedges	Reserve for actuarial gain s/losses	Reserve for equity settled stock options	Reserve for deferred taxes		
Balance at 12/31/2009	57,755	(60,778)	(383,893)	3,500	37,189	(346,227)	
Total other components recognised in equity	(34,999)	(13,056)	(26,945)	-	8,124	(66,876)	
Reserves relating to assets/liabilities held for distribution to shareholders	440	38,994	-	-	(1,447)	37,987	
Other movements	-	-	-	(447)	-	(447)	
Balance at 06/30/2010	23,196	(34,840)	(410,838)	3,053	43,866	(375,563)	

	Attributable to the Parent Company						Minorities	Total
	Share capital	Translation reserve	Total IAS Reserves (*)	Other reserves/ Retained earnings	Total attributable to the Parent Company			
(in thousands of euro)								
Total at 12/31/2008	1,554,269	(15,422)	(292,214)	925,171	2,171,804	202,558	2,374,362	
Total other components recognised in equity	-	44,304	(19,968)	-	24,336	(7,787)	16,549	
Net income for the period	-	-	-	6,334	6,334	(18,691)	(12,357)	
Total income/(losses)	-	44,304	(19,968)	6,334	30,670	(26,478)	4,192	
Payment of dividends	-	-	-	-	-	(2,313)	(2,313)	
Purchase of Tyres minorities	-	-	-	-	-	(7,366)	(7,366)	
Other	-	-	(1,173)	807	(366)	1,110	744	
Total at 06/30/2009	1,554,269	28,882	(313,355)	932,312	2,202,108	167,511	2,369,619	

	DETAILS OF IAS RESERVES (*)						Total IAS reserves
	Reserve for adjustment to FV of available-for-sale financial assets	Reserve for cash flow hedges	Reserve for actuarial gain s/losses	Reserve for equity settled stock options	Reserve for deferred taxes		
(in thousands of euro)							
Balance at 12/31/2008	17,323	(37,983)	(297,339)	3,500	22,285	(292,214)	
Total other components recognised in equity	21,222	(16,930)	(28,929)	-	4,669	(19,968)	
Other movements	(450)	136	(441)	(144)	(274)	(1,173)	
Balance at 06/30/2009	38,095	(54,777)	(326,709)	3,356	26,680	(313,355)	

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of euro)

	1st half 2010		1st half 2009	
		of which related parties		of which related parties
Net income from continuing operations before taxes	151,294		73,471	
Amortization, depreciation, impairment losses and reversals of PPE and intangible assets	106,023		100,391	
Reversal of Financial expenses	210,642		253,087	
Reversal of Financial income	(172,598)		(214,653)	
Reversal of Dividends	(2,926)		(6,789)	
Gains/(losses) on equity investments	3,727		11,668	
Share of net income from associates and joint ventures (net of dividends received)	3,246		2,068	
Income taxes	(70,492)		(43,091)	
Change in inventories	(87,472)		181,261	
Change in Trade receivables/payables	(58,190)		(390,880)	
Change in Other receivables/payables	(546)		22,356	
Change in Provisions for employee benefits and Other provisions	39,735		6,292	
Other changes	(2,686)		(6,538)	
A Net cash flows provided by/(used in) operating activities	119,757		(11,357)	
Investments in Property, plant and equipment	(137,812)		(71,598)	
Disposals of Property, plant and equipment including gains/losses	10,150		12,438	
Investments in Intangible assets	(1,052)		(1,342)	
Disposals of Intangible assets including gains/losses	-		120	
Acquisition of Equity investments in associates and joint ventures	(2,057)		(6,294)	
Acquisition of Other financial assets	(1,510)		(1,427)	
Disposal of Other financial assets	-		111,641	
Dividends received	2,926		6,789	
B Net cash flows provided by/(used in) investing activities	(129,354)		50,327	
Change in Financial payables	(36,726)		(107,396)	
Change in Financial receivables	(80,099)		80,317	
Financial income/(expenses)	(38,044)		(38,434)	
Dividends paid	(85,082)	(20,763)	(2,313)	
C Net cash flows provided by/(used in) financing activities	(239,951)		(67,825)	
Net cash flows provided by/(used in) operating activities	(5,759)		(4,816)	
Net cash flows provided by/(used in) investing activities	2,256		(20,660)	
Net cash flows provided by/(used in) financing activities	(5,295)		48,429	
D Total cash flows from discontinued operations	(8,798)		22,953	
E Total cash flows provided/(used) in the period (A+B+C+D)	(258,345)		(5,902)	
F Cash and cash equivalents at beginning of the period (see Note 12)	610,779		227,077	
G Exchange differences on translation of cash and cash equivalents	(17,664)		200	
H Cash and cash equivalents at end of the period (E+F+G) (see Note 12)	334,770		221,375	

The Statement of Cash Flows shows transactions with related parties only if they cannot be directly deduced from the other statements.

The accounting items in respect of related party transactions are presented in Note 34 of the Explanatory Notes to which the reader is referred

The reconciliation between cash and cash equivalents recorded in the statement of financial position and cash and cash equivalents in the statement of cash flows is presented in Note 12.

EXPLANATORY NOTES

The condensed interim financial statements at June 30, 2010 of Pirelli & C S.p.A. were approved by the Board of Directors of Pirelli & C. S.p.A. on July 29, 2010.

1. BASIS FOR PRESENTATION

Under the terms of Art. 154 ter of Legislative Decree 158/1998, the Pirelli & C. Group prepared the interim financial statements in accordance with IAS 34, which regulates interim financial reporting, in a condensed form.

The Group also applied the provisions of Consob Ruling No. 15519 of July 27, 2006 on financial statement formats and of Consob Communication No. 6064293 of July 28, 2006 on corporate disclosures.

In conformity with the provisions of Art. 5, clause 2 of Legislative Decree 38 of February 28, 2005, the present financial statements have been prepared using the euro as the presentation currency.

Accounting standards

The accounting standards adopted are the same as those adopted in the preparation of the consolidated financial statements at December 31, 2009, with the exception of the standards and interpretations listed below, which are applicable from January 1, 2010:

- IFRIC 12 – Service Concession Arrangements

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

There are no impacts on the consolidated financial statements resulting from application of this interpretation.

- IFRIC 15 - Agreements for the Construction of Real Estate

This interpretation provides guidance on how to determine whether an agreement for the construction of real estate units is within the scope of IAS 11 “Construction Contracts” or of IAS 18 “Revenue”, defining the moment when the revenue must be recognised.

In the light of this interpretation residential development comes within the scope of application of IAS 18 “Revenue” entailing recognition of the revenue on completion of sale; construction service work, if carried out on the basis of the client’s technical specifications, comes within the scope of application of IAS 11 “Construction Contracts”.

There are no significant impacts on the financial statements resulting from the application of this interpretation, as the accounting treatment already applied today by the Group is in line with the above amendments.

- **IFRIC 16 - Hedges of a Net Investment in a Foreign Operation**

This interpretation clarifies certain issues relating to the accounting treatment, in consolidated financial statements, of hedges of net investments in foreign operations, specifying which types of risks have the requisites for application of hedge accounting. In particular, it states that hedge accounting is only applicable to exchange rate differences arising between the functional currency of the foreign entity and the functional currency of the parent, and not between the functional currency of the foreign entity and the presentation currency of the consolidated financial statements.

There are no impacts on the Group's financial statements following the application of this interpretation.

- **IFRIC 17 – Distributions of Non-cash Assets to Owners**

This interpretation clarifies that:

- dividend payables should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity;
- dividend payables should be measured at the fair value of the net assets to be distributed;
- the difference between the dividends paid and the carrying amount of the net assets distributed should be recognised in the income statement.

The operation for assigning the investment in Pirelli Real Estate S.p.A. to shareholders, completion of which is planned during the fourth quarter of 2010, will be recognized in accordance with this interpretation, as described also in Note 31 below.

- IFRIC 18 – Transfers of assets from customers

This interpretation is particularly significant for companies operating in the utilities sector and clarifies the requisites that must be observed if agreements are entered into, on the basis of which an entity receives from a customer an asset that the entity itself uses to connect the customer to a network or to ensure the customer ongoing access to the provision of goods and services (for example, the supply of electricity, water or gas).

There are no impacts on the Group's financial statements following the application of this interpretation.

- Revision of IFRS 3 “Business Combinations”

The main changes from the previous version of IFRS 3 relate to:

- recognition in the income statement - when incurred - of expenses relating to business combination transactions (legal, advisory, valuation and audit fees and professional fees in general);
- the option of recognizing minority interests at fair value (full goodwill); this option can be chosen for each individual business combination;
- specific rules for the recognition of step acquisitions: in the case of the acquisition of control of a company in which a minority interest is already held, the investment held previously must be measured at fair value through profit and loss;
- contingent consideration, that is, the obligations of the purchaser to transfer additional assets or shares to the seller if certain future events occur or specific conditions are fulfilled, should be recognized and measured at fair value at the date of acquisition. Subsequent changes in the fair value of such agreements are normally recognized in the income statement.

There are no impacts on the Group's financial statements deriving from the introduction of the new standard.

- Amendments to IAS 27 “Consolidated and Separate Financial Statements”

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

- changes in equity interests in a subsidiary, which do not entail the loss of control, qualify as equity transactions. In other words, the difference between the price paid/received and the share of net assets acquired/sold must be recognised in equity;
- in the event of the loss of control, but where an interest is retained, this interest must be measured at fair value at the date on which the loss of control occurs.

There are no impacts on the Group’s financial statements deriving from the introduction of the new standard.

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

This amendment illustrates and clarifies what can be designated as a hedged item in certain specific situations:

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

There are no significant impacts on the Group’s financial statements following the application of the above amendments.

- “Improvements” to the IFRSs (issued by the IASB in April 2009)

Under the project begun in 2007, the IASB has issued a series of amendments to the 12 standards in force. The following table summarises the standards and issues dealt with by these amendments:

IFRS	Subject of the amendment
IFRS 2 – Share-based Payment	Scope of IFRS 2 and revised IFRS 3
IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations	Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations
IFRS 8 – Operating Segments	Disclosure of information about segment assets
IAS 1 – Presentation of Financial Statements	Current/non-current classification of convertible instruments
IAS 7 – Statement of Cash Flows	Classification of expenditures on unrecognised assets
IAS 17 – Leases	Classification of leases of land and buildings
IAS 18 – Revenue	Determining whether an entity is acting as an agent (for example, it is not exposed to significant risks and benefits associated with the transaction) or as a principal (for example, it is exposed to significant risks and benefits associated with the transaction)
IAS 36 – Impairment of Assets	Dimension of the cash generating unit for performing impairment test
IAS 38 – Intangible Assets	<ul style="list-style-type: none"> • Additional consequential amendments arising from revised IFRS 3 • Measuring the fair value of an intangible asset acquired in a business combination
IAS 39 – Financial Instruments: Recognition and Measurement	<ul style="list-style-type: none"> • Treating loan prepayment penalties as closely related embedded derivatives • Scope exemption for business combination contracts • Cash flow hedge accounting: accounting treatment of gains/losses in relation to the hedging instrument
IFRIC 9 – Reassessment of Embedded Derivatives	Scope of IFRS 9 and revised IFRS 3
IFRIC 16 - Hedges of a Net Investment in a Foreign Operation	Amendment to the restriction on the entity that can hold hedging instruments.

There are no significant quantitative impacts on the Group’s financial statements following the application of the above amendments.

- Amendments to IFRS 2 – Share-based Payment

These amendments aim to clarify the accounting treatment of cash-settled stock option plans in the financial statements of a subsidiary, if benefits are paid to employees by the parent company or another Group entity other than that in which the employees work. These amendments include guidelines set forth previously in IFRIC 8 “Scope of IFRS 2” and IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions”, which have therefore been withdrawn.

There are no effects on the Group’s financial statements because these amendments are not applicable to the Group.

International accounting standards and/or interpretations issued but not yet effective and/or not yet endorsed

New Standards or Interpretations already issued, but which are not yet effective or have not been endorsed by the European Union and which are therefore not applicable are indicated and described briefly below.

None of these Standards and Interpretations has been early adopted by the Group.

- Amendments to IAS 32 - Financial Instruments: Presentation – Classification of Rights Issues

These changes relate to the issue of rights – such as options and warrants – denominated in a currency other than the issuer's functional currency. Previously, these rights issues were recognized as derivative financial liabilities. Now, if certain conditions are met, these rights issues can be classified as equity instruments regardless of the currency in which the exercise price is denominated. These amendments were endorsed by the European Union in December 2009 (EC Regulation No. 1293/2009), and apply with effect from January 1, 2011. No significant quantitative effects are expected on the Group's financial statements following the future application of the above amendments.

- Amendments to the revised IFRS 1 – First-time adoption of the IFRSs - additional exemptions in the case of first-time adoption

These changes govern the retrospective application of the IFRSs in some particular cases and their aim is to avoid excessive costs and efforts in the process of transition to the IFRSs.

These amendments were endorsed by the European Union in June 2010 (EC Regulation No. 550/2010), and apply with effect from January 1, 2010. They will have no effect on the Group's consolidated financial statements.

- Amendments to the revised IFRS 1 – First-time Adoption of the IFRSs - exemptions limited to the comparative disclosure provided for in IFRS 7 in the case of first-time adoption

This change exempts from providing - on first-time adoption of the IFRSs - comparative data for the additional disclosures required by IFRS 7 in relation to the measurement of fair value and liquidity risk.

These amendments were endorsed by the European Union in June 2010 (EC Regulation No. 574/2010), and apply with effect from January 1, 2011. They will have no effect on the Group's consolidated financial statements.

- Revised IAS 24 – Disclosure of related party transactions

The revised IAS 24 simplifies the disclosure requirements regarding related parties when state-controlled entities are involved and provides a new, simplified and more coherent definition of related parties.

This standard was endorsed by the European Union in July 2010 (EC Regulation No. 632/2010), and applies with effect from January 1, 2011. No significant impacts are expected on the disclosures provided by the Group following the future application of the above standard.

- Amendments to IFRIC 14 – Prepayments of minimum funding requirements

The amendments to IFRIC 14 govern the rare case in which an entity, subject to minimum funding requirements in relation to defined-benefit plans, makes prepayments to guarantee these limits. The benefits deriving from prepayments may be recognized as assets.

These amendments to IFRIC 14 were endorsed by the European Union in July 2010 (EC Regulation No. 633/2010), and apply with effect from January 1, 2011. These amendments are not applicable to the Group.

- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

This interpretation provides guidelines on how to account for the extinguishing of a financial liability through the issue of equity instruments (debt for equity swap), that is when an entity renegotiates the terms of a debt with its lender which agrees to receive shares of the entity or other equity instruments to settle the debt in full or in part.

The interpretation clarifies that:

- the shares issued are part of the consideration paid to extinguish the financial liability;
- the shares issued are carried at fair value. If the fair value cannot be determined reliably, the equity instruments issued must be measured in such a way as to reflect the fair value of the liability extinguished;
- the difference between the carrying amount of the financial liability being extinguished and the initial value of the shares issued must be recognized by the entity in the income statement of the period.

This interpretation, which is expected to come into force on July 1, 2010, has not yet been endorsed by the European Union and no effects on the Group's financial statements are expected following its application.

- IFRS 9 – Financial Instruments

IFRS 9 represents the completion of the first of three stages of the planned replacement of IAS 39 Financial Instruments: Recognition and Measurement, with the main aim of reducing its complexity. The second stage of the project is concerned with impairment of financial instruments and culminated in the issue of an Exposure Draft in November 2009. The issue of the final standard is planned for the end of 2010. The third stage is concerned with hedge accounting and will culminate in an Exposure Draft which will be issued in the third quarter of 2010.

The scope of IFRS 9 was restricted to financial assets only: for the classification and measurement of financial liabilities the reference remains for the moment IAS 39.

The main changes introduced by IFRS 9 can be summarized as follows:

- financial assets can be classified in only two categories - at fair value or at amortized cost. The categories of loans and receivables, available-for-sale financial assets and financial assets held to maturity are therefore eliminated. Classification within the two categories is made on the basis of the entity's business model and on the basis of the features of the cash flows generated by the assets themselves.

Financial assets are measured at their amortized cost if both the following requisites are met: the entity's business model envisages that financial assets are held to collect their cash flows (thus, substantially, not to make trading profits) and the characteristics of the cash flows of the assets correspond only to payment of principal and interest. Otherwise financial assets must be measured at fair value;

- the accounting rules for embedded derivatives have been simplified: separate accounting for the embedded derivative and the "host" financial asset is no longer required;
- all equity instruments – both listed and unlisted - must be measured at fair value. IAS 39 stated instead that, if fair value could not be determined reliably, unlisted equity instruments had to be measured at cost;

- the entity has the option of presenting in net equity any changes in the fair value of equity instruments not held for trading, while for those held for trading this option is not forbidden. This designation is permitted at the moment of initial recognition, may be adopted for a single security and is irrevocable. If this option is taken, the fair value changes of such instruments can never be reclassified from equity to profit or loss. Dividends instead continue to be recognized through profit or loss;
- IFRS 9 does not allow reclassifications between the two categories of financial assets except in rare cases in which there is a change in the entity's business model. In this case the effects of the reclassification are applied prospectively;
- the disclosure required in the notes has been adapted to the classification and to the measurement rules introduced by IFRS 9.

