

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

**Interim management statements
at March 31, 2009**

PIRELLI & C. Società per Azioni

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

Share Capital - Euro 1,556,692,865.28

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Board of Directors¹

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

* Independent director

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

[^] Member of the Remuneration Committee

Secretary to the Board	Anna Chiara Svelto
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Board of Statutory Auditors³

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

General Manager

Operations	Claudio De Conto
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Independent Auditors⁴

Reconta Ernst & Young S.p.A.

Manager responsible for the preparation of financial reports⁵

Claudio De Conto

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

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

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

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

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

DIRECTORS' REPORT ON OPERATIONS

The reorganisation actions started last year allowed the impact of the continued crisis to be constrained and to close the first quarter of 2009 with an improvement compared to the fourth quarter of 2008. However, a decline is observed compared to the first quarter of the prior year, due to a slowdown in the automotive and real estate industries, where the Group operates. On the whole, the Group closed this last quarter with revenues of 1,043 million euro and an operating profit / sales ratio of 4.5%. The net result (+ 1.1 million euro) is basically in balance.

In the first quarter, **Pirelli Tyre** has completed part of the reorganisation actions already announced to cope with the tough market environment, as part of its industrial improvement plan and in order to adapt its overhead structure to the changed scenario. The first three months of 2009 show some improvement signs, compared to the last quarter of 2008, although they were still adversely affected by high raw material costs. A decrease in raw material prices will produce benefits starting from the second quarter of 2009. These will be accompanied by the positive effects, already being significantly felt, of inventory decrease.

In the first quarter, through actions aimed at a wider penetration in the domestic and international markets, **Pirelli Eco Technology**, the Group's sustainable mobility company, was able to post a growth in the sales of antiparticulate filters, compared to the same period in 2008, although its results are still being affected by structural costs caused by the business expansion.

In the real estate business, **Pirelli Real Estate** is going forward with the reorganisation started last year, to cope with the changed scenario.

The company has closed the first quarter of 2009 with still negative results, but less so compared to the last quarter of the prior year, despite the crisis that hit the industry last year and its continued adverse effects.

To support the new business model and to allow the Company to express the real implicit assets value over the course of the 2009-2011 Plan, the Shareholders' Extraordinary Meeting approved a 400 million euro capital increase last April 17th.

Among the other businesses, **Pirelli Broadband Solutions** showed good results, having closed the quarter with a revenues increase of over 50%.

In line with the announcement made on the introduction of the Group's 2009-2011 Industrial Plan, the Group went on focusing on and strengthening the core businesses, also through a redefinition of the business portfolio. The agreement for the 56 million euro sale of the participation in Alcatel-Lucent Submarine Networks (submarine systems for telecommunications) to Alcatel-Lucent, executed on March 24th, 2009, goes into this direction.

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

The net result of Pirelli & C. S.p.A. as of March 31st, 2009 is 6.5 million euro, compared to 33.5 million euro in the first quarter of 2008.

Such result includes the gains from the sale of the participation in Alcatel-Lucent Submarine Networks, worth 11.2 million euro, whereas the result of the first quarter of 2008 included the 55 million euro dividend from Pirelli Tyre S.p.A.

As of March 31st, 2009, equity is 1,667.5 million euro (of which 1,554.3 million euro relates to share capital), compared to 1,685.6 million euro as of December 31st, 2008.

SIGNIFICANT EVENTS IN THE FIRST QUARTER

On January 27th, 2009, Brembo, Magneti Marelli and Pirelli announced they started working together on the development of advanced solutions for the Italian and international automotive industry.

Cyber Tyre, the “smart” tyre developed by Pirelli, will be integrated with Magneti Marelli electronic control systems and Brembo advanced braking systems for *ad hoc* technological solutions, to meet performance and safety needs of all user types.

The competencies and excellence of the three Italian groups, also acknowledged internationally, will allow important synergies and the development of applications, in particular for car safety systems with a view to curb environmental impact, in compliance of international regulations and the new Co2 emission levels set by the European Union for 2012 and onwards.

On February 11th, 2009, Pirelli Group announced the guidelines of its 2009-2011 Industrial Plan.

On March 5th, 2009, the Pirelli Real Estate Board of Directors ratified the deliberations made in February, by approving an operation aimed at strengthening the Company’s equity structure and supporting the new business model, by proposing a capital increase against payment, in divisible form, to be offered as options to its Shareholders, for a maximum amount of 400 million euro. The operation, approved by the Meeting on April 27th, 2009, is likely to be completed before the end of the first half of the current year.

Pirelli & C. S.p.A. gave its full support to the operation and committed to subscribe its pertaining share, amounting to 226 million euro, and stated to be also available to subscribe those shares that, at the end of the offering procedure, should remain unsubscribed, for a total amount of 174 million euro. Pirelli & C. S.p.A. will serve its commitment by converting part of its financial credit with Pirelli Real Estate into shares. Such credit amounted to 492 million euro as of March 31st, 2009.

On March 24th, 2009, Pirelli and Alcatel-Lucent executed an agreement providing for the sale by Pirelli to Alcatel-Lucent of the participation in Alcatel-Lucent Submarine Networks, the business concerned with submarine systems for telecommunications. The operations took place as a result of Pirelli's exercise of its 'put' option, agreed between the two companies in 2004, at the time of the agreement, whereby Alcatel acquired some Pirelli submarine systems businesses. The sale, amounting to 56 million euro, is to take place in three instalments before the end of 2009 and produced gains of 11.2 million euro. The dismissal by Pirelli is consistent with its strategy of focusing on its core business, as announced by the Group on the introduction of its 2009-2011 Industrial Plan.

On March 26th, 2009, Pirelli Tyre launched Cinturato P7, the first environment-friendly high-performance tyre, for the high end of the market. P7 completes the green product family, Cinturato, launched last year with models P4 and P6 aimed at mid-range cars. From an environmental standpoint, Cinturato P7, besides cutting Co2 emissions up to 4 grams per kilometre, with the resulting reduction of fuel consumption, lowers sound emissions by 30%. From the safety viewpoint, it ensures excellent performance on both dry and wet ground. On average, tyres are responsible for 20% of total consumption and Co2 emissions of a vehicle.

At the same time as the launch of the new product, Pirelli Tyre has introduced in Italy a new incentive program for tyre replacement, with a totally self-financed initiative that, like the one for vehicle destruction, provides a contribution for the purchase of fuel to those who replace their tyres with Pirelli environment-friendly products.

A complete novelty for the industry, such measure is aimed at sustaining demand at a time of economic crisis and at encouraging the adoption of products with a low impact on the environment for each segment of the car market, by subsidising the replacement of tyres whose wear exceeds legal limits to enhance of road safety.

The worn tyre replacement incentive is part of the Pirelli program to develop increasingly innovative and environment-friendly products and solutions, in line with its announced 2009-2011 Industrial Plan introduced by the Group last February.

THE GROUP

In this quarterly report, in addition to the financial performance measures established by IFRS, certain non-IFRS originated from the latter are presented although they are not required by IFRS (*Non-GAAP Measures*).

These performance measures are presented for purposes of a better understanding of the trend of operations of the Group and should not be construed as a substitute for the information required by IFRS.

