



**Interim Management Statement  
at March 31, 2010**

**PIRELLI & C. Società per Azioni**

**Registered Office in Milan**

**Viale Piero e Alberto Pirelli N° 25**

**Share Capital - Euro 1,556,692,865.28**

**Milan Companies Register No. 00860340157**

**Economic Administrative File (REA) N° 1055**

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

## **Interim Management Statement at March 31, 2010**

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## Board of Directors <sup>1</sup>

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

\* Independent director

<sup>o</sup> Member of the Internal Auditing, Risks and Corporate Governance Committee

<sup>^</sup> Member of the Remuneration Committee

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Secretary to the Board	Anna Chiara Svelto
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## Board of Statutory Auditors <sup>3</sup>

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

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## General Manager

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General Management Tyre and Parts	Francesco Gori
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## Independent Auditors <sup>4</sup>

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Reconta Ernst & Young S.p.A.

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## Manager responsible for corporate financial reporting <sup>5</sup>

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Francesco Tanzi

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

<sup>2</sup> Post conferred by the Board of Directors' on April 29, 2008.

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

<sup>4</sup> Post conferred by the shareholders' meeting held on April 29, 2008.

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

## **GROUP BUSINESS PERFORMANCE**

Overall the **Group** ended first quarter 2010 with much improved operating indicators showing net sales up 16.2% to 1,212 million euro and net operating income (EBIT) of 7.6% (4.5% in first quarter 2009). Net income was a positive 38.9 million euro compared to 1.1 million euro in first quarter 2009.

For **Pirelli Tyre**, in particular, the recovery in sales, already observed in the last few months of 2009, was confirmed during the first three months of 2010 in all geographical areas of business and in the various segments and sales channels, enabling the sector to end the quarter with net sales up 19.8% to 1,110 million euro and operating income of 95.5 million euro, with a ratio of net income to net sales up to 8.6% from 6.2% in the first three months of 2009. There was a sharp improvement, compared with first quarter 2009, in net flows from operating activities, thanks to careful management of working capital which almost halved the amount of cash used with respect to the first three months of 2009.

**Pirelli Eco Technology**, which works in sustainable transport, recorded over the quarter growth in net sales of 37% to 19.6 million euro and operating income substantially at break-even (a negative 0.8 million euro compared with the negative figure of 2.8 million euro of first quarter 2009).

**Pirelli Real Estate** recorded a significant improvement of all its main economic indicators compared with the same period of 2009, confirming the validity of the business model adopted and of the efficienting actions carried out. The net income attributable to equity holders of the company came back into the black by 0.4 million euro (a negative 15.8 million euro in March 2009) and in view of the performance of the quarter the company confirms all the targets already communicated for the end of the year at the operating and economic/financial level.

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

The **net result** of Pirelli & C. S.p.A. at March 31, 2010 was a negative 6.2 million euro compared with a positive result for the first quarter 2009 of 6.5 million euro which included the gain (11.2 million euro) realised on the sale of the equity investment held in Alcatel-Lucent Submarine Networks.

As of March 31, 2010, **equity** was 1,811 million euro (of which 1,554.3 million euro relating to share capital), compared to 1,822.8 million euro as of December 31, 2009.

## **SIGNIFICANT EVENTS IN THE FIRST QUARTER**

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 signalled their intention to renew the agreement by January 15, 2010, the contractual deadline for any withdrawals.

On **March 9, 2010** the company Turismo & Immobiliare, in which Pirelli Real Estate holds a 33.3% interest, entered into a preliminary contract for the sale of the equity investment in the portfolio of 49% of the company Italia Turismo at a value substantially in line with the carrying amount. After obtainment of the antitrust and ministerial authorizations, the closing of the transaction, on April 22, 2010, entailed the sale of properties for approximately 183 million euro.

The restructuring of the Arcandor Group – of which Karlstadt, the Highstreet tenant, is a part – continued positively **in the quarter**. In this context the owner companies reached an agreement with the lending banks, a prerequisite for acceptance of the Arcandor Group restructuring plan, which the receivers' committee submitted to the Creditors' Meeting; the process of sale of Kardstadt was extended up to the end of May, the date on which the Court of Essen will ascertain the effective fulfilment of the conditions precedent included in the restructuring plan.