The process of endorsement of IFRS 9, which is expected to come into force on January 1, 2013, has been suspended for now. At the moment the effects deriving from future application of the standard are not quantifiable.

- “Improvements” to the IFRSs (issued by the IASB in May 2010)

Under the project begun in 2008, the IASB has issued a series of amendments to the 8 standards in force.

The following table summarises the standards and issues dealt with by these amendments:

IFRS	Subject of the amendment
IFRS 3 – Business Combinations	<ul style="list-style-type: none"> • Transition requirements for <i>contingent consideration</i> from business combinations that occurred before 01/01/2010 • Measurement of non-controlling interests at the acquisition date • Impact of business combinations on the accounting treatment of share-based payments
IFRS 7 – Financial Instruments: Disclosures	Clarifications of disclosures to be published by category of financial asset
IAS 1 – Presentation of Financial Statements	Clarifications about to the statement of changes in equity

IAS 27 – Consolidated and Separate Financial Statements	Transition requirements for amendments to certain standards resulting from amendments introduced by IAS 27 (2008): <ul style="list-style-type: none"> – IAS 21 – Effects of fluctuations in the exchange rates of foreign currencies: accounting treatment of translation differences accumulated in equity following total or partial disposal of an investment in a foreign operation – IAS 28 – Investments in Associates / IAS 31 – Interests in Joint Ventures: accounting treatment when the significant influence or joint control is lost
IAS 34 – Interim Financial Reporting	Additional disclosures required by IFRS 7 – “Financial Instruments: Disclosures” and their applicability to interim financial statements
IFRIC 13 – Customer Loyalty Programmes	Fair value of award credits

These amendments, which are expected to come into force on January 1, 2011 (with the exception of the changes made by IAS 27 to other standards, whose effective date is January 1, 2010), have not yet been endorsed by the European Union and are not expected to have significant effects on the Group’s consolidated financial statements.

Financial statement formats

The condensed interim financial statements at June 30, 2010 consist of the Balance Sheet , the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Explanatory Notes, and are accompanied by the Directors’ Report on Operations.

The format adopted for the Balance Sheet entails the distinction of the assets and liabilities into current and non-current.

The income statement format adopted entails the classification of costs by nature. The Group has decided to present a separate income statement instead of a single comprehensive income statement.

The statement of comprehensive income includes the result for the period and, for homogeneous categories, the revenues and costs which, on the basis of the IFRSs, are accounted for directly in equity.

The Group has decided to present both the tax effects and the reclassifications to the income statement of gains/losses recognised in equity in previous periods directly in the statement of comprehensive income, and not in the explanatory notes.

The statement of changes in equity includes the amounts of transactions with the equity holders and the movements that occurred during the period in the reserves.

In the statement of cash flows, the cash flows deriving from operating activities are presented using the indirect method, by means of which the profit or loss of the period is adjusted by the effects of non-monetary transactions, by any deferment or setting aside of past or future operating collections or payments, and by any revenue or cost items connected with the cash flows arising from investing activities or financing activities.

Consolidation scope

During the first half of 2010 there were no significant changes in the consolidation scope.

Discontinued operations

It should be noted that (as described below in Note 31), following the resolution of the Board of Directors of Pirelli & C. S.p.A. of 4 May 2010, regarding the plan for the separation of Pirelli Real Estate, on the basis of IFRS 5 (“*Non-current Assets Held for Sale and Discontinued Operations*”), the assets and liabilities relating to the investment to be assigned, which constitute a disposal group, were reclassified as “held for distribution”. Moreover, since the disposal group is a “discontinued operation”, the loss deriving from adjustment to fair value net of the costs associated with the distribution, together with the result at June 30.2010 of the discontinued operation, have been reclassified to a single income statement line item “Net income from discontinued operations”. The comparative income data at June 30, 2009 were also reclassified in the same way.

In the statement of cash flows, the flows relating to discontinued operations have been presented separately, divided into flows deriving from operating, investing and financing activities.

Seasonality

The earnings performance is not affected by significant trends associated with seasonal factors.

Estimates and assumptions

The preparation of the condensed interim financial statements entails for the management the need to make estimates and assumptions which, in some circumstances, are based on difficult and subjective assessments and valuations which are themselves based on historical experience, and assumptions which are, each time, considered reasonable and realistic in the light of the circumstances. The results that actually emerge could therefore differ from such estimates.

The estimates and assumptions are reviewed regularly and the effects of each change made to them are recognised in the income statement in the period in which the estimate is revised if the revision itself has effects only on that period, or also in subsequent periods if the revision has effects both on the current period, and on future ones.

The estimates and assumptions relate mainly to assessments of the recoverability of intangible assets, to the definition of the useful lives of property, plant and equipment, to the recoverability of receivables, to the measurement of equity interests and to the recognition/measurement of provisions for risks and pension funds. The estimates and assumptions are based on data that reflect the current state of knowledge available.

2. OPERATING SEGMENTS

The operating segments defined by the Pirelli & C. Group on the basis of the rules of IFRS 8 are the following:

- Tyre
- Eco Technology
- Broadband Access

The remainder consists of businesses, none of which constitutes a segment operating independently. The other operating companies include the Environment segment, PZero and all the Group's financial and services companies, including the Parent Company.

Compared with December 31, 2009, the Real Estate business at June 30, 2010 no longer constitutes an operating segment, but is classified as a discontinued operation, as described below in Note 31.

Segment results for the first half of 2010 were as follows:

<i>(in thousands of euro)</i>						
	Tyre	Eco Technology	Broadband Access	Other operating companies	Eliminations and adjustments	TOTAL 1st half 2010
Sales to third parties	2,324,186	33,964	57,783	6,716	-	2,422,649
Sales to the Group	1,079	1,151	-	11,266	(9,694)	3,802
Total net sales	2,325,265	35,115	57,783	17,982	(9,694)	2,426,451
Gross operating margin	315,993	(2,299)	1,915	(16,202)	-	299,407
Depreciation/amortization of property, plant and equipment/intangible assets	(98,671)	(1,227)	(430)	(5,694)	-	(106,022)
Operating income	217,322	(3,526)	1,485	(21,896)	-	193,385
Net income from equity investments	360	-	-	(14,939)	10,532	(4,047)
Financial income/(expenses)	(38,652)	(878)	2,502	(1,016)	-	(38,044)
Net income before income taxes	179,030	(4,404)	3,987	(37,851)	10,532	151,294
Income taxes	(68,667)	(574)	(160)	(1,091)	-	(70,492)
Net income from continuing operations	110,363	(4,978)	3,827	(38,942)	10,532	80,802
Net income from discontinued operations	-	-	-	-	-	(256,372)
Net income for the period	110,363	(4,978)	3,827	(38,942)	10,532	(175,570)

Segment results for the first half of 2009 were as follows:

(in thousands of euro)

	Tyre	Eco Technology	Broadband Access	Other operating companies	Eliminations and adjustments	TOTAL 1st half 2009
Sales to third parties	1,915,738	28,251	72,817	5,521	-	2,022,327
Sales to the Group	184	40	-	13,487	(9,874)	3,837
Total net sales	1,915,922	28,291	72,817	19,008	(9,874)	2,026,164
Gross operating margin	231,073	(4,406)	3,180	(10,903)	-	218,944
Depreciation/amortization of property, plant and equipment/intangible assets	(94,253)	(1,071)	(440)	(4,328)	-	(100,092)
Operating income	136,820	(5,477)	2,740	(15,231)	-	118,852
Net income from equity investments	3,813	-	-	54,401	(65,161)	(6,947)
Financial income/(expenses)	(43,024)	(1,159)	721	5,028	-	(38,434)
Net income before income taxes	97,609	(6,636)	3,461	44,198	(65,161)	73,471
Income taxes	(43,429)	-	644	(306)	-	(43,091)
Net income from continuing operations	54,180	(6,636)	4,105	43,892	(65,161)	30,380
Net income from discontinued operations	-	-	-	-	-	(42,737)
Net income for the period	-	-	-	-	-	(12,357)

Sales between business segments are carried out at market values.

3. PROPERTY, PLANT AND EQUIPMENT

The breakdown and changes were as follows:

(in thousands of euro)

	06/30/2010			12/31/2009		
	Gross Amount	Depreciation	Net Amount	Gross Amount	Depreciation	Net Amount
Land	89,881	-	89,881	87,458	-	87,458
Buildings	788,447	(356,487)	431,960	735,295	(337,542)	397,753
Plant and Machinery	2,980,833	(1,826,225)	1,154,608	2,791,177	(1,731,094)	1,060,083
Industr. and comm. equipment	634,062	(498,588)	135,474	598,038	(471,172)	126,866
Other assets	312,176	(256,887)	55,289	230,698	(175,467)	55,231
	4,805,399	(2,938,187)	1,867,212	4,442,666	(2,715,275)	1,727,391

GROSS AMOUNT (in thousands of euro)

	12/31/2009	Discontinued operations	Exchange differences	Increase	Decrease	Reclass.	Other	06/30/2010
Land	87,458	(1,530)	3,925	43	(184)	270	(101)	89,881
Buildings	735,295	(15,286)	41,120	32,427	(2,200)	(8,969)	6,060	788,447
Plant and Machinery	2,791,177	(2,523)	198,651	90,033	(24,904)	(84,503)	12,902	2,980,833
Industr. and comm. equipment	598,038	(110)	42,150	13,035	(4,374)	(17,114)	2,437	634,062
Other assets	230,698	(24,929)	11,871	2,274	(23,986)	110,316	5,932	312,176
	4,442,666	(44,378)	297,717	137,812	(55,648)	-	27,230	4,805,399

DEPRECIATION (in thousands of euro)

	12/31/2009	Discontinued operations	Exchange differences	Reclass.	Decrease	Depreciation	Other	06/30/2010
Buildings	(337,542)	7,751	(19,995)	7,113	971	(11,310)	(3,475)	(356,487)
Plant and Machinery	(1,731,094)	2,193	(114,960)	66,679	19,628	(65,229)	(3,442)	(1,826,225)
Industr. and comm. equipment	(471,172)	99	(33,874)	26,671	2,832	(22,337)	(807)	(498,588)
Other assets	(175,467)	16,629	(9,312)	(100,463)	17,465	(4,921)	(818)	(256,887)
	(2,715,275)	26,672	(178,141)	-	40,896	(103,797)	(8,542)	(2,938,187)

NET AMOUNT (in thousands of euro)

	12/31/2009	Discontinued operations	Exchange differences	Increase	Decrease	Reclass.	Depreciation	Other	06/30/2010
Land	87,458	(1,530)	3,925	43	(184)	270	-	(101)	89,881
Buildings	397,753	(7,535)	21,125	32,427	(1,229)	(1,856)	(11,310)	2,585	431,960
Plant and Machinery	1,060,083	(330)	83,691	90,033	(5,276)	(17,824)	(65,229)	9,460	1,154,608
Industr. and comm. equipment	126,866	(11)	8,276	13,035	(1,542)	9,557	(22,337)	1,630	135,474
Other assets	55,231	(8,300)	2,559	2,274	(6,521)	9,853	(4,921)	5,114	55,289
	1,727,391	(17,706)	119,576	137,812	(14,752)	(0)	(103,797)	18,688	1,867,212

The **increases** in the period mainly concerned the Tyre segment and were related to the growth of manufacturing capacity in Brazil and Romania besides the definition of the new manufacturing pole at Settimo Torinese in Italy.

The ratio of investments to depreciation was 1.33.

Investments in property, plant and equipment in progress at June 30, 2010 amounted to Euro 188,398 thousand (Euro 142,629 thousand at December 31, 2009).

4. INTANGIBLE ASSETS

The breakdown and changes were as follows:

(in thousands of euro)

	12/31/2009	Exchange differences	Discontinued operations	Increase	Decrease	Amort	Other	06/30/2010
Patents and intellectual property rights	292	-	-	-	-	(65)	-	227
Concessions/licenses/trademarks	19,601	1,028	(12,099)	2	(68)	(470)	(74)	7,920
Goodwill	1,017,855	133	(181,038)	-	-	-	(212)	836,738
Application software	7,779	36	(3,731)	19	-	(1,409)	183	2,877
Other intangible assets	1,947	17	(55)	1,031	(142)	(282)	(120)	2,396
	1,047,474	1,214	(196,923)	1,052	(210)	(2,226)	(223)	850,158

The distribution of goodwill by operating segment and the cash generating units (or groups of cash generating units) to which it was allocated are shown in the following table:

(in thousands of euro)

Operating segment	Cash generating unit/Groups of CGUs	Value	Recoverable value
Tyre	Consumer	517,170	Value in use
Tyre	Industrial	312,425	Value in use
Eco Technology	Eco Technology	4,860	Value in use
Other	Environment	2,283	Fair value
		836,738	

As regards goodwill, as there were no significant signs of impairment losses indicators with respect to the financial statements for the year ended December 31, 2009, it was not considered necessary to update the impairment test.

5. EQUITY INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The following changes occurred in the period:

(in thousands of euro)

	06/30/2010	12/31/2009
Opening balance	593,237	515,300
Discontinued operations	(458,055)	-
Acquisition/change in Share capital and Reserves	2,057	40,247
Distribution of Dividends	(1,523)	(10,105)
Impairments	(15)	(16,000)
Disposals and liquidations	-	(166)
Share of net income	(3,246)	(61,161)
Share of other components recognised in Equity	(240)	(1,629)
Decrease in Financial receivables	-	114,629
Reclassifications and other	(629)	57,513
Movements in provisions for liabilities and charges	-	(45,391)
Closing balance	131,586	593,237

As regards the portion of **share of net income and impairments**, see the comments on the income statement items “Share of net income of associates and joint ventures” and “Losses on equity investments”.

6. OTHER FINANCIAL ASSETS

The following changes occurred in the period:

(in thousands of euro)

	06/30/2010	12/31/2009
Available-for-sale financial assets	173,335	221,351
Financial assets carried at amortized cost	-	6,755
	173,335	228,106

(in thousands of euro)

Available-for-sale financial assets	06/30/2010	12/31/2009
Opening balance	221,351	476,300
Discontinued operations	(10,552)	-
Increases	1,510	3,031
Decreases	(13)	(241,984)
Impairments	(3,727)	(20,102)
(Gains)/losses transferred to income statement for disposal or impairment losses, previously recognised in equity	353	(792)
Adjustment to fair value	(35,621)	34,739
Reclassification	-	(41,646)
Reversal of reserve for reclassification of associates	-	12,281
Other	34	(476)
Closing balance	173,335	221,351

The **increases** related mainly to the equity investment in F.C. Internazionale Milano S.p.A. (Euro 1,117 thousand).

The amount of the item **impairments** refers mainly to the equity investment in Banca Leonardo S.p.A..

Adjustments to fair value, a negative Euro 35,621 thousand, related mainly to equity investments in Mediobanca S.p.A. (Euro 33,826 thousand), in Alitalia S.p.A (Euro 4,367 thousand) and in Fin. Priv. S.r.l. (Euro 4,542 thousand) offsetting a positive adjustment in Oclaro Inc. (Euro 8,061 thousand).

7. DEFERRED TAX ASSETS AND PROVISIONS FOR DEFERRED TAXES

This item can be broken down as follows:

(in thousands of euro)

	06/30/2010	12/31/2009
Deferred tax assets	72,339	91,164
Deferred tax liabilities	(42,341)	(44,000)
	29,998	47,164

The tax effect of profits and losses recognised directly in net equity was a positive Euro 8,084 thousand (a positive Euro 14,111 thousand at 31 December 2009). The amount is included in the statement of comprehensive income; these movements are mainly due to the tax effects associated with actuarial gains/losses on employee benefits and to the adjustment to fair value of derivatives designated as cash flow hedges.