Specifically, the *Non-GAAP Measures* used are described as follows:

- **Gross operating profit:** this financial measure is used by the Group as a financial target in internal business plan and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group as a whole and for each single business, in addition to the Operating Profit. Gross Operating Profit is an intermediate performance measure represented by the operating Profit from which depreciation and amortization are excluded.
- **Earnings (losses) from investments:** earnings (losses) from investments consist of all the effects recorded in the income statement referring to investments not consolidated line-by-line. These include dividends, the share of the earnings (losses) from investments accounted for using the equity method, impairment losses on available-for-sale financial assets and gains (losses) on the disposal of available-for-sale financial assets. Changes in the fair value of available-for-sale financial assets which are recognised directly in equity 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:** the sum of “Provisions for other liabilities and charges (current and non-current)”, “Employee benefit obligations” and “Deferred tax liabilities”;
- **Net working capital:** this measure consists of all the items not included in the two above mentioned measures, in “Equity” and “Net financial position”;
- **Net financial (liquidity)/debt position:** this performance measure is represented by gross financial debt less cash and cash equivalents as well as other interest-earning financial receivables. The section “Interim consolidated financial statements and notes” presents a table showing the balance sheet amounts used to calculate net financial (liquidity)/debt position.

While reading the data, it should be kept in mind that Integrated Facility Management items of Pirelli Real Estate and Fotonica assets, sold in 2008, are considered as **discontinued operations** and have therefore only contributed to the net result. 2008 comparison data were therefore restated with the same scope.

The Group consolidated financial statements for the first quarter can be summarised as follows:

(in million of euro)	03/31/2009	03/31/2008	12/31/2008
Net sales	1,043.0	1,197.9	4,660.2
Gross operating profit before restructuring expenses	101.7	172.1	396.1
% of net sales	9.8%	14.4%	8.5%
Operating profit before restructuring expenses	50.3	119.9	187.4
% of net sales	4.8%	10.0%	4.0%
Restructuring expenses	(3.5)	(4.8)	(144.2)
Operating profit	46.8	115.1	43.2
% of net sales	4.5%	9.6%	0.9%
Earnings (losses) from investments	0.8	(16.5)	(366.5)
Operating profit (loss) including earnings (losses) from investments	47.6	98.6	(323.3)
Financial income (expenses)	(20.2)	(2.0)	(80.0)
Income taxes	(26.3)	(30.0)	(72.6)
Income (loss) from continuing operations	1.1	66.6	(475.9)
% of net sales	0.1%	5.6%	(10.2%)
Income from discontinued operations	-	(4.2)	63.4
Total income (loss)	1.1	62.4	(412.5)
Income (loss) attributable to the equity holders of Pirelli & C. S.p.A.	9.5	33.8	(347.5)
Earnings per share (in euro)	0.002	0.006	(0.065)
Fixed assets	3,557.4	3,977.5	3,665.4
Net working capital	730.9	643.9	418.4
Net invested capital	4,288.3	4,621.4	4,083.8
Equity	2,302.4	3,187.5	2,374.4
Provisions	707.0	582.9	681.7
Net financial (liquidity)/debt position	1,278.9	851.0	1,027.7
Equity attributable to the equity holders of Pirelli & C. S.p.A.	2,129.0	2,772.5	2,171.8
Equity per share (in euro)	0.397	0.516	0.405
Headcount (number at period-end)	29,662	31,293	31,056
Factories	23	24	23
Pirelli & C. S.p.A. shares			
ordinary shares (number in millions)	5,233.1	5,233.1	5,233.1
<i>of which treasury shares</i>	<i>3.9</i>	<i>2.6</i>	<i>3.9</i>
savings shares (number in millions)	134.8	134.8	134.8
<i>of which treasury shares</i>	<i>4.5</i>	<i>4.5</i>	<i>4.5</i>
Total shares	5,367.9	5,367.9	5,367.9

For a better understanding of the Group performance in its various business operations, the following economic data and net financial position are provided by business.

(in million of euro)

	03/31/2009					TOTAL
	Tyre	Eco Technology	Real Estate	Broadband Access	Other (*)	
Net sales	926.9	14.3	53.8	44.0	4.0	1,043.0
Gross operating profit (loss) before restructuring exp.	107.8	(2.3)	(0.5)	2.7	(6.0)	101.7
Operating profit (loss) before restructuring expenses	61.0	(2.8)	(2.2)	2.5	(8.2)	50.3
Restructuring expenses	(3.5)	-	-	-	-	(3.5)
Operating profit (loss)	57.5	(2.8)	(2.2)	2.5	(8.2)	46.8
Earnings (losses) from investments	3.5	-	(12.5)	-	9.8	0.8
Operating profit (loss) incl. earnings (losses) from investments before restructuring expenses	64.5	(2.8)	(14.7)	2.5	1.6	51.1
Operating profit (loss) including earnings (losses) from investments	61.0	(2.8)	(14.7)	2.5	1.6	47.6
Financial income (expenses)	(23.1)	(0.6)	0.2	0.4	2.9	(20.2)
Income taxes	(23.3)	-	(2.1)	(0.1)	(0.8)	(26.3)
Income (loss)	14.6	(3.4)	(16.6)	2.8	3.7	1.1
Net financial (liquidity)/debt position	1,521.8	26.8	309.3	(32.3)	(546.7)	1,278.9

(in million of euro)

	03/31/2008					TOTAL
	Tyre	Eco Technology	Real Estate	Broadband Access	Other (*)	
Net sales	1,076.9	16.6	74.7	28.3	1.4	1,197.9
Gross operating profit (loss) before restructuring exp.	151.0	(1.9)	24.6	1.3	(2.9)	172.1
Operating profit (loss) before restructuring expenses	102.8	(2.1)	22.7	1.1	(4.6)	119.9
Restructuring expenses	(2.5)	-	(2.3)	-	-	(4.8)
Operating profit (loss)	100.3	(2.1)	20.4	1.1	(4.6)	115.1
Earnings (losses) from investments	0.1	-	(0.2)	-	(16.4)	(16.5)
Operating profit (loss) incl. earnings (losses) from investments before restructuring expenses	102.9	(2.1)	22.5	1.1	(21.0)	103.4
Operating profit (loss) including earnings (losses) from investments	100.4	(2.1)	20.2	1.1	(21.0)	98.6
Financial income (expenses)	(15.2)	(0.1)	(2.5)	(2.0)	17.8	(2.0)
Income taxes	(27.5)	-	(5.4)	(0.1)	3.0	(30.0)
Income (loss) from continuing operations	57.7	(2.2)	12.3	(1.0)	(0.2)	66.6
Income from discontinued operations	-	-	0.7	-	(4.9)	(4.2)
Income (loss)	57.7	(2.2)	13.0	(1.0)	(5.1)	62.4
Net financial (liquidity)/debt position	843.8	8.3	300.3	33.4	(334.8)	851.0

(*) the item includes the Environment business, Pzero Moda, all financial companies (including the Parent companies) and other service companies

Net Sales

In the first quarter, net sales amounted to 1,043 million euro, compared to 1,197.9 million euro in the same period last year.

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

	1st Quarter 2009	1st Quarter 2008
Tyre	88.9%	89.9%
Eco Technology	1.4%	1.4%
Real Estate	5.2%	6.2%
Broadband Access	4.2%	2.1%
Other	0.3%	0.1%
	100.0%	100.0%

Here below, the variation on a like-for-like basis broken down by business:

Tyre	-	11.2%
Eco Technology	-	13.9%
Real Estate	-	28.0%
Broadband Access	+	55.5%
Other Businesses	+	40.9%
Total group	-	10.5%
Foreign exchange effect	-	2.4%
Total variation	-	12.9%

As for the Tyre business, the variation is mainly attributable to a volume drop, whereas in the case of Eco Technology the decrease is totally connected to the Gecam product, while volumes of the Antiparticulate Filter business have gone up. Pirelli Real Estate sales were adversely affected by a contracting market, while Pirelli Broadband Access has performed well.

Operating profit

Operating profit is 46.8 million euro, representing 4.5% of net sales (after 3.5 million euro restructuring expenses), compared to 115.1 million euro in the same period last year (after 4.8 million euro restructuring expenses). As in the last quarter of 2008, operating profit was affected by the contraction of the automotive and real estate markets.

The variation of the single businesses is as follows (million euro):

(in million of euro)

Operating Profit 1st Quarter 2008	115.1
Tyre	(41.8)
Eco Technology	(0.7)
Real Estate	(24.9)
Broadband Access	1.4
Restructuring expenses	1.3
Other	(3.6)
	(68.3)
Operating Profit 1st Quarter 2009	46.8

Total income (loss)

Total income is 1.1 million euro, compared to 62.4 million euro in the first quarter of 2008.

Earnings from investments, amounting to 0.8 million euro, suffered from a reduced contribution from Pirelli Real Estate on the one side and on the other from the gains, worth 11.2 million euro, originated from the sale of the participation in Alcatel-Lucent Submarine Networks.

The increase in financial expenses compared to the same period of 2008 (20.2 million euro vs. 2.0 million euro) is the result of a different average level of the net financial position in the two periods.

The **income attributable to equity holders of the Company** is 9.5 million euro compared to 33.8 million euro in the first quarter of 2008.

Equity

Equity as of March 31st, 2009 is 2,302.4 million euro, compared to 2,374.4 million euro at the end of 2008.

Equity attributable to equity holders of Pirelli & C. S.p.A. as of the same date is 2,129 million euro (Euro 0.397 per share) compared to 2,171.8 million euro (Euro 0.405 per share) as of December 31st, 2008.

The variation is summarised below:

(in million of euro)

	Group	Minority interest	Total
Equity at December 31, 2008	2,171.8	202.6	2,374.4
Translation differences	13.4	(0.3)	13.0
Income (loss) for the period	9.5	(8.4)	1.1
Tyre minorities acquisition	-	(7.4)	(7.4)
Change in fair value of other financial assets/derivatives	(67.9)	(11.4)	(79.2)
Other changes	2.2	(1.7)	0.5
Total changes	(42.8)	(29.2)	(72.0)
Equity at March 31, 2009	2,129.0	173.4	2,302.4

Net financial position

The Group net financial position is a net debt of 1,278.9 million euro compared to 1,027.7 million euro as of December 31st, 2008.

The variation (excluding the negative exchange rate effect of 7 million euro) can be summarised as follows:

(in million of euro)

	1st Quarter 2009	1st Quarter 2008
EBIT	46.8	115.1
Amortization	51.4	52.2
Net investments	(42.9)	(47.1)
Variation net workin capital/other	(258.7)	(324.2)
Free cash flow	(203.4)	(204.0)
Financial income/(expenses)	(20.2)	(2.0)
Income taxes	(26.3)	(30.0)
Operating cash flow	(249.9)	(236.0)
Impact of Speed S.p.A. acquisition	-	(835.5)
Financial investments/divestments	37.9	(9.2)
Tyre dividend paid out	-	(35.2)
Cash out for restructuring	(45.8)	(0.9)
Other	(0.6)	(19.9)
Net cash flow	(258.4)	(1,136.7)

RELATED PARTY DISCLOSURES

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

The income statement and balance sheet effects of transactions with related parties on the consolidated financial statements of the Pirelli Group as of March 31st, 2009, are shown below.

Transactions with associates and joint ventures:

(in million of euro)

Revenues for goods and services	26.1	These mainly refer to mandates with the associates and JV of the Real Estate relating to fund and asset management and technical and commercial services.
Other expenses	1.6	These mainly refer to Pirelli & C. Real Estate sundry types of amounts recharged, connected, among other things, also to consortium expenses.
Financial income	8.3	This mainly includes interest income relating to financial receivables from associates and joint ventures of Pirelli & C. Real Estate.
Current trade receivables	70.0	These mainly refer to receivables for services rendered to associates and joint ventures of Pirelli & C. Real Estate.
Non-current other receivables	0.7	
Non-current financial receivables	575.0	These mainly refer to loans made for real estate initiatives managed by the individual companies of the Pirelli & C. Real Estate Group.
Current other receivables	6.9	These refer to Pirelli & C. Real Estate and mainly include a receivable to be collected for dividends declared.
Current financial receivables	19.1	These mainly refer to current account balances with the new companies that hold real estate assets in Germany.
Current trade payables	15.7	These mainly refer to Pirelli & C. Real Estate sundry types of amounts recharged.
Current other payables	6.4	These mainly include Pirelli & C. Real Estate companies' sundry types of amounts recharged.
Current borrowings from banks and other financial institutions	5.0	These mainly include the liability balances on the intercompany current accounts of the companies of Pirelli & C. Real Estate.
Current tax payables	1.1	These refer to the payable of Pirelli & C. Real Estate S.p.A. to Trixia S.r.l. for expenses arising from this company's participation in the regime for fiscal transparency under art. 115 of TUIR, by virtue of which taxable income and loss of the company are allocated to the shareholders.

Transaction with parties related to Pirelli through directors

(in million of euro)

Revenues for goods and services	0.5	These refer to services rendered by Pirelli & C. Real Estate S.p.A. and Pirelli & C. S.p.A. to the Camfin group
Other expenses	4.2	These refer to costs for the sponsorship of F.C. Internazionale Milano S.p.A.
Current trade receivables	1.2	These refer to receivables for the supply of the above services to the Camfin.
Current trade payables	0.2	These refer to payables for the supply of the above services to F.C. Internazionale Milano S.p.A.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FIRST QUARTER

On April 7th, 2009, the 150 million euro bond issued by Pirelli & C. S.p.A. in 1999 at a fixed rate of 5.125% was redeemed.

On April 8th, 2009, Carlo A. Puri Negri left the post of Executive Vice President of Pirelli & C. Real Estate S.p.A. At the same time, Giulio Malfatto joined the Group with the role of Managing Director of Pirelli & C. Real Estate S.p.A., with responsibility for the business, while Claudio De Conto, Managing Director Finance, maintains responsibilities for supervision and direction in financial areas.

In April, the Group sold 44.7 million Telecom Italia shares on the market for about 47 million euro.

OUTLOOK FOR THE CURRENT YEAR

The results of the first quarter of 2009 are in line with the targets announced on the introduction of the 2009-2011 Industrial Plan, on February 11th.

In particular, 4.3 billion euro revenues are expected, with a growth of the weight connected to the Environment business from 19% at the end of 2008 to 25%. The ROS ratio is expected to be 4.5%-5%.