8. TRADE RECEIVABLES

Trade receivables can be broken down as follows:

(in thousands of euro)

	06/30/2010			12/31/2009		
	Total	Non-current	Current	Total (*)	Non-current	Current
Associates and joint ventures	6,114	-	6,114	89,803	-	89,803
Third parties	853,567	-	853,567	721,061	-	721,061
Receivables on construction contracts	1,588	-	1,588	2,802	-	2,802
	861,269	-	861,269	813,666	-	813,666
Provisions for impairment of receivables	(70,194)	-	(70,194)	(77,874)	-	(77,874)
	791,075	-	791,075	735,792	-	735,792

(*) inclusive of discontinued operations of Euro 142,894 thousand

9. OTHER RECEIVABLES

Other receivables can be broken down as follows:

	06/30/2010			12/31/2009		
	Total	Non-current	Current	Total (*)	Non-current	Current
<small>(in thousands of euro)</small>						
Associates and joint ventures						
- financial receivables	315	215	100	405,010	394,554	10,456
- other receivables	1,795	-	1,795	8,507	884	7,623
Financial receivables from third parties	176,271	93,825	82,446	92,082	91,257	825
Trade and other accrued income and prepaid expenses/third parties	20,981	-	20,981	24,152	4,952	19,200
Financial accrued income and prepaid expenses	6,698	3,746	2,952	1,818	622	1,196
Receivables from employees	15,421	1,811	13,610	6,989	2,746	4,243
Receivables from social security agencies	7,593	-	7,593	4,617	-	4,617
Receivables from tax authorities unrelated to income taxes	77,737	9,121	68,616	67,086	17,492	49,594
Other receivables	109,706	53,755	55,951	161,738	44,723	117,015
	416,517	162,473	254,044	771,999	557,230	214,769
Provisions for impairment of receivables	(57)	-	(57)	(17,625)	-	(17,625)
	416,460	162,473	253,987	754,374	557,230	197,144

(*) inclusive of discontinued operations of Euro 483,950 thousand

Non-current financial receivables from third parties refer primarily to amounts deposited to guarantee tax and legal disputes in relation to the subsidiary Pirelli Pneus S.A. (Brazil), remunerated at market rates.

Other current receivables (Euro 55,951 thousand) include mainly:

- receivables from the sale of property, plant and equipment of Euro 670 thousand;
- receivables for association in participation of Euro 3,120 thousand;
- receivables for sundry recoveries and refunds of Euro 6,362 thousand;
- advances of Euro 2,657 thousand.

Other non-current receivables (Euro 53,755 thousand) include mainly judicial deposits in labour law litigation involving the Brazilian associate.

10. INVENTORIES

Inventories can be broken down as follows:

(in thousands of euro)

	06/30/2010	12/31/2009
Pirelli Tyre	648,801	559,579
Pirelli Real Estate	-	96,637
Other	21,011	22,761
	669,812	678,977

(in thousands of euro)

	06/30/2010	12/31/2009
Raw and auxiliary materials and consumables	211,036	140,923
Sundry materials	1,780	745
Trading properties held for sale	-	55,335
Buildings under construction/renovation	-	9,603
Work in process and semi-finished products	63,647	39,659
Finished products	377,953	390,178
Goods purchased for resale	11,262	9,274
Building plots	-	31,698
Advances to suppliers	4,134	1,562
	669,812	678,977

The write-down of stocks carried out in the period was Euro 3,262 thousand (Euro 18,914 thousand at December 31, 2009), the reversal of previous writedowns amounted to Euro 6,118 thousand (Euro 5,455 thousand at December 31, 2009).

11. SECURITIES HELD FOR TRADING

These consist mainly of bonds, issued and guaranteed by governments and banks. The positions are deposited at leading banking counterparties.

For listed securities, the fair value corresponds to the stock exchange price at June 30, 2010. For unlisted securities, the fair value was determined making use of estimates on the basis of best information available.

Fair value changes are recognised in the income statement under the item “financial expenses”.

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are concentrated in the Group’s financial companies, holdings and sub-holdings. They are used essentially on the market for short-term maturity deposits with leading banking counterparties at interest rates in line with the predominant market terms.

For the purposes of the statement of cash flows the balance of cash and cash equivalents can be broken down as follows:

(in thousands of euro)

	06/30/2010		12/31/2009	
	Net cash and cash equivalents at end of the period	Cash and cash equivalents at beginning of year	Net cash and cash equivalents at end of the period	Cash and cash equivalents at beginning of year
Cash and cash equivalents	334,507	632,113	237,758	253,905
Cash and cash equivalents discontinued operations	24,408	-	-	-
Bank overdrafts	(24,145)	(21,334)	(16,383)	(26,828)
	334,770	610,779	221,375	227,077

13. EQUITY

13.1 Attributable to equity holders of the Group

The **share capital** subscribed and paid up at June 30, 2010 (including treasury shares in the portfolio) is represented by 5,233,142,003 ordinary shares and 134,764,429 savings shares all of a nominal Euro 0.29 each and normal entitlements for a total of Euro 1,556,693 thousand.

As prescribed by IAS 32, the **share capital** is presented net of treasury shares in the portfolio (3,867,500 ordinary shares, representing 0.07% of ordinary shares only, and 4,491,769 savings shares, representing 3.33% of savings shares only), and amounts to Euro 1,554,269 thousand.

The total of treasury shares in the portfolio represents 0.16% of the share capital.

The share capital remained unchanged with respect to December 31, 2009.

As already illustrated in the interim report on operations, on July 15, 2010, the Extraordinary Shareholders' Meeting of Pirelli & C. S.p.A. resolved to reduce the share capital by an amount of Euro 178,813,982.89.

This operation was carried out on 26 July 2010, after the following resolutions passed by the Extraordinary Shareholders' Meeting of Pirelli & C. S.p.A. of July 15, 2010 had come into effect:

- elimination of the par value of the Company's ordinary and savings shares, of Euro 0.29, which will therefore remain unexpressed;
- regrouping of the Company's ordinary and savings shares at the ratio of 1 new ordinary or savings share for every 11 shares of the respective category held.

13.2 Attributable to minority interests

Equity attributable to minorities went down from Euro 319,648 thousand at December 31, 2009 to Euro 311,415 thousand at June 30, 2010.

The decrease was due mainly to the loss for the period of (Euro 10,083 thousand) and to the distribution of dividends (Euro 3,968 thousand), offset by the positive exchange rate effect deriving from translation into Euro of financial statements in foreign currencies (Euro 6,422 thousand).

The main equity interests held by minorities are as follows:

	06/30/2010	12/31/2009
Drahtcord Saar GmbH & Co. K.G. (Germany)	50.00%	50.00%
Pirelli & C. Eco Technology S.p.A. (Italy)	49.00%	49.00%
Pirelli & C. Ambiente S.p.A. (Italy)	49.00%	49.00%
Euro Driver Car S.L. (Spain)	49.10%	49.10%
Pirelli & C. Real Estate S.p.A. (Italy)	41.93%	41.93%
Driver Italia S.p.A. (Italy)	27.63%	27.63%
Pirelli Tyre Co. Ltd (China)	25.00%	25.00%
S.C. Cord Romania S.R.L (Romania)	20.00%	20.00%
Alexandria Tire Co. S.A.E. (Egypt)	10.90%	10.90%
Pirelli de Venezuela C.A. (Venezuela)	3.78%	3.78%
Turk Pirelli Lastikleri A.S. (Turkey)	0.01%	0.01%

14. STOCK OPTION PLANS

Pirelli & C. S.p.A. has two existing stock option plans destined for executives and employees of Pirelli & Co. S.p.A. and other companies of the Group who were granted non-transferable option rights for the subscription/purchase of Pirelli & C. S.p.A. ordinary shares.

IFRS 2 “Share-based Payment” does not apply to these plans, as the option rights were granted prior to November 7, 2002.

More complete information on these Plans – which are entitled Pirelli to People and Group Senior Executives – is provided below.

	<i>Pirelli to People</i>	<i>Group Senior Executives</i>
Characteristics of the plan	Attribution of non-transferable option rights to the subscription of Pirelli & C. ordinary shares newly issued in the future or, at the discretion of the company, to purchase Pirelli & C. treasury shares	Attribution of non-transferable option rights to the subscription of Pirelli & C. ordinary shares newly issued in the future or, at the discretion of the company, to purchase Pirelli & C. treasury shares.
Recipients as of June 30, 2010	204 employees (executives, managers, and key personnel) of Group companies. Originally, at the date of approval of the plan, 725.	17 executives of Group companies. Originally, at the date of approval of the plan, 51.
Conditions for exercise of options	Continuing employment	(a) continuing employment, and (b) achievement, in the two years 2001 – 2002, of specific targets assigned to each recipient.
Unit price for subscription/purchase of shares	According to a ratio of 11:1, 11 options attributed give the right to subscribe / purchase one Pirelli & C. ordinary share at the unit price of Euro 10.956 ⁽¹⁾ .	According to a ratio of 11:1, 11 options attributed give the right to subscribe / purchase one Pirelli & C. ordinary share at the unit price of Euro 10.956 ⁽¹⁾ .
Option exercise period	Up to nine years from the date of their attribution (5/11/2001), but not until one year had passed from this attribution in relation to 50% of the options assigned, two years for a further 25% and three years for the remaining 25%	As regards options granted on 5/11/2001, up to nine years had passed from this attribution in relation to 50% of the options assigned, two years for a further 25% and three years for the remaining 25%. As regards options attributed definitively on 10/5/2002 until 31/5/2009, but not before 1/6/2002 for 50% of them and not before 1/1/2003 for the remainder.
Maximum number of options with pending offers as of December 31, 2009 (2)	14,537,334, equivalent to around 0.28% of outstanding ordinary shares, destined for 205 beneficiaries.	4,052,001, equivalent to around 0.077% of outstanding ordinary shares, destined for 18 beneficiaries.
Maximum number of options with pending offers as of June 30, 2010	14,126,667, equivalent to around 0.27% of outstanding ordinary shares, destined for 204 beneficiaries.	3,733,334, equivalent to around 0.071% of outstanding ordinary shares, destined for 17 beneficiaries.
Options expired in the 1st half of 2010 for persons who have left the Group		
Shares issued in the period	None	None
	410.667	298.667

(1) The extraordinary shareholders' meeting of Pirelli & C. S.p.A. held on July 15, 2010 approved an operation to regroup the ordinary and savings shares in a ratio of one new ordinary or savings share for every 11 shares of the same category held. As a result of this operation, which came into effect on July 26, 2010, the purchase price of each new share subscribed exercising the Options is Euro 10.956.
The same meeting also approved a reduction in the share capital of Pirelli & C. S.p.A., to be implemented at the end of the period envisaged by the current legislation, assigning to the ordinary and savings shareholders 487,231,561 Pirelli & C. Real Estate ordinary shares held by the Company. As a result of this reduction the purchase price of each new share subscribed exercising the Options will be Euro 10.589.

(2) Unexercised options of the Group Senior Executives Plan granted definitively on May 10, 2002 expired to all effects and purposes on May 31, 2009.

15. PROVISIONS FOR LIABILITIES AND CHARGES

The changes that occurred during the period are shown below:

PROVISIONS FOR LIABILITIES AND CHARGES - NON-CURRENT PORTION (in thousands of euro)	
Opening balance at 12/31/2009	167,793
Discontinued operations	(26,949)
Exchange differences	13,251
Increases	6,680
Utilization/releases	(1,222)
Closing balance at 06/30/2010	159,553

PROVISIONS FOR LIABILITIES AND CHARGES - CURRENT PORTION (in thousands of euro)	
Opening balance at 12/31/2009	130,783
Discontinued operations	(24,219)
Exchange differences	5,047
Increases	15,182
Utilization/releases	(9,213)
Other	(498)
Closing balance at 06/30/2010	117,082

The **non-current portion** relates mainly to provisions set aside for legal and tax disputes concerning the subsidiary Pirelli Pneus S.A. in Brazil, contingent tax liabilities and other contingent liabilities/charges of a commercial nature and employment disputes of the parent company Pirelli & C. S.p.A.. The **increases** regard mainly the adjustments associated with the requirements against commercial risks, compensation and litigation in the Tyre segment.

The **current portion** mainly includes provisions for contractual warranties and product claims of the Tyre segment and the Broadband Access segment and provisions set aside by the parent company Pirelli & C. S.p.A. for sureties issued to Goldman Sachs Capital Partner for the sale in 2005 of the segment Cables and Systems for Energy and Telecommunications. The **increases** relate mainly to provisions of the Tyre segment for product claims.

16. PROVISIONS FOR EMPLOYEE BENEFITS

The item includes:

(in thousands of euro)

	06/30/2010	12/31/2009 (*)
Pension funds:		
- funded	243,394	222,368
- unfunded	90,246	92,310
Employee severance in demnity (Italian companies)	46,485	51,454
Healthcare plans	21,243	17,899
Other benefits	82,706	67,849
	484,074	451,880

(*) inclusive of discontinued operations of Euro 15,372 thousand

- Pension funds

The following table shows a breakdown of the pension funds at June 30, 2010:

(in thousands of euro)

	06/30/2010					
	Germany	Total unfunded pension funds	USA	UK	Other countries	Total funded pension funds
Funded						
Present value of funded liabilities			144,303	870,493	3,382	1,018,178
<i>Fair value of plan assets</i>			(89,554)	(682,467)	(2,763)	(774,784)
Unfunded funds						
Present value of unfunded liabilities	90,246	90,246				
Net liabilities recognized	90,246	90,246	54,749	188,026	619	243,394
of which:						
- Tyre	90,246	90,246	54,749	99,635	619	155,003
- Other				88,391		88,391

The following table shows a breakdown of the pension funds at December 31, 2009:

(in thousands of euro)						
	12/31/2009					
	Germany	Total unfunded pension	USA	UK	Other countries	Total funded pension
Funded						
Present value of funded liabilities			122,199	783,307	2,981	908,487
<i>Fair value of plan assets</i>			(76,860)	(606,856)	(2,403)	(686,119)
Unfunded funds						
Present value of unfunded liabilities	92,310	92,310				
Net liabilities recognized	92,310	92,310	45,339	176,451	578	222,368
of which:						
- Tyre	84,168	84,168	45,339	91,681	578	137,598
- Real Estate	8,142	8,142				
- Other				84,770		84,770

The changes in the period in the present value of liabilities for pension funds (financed and non-financed) were as follows:

(in thousands of euro)		
	06/30/2010	12/31/2009
Opening balance	1,000,797	817,557
Translation differences	90,715	38,925
Discontinued operations	(8,142)	-
Movements through the income statement:		
- current employment expenses	1,410	4,195
- interest cost	28,088	51,479
- curtailment	(1,034)	
Actuarial (gains)/losses recognised in Equity	24,432	138,070
Employee contributions	320	1,182
Benefits paid	(27,842)	(53,114)
Other	(310)	2,503
Closing Balance	1,108,434	1,000,797

The changes in the period in the fair value of assets serving pension funds were as follows:

(in thousands of euro)

	06/30/2010	12/31/2009
Opening balance	(686,119)	(571,437)
Translation differences	(67,433)	(33,372)
Movements through the income statement:		
- expected return on plan assets	(24,128)	(40,416)
Actuarial (gains)/losses recognized in equity	(1,137)	(56,062)
Employer contributions	(20,772)	(29,171)
Employee contributions	(320)	(1,689)
Benefits paid	24,818	45,403
Other	307	625
Closing Balance	(774,784)	(686,119)

Costs recognised in the income statement in relation to pension funds were as follows:

(in thousands of euro)

	1st half 2010	1st half 2009
Current employment expenses	1,410	1,878
Interest cost	28,088	26,039
Expected return on plan assets	(24,128)	(20,240)
Curtailment	(1,034)	-
	4,336	7,677

The amounts recognized in the income statement are included in the item "Personnel Expenses" (Note 24).

- Provisions for employee severance indemnities

Changes in the period in provisions for severance indemnities were as follows:

(in thousands of euro)

	06/30/2010	12/31/2009
Opening balance	51,454	56,783
Discontinued operations	(4,877)	-
Movements through income statement	1,642	3,333
Curtailment	-	1,987
Actuarial (gains)/losses recognized in equity	2,286	2,809
Payments/advances	(4,001)	(13,453)
Other	(19)	(5)
Closing Balance	46,485	51,454
of which:		
- Tyre	35,714	33,809
- Real Estate		4,877
- Other	10,771	12,768

- Healthcare plans

Healthcare plans can be broken down as follows:

(in thousands of euro)

	USA
Liabilities recognized at 06/30/2010	21,243
Liabilities recognized at 12/31/2009	17,899

The existing healthcare plan in the United States (Tyre Segment) covers clerical staff and factory workers, both active and retired.

The plan is divided into two components “pre-medicare” and “post-medicare”; the latter is destined for participants more than 65 years old.

Contributions are paid by both the employer and the employees.

The changes in the period in liabilities recognised for healthcare plans were as follows:

(in thousands of euro)		
	06/30/2010	12/31/2009
Opening balance	17,899	18,442
Translation differences	3,158	(661)
Movements through the income statement:		
- current employment expenses	2	6
- interest cost	535	1,090
Actuarial (gains)/losses recognized in equity	569	(15)
Benefits paid	(920)	(963)
Closing Balance	21,243	17,899

The expenses recognized in the income statement in relation to healthcare plans were as follows:

(in thousands of euro)		
	1st half 2010	1st half 2009
Current employment expenses	2	5
Interest cost	535	572
	537	577

The amounts recognized in the income statement are included in the item "Personnel Expenses" (Note 24).