The net financial position at the end of the year is expected to be negative (approximately 1 billion euro), essentially in line with the end of 2008.

PIRELLI TYRE

The table below illustrates the economic and financial results achieved in the first quarter of 2009 and a comparison with the same period in 2008:

(in million of euro)

	03/31/2009	03/31/2008	12/31/2008
Net sales	926.9	1,076.9	4,100.2
Gross operating profit before restructuring expenses	107.8	151.0	441.2
% on net sales	11.6%	14.0%	10.8%
Operating profit before restructuring expenses	61.0	102.8	250.7
% on net sales	6.6%	9.5%	6.1%
Restructuring expenses	(3.5)	(2.5)	(100.0)
Operating profit	57.5	100.3	150.7
% on net sales	6.2%	9.3%	3.7%
Earnings from investments	3.5	0.1	27.8
Operating profit including earnings from investments before restructuring expenses	64.5	102.9	178.5
Operating profit including earnings from investments	61.0	100.4	178.5
Financial income (expenses)	(23.1)	(15.2)	(82.8)
Income taxes	(23.3)	(27.5)	(70.1)
Net Income	14.6	57.7	25.6
% on net sales	1.6%	5.4%	0.6%
Net financial (liquidity)/debt position	1,521.8	843.8	1,266.8
Headcount (number at period-end)	27,304	27,334	28,601
Factories (number)	23	24	23

Net sales reached 926.9 million euro, with a decrease of 13.9% compared to the same period last year.

The like-for-like variation is -11,2%, with a negative volume variation (18,1%) and a positive price/mix variation (6,9%). The exchange rate effect was a negative 2.7%, mainly due to the devaluation of the Brazilian currency.

The change can be summarised as follows, by single item:

Volumes	-	18.1%
Prices/mix	+	6.9%
Change on a like-for-like basis	-	11.2%
Foreign exchange effect	-	2.7%
Total change	-	13.9%

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

Geographical area	1st Quarter 2009	1st Quarter 2008
Italy	10%	10%
Other European countries	36%	38%
North America	8%	7%
Central and South America	31%	30%
Oceania, Africa, Asia	15%	15%
	100%	100%

Product category	1st Quarter 2009	1st Quarter 2008
Car tyres	62%	59%
Truck tyres	25%	27%
Motorcycle tyres	10%	11%
Steelcord/other	3%	3%
	100%	100%

In a negative scenario especially of mature markets, the growing incidence of South American sales, already observed in 2008, was confirmed, despite the negative impact of a 14% devaluation of the Brazilian currency against the first quarter of 2008, matched by a reduced incidence of sales especially in Europe, mainly due to a volume reduction in the Original Equipment channel, whereas sales in North America benefited from the US dollar revaluation of 13% compared to the first quarter of 2008.

Such reduction hit the Industrial business area in particular and determined a growing incidence of the Consumer business sales (72%) against the Industrial (28%).

The **operating profit** of the first quarter was essentially affected by the following factors:

- a continued high market contraction for the Industrial business in both sales channels and a more market reduction of the Original Equipment market in the Consumer business, as already observed in the last quarter of 2008;
- raw material costs kept on being high, compared to the first quarter of the prior year, due to the progressively growing trend of costs observed last year, with peaks in the second half, and to growing inventories at the end of 2008, with the resulting impact on the cost of goods sold for finished products in the first quarter of 2009. However, it should be noted that the trend of raw material prices has reversed in the first quarter, which should produce favourable effects starting from the second quarter;
- the continuation of reorganisation measures, all the more important in a scenario where production capacity is underutilised (staff reduction of 1,300 units in the first quarter of 2009).

The **gross operating profit before restructuring expenses** is 107.8 million euro (11.6% of net sales), with a 28.6% reduction compared to the same period of 2008, when it amounted to 151.0 million euro (14.0% of net sales), but with a recovery in profitability against the results achieved in the fourth quarter of 2008.

The **operating profit before restructuring expenses** was 61.0 million euro (6.6% of net sales), reduced against the first quarter of 2008 when it amounted to 102.8 million euro (9.5% of net sales).

The reduction of the operating profit before restructuring expenses by individual item can be summarised as follows:

<i>(in million of euro)</i>	
Operating Profit before restructuring expenses 1st Quarter 2008	102.8
Foreign exchange effect	(1.6)
Prices/mix	43.0
Volumes	(28.7)
Production factors per unit cost	(53.9)
Efficiencies	(1.2)
Depreciation and other	0.6
	(41.8)
Operating Profit before restructuring expenses 1st Quarter 2009	61.0

Despite the positive price/mix variance, the operating profit was strongly affected by the high level of production costs, which continued in the first quarter of 2009, and the peculiar market scenario which had a negative effect on sales volumes.

In this negative market framework, where production capacity is partially unsaturated, Pirelli Tyre has executed certain agreements in the first quarter, relating to the reorganisation plan aiming at improving the industrial setup and making it increasingly more efficient, as well as adapting its fixed cost structure to the changed market scenario.

These measures are essentially based on layoff costs, with a resulting staff reduction of 15% in Western Europe by the end of 2009.

Staff reduction measures have been applied to all the major European countries. The decision to totally discontinue tyre production in the Spanish factory of Manresa, whose production was already cut by 40% starting from February, has also been made.

The **operating profit after restructuring expenses** was 57.5 million euro (6.2% of net sales), with a reduction compared to the first quarter of 2008, when it amounted to 100.3 million euro (9,3% of net sales).

Total income was 14.6 million euro (after financial expenses and earnings from investments of 19.6 million euro and income taxes amounting to 23.3 million euro) and compares with 57.7 million euro (after financial expenses and earnings from investments of 15.1 million euro and income taxes amounting to 27.5 million euro) of last year.

In the first quarter, the 4 million euro acquisition of minority interests in the Turkish subsidiaries has essentially been completed with a further positive 3.5 million euro impact on the earnings from investments, deriving from the purchase value which proved to be lower than book value.

The **net financial position** is a net debt of 1.521,8 million euro, compared to 1,266.8 million euro at December 31st, 2008.

Such result is mainly due to the following factor:

- 39 million euro cash-out in the first quarter, relating to restructuring measures already accrued in 2008;
- 227 million euro cash absorption, especially concentrated in the seasonality of the working capital, which has in any case grown less than in the first quarter of 2008 in terms of business volumes and above all due to a significant reduction of inventory levels, which should improve turnover in the second quarter;
- a mitigation effect was achieved by the positive balance, 11 million euro, from the sale of the Central Tyre distribution business in the UK (15 million euro), net of the completion of the purchase of minority stakes in the Turkish subsidiaries, with a further payout of 4 million euro.

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

Consumer Business

The Consumer business revenues were 670.5 million euro (- 10.4% compared to 2008), whereas the operating profit of the ordinary activities before restructuring expenses was 41.9 million euro, with 6.2% ROS, against 72.5 million euro of the same period of 2008, with a 9.7% ROS.

In the **Original Equipment** channel, in particular in the first two months of the year, a reduction in car demand, that had started in the second half of 2008 and had shown serious negative signs already in the last quarter of last year, became even stronger especially in the first two months of this year. In the first quarter of 2009, car manufacturers further reduced their production to limit the inventory level reached at the end of 2008, with a resulting lower demand for tyres (tyre market in the first quarter -34% in Europe, -49% in North America, -18% Mercosur). In March, less negative rates were reported and some countries had positive rates as government incentives were introduced for car sales.

In the **Replacement** channel, in the first quarter of 2009, reduction rates were lower (-5% in Europe, -14% in North America and a 1% growth in Mercosur).

To cope with such market scenario, where a total sales volume reduction of 14.7 took place, Pirelli Tyre focused on the price/mix variation positive of 6.6%, limiting the organic reduction of sales to 8.1%. The negative exchange rate variation, 2.3%, generated a negative total revenues variation of 10,4%.

Sales of **Motorcycle** tyres were also adversely affected by the global market scenario.

Industrial Business

In the Industrial business area revenues amounted to 256.4 million euro, with a decrease of 22.0% compared to the same period of 2008 (328.6 million euro). The operating profit is 19.1 million euro. Calculated as a return on sales this represents 7.5%, a decrease from 30.2 million euro for the same period of the prior year with a return on sales of 9.2%.

Sales in the Industrial business area have shown a decrease in both sales channels. The strategic positioning of Pirelli Tyre, focused on production and sales in emerging markets, has favoured a good general level of profitability, despite high production costs and a particularly unfavourable trend in sales volumes.

The Industrial business area is generally cyclic, suffering directly the general economic trend and particularly, the effect of specific sectors such as public works, large scale construction etc. The general decline of the Industrial business area registered in the first quarter of 2009 (Original Equipment Europe – 69%, Original Equipment Mercosur – 29%, Replacements Europe – 33%, Replacements Mercosur – 26%) can therefore be attributed to this negative trend of the general economy and a decrease in demand for industrial transport of goods.

Overall sales volumes for Pirelli Tyre is 25.7% less than the previous quarter with a positive price/mix variation of 7.2%, bringing the overall value for sales to 18.5%. A negative exchange effect of 3.5% gives a final value of 22%, which is less than the corresponding period of 2008.

Outlook for the Current Year

The company confirms the outlook presented in the Industrial Plan on February 11th, 2009 which forecasts a difficult market; in the Industrial business sector for both sales channels and for the Consumer business sector, especially in the channel Original Equipment. For Replacement a less negative trend should show due to the stock present on the market, reduced fuel costs and an optimistic prevision for the coming winter season.

Increased competition in costs deriving from restructuring, a positive channel mix and the focus on “green products” (Cinturato P7 and Snowcontrol II) for the Consumer business area and certain core markets of the Industrial business sector, together with reduced costs of raw materials should all favour – according to the market forecast – more positive operations than 2008, with a difficult start for the first half and recuperating in the second half of the year.

PIRELLI ECO TECHNOLOGY

The relevant data can be summarised as follows:

(in million of euro)	03/31/2009	03/31/2008	12/31/2008
Net sales	14.3	16.6	62.9
Gross operating profit	(2.3)	(1.9)	(11.0)
Operating profit	(2.8)	(2.1)	(11.8)
Financial income (expenses)	(0.6)	(0.1)	(1.6)
Income taxes	-	-	0.2
Loss	(3.4)	(2.2)	(13.2)
Net financial (liquidity)/debt position	26.8	8.3	19.0
Headcount (number at period-end)	266	85	218

Net sales as of March 31st, 2009 are 14.3 million euro compared to 16.6 million euro for 2008 and are principally attributable to GECAM products.

The **Operating Result** is a loss of 2.8 million euro, slightly less than the same period for the prior year.

The GECAM business sector shows a positive result while the anti-particulate filter business absorbed the burden of the start-up costs both for the new production plant in Romania and in reinforcing the commercial network.

The **Loss** is 3.4 million euro after deduction of financial charges of 0.6 million euro.

The **Net Financial Position** is a net debt position of 26.8 million euro compared to 19.0 million euro as of December 31st, 2008.

On March 31st, 2009, the number of **Headcount** is 266 with an increase against the number on December 31st, 2008, concentrated in the commencement of operations and staffing in the production site in Bumbesti Jiu, Romania.

Anti-particulate Filters - Retrofits

In the first quarter of the current year, 903 units Feelpure filter systems were sold for a total of 3.5 million euro, compared to 122 units sold in the first quarter of 2008 with total sales of 0.5 million euro. Sales were concentrated mainly in Italy and the Netherlands, countries which issued homologation for the Feelpure filter systems during the year 2008.

Homologation is currently underway and near completion in Germany and in China and when terminated, will open markets with an elevated potential for growth. During the current quarter, the Group has commenced activities in the production site at Bumbesti Jiu in Romania, which will produce goods both for the current active markets and those where homologation is underway. This should bring marked benefits for sales for the second half of the current year. In these markets, the Company has a proprietary commercial network and distribution network and has also the support of the commercial network of Pirelli Tyre.

In addition, during the first quarter of 2009, Pirelli Eco Technology commenced installation of anti-particulate filter systems for the Public Transport System of the Piedmont Region and by September 2009, with the support of the same Regional Authority and in line with the Plan for Improvement of Air Quality, the company will install its proprietary filter systems on 879 public vehicles in the region.

Gecam – the White Diesel

The first quarter of 2009 showed a slowing down both in sales and in income which is also exacerbated by a lower average unit revenue caused by a fall in fuel costs. The reduction of the volume of sales in Italy is due to the ATM (Municipal Transport Companies) which terminated purchases but which is partially compensated by an increase in activities in France.

Outlook for the Current Year

During the current year, business will be mainly concentrated towards development of the Retrofits line by completion of a series of products with the prospect of penetrating new markets and the implementation and structuring of adequate pre and post-sales services – distinguishing factors from the competitors active in this same sector.

In particular, the Italian market should benefit from the completion and enlargement of the regional and local authority norms regarding particle pollution control, both from funding recently launched by the Ministry of the Environment and by several regional administrations to incentivise the installation of particle filter systems which will have a positive effect on demand for the second semester.

The expected start of commercial activities in China and in Germany together with the development of new markets with the launch of trials in Brazil and a series of agreements with European municipalities will permit the Group to continue its development plan and consolidate its leadership in the anti-particulate filter system sector.

PIRELLI REAL ESTATE

Pirelli Real Estate is a real estate fund and asset management company which acquires, adds value to and manages high quality property portfolios by taking minority stakes in partnerships with leading international investors.

The organization structure based on geographical areas – Italy, Germany and Poland - and product-specialized business units, combines knowledge of local markets with specialist know-how in different segments.

Pirelli Real Estate has established a distinctive business model over the years with a team of professionals serving investors and users of commercial and residential buildings, which combines active portfolio management with co-investment in partnership with top international investors.