Other information

Actuarial net losses accrued in the 1st half of 2010 booked directly to net equity amounted to Euro 27,534 thousand (at December 31, 2009 net losses of Euro 86,633 thousand) and also include the portion relating to companies measured with the net equity method, net losses of Euro 534 thousand (at December 31, 2009 net gains of Euro 10 thousand).

The cumulative amount at June 30, 2010, net losses of Euro 411,062 thousand, of which Euro 410,838 thousand attributable to the Group (at December 31, 2009 net losses of Euro 383,502 thousand, of which Euro 383,893 thousand attributable to the Group), was divided as follows:

(in thousands of euro)						
	Cumulative 06/30/2010					
	Italy	Germany	USA	UK	Other countries	Total
Pension funds		(13,532)	(84,948)	(306,927)	(10,387)	(415,794)
Healthcare plans			(9,811)			(9,811)
Employee severance indemnity	14,543					14,543
Total actuarial Gains/(losses) recognized in equity	14,543	(13,532)	(94,759)	(306,927)	(10,387)	(411,062)

The figure includes the part of actuarial gains/(losses) determined on transition to the IFRSs.

The breakdown by country at December 31, 2009, which also includes the portion determined on transition to the IFRSs, was as follows:

(in thousands of euro)						
	Cumulative 12/31/2009					
	Italy	Germany	USA	UK	Other countries	Total
Pension funds		(5,684)	(80,705)	(296,227)	(8,902)	(391,518)
Healthcare plans			(9,242)			(9,242)
Employee severance indemnity	17,258					17,258
Total actuarial Gains/(losses) recognized in equity	17,258	(5,684)	(89,947)	(296,227)	(8,902)	(383,502)

The main actuarial assumptions used at June 30, 2010, which changed with respect to December 31, 2009, were the following:

	Italy	Germany	Netherlands	UK	USA
Discount rate	4.45%	4.50%	4.50%	5.50%	4.45%
Inflation rate	2.00%	2.00%	2.00%	3.30%	-

The main actuarial assumptions used at December 31, 2009, were the following:

	Italy	Germany	Netherlands	UK	USA
Discount rate	5.00%	5.20%	5.20%	5.70%	5.75%
Inflation rate	2.00%	2.00%	2.00%	3.45%	-
Expected return on plan assets	-	-	-	6.84%	7.39%
Expected rate of increase in salaries	3.00% (*)	2.50%	2.00%	2,70% - 3,45%	-
Healthcare cost trend rates - initial	-	-	-	-	8.00%
Healthcare cost trend rates - final	-	-	-	-	4.50%

(*) indicator valid only for companies with less than 50 employees

- Other benefits

At June 30, 2010 this item included Euro 27,353 thousand (Euro 18,681 thousand at December 31, 2009) relating to the long-term bonus scheme for the management, approved by the Board of Directors of Pirelli & C S.p.A. on April 21, 2009 and destined for approximately 80 senior managers.

17. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTUTIONS

Amounts due to banks and other lenders can be broken down as follows:

(in thousands of euro)

	06/30/2010			12/31/2009		
	Total	Non-current	Current	Total (*)	Non-current	Current
Borrowings from banks	1,144,081	893,405	250,676	1,661,280	1,402,524	258,756
Borrowings from other lenders	84,303	81,022	3,281	62,134	60,899	1,235
Financial leasing payables	43,475	38,205	5,270	47,928	40,923	7,005
Financial accruals and deferrals	6,209	111	6,098	14,168	789	13,379
Other financial payables	1,963	16	1,947	9,600	670	8,930
	1,280,031	1,012,759	267,272	1,795,110	1,505,805	289,305

(*) inclusive of discontinued operations of Euro 489,536 thousand

Adding to the total Euro 18,415 thousand relating to measurement at negative fair value of exchange rate derivatives hedging financial payables (classified under the item “Derivative financial instruments”), we obtain the gross debt of Euro 1,298,446 thousand, which is shown in the net financial position.

With reference to financial covenants on credit facilities used (included among amounts due to banks), there are the following lending facilities, all of a revolving type:

Corporate:

- Barclays Capital, BNP Paribas, HSBC Bank plc, J.P. Morgan plc, The Royal Bank of Scotland plc (as Mandated Lead Arrangers), for an amount of Euro 800,000 thousand (of which Euro 155,000 thousand with maturity December 2011 and Euro 645,000 thousand with maturity December 2012), not utilised at June 30, 2010, and for which Pirelli & C is obliged to maintain a certain level of consolidated indebtedness and a certain ratio between consolidated net indebtedness and Gross Operating Margin. At June 30, 2010 these parameters were being observed.

As regards negative pledges the facility provides for a commitment not to grant real guarantees, above a threshold of Euro 75,000 thousand, in relation to the Relevant Debts (bond loans and the like destined for listing) with the exception of real guarantees on the existing debt or debt to replace it, to be granted by law, relating to “exports” and “project finance”, subsidized finance;

Tyre:

- Syndicated facility (granted to Pirelli Tyre S.p.A. and Pirelli International Limited), in which 12 banks participate for a total amount Euro 675,000 thousand, of which Euro 425,000 thousand utilised at June 30, 2010, with maturity February 2012, for which no covenants are envisaged. There is a negative pledge clause which provides for a commitment not to grant real guarantees, above a threshold defined as the greater of Euro 100,000 thousand and 3% of Total Assets (as defined in the consolidated financial statements of Pirelli Tyre S.p.A.), in relation to the Relevant Debts (bond loans and the like destined for listing) with the exception of real guarantees on the existing debt or debt to replace it, to be granted by law, relating to “exports” and “project finance”, subsidized finance.

The other existing financial debts do not contain financial covenants. As regards the negative pledge clauses, it should be noted that the two EIB debts contracted by Pirelli Tyre S.p.A. of Euro 100,000 thousand each with maturity respectively December 2015 and June 2016 provide for a commitment not to grant mortgages, pledges, liens or real or analogous guarantees, for operations destined for medium/long-term financing, for a total amount of more than 20% of the consolidated net equity of Pirelli Tyre S.p.A.. In the event of infringement of the restriction, the Company will be obliged to provide additional guarantees in the bank's favour, at the request of the same and with the aim of rebalancing the latter's lending position.

18. TRADE PAYABLES

(in thousands of euro)						
	06/30/2010			12/31/2009		
	Total	Non-current	Current	Total (*)	Non-current	Current
Associates and joint ventures	100	-	100	20,983	-	20,983
Third parties	994,362	-	994,362	959,996	-	959,996
Notes payable	144	-	144	1,933	-	1,933
Payables on construction contracts	-	-	-	4,961	-	4,961
	994,606	-	994,606	987,873	-	987,873

(*) inclusive of discontinued operations of Euro 132,142 thousand

19. OTHER PAYABLES

(in thousands of euro)						
	06/30/2010			12/31/2009		
	Total	Non-current	Current	Total (*)	Non-current	Current
Associates and joint ventures	10	-	10	12,003	2,608	9,395
Trade and other accrued liabilities and deferred income	82,173	4,000	78,173	84,963	4,421	80,542
Tax payables	87,433	17,611	69,822	67,593	10,926	56,667
Payables to employees	120,041	-	120,041	141,105	75	141,030
Payables to social security agencies	37,340	8,275	29,065	44,723	5,078	39,645
Dividends approved	1,215	-	1,215	1,070	-	1,070
Advances from customers	7,659	11	7,648	8,024	9	8,015
Other payables	80,693	7,538	73,155	165,562	10,891	154,671
	416,564	37,435	379,129	525,043	34,008	491,035

(*) inclusive of discontinued operations of Euro 92,952 thousand

Other current payables (Euro 73,155 thousand) include mainly:

- payables for the purchase of property, plant and equipment of Euro 14,767 thousand;
- payables to representatives, agents, professionals and consultants of Euro 6,386 thousand;
- payables to Directors and Oversight Committee of Euro 609 thousand;
- payables to Statutory Auditors of Euro 456 thousand;
- advances paid by the European Union to the Tyre Segment for research projects of Euro 1,678 thousand;
- advances paid by the Piedmont Region to the Tyre Segment for research projects of Euro 7,818 thousand;
- payables for deposits of Euro 1,800 thousand;
- payables for income tax withholdings of the Tyre Segment of Euro 4,307 thousand.

20. DERIVATIVE FINANCIAL INSTRUMENTS

The item comprises the measurement at fair value of derivative instruments in being at June 30, 2010. The breakdown is as follows:

(in thousands of euro)

	06/30/2010				12/31/2009			
	ASSETS		LIABILITIES		ASSETS		LIABILITIES	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
<i>Not in hedge accounting</i>								
Currency derivatives		71,223		(66,992)		26,567		(52,408)
<i>In hedge accounting</i>								
Interest rate derivatives				(42,655)				(23,745)
Other derivatives (futures on commodities)				(1,554)				
		71,223		(111,201)		26,567		(76,153)

The value of **currency derivatives** not in hedge accounting corresponds to the measurement at fair value of forward purchases/sales of foreign currencies in being at the interim reporting date. These are operations to hedge commercial and financial transactions of the Group for which the hedge accounting option was not taken. The fair value is determined using the forward exchange rate at the reporting date.

The value of **interest rate derivatives** in hedge accounting corresponds to the measurement of “plain vanilla” interest rate swaps entered into as protection against rising interest rates on a notional of Euro 1,050 million, including forward start operations. During the first half of 2010 the amount recognised in net equity was a negative Euro 18,773 thousand (a negative Euro 17,814 thousand at December 31, 2009).

In June interest rate swaps were closed for a notional value of Euro 300 million. This entailed reclassification to the income statement item “Financial expenses” of losses previously accumulated in net equity of Euro 3,908 thousand (see Note 29).

The value of the **other derivatives** in hedge accounting corresponds to the measurement at fair value of futures contracts acquired on natural rubber, relating to the Tyre Segment.

With the establishment of the above hedging, put in place in the second quarter of 2010, the Tyre Segment aims to limit exposure to the economic effects deriving from an increase in the prices of natural rubber and thus to contain the cost of future procurement of natural rubber covering a limited part of the total requirement envisaged for the 2nd half of 2010.

The amount, which was recognized in equity at June 30, 2010 is a positive Euro 3,807 thousand.

21. COMMITMENTS AND CONTINGENCIES

Commitments to purchase equity interests/fund units

These refer to commitments made by Pirelli Finance (Luxembourg) S.A. to subscribe shares of the company Equinox Two S.c.a., a private equity company specialized in investments in listed and unlisted companies with high growth potential, for a maximum countervalue of Euro 6,145 thousand.

Commitments to purchase property, plant and equipment

The commitments to purchase property, plant and equipment relate to the Tyre Segment and amount to Euro 128.6 million, mainly regarding companies in Brazil, China and Italy.

Guarantees given on the sale of Olimpia

On the sale of the equity interest in Olimpia S.p.A. the vendors (Pirelli and Sintonia) remained contractually responsible for all the contingent tax liabilities regarding the years up to the date of sale.

The current dispute can be summarised in the following terms.

On December 27, 2006 the Tax Authority served Olimpia S.p.A. with an assessment notice for **2001** regarding the IRAP Regional Business Tax.

More precisely, for this financial year, on the basis of an assumption which was entirely groundless both at the legal level and at the economic level, the Authority had ascertained a non-existent financial revenue on the Bell Bond Loan redeemable with Olivetti shares, with a consequent IRAP tax of Euro 26.5 million, plus a fine of the same amount.

Against this payment order, the company had appealed in administrative and judicial proceedings claiming the non-existence of the taxable amount ascertained.

With a decision on November 25, 2007, the 1st level Tax Commission accepted the Company's appeal, cancelling the above assessment completely.

Subsequently, the Tax Authority appealed this decision.

The Company's arguments against the appeal were filed with the Regional Tax Commission. In the 2nd level judgement on May 29, 2009, these arguments were also accepted.

Despite the double, and seemingly unchallengeable, negative judgment for the Tax Authority, the Attorney General's Office lodged an appeal to the Supreme Court, as had in fact been expected. Within the deadline of the October 18, 2010, the Company will present its counterarguments.

With regard also to the assessment on financial year **2002**, served at the end of 2007, in which Olimpia was referred to as a "company of convenience", the appeal was heard at the first level on November 18, 2008, obtaining not only a favourable outcome, but also an order for the Tax Authority to pay all the legal costs.

It should be noted that the corporation tax (IRPEG) claimed amounted to Euro 29.3 million, plus fines of the same amount.

Despite such a clear decision, the Tax Authority lodged an appeal, against which the Company has presented its counterarguments. The hearing to deal with the matter in the 2nd instance has been fixed for October 28, 2010.

Then on December 9, 2008 a second notice of assessment was served, in relation to financial year **2003**, in which Olimpia was again defined as a "company of convenience".

The relevant corporation tax (IRPEG) amounts to Euro 28.5 million, plus fines of the same amount.

Against this order, which like the previous one is considered completely groundless, the Company has appealed to the 1st level Tax Commission. Pending the outcome, the Authority, as is normal, issued a provisional order to pay half the tax assessed. Against this order, the Company presented a plea for suspension of the payment, which was accepted at a hearing on July 1st, 2009. The Section of the Commission which issued this judgement was subsequently closed, and consequently the dossier was transferred to another Section, before which the merit of the dispute will be discussed.

On December 23, 2009, finally, a third notice of assessment was served, in relation to financial year **2004**, in which Olimpia was obstinately defined as a “company of convenience”.

The relevant amount of IRES tax amounts to Euro 29.6 million, plus fines of the same amount.

Against this claim, which is considered, like the previous one, absolutely groundless, the Company lodged an appeal with the 1st Level Tax Commission. In view of the discussion set for September 21, 2010, the Company filed an additional plea.

Given that this third dispute is of the same kind as the previous ones, we are confident about the outcome of the judgement, in view of the solidity of the arguments raised by the Company, which is assisted by the same qualified consultants to which the entire dispute has been entrusted.

It should also be noted that, if the Tax Authority, pending judgement, proceeds with the routine provisional demand for half the tax assessed, the company, as for the previous years, will request suspension of the payment until the judgement of merit on the part of the Provincial Tax Commission which – it is reasonable to suppose – is likely to confirm the similar orders issued previously.

22. REVENUES FROM SALES AND SERVICES

Revenues from sales and services can be broken down as follows:

(in thousands of euro)

	1st half 2010	1st half 2009
Revenues from sales of goods	2,378,563	1,994,304
Revenues from services	47,888	31,860
	2,426,451	2,026,164

23. OTHER INCOME

The item amounts to Euro 58,920 thousand compared with Euro 74,011 thousand in the first half of 2009, and includes royalties, compensation, refunds and other less significant items.

24. PERSONNEL EXPENSES

These can be broken down as follows:

(in thousands of euro)

	1st half 2010	1st half 2009
Wages and salaries	378,806	318,021
Social security contributions	81,445	70,784
Expenses for severance indemnity and similar costs (*)	17,134	13,592
Expenses for defined-contribution pension funds	7,473	7,352
Expenses for defined-benefit pension funds	4,336	7,677
Expenses for defined-benefit healthcare plans	537	577
Expenses for seniority bonuses	679	703
Expenses for defined-contribution healthcare plans	14,789	11,391
Other expenses	7,455	6,271
	512,654	436,368

* Includes Italian and foreign companies

In the first half of 2010 personnel expenses included Euro 7,908 thousand relating to the restoration project in progress in the Tyre Segment, which are classified as non-recurrent events (1.5% of the total). In the first half of 2009 restructuring costs had been Euro 9,726 thousand (2.2% of the total).

25. AMORTIZATION, DEPRECIATION AND IMPAIRMENTS

Amortization, depreciation and impairment losses on fixed assets can be broken down as follows:

(in thousands of euro)

	1st half 2010	1st half 2009
Amortization of intangible assets	2,226	2,313
Depreciation of property, plant and equipment	103,797	97,778
Impairment losses on property, plant and equipment	-	300
	106,023	100,391

26. OTHER EXPENSES

The breakdown of this item is as follows:

(in thousands of euro)		
	1st half 2010	1st half 2009
Selling costs	142,580	124,501
Purchases of goods destined for resale	102,972	134,371
Fluids and power	91,364	84,462
Advertising	75,259	77,510
Advice	21,071	29,204
Maintenance	23,249	23,649
Rental and hire	26,858	32,148
Work contracted out	14,330	10,136
Travelling expenses	15,462	16,437
IT expenses	12,698	14,091
Remuneration of key managers	3,574	3,125
Other provisions	8,939	8,326
Duty stamps, duties and local taxes	13,834	12,622
Impairment of receivables	7,862	6,773
Insurance	11,705	15,257
Leasing instalments	7,337	9,511
Cleaning expenses	5,780	5,344
Security expenses	4,079	4,420
Telephone expenses	3,222	5,431
Other	153,912	94,390
	746,087	711,708

27. NET INCOME FROM EQUITY INVESTMENTS

27.1 Share of net income of associates and joint ventures

The portion of net income of equity investments in associates and JVs measured with the net equity method was a negative Euro 3,246 thousand compared with a negative amount of Euro 2,068 thousand in the first half of 2009.