(in million of euro)	03/31/2009	03/31/2008	12/31/2008
Consolidated net sales	53.8	74.7	365.1
Operating profit (loss) before restructuring expenses property writedowns/revaluations	(2.2)	22.7	(17.7)
Earnings (losses) from investments before property writedowns/revaluations	(12.5)	(0.2)	(42.0)
Operating profit (loss) including earnings (losses) from investments before restructuring expenses and property writedowns/revaluations	(14.7)	22.5	(59.7)
Restructuring expenses	-	(2.3)	(44.2)
Property writedowns/revaluations	-	-	(135.8)
Operating profit including earnings (losses) from investments	(14.7)	20.2	(239.7)
Financial income from investments	8.5	7.5	23.0
Financial expenses	(8.3)	(10.0)	(49.0)
Income taxes	(2.1)	(5.4)	(1.9)
Income (loss) from continuing operations	(16.6)	12.3	(267.6)
Discontinued operations	-	0.7	74.6
Total income (loss)	(16.6)	13.0	(193.0)
Income (loss) attributable to the equity holders of the company	(15.8)	11.6	(195.0)
Equity	320.1	717.6	366.4
<i>of which attributable to the equity holders of the company</i>	<i>317.1</i>	<i>712.0</i>	<i>361.7</i>
Net financial (liquidity)/debt position	309.3	300.3	289.5
<i>Credit for Shareholder loans</i>	<i>589.1</i>	<i>507.6</i>	<i>572.3</i>
Net financial (liquidity)/debt position including credit for shareholder loans	898.4	807.9	861.8
Gearing	2.8	1.1	2.3

The real estate sector continued to be affected in the first quarter of 2009 by the severe international crisis starting last year. The comparison with the first quarter of 2008 should be read in this light.

When reading the figures, attention is drawn to the Integrated Facility Management business, sold during 2008, and thus considered as a "discontinued operations", and is therefore represented only in the net result. The comparative figures for 2008 have been restated on a consistent basis.

Economic growth, although still following a negative trend in the first quarter of 2009, is however better than the figures for the last quarter of 2008.

Rents at March 31st, 2009 is 201.5 million euro, in line with the previsions (143.1 million euro for the first quarter of 2008 - these figures do not include the Highstreet portfolio). The pro-rata Pirelli RE income on rentals is 47.3 million euro (38.1 million euro in 2008).

Real estate sales in the first quarter of 2009 amounted to 174.8 million euro on a 100% aggregate basis (of which the pro-rata Pirelli RE is 50.5 million euro) compared with 199.8 million euro in the first quarter of 2008 (of which the pro-rata Pirelli RE was 66.9 million euro). The margin for sales was 17% (26% in the first quarter of 2008).

In order to provide shareholders with the most complete information possible concerning trends in the real estate market, the market value of assets under management, the Company's net asset value and the returns on portfolios, Pirelli RE has requested the independent experts appointed to value its real estate assets to update their valuations in view of the forthcoming capital increase. These appraisals are in the process of being completed and should be ready within the first ten days of May in time for publication in the offer prospectus.

The changes relative to the values at December 31st, 2008 are not thought to be material in relation to Pirelli RE's net equity: in fact, the reduction in Pirelli RE's share of net equity is estimated to be between 4 and 7 million euro, equating to around 1% to 2% of total net equity.

The **Consolidated Revenue** is 53.8 million euro compared to 74.7 million euro at March 31st, 2008.

EBIT including net income from investments before restructuring costs was a negative 14.7 million euro compared with a positive 22.5 million euro in the first quarter of 2008. The decrease of 37.2 million euro comprises 24.9 million euro in lower EBIT and 12.3 million euro in lower income from investments.

The decrease of 24.9 million euro in EBIT reflects 10.0 million euro in cost savings that were counterbalanced by the following negative factors: the inclusion in the 2008 figures of compensation received in return for relinquishing management of the Berenice fund (17.0 million euro); the inclusion in the 2008 figures of out-of-period income (3.5 million euro); lower results by consolidated vehicle companies, mostly due to fewer sales (5.6 million euro) and worse results by the Non Performing Loans service platform (5.8 million euro).

Earnings (losses) from investments show a decrease of 12.3 million euro, attributable to: 10.0 million euro relating to the results of vehicle companies and funds mostly because of lower sales margins and 2.3 million euro in negative fair value adjustments to interest rate hedging instruments.

The **loss attributable to equity holders of the company** is 15.8 million euro compared to a net income of 11.6 million euro at March 31st, 2008. Discontinued operations in the first quarter of 2008 had a positive effect of 0.7 million euro.

The **equity attributable to equity holders of the company** is 317.1 million euro compared to 361.7 million euro in December 2008. The decrease of 44.6 million euro is mainly attributable to the net loss of 15.8 million euro and the change over the period in the reserve for interest rate hedges (negative 25.1 million euro).

The **net invested capital** is 1.3 billion euro, of which 0.2 billion euro for non performing loans (NPL) and 1.1 billion euro for real estate activity (73% in Italy and 27% in Germany).

The **net financial position** at March 31st, 2009 is a debt position of 309.3 million euro compared to 289.5 million euro at the end of 2008 (300.3 million euro at March 31st, 2008).

The **net financial position excluding shareholder loans granted** reported net debt of 898.4 million euro compared with 861.8 million euro at the end of December 2008 and 807.8 million euro at March 31st, 2008. The change of 36.6 million euro over the period reflects 10.9 million euro for equity and shareholder loans contributions, 7.7 million euro for financial investments, 6.8 million euro for paying restructuring costs provided in 2008 and 5.5 million euro for other movements in the quarter.

Italy Real Estate

EBIT including net income from investments before restructuring costs was a negative 5.7 million euro at March 31st, 2009, compared with a positive 15.4 million euro at March 31st, 2008 which had also benefited from 17.0 million euro in compensation for an undertaking to relinquish management of the Berenice fund. EBIT comprises 4.9 million euro in income from services (18.4 million euro in 2008) and -10.7 million euro in losses from real estate vehicle companies and funds (-3.0 million euro in 2008). The decrease of 21.1 million euro in EBIT in comparison with the EBIT of first quarter of 2008 consists of -13.4 million euro in income from services (asset management and specialized services) and -7.7 million euro from reduced results of real estate vehicle companies and funds.

Real estate sales in the first quarter of 2009 amounted to 144.8 million euro on a 100% aggregate basis (of which the Pirelli RE share was 39.1 million euro) compared with 155.7 million euro in the first quarter of 2008 (of which the Pirelli RE share was 44.4 million euro). The sales margin in Italy was 16% (28% in the first quarter of 2008).

Rents totalled 79.6 million euro at March 31st, 2009 (of which the Pirelli RE share was 18.0 million euro) compared with 89.1 million euro in the first quarter of 2008 (of which the Pirelli RE share was 17.8 million euro).

Germany Real Estate

EBIT including net income from investments before restructuring costs was a negative 4.8 million euro at March 31st, 2009, compared with a negative 2.0 million euro at March 31st, 2008. EBIT comprises 1.3 million euro in income from services (-0.1 million euro in 2008) and -6.1 million euro in losses from real estate vehicle companies and funds (-2.0 million in 2008). The decrease of 2.8 million euro in EBIT in comparison with the EBIT of the first quarter of 2008 consists of 1.3 million euro in income from services (asset management and specialized services) and -4.1 million euro from reduced results of real estate vehicle companies.

Real estate sales in the first quarter of 2009 amounted to 15.3 million euro on a 100% aggregate basis (of which the Pirelli RE share was 5.5 million euro) compared with 33.4 million euro in the first quarter of 2008 (of which the Pirelli RE share was 11.9 million euro). The sales margin in Germany was 18% (19% in the first quarter of 2008).