The first half of 2010 includes the measurement of the equity investments in RCS Mediagroup S.p.A. (a negative Euro 4,657 thousand) offset by the valuation of Eurostazioni S.p.A. (a positive Euro 1,104 thousand).

In the previous half of 2009 the negative amount of Euro 2,068 thousand related mainly to the equity investment in RCS Mediagroup S.p.A. (Euro 2,173 thousand).

27.2 Gains on equity investments

The breakdown of this item is as follows:

(in thousands of euro)

	1st half 2010	1st half 2009
Gains on disposal of available-for-sale financial assets	15	12,019
Gains on purchase of minorities	-	3,366
	15	15,385

In the first half of 2009 the item **gains on disposal of available-for-sale financial assets** related mainly to the sale of the interests held in Alcatel-Lucent Submarine Networks (Euro 11,195 thousand).

The item **gains on purchases of minorities** of the first half of 2009 related mainly to the Tyre segment for the capital gain of Euro 3,366 thousand realised as the difference between the purchase price of the minority interests in subsidiaries in Turkey and the corresponding accounting net equity determined in accordance with the Group's accounting policies.

27.3 Losses on equity investments

The breakdown of this item is as follows:

(in thousands of euro)		
	1st half 2010	1st half 2009
Losses on disposal of available-for-sale financial assets	-	4,468
Impairment of equity investments in associates and joint ventures	15	2,700
Impairment of available-for-sale financial assets	3,727	19,885
	3,742	27,053

The item **losses on disposal of available-for-sale financial assets** of the previous half-year related to the sale of 53,190,000 Telecom Italia S.p.A. shares held by Pirelli Finance Luxembourg (S.A.).

The item **impairment of equity investments in associates and joint ventures** of the first half of 2009 related exclusively to the interest held in CyOptics Inc. by the parent company Pirelli & C. S.p.A..

The item **impairment of available-for-sale financial assets** includes Euro 3,042 thousand related to the equity investment in Banca Leonardo S.p.A., Euro 580 thousand in Tiglio II and Euro 105 thousand in Genextra.

In the first half of 2009 the item included exclusively the impairment loss recognized against the equity investment in Telecom Italia S.p.A. of Euro 19,885 thousand.

27.4 Dividends

The dividends of the first half of 2010 amounted to Euro 2,926 thousand and related mainly to dividends received by the Parent Company Pirelli & C. S.p.A. for the equity investment held in Banca Leonardo S.p.A. (Euro 2,749 thousand).

The amount of Euro 6,789 thousand for the first half of 2009 included mainly Euro 6,196 thousand from Telecom Italia S.p.A., Euro 202 thousand from Banca Leonardo S.p.A. and Euro 252 thousand from Vittoria Capital N.V..

28. FINANCIAL INCOME

Financial income can be broken down as follows:

<i>(in thousands of euro)</i>	1st half 2010	1st half 2009
Interest	8,808	17,202
Other financial income	4,784	8,454
Gains on exchange rates	138,077	188,894
Measurement at fair value of currency derivatives	20,929	-
Measurement at fair value of other derivative instruments	-	103
	172,598	214,653

Gains on exchange rates include the adjustment to the end-of-period exchange rates of items expressed in currencies other than the functional currency still in being at the reporting date and gains made on items closed during the period.

The item **measurement at fair value of currency derivatives** relates to transactions for the forward purchase/sale of currencies. For transactions open at June 30, 2010, the fair value is determined using the forward exchange rate at that date.

Measurement at fair value is made up of two elements: the interest component linked to the interest-rate spread between the two currencies subject to the individual hedges, a net hedging cost of Euro 4,566 thousand, and the exchange-rate component, a net gain of Euro 25,495 thousand.

Comparing the latter with the exchange differences on items in foreign currencies, a net loss of Euro 25,526 thousand (exchange losses of Euro 163,603 thousand, included in financial expenses and exchange gains of Euro 138,077 thousand, included in financial income), it can be seen that the management of exchange rate risk is in substantial equilibrium.

29. FINANCIAL EXPENSES

These can be broken down as follows:

(in thousands of euro)

	1st half 2010	1st half 2009
Interest to banks	23,704	33,400
Other financial expenses	18,786	12,821
Losses on exchange rates	163,603	176,109
Measurement at fair value of securities held for trading	818	852
Measurement at fair value of currency derivatives	-	29,905
Measurement at fair value of other derivative instruments	3,731	-
	210,642	253,087

Losses on exchange rates include the adjustment to the end-of-period exchange rates of items expressed in currencies other than the functional currency still in being at the reporting date and gains made on items closed during the period.

The **measurement at fair value of other derivative instruments** includes Euro 3,908 thousand relating to losses accumulated in net equity and reclassified to the income statement at June 30, 2010 following the closure of interest rate swaps for a notional value of Euro 300 million (see Note 20).

30. INCOME TAXES

Taxes for the period consisted of the following:

(in thousands of euro)

	1st half 2010	1st half 2009
Current taxes	68,070	38,397
Deferred taxes	2,422	4,694
	70,492	43,091

31. DISCONTINUED OPERATIONS

On May 4, 2010 the Board of Directors of Pirelli & C. S.p.A. passed the resolution in favour of presenting to the Shareholders an operation (“the Operation”) to separate the businesses controlled by Pirelli & C. Real Estate S.p.A. (Pirelli RE) from the others carried on by the Pirelli Group, in order to concentrate the Company’s activities in the tyres segment, at the same time allowing the Company’s shareholders, already indirect holders of the equity of the real estate business, to hold Pirelli RE shares directly. The Operation was approved by the Extraordinary Shareholders’ Meeting of July 15, 2010.

The Operation will take place by assigning to the Pirelli & C. S.p.A. shareholders almost all the ordinary Pirelli RE shares held by the Company, amounting to about 58% of the share capital, to be achieved through a reduction of the share capital, the amount of which was determined by the Extraordinary Shareholders’ Meeting of Pirelli & C. S.p.A. of July 15, 2010, as the same value as the Pirelli RE shares assigned (Euro 178,813,982.89), determined in turn on the basis of the official price of the Pirelli RE shares (Euro 0.367) recorded on July 14, 2010, the latest Stock Exchange business day prior to the date of the above mentioned Extraordinary Shareholders’ Meeting.

On the basis of IFRS 5 (“*Non-current Assets Held for Sale and Discontinued Operations*”), the assets and liabilities related to the Pirelli RE shares to be assigned, which constitute an asset disposal group, were therefore classified in the condensed interim financial statements at June 30, 2010 as “held for distribution”; the net carrying amount of the disposal group was lined up to the fair value, equal to the stock exchange price at June 30, 2010 of Euro 0.3339, resulting in a loss recorded the consolidated income statement of Euro 235,821 thousand. Euro 181,038 thousand of this amount was allocated to goodwill; the remainder was allocated proportionally to other non-current assets, and in particular Euro 51,053 thousand to equity investments in associates and JVs, Euro 2,013 thousand to property, plant and equipment and Euro 1,717 thousand to intangible assets other than goodwill. Also considering the costs attributable to the distribution (Euro 191 thousand), the total loss amounted to Euro 236,011 thousand.

Since the disposal group is classified as a “discontinued operation”, the above-mentioned loss resulting from the adjustment to fair value net of the costs attributable to the distribution (Euro 236,011 thousand), together with the net income for the period of the discontinued operation (negative for Euro 20,361 thousand) were reclassified to the income statement item “Net income from discontinued operations” (for a total amount of Euro 256,372 thousand). Such result does not include the related tax effect as future recovery is not expected. The comparative income data at June 30, 2009 were also reclassified in the same way.

Subsequently, on the date of the Shareholders’ Meeting of July 15, 2010, according to the interpretation of IFRIC 17 “*Distribution of Non-cash Assets to Owners*”, the Company registered a liability as a payable to shareholders amounting to the fair value of the Pirelli RE shares to be assigned, determined on the basis of the official stock exchange price of Pirelli RE shares recorded at July 14, 2010.

On the date of the effective assignment of the Pirelli RE shares to the shareholders, the Company will recalculate the liability on the basis of the official stock exchange price of Pirelli RE shares on that date (with a contra entry of the change in shareholders' equity), recognizing in the income statement any further positive or negative difference between the net carrying amount of the disposal group and the fair value (equivalent to the stock exchange price) on that date.

The loss of control of the Pirelli & C. Real Estate S.p.A. Group will lead, only in the consolidated financial statements of the Pirelli & C. Group, the reversal to the income statement of the gains and losses related to the Pirelli & C. Real Estate S.p.A. Group recorded in equity.

The breakdown of the assets and liabilities held for distribution to shareholders is as follows:

(in thousands of euro)

	06/30/2010	
		of which related parties
Property, plant and equipment	14,988	
Intangible assets	12,782	
Equity investments in associates and joint ventures	379,750	
Other financial assets	18,090	
Deferred tax assets	28,099	
Other receivables	404,121	389,755
Non-current assets	857,830	
Inventories	101,419	
Trade receivables	138,711	86,986
Other receivables	81,213	17,112
Cash and cash equivalents	24,408	
Tax receivables	29,361	
Current assets	375,112	
Total assets held for distribution to shareholders	1,232,942	493,853
Borrowings from banks and other financial institutions	323,831	
Other payables	8,751	2,608
Provisions for liabilities and charges	24,549	
Deferred tax liabilities	1,608	
Provisions for employee benefits	13,181	
Non-current liabilities	371,920	
Borrowings from banks and other financial institutions	163,144	1,980
Trade payables	110,178	18,066
Other payables	101,700	18,895
Provisions for liabilities and charges	20,790	5,378
Tax payables	29,503	1,080
Derivative financial instruments	195	
Current liabilities	425,510	
Total liabilities associated with assets held for distribution to shareholders	797,430	48,007

The breakdown of the reserves related to assets/liabilities held for distribution to shareholders is as follows:

(in thousands of euro)

	06/30/2010
Translation reserve	(930)
Reserve for adjustment to fair value of available-for-sale financial asset	(440)
Reserve for cash flow hedges	(38,994)
Reserve for deferred taxes	1,447
	(38,917)

The net income of the discontinued operations can be broken down as follows:

(in thousands of euro)

	1st half 2010		1st half 2009	
	of which related parties		of which related parties	
Revenues from sales and services	135,108	55,482	115,751	52,142
Other income	17,080		20,269	
Change in inventories of work in process, semi-finished and finished products	(1,200)		2,872	
Raw materials and consumables (net of change in inventories)	(35,901)		(3,495)	
Personnel expenses	(34,250)	(2,404)	(45,944)	(1,661)
Amortization, depreciation and impairments	(2,665)		(7,808)	
Other expenses	(72,667)	(15,974)	(99,350)	(16,662)
Operating income	5,505		(17,705)	
Net income from equity investments	(18,838)	(20,344)	(21,616)	(24,742)
- share of net income of associates and joint ventures	(19,215)		(24,793)	
- gains on equity investments	1,617		2,923	
- losses on equity investments	(2,239)		(90)	
- dividends	999		344	
Financial income	14,369	13,466	19,535	16,205
Financial expenses	(13,427)	(1,831)	(20,519)	
Net income before income taxes	(12,391)		(40,305)	
Income taxes	(7,970)		(2,432)	
Net income before loss for adjustment to fair value net of distribution costs	(20,361)		(42,737)	
Loss for adjustment to fair value net of distribution costs	(236,011)			
Net income from discontinued operations	(256,372)		(42,737)	

32. EARNINGS/(LOSSES) PER SHARE

Basic earnings/(losses) per share are given by the ratio between net income/(loss) attributable to equity holders of the Parent Company (adjusted to take into account the minimum dividend destined for savings shares) and the weighted average of the number of ordinary shares outstanding during the period, with the exclusion of treasury shares.

(in thousands of euro)

	1st half 2010	1st half 2009
Net income for the period from continuing operations attributable to equity holders of the Parent	82,663	30,874
Net income attributable to savings shares considering the 2% supplement	(2,048)	(765)
Adjusted net income for the period from continuing operations attributable to equity holders of the Parent	80,615	30,109
Weighted average number of ordinary shares outstanding (in thousands)	5,229,275	5,229,275
Basic earnings per ordinary share from continuing operations (in euro per thousand of shares)	15.42	5.76

Net income for the period from discontinued operations attributable to equity holders of the Parent	(248,150)	(24,540)
Net income attributable to savings shares considering the 2% supplement	6,149	608
Net income for the period from discontinued operations attributable to equity holders of the Parent	(242,001)	(23,932)
Weighted average number of ordinary shares outstanding (in thousands)	5,229,275	5,229,275
Basic earnings per ordinary share from discontinued operations (in euro per thousand of shares)	- 46.28	- 4.58

Diluted earnings/(losses) per share were not calculated, as the Company, both at June 30, 2010 and at June 30, 2009, has only one category of potential ordinary shares with a dilutive effect: those deriving from stock option plans; but, taking into account that the exercise price is higher than the market value, these were not considered exercisable.

33. DIVIDENDS PER SHARE

Pirelli & C. S.p.A. distributed to its shareholders, on the net income for 2009, a unitary dividend of Euro 0.0145 for each of the 5,229,274,503 ordinary shares (excluding treasury shares) and Euro 0.0406 for each of the 130,272,660 savings shares (excluding treasury shares). The total amount distributed was Euro 81.1 million.

34. RELATED PARTY TRANSACTIONS

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

The statement below shows a summary of the statement of financial position and income statement items of continuing operations alone that include transactions with related parties and their percentage impact:

(in millions of euro)

	Total in of which related financial statements at 06/30/2010		% proportion	Total in of which related financial statements at 12/31/2009		% proportion
BALANCE SHEET						
Non-current assets						
Other receivables	162.5	0.2	0.1%	557.2	395.2	70.9%
Current assets						
Trade receivables	791.1	6.9	0.9%	735.8	91.5	12.4%
Other receivables	254.0	1.8	0.7%	197.1	19.1	9.7%
Non-current liabilities						
Other payables	37.4	-	0.0%	34.0	2.6	7.7%
Current liabilities						
Borrowings from banks and other lenders	267.3	0.4	0.1%	289.3	2.5	0.9%
Trade payables	994.6	0.7	0.1%	987.9	24.1	2.4%
Other payables	379.1	-	0.0%	491.0	10.8	2.2%
Provisions for liabilities and charges	117.1	-	0.0%	130.8	3.3	2.5%
Tax payables	65.3	-	0.0%	43.9	1.1	2.5%

(in millions of euro)

	Total in of which related financial statements at 06/30/2010		% proportion	Total in of which related financial statements at 06/30/2009		% proportion
INCOME STATEMENT CONTINUING OPERATIONS						
Revenues from sales and services	2,426.5	2.3	0.1%	2,026.2	3.3	0.2%
Other income	58.9	0.2	0.3%	74.0	-	0.0%
Personnel expenses	(512.7)	(1.4)	0.3%	(436.4)	(1.8)	0.4%
Other expenses	(746.1)	(11.5)	1.5%	(711.7)	(8.0)	1.1%
Financial income	172.6	-	0.0%	214.7	0.5	0.2%

Transactions with related parties of discontinued operations are detailed in Note 31 above.

The effects of related party transactions on the consolidated income statement and statement of financial position of the Pirelli & C. Group as of June 30, 2010 are shown below.

Transactions with associates and joint ventures

(in millions of euro)

Revenues from sales and services	1.7	Services rendered by Pirelli Ambiente S.p.A. to Idea Granda (Euro 0.3 million), by Pirelli Ambiente Site Remediation S.p.A. to Spazio Industriale (Euro 0.4 million) and by Centro Servizi Amm.vi Pirelli S.r.l. to Sino Italian Wire Tech. (Euro 0.5 million)
Other expenses	0.2	
Current trade receivables	6.1	The amount includes receivables from Cyoptics Inc relating to services rendered by Pirelli Broadband Solutions (Euro 2.9 million), by Pirelli Sistemi Informativi (Euro 0.3 million) and by Pirelli Labs S.p.A. (Euro 0.4 million). Also included are receivables from Idea Granda (Euro 0.8 million), from Spazio Industriale (Euro 0.5 million) and from Sino Italian Wire Tech. (Euro 0.5 million) for services rendered respectively by Pirelli Ambiente S.p.A., by Pirelli Ambiente Site Remediation S.p.A. and by Centro Servizi Amm.vi Pirelli S.r.l.
Non-current financial receivables	0.2	
Current other receivables	1.8	The amount is related mainly to the receivable for dividends to be received from Eurostazioni S.p.A. (Euro 1.5 million)
Current borrowings from banks and other lenders	0.4	

Transactions with parties related to Pirelli through directors

(in millions of euro)

Revenues from sales and services	0.6	These refer to services rendered by Pirelli & C. Ambiente Site Remediation S.p.A. and Pirelli & C. S.p.A. to the Camfin group.
Other expenses	7.7	Expenses for the sponsorship of F.C. Internazionale Milano S.p.A..
Other income	0.2	
Current trade receivables	0.8	Receivables connected with services rendered to the Camfin group.
Current trade payables	0.7	Payables connected with the sponsorship expenses as above.
Dividends paid (cash flows)	20.8	Dividends to Camfin S.p.A. (Euro 19.9 million) and to C.M.C. S.p.A. (Euro 0.9 million).