Rents totalled 121.7 million euro at March 31st, 2009 (of which the Pirelli RE share was 29.2 million euro) compared with 53.7 million euro in the first quarter of 2008 (of which the Pirelli RE share was 20.1 million euro).

Poland Real Estate

EBIT including net income from investments before restructuring costs was a positive 0.6 million euro at March 31st, 2009, compared with a positive 2.6 million euro at March 31st, 2008. The decrease of 2.0 million euro in EBIT in comparison with the EBIT of the first quarter of 2008 is mostly due to fewer sales.

Real estate sales in the first quarter of 2009 amounted to 14.7 million euro on a 100% aggregate basis (of which the Pirelli RE share was 5.9 million euro) compared with 10.6 million euro in the first quarter of 2008 (of which the Pirelli RE share was also 10.6 million euro because all the companies in Poland were fully consolidated in the first quarter of 2008). The sales margin in Poland was 26% (22% in the first quarter of 2008).

Non Performing Loan

EBIT including net income from investments before restructuring costs was a positive 0.3 million euro at March 31st, 2009, compared with a positive 10.2 million euro at March 31st, 2008, which was basically the same as the result for the whole of 2008. EBIT comprises 2.9 million euro in losses from services (income of 2.9 million euro in 2008) and 3.2 million euro in losses from vehicle companies (income of 7.3 million euro in 2008). The change is attributable to collections of non performing loans which fell from 111.4 million euro in the first quarter of 2008 to 81.7 million euro in the first quarter of 2009, and to the absence of acquisition and due diligence fees.

Outlook for the current year

The characteristics of the real estate market are likely to undergo progressive change in 2009 relative to the last expansionary cycle.

The recourse to debt will be much more limited, while winning factors will increasingly be the ability to generate income from real estate and the reliability of a development project's manager. Fast trading activities will continue to experience a sharp downturn.

As indicated in its three-year plan, the Company is focusing on a turnaround, with a target of returning to a positive EBIT including net income from investments already in 2009.

This goal will be pursued by taking action in the following areas:

1. cost cutting and organization reshaping;
2. strengthening of capital structure and consequent reduction of financial expenses;
3. better management of income-generating real estate portfolio;
4. central role of fund management company in Italy;
5. policy of reinforcing alliances mainly in Germany, with equity interest dilution.

However, it is well to recall that the projections for 2009 could be heavily influenced by uncontrollable exogenous factors, such as changes in the macroeconomic scenario, the trend on the real estate market, movements in interest rates and the terms of access to credit.

PIRELLI BROADBAND ACCESS

The relevant data can be summarised as follows:

(in million of euro)	03/31/2009	03/31/2008	12/31/2008
Net sales	44.0	28.3	124.6
Gross operating profit	2.7	1.3	4.8
Operating profit	2.5	1.1	3.9
Financial income (expenses)	0.4	(2.0)	(2.6)
Income taxes	(0.1)	(0.1)	0.7
Total Income (loss)	2.8	(1.0)	2.0
Net financial (liquidity)/debt position	(32.3)	33.4	(15.0)
Headcount (number at year-end)	123	99	113

Net sales as of March 31st, 2009 are 44.0 million euro, an increase of 55.5% than figures from the first quarter of 2008 (equal to 28.3 million euro).

The **gross operating profit** is 2.7 million euro, an increase from 1.3 million euro for the same period of the prior year.

The **operating profit** is 2.5 million euro, compared to 1.1 million euro for the same period of the prior year. The positive trend is mainly attributable to revenues generated by sales together with a positive effect of the mix/product sold.

Income is 2.8 million euro (after overall financial and tax charges of 0.3 million euro) compared to a debt position of 1.0 million euro for the first quarter of 2008 (after overall financial and tax charges of 2.1 million euro).

As of March 31st, 2009, the number of **Headcount** is 123, compared to 113 as of December 31st, 2008.

Business performance

The first quarter closed with decidedly positive results, in spite of the extremely negative economic scenario. This result can be attributed to the anticyclical characteristic of this sector which showed a product demand from the main client - Telecom Italia - greater than expected and a continual and studied diversification towards other operators and markets with an accurate clients selection, particularly in this unfavourable economic climate. It must be noted that Telecom Italia in the first quarter, notwithstanding an over performance, has maintained the same level of the preceding year and the signs of diversification are already being seen with revenue being generated from important clients such as Vodafone and the signing of a two-year agreement with BT Italy. Foreign operations continue with Russia, which has suffered the impact of the global economic crisis but East Europe is showing positive results. Performance in South America has maintained the forecasted levels and since the start of this year a commercial and technical team is operative *in loco* with the opening of new branches. Product development is continuing as planned despite a delay in the completion of the IT platform destined for small business due to a slow commercial penetration in this market sector.

Outlook for the Current Year

The outlook for the current year are in line with the moderate growth forecasted last year in the Industrial Plan which had the objective of diversifying the client base with particular regard to East Europe and Latin America. The weight of Telecom Italia, both regarding the slowing down of demand and the growth of market alternatives is forecast to be less this year than the prior year. Internationally, the forecasted performance in the Middle East and Russia may still show some difficulties. Regarding product, a rationalisation process regarding the access gateway product is currently on-going with the launch of a proprietary ID. In the second part of the current year a modular, low-energy product will be added to the Set-Top Box product line. Furthermore, resources are currently dedicated towards rendering products compatible with different IT platforms.

OTHER BUSINESSES

This section deals with the Environmental sector, the company Pzero Moda and all other financial and services companies of the group including the Parent company.

The overall operating result is a debt position of 8.2 million euro, compared to a debt position of 4.6 million euro in the first quarter 2008. The figures for 2008 include also a capital gain for the cession of some real estate of the Parent company for the sum of 3.5 million euro.

Board of Directors

Milan, 21 April 2009

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(in thousand of euro)		
INTERIM CONSOLIDATE BALANCE SHEET	03/31/2009	12/31/2008
Property, plant ad equipment	1,599,460	1,598,046
Intangible assets	1,044,377	1,046,108
Investments in associates ad joint ventures	509,387	515,300
Other financial assets	404,165	505,899
Deferred tax assets	73,160	72,426
Other receivables	750,373	723,004
Tax receivables	10,863	10,264
Derivative financial instruments	5,517	3,161
NON CURRENT ASSETS	4,397,302	4,474,208
Inventories	824,398	921,110
Trade receivables	886,400	787,951
Other receivables	254,057	239,956
Securities held for trading	119,469	115,800
Cash and cash equivalents	242,360	253,905
Tax receivables	42,278	46,246
Derivative financial instruments	40,152	94,042
CURRENT ASSETS	2,409,114	2,459,010
TOTAL ASSETS	6,806,416	6,933,218
Attributable to the equity holders of the company	2,129,016	2,171,804
- share capital	1,554,269	1,554,269
- reserves	565,170	965,037
- income (loss) for the period	9,577	(347,502)
Attributable to the minority interest	173,385	202,558
- reserves	181,829	267,582
- income (loss) for the period	(8,444)	(65,024)
TOTAL EQUITY	2,302,401	2,374,362
Borrowings from banks and other financial institutions	1,354,751	1,375,747
Other payables	38,364	48,472
Provisions for other liabilities and charges	147,139	141,191
Deferred tax liabilities	39,236	38,372
Employee benefit obligations	360,224	366,535
Tax paybles	10,071	9,706
Derivative financial instruments	2,346	2,139
NON CURRENT LIABILITIES	1,952,131	1,982,162
Borrowings from banks and other financial institutions	974,266	695,561
Trade payables	840,827	1,108,573
Other payables	448,246	482,401
Provisions for other liabilities and charges	160,353	135,650
Tax paybles	57,814	44,036
Derivative financial instruments	70,378	110,473
CURRENT LIABILITIES	2,551,884	2,576,694
TOTAL EQUITY AND LIABILITIES	6,806,416	6,933,218