Benefits for key managers of the Company

At June 30, 2010, fees payable to key managers, that is to those who have the power and responsibility, directly or indirectly, for the planning, management and control of the business of Pirelli & C. S.p.A., including directors (executive or non-executive) amounted to Euro 4,999 thousand (Euro 4,951 thousand at June 30, 2009). The portion relating to employee benefits was recognized in the income statement item “personnel expenses” for Euro 1,425 thousand (Euro 1,826 thousand at June 30, 2009) of which the portion relating to provisions for severance indemnities amounted to Euro 93 thousand (Euro 99 thousand at June 30, 2009), and the portion relating to directors’ fees was recognized in the income statement item “other expenses” for Euro 3,574 (Euro 3,125 thousand at June 30, 2009).

35. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FIRST HALF

On **July 16, 2010** Pirelli Ambiente, through the subsidiary Solar Utility S.p.A., and the GWM Group through its subsidiary GWM Renewable Energy, signed a strategic agreement for the joint development of activities in the photovoltaic sector in Italy.

According to the agreement, Solar Utility S.p.A., a company 100% owned by Pirelli Ambiente S.p.A. which works in the photovoltaic sector, will confer its production business – with a total capacity of 11 Megawatts of which 7 are already operative – to a new company called GP Energia S.p.A. of which GWM Renewable Energy, a company of the GWM Group specialised in investments in renewable energies, will buy 60% of the capital. The remaining 40% will remain in the hands of Solar Utility S.p.A. The initial value of the joint venture is around 20 million euro, and the target is to acquire about 100 MW in Italy.

The joint skills and projects developed in the sector by Solar Utility and by GWM Renewable Energy will allow for the creation of an important player in the domestic photovoltaic sector.

36. OTHER INFORMATION

Exchange Rates

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

(local currency against Euro)

	Period-end		Change in %	Average		Change in %
	06/30/2010	12/31/2009		2010	2009	
British pound	0.8175	0.8881	(7.96%)	0.8704	0.8941	(2.65%)
Swiss franc	1.3283	1.4836	(10.47%)	1.4360	1.5060	(4.65%)
Slovakian koruna	30.1260	30.1260	0.00%	30.1260	30.1260	0.00%
American dollar	1.2271	1.4406	(14.82%)	1.3280	1.3328	(0.36%)
Canadian dollar	1.2890	1.5128	(14.79%)	1.3728	1.6056	(14.50%)
Brazilian real	2.2106	2.5084	(11.87%)	2.3858	2.9216	(18.34%)
Venezuela bolivar	5.2765	6.1946	(14.82%)	5.2765	2.8655	84.14%
Argentinean peso	4.8237	5.4743	(11.88%)	5.1379	4.8453	6.04%
Australian dollar	1.4403	1.6008	(10.03%)	1.4854	1.8781	(20.91%)
Chinese renminbi	8.3331	9.8367	(15.29%)	9.0640	9.1066	(0.47%)
Singapore dollar	1.7160	2.0194	(15.02%)	1.8552	1.9881	(6.69%)
Egyptian pound	6.9853	7.8995	(11.57%)	7.3558	7.4570	(1.36%)
Turkish lira	1.9310	2.1707	(11.04%)	2.0255	2.1503	(5.80%)

Transactions deriving from atypical and/or unusual operations

Under the terms of the Consob Communication of July 28, 2006, it should be specified that in the first half of 2010 the Group did not carry out any atypical and/or unusual operations, as defined in the Communication itself.

Net financial position

(alternative performance measure not envisaged by the accounting standards)

(in thousands of euro)

	06/30/2010	12/31/2009 (°)
Current borrowings from banks and other lenders	261,174	275,926
Current financial accrued liabilities and deferred income	24,513	42,977
Non-current borrowings from banks and other lenders	1,012,759	1,505,805
Total gross debt	1,298,446	1,824,708
Cash and cash equivalents	(334,507)	(632,113)
Securities held for trading	(136,394)	(161,024)
Current financial receivables	(82,546)	(11,281)
Current financial accrued income and prepaid expenses	(12,142)	(5,018)
Net financial debt *	732,857	1,015,272

Non-current financial receivables	(94,040)	(485,810)
Non-current financial accrued income and prepaid expenses	(3,746)	(622)
Net financial position of working assets	635,071	528,840
Net financial position of discontinued operations	61,795	
Total net financial position	696,866	528,840

* Under the terms of Consob Communication of July 28th, 2006 and in conformity with the CESR recommendations of February 10th, 2005 - "Recommendations for the consistent implementation of the European Commission's Regulation on Prospectuses".

(*) inclusive of discontinued operations of Euro 41,300 thousand

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

(in millions of euro)

	Financial Statements 06.30.2010	Year of maturity			
		2010	2011	2012	2013 and beyond
Utilization of committed lines	425	-	-	425	-
Other loans	874	276	72	149	377
Total gross debt	1,299	276	72	574	377
		21.2%	5.5%	44.2%	29.1%

Companies consolidated line-by-line

Company	Business	Headquarters	Share	Capital	% holding	Held by
Europe						
Austria						
Pirelli GmbH	Tyre	Vienna	Euro	726.728	100,00%	Pirelli Tyre (Suisse) SA
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700.000	100,00%	Pirelli Tyre (Suisse) SA
Bulgaria						
Pirelli RE Bulgaria AD	Real Estate	Sofia	Bgn	50.000	75,00%	Pirelli RE Netherlands B.V.
France						
Gecam France S.a.S	Sustainable mobility	Villepinte	Euro	130.205	70,00%	Pirelli & C. Eco Technology S.p.A.
Pirelli Broadband Solutions France S.a.r.l.	Telecommunications	Villepinte	Euro	10.000	100,00%	Pirelli Broadband Solutions S.p.A.
Pneus Pirelli S.a.S	Tyre	Villepinte	Euro	1.515.858	100,00%	Pirelli Tyre (Suisse) SA
Germany						
BauBeCon Treuhand GmbH	Real Estate	Hannover Breuberg / Odenwald	Euro	530.000	100,00%	Pirelli RE Property Management Deutschland GmbH
Deutsche Pirelli Reifen Holding GmbH	Financial	Odenwald	Euro	7.694.943	100,00%	Pirelli Tyre S.p.A.
DGAG Beteiligung GmbH & Co. KG	Real Estate	Hamburg	Euro	42.118.445	94,90%	Mistral Real Estate B.V.
DGAG Nordpartner GmbH & Co. KG	Real Estate	Hamburg	Euro	2.760.976	94,00%	Mistral Real Estate B.V.
Drahtcord Saar Geschaeftsfuehrungs GmbH	Tyre	Merzig	Deut. Mark	60.000	50,00%	Pirelli Deutschland GmbH
Drahtcord Saar GmbH & Co. KG	Tyre	Merzig	Deut. Mark	30.000.000	50,00%	Pirelli Deutschland GmbH
Driver Handelssysteme GmbH	Tyre	Breuberg / Odenwald	Euro	26.000	100,00%	Deutsche Pirelli Reifen Holding GmbH
Einkaufszentrum Munzstasse GmbH & Co. KG	Real Estate	Hamburg	Deut. Mark	10.000.000	74,80%	DGAG Beteiligung GmbH & Co. KG
					25,20%	Pirelli & C. Real Estate Deutschland GmbH
PGP Projektentwicklung Goblers Park GmbH & Co. KG	Real Estate	Hamburg	Euro	100.000	94,90%	DGAG Nordpartner GmbH & Co. KG
					5,10%	VGP Verwaltung Goblers Park GmbH
Pirelli & C. Real Estate Deutschland GmbH	Real Estate	Hamburg	Euro	5.000.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli Deutschland GmbH	Tyre	Breuberg / Odenwald	Euro	26.334.100	100,00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Personal Service GmbH	Tyre	Breuberg / Odenwald	Euro	25.000	100,00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli RE Agency Deutschland GmbH	Real Estate	Hamburg	Euro	25.000	100,00%	Pirelli & C. Real Estate Deutschland GmbH
Pirelli RE Asset Management Deutschland GmbH	Real Estate	Hamburg	Euro	25.000	100,00%	Pirelli & C. Real Estate Deutschland GmbH
Pirelli RE Development Deutschland GmbH	Real Estate	Hamburg	Euro	153.400	100,00%	Pirelli & C. Real Estate Deutschland GmbH
Pirelli RE Facility Management Deutschland GmbH	Real Estate	Hamburg	Euro	25.600	100,00%	Pirelli & C. Real Estate Deutschland GmbH
Pirelli RE Hausmeister Service Deutschland GmbH	Real Estate	Kiel	Euro	25.000	100,00%	Pirelli RE Facility Management Deutschland GmbH
Pirelli RE Management Services Deutschland GmbH	Real Estate	Hamburg	Euro	25.000	100,00%	Pirelli & C. Real Estate Deutschland GmbH
Pirelli RE Property Management Deutschland GmbH	Real Estate	Hamburg	Euro	25.000	100,00%	Pirelli & C. Real Estate Deutschland GmbH
Pirelli RE Residential Investments GmbH	Real Estate	Hamburg	Euro	570.000	100,00%	Pirelli & C. Real Estate S.p.A.
PK Grundstuecksverwaltungs GmbH	Tyre	Hoechst / Odenwald	Euro	26.000	100,00%	Deutsche Pirelli Reifen Holding GmbH
Pneumobil GmbH	Tyre	Breuberg	Euro	259.225	100,00%	Deutsche Pirelli Reifen Holding GmbH

Company	Business	Headquarters	Share Capital	% holding	Held by	
Projekt Bahnhof Hamburg-Altona Verwaltungs GmbH	Real Estate	Hamburg	Euro	25.000	100,00%	Projektentwicklung Bahnhof Hamburg-Altona GmbH & Co. KG
Projektentwicklung Bahnhof Hamburg-Altona GmbH & Co. KG	Real Estate	Hamburg	Euro	8.000.000	74,90%	Pirelli & C. Real Estate Deutschland GmbH
Verwaltung Einkaufszentrum Munzstasse GmbH	Real Estate	Hamburg	Deut. Mark	50.000	74,80%	DGAG Beteiligung GmbH & Co. KG
					25,20%	Pirelli & C. Real Estate Deutschland GmbH
Verwaltung Grundstücksgesellschaft Friedenstrasse Wohnungsbau mbH	Real Estate	Hamburg	Euro	26.100	100,00%	DGAG Beteiligung GmbH & Co. KG
VGP Verwaltung Goblers Park GmbH	Real Estate	Hamburg	Euro	25.000	100,00%	DGAG Beteiligung GmbH & Co. KG
Greece						
Elastika Pirelli S.A.	Tyre	Kallithea (Athens)	Euro	1.192.000	99,90%	Pirelli Tyre (Suisse) SA
					0,10%	Pirelli Tyre S.p.A
Pirelli Hellas S.A. (in liquidation) The experts in wheels – Driver hellas S.A. of marketing and trading and supply of services of development, promotion and strategic organization of network in tires and spare parts	Sundry	Athens	US \$	22.050.000	79,86%	Pirelli Tyre S.p.A.
	Tyre	Kallithea (Athens)	Euro	100.000	72,00%	Elastika Pirelli S.A.
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3.000.000	100,00%	Pirelli Tyre (Suisse) SA
Ireland						
Pirelli Reinsurance Company Ltd	Reinsurance	Dublin	US \$	7.150.000	100,00%	Pirelli Finance (Luxembourg) S.A.
Italy						
Beta S.r.l.	Real Estate	Milan	Euro	26.000	100,00%	Pirelli & C. Real Estate S.p.A.
Bosco Solar S.r.l.	Environment	Milan	Euro	30.000	100,00%	Solar Prometheus S.r.l.
Centrale Immobiliare S.p.A.	Real Estate	Milan	Euro	5.200.000	100,00%	Pirelli & C. Real Estate S.p.A.
Centro Servizi Amministrativi Pirelli S.r.l.	Services	Milan	Euro	51.000	34,00%	Pirelli & C. S.p.A.
					33,00%	Pirelli Tyre S.p.A
					33,00%	Pirelli & C. Real Estate S.p.A.
CFT Finanziaria S.p.A.	Real Estate	Milan	Euro	20.110.324	100,00%	Pirelli & C. Real Estate S.p.A.
Driver Italia S.p.A.	Commercial	Milan	Euro	350.000	72,37%	Pirelli Tyre S.p.A
Edilnord Gestioni S.r.l. (in liquidation)	Real Estate	Milan	Euro	100.000	100,00%	Pirelli & C. Real Estate S.p.A.
EPRE S.r.l.	Environment	Milan	Euro	10.000	100,00%	Solar Utility S.p.A.
Geolidro S.p.A.	Real Estate	Naples	Euro	3.099.096	100,00%	Centrale Immobiliare S.p.A.
Giova Solar S.r.l.	Environment	Milan	Euro	65.000	100,00%	Solar Prometheus S.r.l.
Green&Co2 S.r.l.	Environment	Milan	Euro	10.000	100,00%	Pirelli & C. Ambiente S.p.A.
IESS Pachino S.r.l.	Environment	Rome	Euro	10.000	85,00%	Solar Utility S.p.A.
Iniziativa Immobiliari 3 S.r.l.	Real Estate	Milan	Euro	10.000	100,00%	Iniziativa Immobiliari 3 B.V.
Lambda S.r.l.	Real Estate	Milan	Euro	578.760	100,00%	Pirelli & C. Real Estate S.p.A.
Lux Solar S.r.l.	Environment	Milan	Euro	10.000	100,00%	Solar Prometheus S.r.l.
Maristel S.p.A.	Telecommunications	Milan	Euro	1.020.000	100,00%	Pirelli Broadband Solutions S.p.A.
NewCo RE 1 S.r.l.	Real Estate	Milan	Euro	30.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 9 S.r.l.	Real Estate	Milan	Euro	40.000	100,00%	Pirelli & C. Real Estate S.p.A.
Orione Immobiliare Prima S.p.A.	Real Estate	Milan	Euro	104.000	100,00%	Pirelli & C. Real Estate S.p.A.
Parcheggi Bicocca S.r.l.	Real Estate	Milan	Euro	1.500.000	100,00%	Pirelli & C. Real Estate S.p.A.
P.A. Società di Gestione del Risparmio S.p.A.	Financial	Milan	Euro	2.000.000	100,00%	Pirelli & C. Ambiente S.p.A.
						Pirelli & C. Real Estate Property Management S.p.A.
PBS S.C a r.l.	Real Estate	Milan	Euro	100.000	60,00%	
Perseo S.r.l.	Services	Milan	Euro	20.000	100,00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente S.p.A.	Environment	Milan	Euro	4.572.000	51,00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente Site Remediation S.p.A.	Environment	Milan	Euro	155.700	100,00%	Pirelli & C. Ambiente S.p.A.
Pirelli & C. Eco Technology S.p.A.	Sustainable mobility	Milan	Euro	17.810.000	51,00%	Pirelli & C. S.p.A.
Pirelli & C. Real Estate Agency S.p.A.	Real Estate	Milan	Euro	1.000.000	100,00%	Pirelli & C. Real Estate S.p.A.