(in thousand of euro)		
INTERIM CONSOLIDATED INCOME STATEMENT	1st Quarter 2009	1st Quarter 2008
Revenues from sales and services	1,043,036	1,197,920
Other income	51,148	54,025
Change in inventories of work in process, semifinished and finished products	(37,326)	17,552
Raw materials and consumables (net of change in inventories)	(336,325)	(485,562)
Personnel costs	(239,260)	(262,518)
Amortization, depreciation and impairments	(51,549)	(52,247)
Other expenses	(383,546)	(354,925)
Increase in property, plant and equipment from internal work	573	831
OPERATING PROFIT	46,751	115,076
Share of earnings (losses) of associates and joint ventures	(14,658)	(1,943)
Gains/losses from sales/impairment of investments	15,342	(14,605)
Gains/losses from changes in fair value of financial assets	(895)	(15,608)
Financial income	101,964	114,280
Financial expenses	(121,176)	(100,644)
Dividends	106	83
INCOME (LOSS) BEFORE INCOME TAXES	27,434	96,639
Income taxes	(26,301)	(30,055)
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,133	66,584
Income (loss) from discontinued operations	-	(4,176)
NET INCOME (LOSS)	1,133	62,408
Attributable to:		
Equity holders of the company	9,577	33,774
Minority interest	(8,444)	28,634

FORMS AND CONTENTS

The quarterly report dated March 31st, 2009 of the Pirelli & C. Group has been prepared in accordance with art. 154 ter. of Legislative Decree 58/1998 and Consob regulations on the subject.

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

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

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

- Modifications of IAS 32 *“Financial Instruments: Presentation”* and IAS 1 *“Presentation of Financial Statements”*: *puttable instruments and obligations arising on liquidation.*”
- *“Improvements”* to the IFRS
- Modifications of IFRS 1 *“First-time Adoption of International Financial Reporting Standards”* and IAS 27 *“Consolidated and Separate Financial Statements”*

In the Financial Statements the activities of Integrated Facility Management of Pirelli Real Estate and of Photonics, ceded during 2008, are considered **discontinued operation** and therefore are included only in the net earnings. For a true representation, the economic data for 2008 have been restated to allow the comparison.

Net financial position
(non-GAAP measure)

The composition of the net financial position is as follows:

(in million of euro)

	03/31/2009	12/31/2008
Borrowings from banks and other financial institutions - current	1,059	677
Financial accrued liabilities and deferred income - current	49	59
Borrowings from banks and other financial institutions - non current	1,258	1,378
Total gross debt	2,365	2,114
Cash and cash equivalents	(246)	(254)
Securities held for trading	(119)	(116)
Financial receivables - current	(28)	(29)
Financial accrued income and prepaid expenses - current	(13)	(31)
Net financial debt (*)	1,960	1,684
Financial receivables - non current	(674)	(652)
Financial accrued income and prepaid expenses - non current	(6)	(4)
Total net financial (liquidity)/debt position	1,279	1,028

(*) In accordance with Consob Communication of July 28th, 2006 and in conformity with the CCSR recommendations of February 10th, 2005 - Recommendations for unified adherence to the EU Regulations regarding "Standard Information Sheets".

Exchange Rates

	(local currency against Euro)					
	Period-end		Change in	Average		Change in
	03/31/2009	12/31/2008	%	2009	2008	%
British pound	0.9308	0.9525	(2.28%)	0.9088	0.7577	19.94%
Swiss franc	1.5152	1.4850	2.03%	1.4977	1.6001	(6.40%)
Slovakian koruna	30.1260	30.1260	0.00%	30.1260	33.0600	(8.87%)
American dollar	1.3308	1.3917	(4.38%)	1.3029	1.4990	(13.08%)
Canadian dollar	1.6685	1.6998	(1.84%)	1.6223	1.5047	7.81%
Brazilian real	3.0811	3.2524	(5.27%)	3.0113	2.6051	15.59%
Venezuela bolivar	2.8612	2.9922	(4.38%)	2.8012	3.2230	(13.09%)
Argentinean peso	4.9506	4.8055	3.02%	4.6160	4.7266	(2.34%)
Australian dollar	1.9216	2.0274	(5.22%)	1.9648	1.6550	18.72%
Chinese renminbi	9.0972	9.4991	(4.23%)	8.9060	10.7317	(17.01%)
Singapore dollar	2.0234	2.0040	0.97%	1.9709	2.1117	(6.67%)
Egyptian pound	7.4944	7.6544	(2.09%)	7.2611	8.2155	(11.62%)
Turkish lira	2.2365	2.1511	3.97%	2.1629	1.8021	20.02%

**Compliance with Article 36 of Consob Regulations 16191/2007
Concerning Market Discipline (“Market Regulations”)**

Considering that Pirelli & C. controls, directly and indirectly, certain companies established and regulated under the law of non-EU countries (non-EU companies)*, which are deemed to be of material significance pursuant to art. 36 of Market Regulations, the company has adopted a specific and suitable “Group Operating Instruction” which ensures immediate, constant and integral respect for the provisions of the above-mentioned Consob regulation.

In particular, the competent corporate functions of the Parent company, in abiding by the market regulation, at specific dates and periodically, shall identify and publicize materially significant non-EU companies as defined in the Market Regulations, and – with the necessary and timely collaboration of the interested companies – guarantee the collection of the data and information and the verification of the circumstances as stated in article 36, ensuring that the information and data provided by the subsidiaries are available in the event of a request by Consob.

Furthermore, a periodical flow of information shall also be provided in order to ensure that the Pirelli & C. board of statutory auditors can carry out the required and necessary tests.

Finally, the operating instruction adopted by the company, in keeping with the provisions of the market regulation, instructs how the financial statements (the balance sheet and income statement) of the materially 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 Market Regulations.

*Non-EU companies controlled, directly and indirectly, by Pirelli & C. S.p.A., relevant pursuant to article 36 of the Market Regulations are: **Turk Pirelli Lastikleri AS; Pirelli Tyre CO LTD; Pirelli Pneus LTDA; Pirelli Tyre (EUROPE) S.A.; Pirelli Tyre LLC.**

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

The undersigned, Claudio De Conto, Operations General Manager and Manager responsible for the preparation of the financial reports of Pirelli & C. S.p.A., with registered offices in Milan, Via Gaetano Negri 10, share capital of Euro 1,556,692,865.28, tax code, VAT and registration number in the Milan Companies Register 00860340157

attests

in accordance with paragraph 2, article 154 bis of the Consolidated Law on Financial Intermediation (TUF) that the accounting disclosure made in this **Interim management statements at March 31st, 2009** agrees with the accounting documents, records and entries.

Milan, 21 April 2009

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