Company	Business	Headquarters	Share Capital	% holding	Held by	
Pirelli & C. Real Estate Finance S.p.A.	Real Estate	Milan	Euro	120.000	100,00%	Pirelli & C. Real Estate Agency S.p.A.
Pirelli & C. Real Estate Property Management S.p.A.	Real Estate	Milan	Euro	114.400	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate S.p.A.	Real Estate	Milan	Euro	420.585.889	57,99% 0,14%	Pirelli & C. S.p.A. Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A.	Real Estate	Milan	Euro	24.558.763	90,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Valuations & e-Services S.p.A.	Real Estate	Milan	Euro	299.000	100,00%	Pirelli & C. Real Estate Agency S.p.A.
Pirelli Broadband Solutions S.p.A.	Telecommunications	Milan	Euro	9.120.000	100,00%	Pirelli & C. S.p.A.
Pirelli Cultura S.p.A.	Sundry	Milan	Euro	1.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Industrie Pneumatici S.r.l.	Tyre	Settimo Torinese (To)	Euro	31.000.000	100,00%	Pirelli Tyre S.p.A
Pirelli Labs S.p.A.	Research and Development	Milan	Euro	5.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Nastri Tecnici S.p.A. (in liquidation)	Sundry	Milan	Euro	384.642	100,00%	Pirelli & C. S.p.A.
Pirelli RE Credit Servicing S.p.A.	Real Estate	Milan	Euro	7.500.000	80,00%	Pirelli & C. Real Estate S.p.A.
Pirelli Servizi Finanziari S.p.A.	Financial	Milan	Euro	1.976.000	100,00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Information Systems	Milan	Euro	1.010.000	100,00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	256.820.000	100,00%	Pirelli & C. S.p.A.
Progetto Vallata S.r.l.	Real Estate	Milan	Euro	1.500.000	80,00%	Pirelli & C. Real Estate S.p.A.
PZero S.r.l.	Sundry	Milan	Euro	10.000	100,00%	Pirelli & C. S.p.A.
Sarca 222 S.r.l. (in liquidation)	Travel Agency	Milan	Euro	46.800	100,00%	Pirelli & C. S.p.A.
Servizi Amministrativi Real Estate S.p.A.	Real Estate	Milan	Euro	520.000	100,00%	Pirelli & C. Real Estate S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104.000	89,30% 2,00% 2,00% 1,00% 0,95% 0,95% 0,95% 0,95% 0,95%	Pirelli & C. S.p.A. Pirelli Tyre S.p.A Pirelli & C. Real Estate S.p.A. Pirelli & C. Ambiente S.p.A. Centro Servizi Amministrativi Pirelli S.r.l. Pirelli Broadband Solution S.p.A. Pirelli Labs S.p.A. Pirelli Sistemi Informativi S.r.l. PZero S.r.l. Pirelli & C. Eco Technology S.p.A.
SIB S.r.l.	Real Estate	Milan	Euro	10.100	100,00%	Pirelli RE Credit Servicing S.p.A.
Solar Prometheus S.r.l.	Environment	Milan	Euro	200.000	60,00%	Solar Utility S.p.A.
Solar Utility S.p.A.	Environment	Milan	Euro	14.000.000	100,00%	Pirelli & C. Ambiente S.p.A.
Solar Utility Salento S.r.l.	Environment	Milan	Euro	10.000	100,00%	Solar Utility S.p.A.
Solar Utility Sicilia S.r.l.	Environment	Milan	Euro	10.000	100,00%	Solar Utility S.p.A.
Valle Solar S.r.l.	Environment	Milan	Euro	20.000	100,00%	Solar Prometheus S.r.l.
Tau S.r.l. (in liquidation)	Real Estate	Milan	Euro	93.600	100,00%	Orione Immobiliare Prima S.p.A.
Luxembourg						
Pirelli Finance (Luxembourg) S.A.	Financial	Luxembourg	Euro	13.594.910	100,00%	Pirelli & C. S.p.A.
Poland						
Driver Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	100.000	63,00%	Pirelli Polska Sp.ZO.O.
Pirelli Pekao Real Estate Sp.ZO.O.	Real Estate	Warsaw	Pol. Zloty	35.430.000	75,00%	Pirelli & C. Real Estate S.p.A.
Pirelli Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	625.771	100,00%	Pirelli Tyre (Suisse) SA
Romania						
S.C. Pirelli & C. Eco Technology RO S.R.L.	Sustainable mobility	Oras Bumbesti-Jiu	Rom. Leu	75.000.000	100,00%	Pirelli & C. Eco Technology S.p.A.
Pirelli RE Romania S.A.	Real Estate	Bucarest	Rom. Leu	100.000	80,00%	Pirelli RE Netherlands B.V.
S.C. Cord Romania S.R.L.	Tyre	Slatina	Rom. Leu	36.492.150	80,00%	Pirelli Tyre S.p.A.
S.C. Pirelli Tyres Romania S.R.L.	Tyre	Slatina	Rom. Leu	442.169.800	100,00%	Pirelli Tyre S.p.A.

Company	Business	Headquarters	Share Capital	% holding	Held by	
Russia						
OOO Pirelli Tyre Russia	Commercial	Moscow	Russian Rouble	50.485.259	95,00% 5,00%	Pirelli Tyre (Suisse) SA Pirelli Tyre S.p.A
Slovakia						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Euro	6.638,78	100,00%	Pirelli Tyre (Suisse) SA
Spain						
Euro Driver Car S.L.	Tyre	Barcelona	Euro	831.000	24,91% 25,99%	Pirelli Neumaticos S.A. Proneus S.L.
Omnia Motor S.A.	Tyre	Barcelona	Euro	1.502.530	100,00%	Pirelli Neumaticos S.A.
Pirelli Iniciativas Tecnológicas S.L.	Tyre	Barcelona	Euro	10.000	100,00%	Pirelli Neumaticos S.A.
Pirelli Neumaticos S.A.	Tyre	Barcelona	Euro	25.075.907	100,00%	Pirelli Tyre S.p.A.
Proneus S.L.	Tyre	Barcelona	Euro	3.005	100,00%	Pirelli Neumaticos S.A.
Tyre & Fleet S.L.	Tyre	Barcelona	Euro	20.000	100,00%	Pirelli Neumaticos S.A.
Sweden						
Pirelli Tyre Nordic A.B.	Tyre	Bromma	Swed. Krona	950.000	100,00%	Pirelli Tyre (Suisse) SA
Switzerland						
Pirelli Société Générale S.A.	Financial	Basel	Swiss Franc	28.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Tyre (Suisse) SA	Tyre	Basel	Swiss Franc	1.000.000	100,00%	Pirelli Tyre S.p.A.
The Netherlands						
Mistral Real Estate B.V. (Tracking Share)	Real Estate	Amsterdam	Euro	18.000	100,00%	Pirelli & C. Real Estate S.p.A.
Mistral Real Estate B.V. (Tracking Shares Glosslers Park)	Real Estate	Amsterdam	Euro	18.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli China Tyre N.V.	Tyre	Heinenoord	Euro	38.045.000	100,00%	Pirelli Tyre S.p.A.
Pirelli Holding N.V. (in Liquidatie)	Holding Company	Heinenoord	Euro	60.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli RE Netherlands B.V.	Real Estate	Amsterdam	Euro	21.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Heinenoord	Euro	18.152	100,00%	Pirelli Tyre (Suisse) SA
Sipir Finance N.V. (in Liquidatie)	Financial	Heinenoord	Euro	13.021.222	100,00%	Pirelli & C. S.p.A.
Turkey						
Celikord A.S.	Tyre	Istanbul	Turkish Lira	29.000.000	98,733% 0,632% 0,367% 0,267%	Pirelli Tyre S.p.A. Pirelli UK Tyre Holding Ltd Pirelli UK Tyres Ltd Pirelli Industrie Pneumatici S.r.l.
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	Turkish Lira	140.000.000	99,84% 0,15% 0,00%	Pirelli Tyre S.p.A. Pirelli Industrie Pneumatici S.r.l. Pirelli Tyre (Suisse) SA
United Kingdom						
CPK Auto Products Ltd	Tyre	Burton on Trent	British Pound	10.000	100,00%	Pirelli UK Tyres Ltd
CTC 1994 Ltd	Tyre	Burton on Trent	British Pound	984	100,00%	CTC 2008 Ltd
CTC 2008 Ltd	Tyre	Burton on Trent	British Pound	100.000	100,00%	Pirelli UK Tyres Ltd
Pirelli International Ltd	Financial	Burton on Trent	Euro	250.000.000	75,00% 25,00%	Pirelli UK Tyre Holding Ltd Pirelli Tyre S.p.A
Pirelli Tyres Ltd	Tyre	Burton on Trent	British Pound	16.000.000	100,00%	Pirelli UK Tyres Ltd
Pirelli UK Ltd	Finance Holding Company	Burton on Trent	British Pound	97.161.278	100,00%	Pirelli & C. S.p.A.
Pirelli UK Tyre Holding Ltd	Holding Company	Burton on Trent	British Pound	96.331.000	100,00%	Pirelli Tyre S.p.A.
Pirelli UK Tyres Ltd	Tyre	Burton on Trent	British Pound	85.000.000	75,00% 25,00%	Pirelli UK Tyre Holding Ltd Pirelli Tyre S.p.A

Company	Business	Headquarters	Share Capital	% holding	Held by	
North America						
Canada						
Pirelli Tire Inc.	Tyre	Fredericton (New Brunswick)	Can. \$	6.000.000	100,00%	Pirelli Tyre (Suisse) SA
U.S.A.						
Pirelli North America Inc.	Tyre	Atlanta Wilmington	US \$	10	100,00%	Pirelli Tyre S.p.A.
Pirelli Tire LLC	Tyre	(Delaware)	US \$	1	100,00%	Pirelli North America Inc.
Central/South America						
Argentina						
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	101.325.176	95,00%	Pirelli Tyre S.p.A.
					5,00%	Pirelli Pneus Ltda
Pirelli Soluciones Tecnologicas S.A.	Telecommunications	Buenos Aires	Arg. Peso	1.283.070	95,00%	Pirelli Broadband Solutions S.p.A.
					5,00%	Pirelli & C. S.p.A.
Brazil						
Comercial e Importadora de Pneus Ltda	Tyre	Sao Paulo	Bra. Real	12.913.526	100,00%	Pirelli Pneus Ltda
Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda	Tyre	Santo Andrè	Bra. Real	84.784.342	100,00%	Pirelli Pneus Ltda
Pirelli Broadband Solutions Soluções em Telecomunicações Ltda	Telecommunications	Santo Andrè	Bra. Real	2.000.000	100,00%	Pirelli Broadband Solutions S.p.A.
Pirelli Ltda	Financial	Sao Paulo	Bra. Real	28.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda	Tyre	Feira de Santana	Bra. Real	341.145.811	100,00%	Pirelli Tyre S.p.A.
TLM - Total Logistic Management Serviços de Logística Ltda	Holding Company	Santo Andrè	Bra. Real	1.006.000	99,98%	Pirelli Pneus Ltda
					0,02%	Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda
Chile						
Pirelli Neumaticos Chile Limitada	Tyre	Santiago	Chile Peso/000	1.918.451	99,98%	Pirelli Pneus Ltda
					0,02%	Comercial e Importadora de Pneus Ltda
Colombia						
Pirelli de Colombia S.A.	Tyre	Santa Fe De Bogota	Col. Peso/000	3.315.069	92,91%	Pirelli Pneus Ltda
					2,28%	Pirelli de Venezuela C.A.
					1,60%	Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda
					1,60%	TLM - Total Logistic Management Serviços de Logística Ltda
					1,60%	Comercial e Importadora de Pneus Ltda
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	35.098.400	99,98%	Pirelli Pneus Ltda
					0,02%	Comercial e Importadora de Pneus Ltda
Servicios Pirelli Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	50.000	99,00%	Pirelli Pneus Ltda
					1,00%	Comercial e Importadora de Pneus Ltda
Venezuela						
Pirelli de Venezuela C.A.	Tyre	Valencia	Ven. Bolivar/000	20.062.679	96,22%	Pirelli Tyre S.p.A.

Company	Business	Headquarters	Share Capital	% holding	Held by	
Africa						
Egypt						
Alexandria Tire Company S.A.E.	Tyre	Alexandria	Egy. Pound	393.000.000	89,08% 0,03%	Pirelli Tyre S.p.A Pirelli Tyre (Suisse) SA
International Tire Company Ltd	Tyre	Alexandria	Egy. Pound	50.000	99,80%	Alexandria Tire Company S.A.E.
South Africa						
Pirelli Tyre (Pty) Ltd	Tyre	Centurion	S.A. Rand	1	100,00%	Pirelli Tyre (Suisse) SA
Oceania						
Australia						
Pirelli Tyres Australia Pty Ltd	Tyre	Sydney	Aus. \$	150.000	100,00%	Pirelli Tyre (Suisse) SA
New Zealand						
Pirelli Tyres (NZ) Ltd	Tyre	Auckland	N.Z. \$	100	100,00%	Pirelli Tyres Australia Pty Ltd
Asia						
China						
Pirelli Scientific and Technological Consulting (Shanghai) Co. Ltd	Tyre	Shanghai	US \$	200.000	100,00%	Pirelli China Tyre N.V.
Pirelli Tyre Co. Ltd	Tyre	Yanzhou	China Renmimbi	1.041.150.000	75,00%	Pirelli China Tyre N.V.
Yanzhou Hixih Ecotech Environment CO. Ltd	Sustainable mobility	Yanzhou	China Renmimbi	130.000.000	60,00%	Pirelli & C. Eco Technology S.p.A.
Japan						
Pirelli Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2.700.000.000	100,00%	Pirelli Tyre S.p.A.
Singapore						
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. \$	2	100,00%	Pirelli Tyre (Suisse) SA

Investments accounted for by the equity method

Company	Business	Headquarters	Share	Capital	% holding	Held by
Europe						
Germany						
Beteiligungsgesellschaft Einkaufszentrum Mülheim GmbH	Real Estate	Hamburg	Deut. Mark	60.000	41,17%	Pirelli & C. Real Estate Deutschland GmbH
City Center Mülheim Grundstücksgesellschaft mbH & Co. KG	Real Estate	Hamburg	Euro	47.805.791	41,17%	Pirelli & C. Real Estate Deutschland GmbH
Einkaufszentrum Mülheim & Co. KG	Real Estate	Hamburg	Euro	26.075.886	41,18%	Pirelli & C. Real Estate Deutschland GmbH
Grundstücksgesellschaft Königstrasse mbH & Co. KG	Real Estate	Hamburg	Euro	1.024.629	44,90%	DGAG Beteiligung GmbH & Co. KG
Grundstücksgesellschaft Merkur Hansaallee mbH & Co. KG	Real Estate	Hamburg	Euro	22.905.876	33,75%	Verwaltung Grundstücksgesellschaft Friedenstrasse Wohnungsbau mbH Pirelli & C. Real Estate Deutschland GmbH
Industriekraftwerk Breuberg GmbH Kurpromenade 12 Timmendorfer Strand Grundstücksgesellschaft mbH & Co. KG	Cogeneration	Odenwald	Euro	1.533.876	26,00%	Pirelli Deutschland GmbH
Projektentwicklung Blankenese Bahnhofplatz GmbH & Co. KG	Real Estate	Hamburg	Euro	6.237.761	50,00%	Pirelli & C. Real Estate Deutschland GmbH
Projektentwicklung Blankenese Bahnhofplatz GmbH & Co. KG	Real Estate	Hamburg	Euro	5.200.000	50,00%	DGAG Nordpartner GmbH & Co. KG
Projektentwicklungsgesellschaft Bahnhofsgelände Blankenese mbH & Co. KG	Real Estate	Hamburg	Euro	10.000	47,40%	DGAG Nordpartner GmbH & Co. KG
Resident Berlin 1 P&K GmbH	Real Estate	Berlin	Euro	125.000	40,00%	Verwaltung Blankenese Bahnhofplatz GmbH Pirelli RE Residential Investments GmbH
Tizian Wohnen 1 GmbH	Real Estate	Berlin	Euro	1.114.400	40,00%	Pirelli RE Residential Investments GmbH
Tizian Wohnen 2 GmbH	Real Estate	Berlin	Euro	347.450	40,00%	Pirelli RE Residential Investments GmbH
Verwaltung Blankenese Bahnhofplatz GmbH	Real Estate	Hamburg	Deut. Mark	50.000	100,00%	Projektentwicklung Blankenese Bahnhofplatz GmbH & Co. KG
Verwaltung Büro - und Lichtspielhaus Hansaallee GmbH	Real Estate	Hamburg	Deut. Mark	50.000	27,00%	Pirelli & C. Real Estate Deutschland GmbH
Verwaltung City Center Mülheim Grundstücksgesellschaft mbH	Real Estate	Hamburg	Deut. Mark	60.000	20,00%	Grundstücksgesellschaft Merkur Hansaallee mbH & Co. KG
Verwaltung Kurpromenade 12 Timmendorfer Strand Grundstücksgesellschaft mbH & Co. KG	Real Estate	Hamburg	Deut. Mark	50.000	41,17%	Pirelli & C. Real Estate Deutschland GmbH
Verwaltung Mercado Ottensen Grundstücksgesellschaft mbH	Real Estate	Hamburg	Deut. Mark	50.000	50,00%	Pirelli & C. Real Estate Deutschland GmbH
					44,00%	Pirelli RE Netherlands B.V.
					50,00%	Mistral Real Estate B.V.
Greece						
Eco Elastica SA	Tyre	Athens	Euro	60.000	20,00%	Elastika Pirella SA
Italy						
A.P.I.C.E. - società per azioni	Environment	Rome	Euro	200.000	50,00%	Pirelli & C. Ambiente S.p.A.
Aree Urbane S.r.l.	Real Estate	Milan	Euro	100.000	34,60%	Pirelli & C. Real Estate S.p.A.
					0,28%	Pirelli & C. S.p.A.
Cairol Finance S.r.l.	Real Estate	Milan	Euro	10.000	35,00%	Pirelli & C. Real Estate S.p.A.
Castello S.r.l. (in liquidation)	Real Estate	Milan	Euro	1.170.000	49,10%	Pirelli & C. Real Estate S.p.A.
Consorzio G6 Advisor	Real Estate	Milan	Euro	50.000	42,30%	Pirelli & C. Real Estate Agency S.p.A.
Continuum S.r.l. (in liquidation)	Real Estate	Milan	Euro	500.000	40,00%	Pirelli & C. Real Estate S.p.A.
Dixia S.r.l.	Real Estate	Milan	Euro	2.500.000	30,00%	Pirelli & C. Real Estate S.p.A.
Dolcetto sei S.r.l.	Real Estate	Milan	Euro	10.000	50,00%	Pirelli & C. Real Estate S.p.A.

Company	Business	Headquarters	Share Capital	% holding	Held by
Erice S.r.l. (in liquidation)	Real Estate	Milan	Euro 10.000	40,00%	Pirelli & C. Real Estate S.p.A.
Eurostazioni S.p.A.	Holding	Rome	Euro 160.000.000	32,71%	Pirelli & C. S.p.A.
Finprema S.p.A.	Real Estate	Milan	Euro 120.000	35,00%	Pirelli & C. Real Estate S.p.A.
Golfo Aranci S.p.A. - Società di Trasformazione Urbana	Real Estate	Golfo Aranci (Ot)	Euro 1.000.000	43,80% 5,00%	Pirelli & C. Real Estate S.p.A. Centrale Immobiliare S.p.A.
Idea Granda Società Consortile r.l.	Enviroment	Cuneo	Euro 1.292.500	49,00%	Pirelli & C. Ambiente S.p.A.
Induxia S.r.l. (in liquidation)	Real Estate	Milan	Euro 40.000	18,00%	Pirelli & C. Real Estate S.p.A.
Iniziative Immobiliari S.r.l.	Real Estate	Milan	Euro 5.000.000	49,46%	Pirelli & C. Real Estate S.p.A.
Manifatture Milano S.p.A.	Real Estate	Rome	Euro 11.230.000	50,00%	Pirelli & C. Real Estate S.p.A.
Maro S.r.l. (in liquidation)	Real Estate	Milan	Euro 20.000	25,00%	Pirelli & C. Real Estate S.p.A.
Progetto Bicocca la Piazza S.r.l. (in liquidation)	Real Estate	Milan	Euro 3.151.800	26,00%	Pirelli & C. Real Estate S.p.A.
Progetto Bicocca Università S.r.l. (in liquidation)	Real Estate	Cinisello Balsamo (Mi)	Euro 50.360	50,50%	Pirelli & C. Real Estate S.p.A.
Progetto Corsico S.r.l.	Real Estate	Milan	Euro 100.000	49,00%	Pirelli & C. Real Estate S.p.A.
Progetto Fontana S.r.l. (in liquidation)	Real Estate	Milan	Euro 10.000	23,00%	Pirelli & C. Real Estate S.p.A.
Progetto Gioberti S.r.l. (in liquidation)	Real Estate	Milan	Euro 100.000	50,00%	Pirelli & C. Real Estate S.p.A.
RCS MediaGroup S.p.A.	Finance Holding Company	Milan	Euro 762.019.050	5,33%	Pirelli & C. S.p.A.
Riva dei Ronchi S.r.l.	Real Estate	Milan	Euro 100.000	50,00%	Pirelli & C. Real Estate S.p.A.
Roca S.r.l. (in liquidation)	Real Estate	Milan	Euro 20.000	25,00%	Pirelli & C. Real Estate S.p.A.
Serenergy S.r.l.	Enviroment	Milan	Euro 25.500	50,00%	Pirelli & C. Ambiente S.p.A.
Solaris S.r.l.	Real Estate	Milan	Euro 20.000	40,00%	Pirelli & C. Real Estate S.p.A.
Tamerice Immobiliare S.r.l.	Real Estate	Milan	Euro 500.000	20,00%	Pirelli & C. Real Estate S.p.A.
Trixia S.r.l.	Real Estate	Milan	Euro 1.209.700	36,00%	Pirelli & C. Real Estate S.p.A.
Turismo e Immobiliare S.p.A.	Real Estate	Milan	Euro 120.000	33,30%	Pirelli & C. Real Estate S.p.A.
Vesta Finance S.r.l.	Real Estate	Milan	Euro 10.000	35,00%	Pirelli & C. Real Estate S.p.A.
Luxembourg					
Afrodite S.à r.l.	Real Estate	Luxembourg	Euro 4.129.475	40,00%	Pirelli & C. Real Estate S.p.A.
Alimede Luxembourg S.à r.l.	Real Estate	Luxembourg	Euro 12.945	35,00%	Pirelli & C. Real Estate S.p.A.
Alnitak S.à r.l.	Real Estate	Luxembourg	Euro 4.452.500	35,00%	Pirelli & C. Real Estate S.p.A.
Artemide S.à r.l.	Real Estate	Luxembourg	Euro 2.857.050	35,00%	Pirelli & C. Real Estate S.p.A.
Austin S.à r.l.	Real Estate	Luxembourg	Euro 125.000	28,46%	Pirelli & C. Real Estate S.p.A.
Bicocca S.à r.l.	Real Estate	Luxembourg	Euro 12.520	35,00%	Pirelli & C. Real Estate S.p.A.
Colombo S.à r.l.	Real Estate	Luxembourg	Euro 960.150	35,00%	Pirelli & C. Real Estate S.p.A.
Dallas S.à r.l.	Real Estate	Luxembourg	Euro 125.000	28,46%	Pirelli & C. Real Estate S.p.A.
Delamain S.à r.l.	Real Estate	Luxembourg	Euro 12.500	49,00%	Pirelli & C. Real Estate S.p.A.
Doria S.à r.l.	Real Estate	Luxembourg	Euro 992.850	35,00%	Pirelli & C. Real Estate S.p.A.
European NPL S.A.	Real Estate	Luxembourg	Euro 2.538.953	33,00%	Pirelli & C. Real Estate S.p.A.
IN Holdings I S.à r.l.	Real Estate	Luxembourg	Euro 2.595.725	20,50%	Pirelli & C. Real Estate S.p.A.
Inimm Due S.à r.l.	Real Estate	Luxembourg	Euro 240.950	25,00%	Pirelli & C. Real Estate S.p.A.
Nashville S.à r.l.	Real Estate	Luxembourg	Euro 125.000	28,46%	Pirelli & C. Real Estate S.p.A.
Sicily Investments S.à r.l.	Real Estate	Luxembourg	Euro 12.500	40,00%	Pirelli & C. Real Estate S.p.A.
Solaia RE S.à r.l.	Real Estate	Luxembourg	Euro 13.000	40,00%	Pirelli & C. Real Estate S.p.A.
Trinacria Capital S.à r.l.	Real Estate	Luxembourg	Euro 12.500	40,00%	Pirelli & C. Real Estate S.p.A.
Vespucci S.à r.l.	Real Estate	Luxembourg	Euro 960.150	35,00%	Pirelli & C. Real Estate S.p.A.

Company	Business	Headquarters	Share Capital	% holding		Held by
Portugal						
Espelha - Serviços de Consultadoria Lda	Real Estate	Madeira	Euro	5.000	49,00%	Pirelli & C. Real Estate S.p.A.
Romania						
SC Eco Anvelope S.A.	Tyre	Bucarest	Rom. Leu	160.000	20,00%	S.C. Pirelli Tyres Romania S.R.L.
Spain						
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200.000	20,00%	Pireli Neumaticos S.A.
The Netherlands						
Aida RE B.V.	Real Estate	Amsterdam	Euro	18.000	40,00%	Pirelli RE Netherlands B.V.
Alceo B.V.	Real Estate	Amsterdam	Euro	18.000	33,00%	Pirelli & C. Real Estate S.p.A.
Gamma RE B.V.	Real Estate	Amsterdam	Euro	18.000	49,00%	Pirelli RE Netherlands B.V.
M.S.M.C. Italy Holding B.V.	RE Holding	Amsterdam	Euro	20.050	25,00%	Pirelli & C. Real Estate S.p.A.
Masseto 1 B.V.	Real Estate	Amsterdam	Euro	19.000	33,00%	Pirelli & C. Real Estate S.p.A.
Mistral Real Estate B.V.	Real Estate	Amsterdam	Euro	18.000	35,02%	Pirelli & C. Real Estate S.p.A.
Polish Investments Real Estate Holding B.V.	RE Holding	Amsterdam	Euro	20.000	40,00%	Pirelli & C. Real Estate S.p.A.
Polish Investments Real Estate Holding II B.V.	RE Holding	Amsterdam	Euro	18.000	40,00%	Pirelli & C. Real Estate S.p.A.
Popoy Holding B.V.	RE Holding	Amsterdam	Euro	26.550	25,00%	Pirelli & C. Real Estate S.p.A.
S.I.G. RE B.V.	Real Estate	Amsterdam	Euro	18.000	47,20%	Pirelli RE Netherlands B.V.
Sigma RE B.V.	Real Estate	Amsterdam	Euro	18.000	24,66%	Pirelli RE Netherlands B.V.
SI Real Estate Holding B.V.	RE Holding	Amsterdam	Euro	763.077	25,00%	Pirelli & C. Real Estate S.p.A.
Spazio Investment N.V.	Real Estate	Amsterdam	Euro	4.589.189	22,07%	Pirelli RE Netherlands B.V. Spazio Investment N.V.
Theta RE B.V.	Real Estate	Amsterdam	Euro	18.005	40,00%	Pirelli RE Netherlands B.V.
North America						
U.S.A.						
Sci Roev Texas Partners L.P.	Real Estate	Dallas	US \$	12.000.000	10,00%	Pirelli & C. Real Estate S.p.A.
CyOptics Inc.	Fotonica	Breinigville	US \$	631.352.501	34,41%	Pirelli & C. S.p.A.
Central/South America						
Argentina						
Lineas de Transmision de Buenos Aires S.A. (in liquidation)	Services	Buenos Aires	Arg. Peso	12.000	20,00%	Pirelli Soluciones Tecnologicas S.A.
Asia						
China						
Sino Italian Wire Technology Co. Ltd	Pneumatici	Yanzhou	China Renmimbi	227.500.000	49,00%	Pirelli Tyre S.p.A.

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

Company	Business	Headquarters	Share Capital	% holding	Held by
Belgium					
Euroqube S.A. (in liquidation)	Services	Brussels	Euro	84.861.116	17,79% Pirelli & C. S.p.A.
France					
Aliapur S.A.	Tyre	Lion	Euro	262.500	14,29% Pirelli Tyre S.p.A
Germany					
WoWiMedia GmbH & Co. KG	Real Estate	Hamburg	Euro	2.500.000	18,85% Pirelli RE Netherlands B.V.
AVW Assekuranzvermittlung der Wohnungswirtschaft GmbH & Co. KG	Real Estate	Hamburg	Euro	260.000	10,50% 0,20% Pirelli RE Netherlands B.V. Pirelli & C. Real Estate Deutschland GmbH
Hungary					
HUREC Tyre Recycling Non-Profit Company	Tyre	Budapest	Hun. Forint	50.000.000	17,00% Pirelli Hungary Tyre Trading and Services Ltd
Italy					
Fin. Priv. S.r.l.	Financial	Milan	Euro	20.000	14,29% Pirelli & C. S.p.A.
Tecnocittà S.r.l. (in liquidation)	Real Estate	Milan	Euro	547.612	12,00% Pirelli & C. Real Estate S.p.A.
Poland					
Centrum Utylizacji Opon Organizacja Odzysku S.A.	Tyre	Warsaw	Pol. Zloty	1.008.000	14,29% Pirelli Polska Sp. ZO.O.
Tunisia					
Société Tunisienne des Industries de Pneumatiques S.A.	Tyre	Tunis	Tun. Dinar	12.623.472	15,83% Pirelli Tyre S.p.A
United Kingdom					
Tlcom I Ltd Partnership	Financial	London	Euro	1.204	10,39% Pirelli Finance (Luxembourg) S.A.
U.S.A.					
Oclaro Inc.	Telecommunication	Delaware	US \$	1.860.209	5,50% Pirelli Finance (Luxembourg) S.A.

DECLARATION PURSUANT TO ARTICLE 154-Bis of TUF

Here below is the declaration rendered pursuant to Article 154-bis of the Consolidated Financial Act (Legislative Decree no. 58/1998) according to the model provided by Consob.

In this regard it is recalled that Article 11 of the By-laws provides that the Board of Directors of the Company shall appoint, after consulting the Statutory Auditors, the Manager responsible for the Preparation of the financial Reports of the Company manager responsible for drafting corporate accounting documents (“Manager in charge”), who must be experienced on the subject of administration, finance and control and possess the integrity requirements established for the directors. The Manager in charge of the Company is Dr. Francesco Tanzi, Finance Director of the Company to whom also refer all the structures of finance, administration, and taxation of the Group.

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

1. We, the undersigned, Marco Tronchetti Provera, Chairman of the board of directors and Francesco Tanzi, manager responsible for the preparation of Pirelli & C. S.p.A.’s financial reports, certify, having also taken into account the provisions of art. 154-bis, paragraphs 3 and 4, of Legislative Decree 58 dated February 24, 1998:
 - the adequacy in relation to the characteristics of the company and
 - the effective implementation,of the administrative and accounting procedures used in the preparation of the Half-yearly condensed consolidated financial statements during the period January 1, 2010 – June 30, 2010;

2. In this regard, we also certify:

- there have been no situations of particular interest in terms of operations or strategies to report nor have there been any problems and/or anomalies noted also with regard to the effective application of the procedures;
- the evaluation of the adequacy of the administrative and accounting procedures used in the preparation of the Half-yearly condensed consolidated financial statements at June 30, 2010 is based upon an assessment of the system of internal control. This assessment is based upon a specific process defined by Pirelli & C. S.p.A. consistently with the “Internal Control – Integrated Framework” model issued by the “Committee of Sponsoring Organizations of the Treadway Commission” (COSO), an internationally- accepted reference framework.

3. In addition, we certify that:

3.1. the condensed Half-yearly consolidated financial statements:

- a. have been prepared in compliance with the applicable international accounting standards as endorsed by the European Union under EC regulation 1606/2002 of the European Parliament and Council of July 19, 2002;
- b. correspond to the information in the book and other accounting records;
- c. provide a true and fair representation of the financial condition, results of transactions and cash flows of the company and the aggregate of the companies included in consolidation.

3.2 the interim management report contains a reliable analysis of references to important events which took place during the first six months of the year 2010 and their impact on the Half-yearly condensed consolidated financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the year. The interim management report also contains a reliable analysis of information on significant transactions with related parties.

July 29 , 2010

Chairman of the Board of Directors

Manager responsible for the
Preparation of the financial
Reports of the company

(Marco Tronchetti Provera)

(Francesco Tanzi)



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Auditors' review report on the condensed consolidated interim financial statements
(Translation from the original Italian text)

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

1. We have reviewed the condensed consolidated interim financial statements, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows and the related explanatory notes, of Pirelli & C. S.p.A. and its subsidiaries (the "Pirelli Group") as of June 30, 2010. Pirelli & C. S.p.A.'s Directors are responsible for the preparation of the condensed consolidated interim financial statements in conformity with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to issue this review report based on our review.
2. We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. Our review consisted mainly of obtaining information on the accounts included in the condensed consolidated interim financial statements and the consistency of the accounting principles applied, through discussions with management, and of applying analytical procedures to the financial data presented in these consolidated financial statements. Our review did not include the application of audit procedures such as tests of compliance and substantive procedures on assets and liabilities and was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, unlike an audit on the annual consolidated financial statement, we do not express an audit opinion on the condensed consolidated interim financial statements.

With respect to the consolidated financial statements of the prior year and the condensed consolidated interim financial statements of the corresponding period of the prior year, presented for comparative purposes, reference should be made to our reports issued on April 2, 2010 and on August 5, 2009, respectively.

3. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of Pirelli Group as of June 30, 2010 are not prepared, in all material respects, in conformity with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union.
4. Without qualifying our opinion, we draw your attention to the fact that the Extraordinary Shareholders Meeting of the Company, held on July 15, 2010, approved the reduction of the share capital pursuant to Article 2445 of the Civil Code, through the assignment of the shares of the subsidiary Pirelli & C. Real Estate S.p.A. to the shareholders of the Company; as illustrated in the interim management report and in the explanatory note n. 31 (discontinued operations), the condensed consolidated interim financial statements as of June, 30, 2010 reflects the effects of the application of IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) in presenting and evaluating assets and liabilities and results related to the aforementioned subsidiary.

Milan, August 5, 2010

Reconta Ernst & Young S.p.A.

Signed by: Pietro Carena, Partner

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

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