## **GROUP: main income, capital and financial data**

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

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

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

- **Gross Operating Margin:** this economic measure is used by the Group as a financial target for internal presentations (business plans) and external presentations (to analysts and investors), and is a useful unit of measurement in assessing the overall operating performance of the Group and of the individual business segments in addition to Operating Income. The Gross Operating Margin is an intermediate economic measure deriving from Operating Profit (EBIT), but excluding depreciation and amortization of tangible and intangible fixed assets;
- **Fixed assets:** this measure consists of the sum of "Property, plant and equipment", "Intangible assets", "Investments in associates and JVs" and "Other financial assets";
- **Provisions:** this measure is the sum of "Provisions for other liabilities and charges (current and non-current)", "Provisions for employee benefits" and "Deferred tax liabilities";
- **Net working capital:** this measure consists of all the items not included in the two measures above, in "Equity" and in "Net financial position";
- **Net financial position:** this performance measure is represented by the gross financial debt less cash and cash equivalents and other financial receivables. The section "Financial Statements" presents a table showing the items of the statement of financial position used to calculate the measure.



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

(in millions of euro)

	03/31/2010	03/31/2009	12/31/2009
<b>Net sales</b>	<b>1,212.0</b>	1,043.0	4,462.2
Gross operating margin before restructuring expenses	<b>147.3</b>	101.7	508.1
<i>of which property value adjustments</i>	-	-	(7.9)
% of net sales	<b>12.2%</b>	9.8%	11.4%
Operating income before restructuring expenses	<b>94.3</b>	50.3	297.0
<i>of which property value adjustments</i>	-	-	(7.9)
% of net sales	<b>7.8%</b>	4.8%	6.7%
Restructuring expenses	<b>(2.6)</b>	(3.5)	(79.6)
<b>Operating income</b>	<b>91.7</b>	46.8	217.4
<i>of which property value adjustments</i>	-	-	(7.9)
% of net sales	<b>7.6%</b>	4.5%	4.9%
Net income from equity investments	<b>(2.9)</b>	0.8	(56.7)
<i>of which property value adjustments</i>	-	-	(23.5)
Financial income/(expenses)	<b>(15.3)</b>	(20.2)	(85.4)
Income tax	<b>(34.6)</b>	(26.3)	(97.9)
<b>Total net income</b>	<b>38.9</b>	1.1	(22.6)
Net income attributable to the equity holders of Pirelli & C. S.p.A.	<b>39.2</b>	9.5	22.7
Total net earnings per share attributable to the equity holders of Pirelli & C. S.p.A. (in euro)	<b>0.007</b>	0.002	0.004
Fixed assets	<b>3,653.4</b>	3,557.4	3,596.2
Net working capital	<b>424.8</b>	730.9	221.8
Net invested capital	<b>4,078.2</b>	4,288.3	3,818.0
<b>Total net equity</b>	<b>2,596.0</b>	2,302.4	2,494.7
Provisions	<b>803.8</b>	707.0	794.5
<b>Net financial (liquidity)/debt position</b>	<b>678.4</b>	1,278.9	528.8
Equity attributable to the equity holders of Pirelli & C. S.p.A.	<b>2,271.8</b>	2,129.0	2,175.0
Equity per share attributable to the equity holders of Pirelli & C. S.p.A. (in euro)	<b>0.423</b>	0.397	0.405
Employees (number at end of period)	<b>30,054</b>	29,662	29,570
Industrial sites no.	<b>21</b>	21	21
<b>Pirelli &amp; C. S.p.A. shares</b>			
Ordinary shares (no. millions)	<b>5,233.1</b>	5,233.1	5,233.1
of which treasury shares	<b>3.9</b>	3.9	3.9
Savings shares (no. millions)	<b>134.8</b>	134.8	134.8
of which treasury shares	<b>4.5</b>	4.5	4.5
Total shares (no. millions)	<b>5,367.9</b>	5,367.9	5,367.9

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

**SITUATION at 03/31/2010** (in millions of euro)

	Tyre	Eco Technology	Real Estate	Broadband Access	Other (*)	Total
<b>Net sales</b>	<b>1,110.0</b>	<b>19.6</b>	<b>51.7</b>	<b>27.2</b>	<b>3.5</b>	<b>1,212.0</b>
Gross operating margin before restructuring expenses	146.4	(0.2)	5.1	0.3	(4.3)	147.3
Operating income before restructuring expenses	98.1	(0.8)	3.9	0.2	(7.1)	94.3
Restructuring expenses	(2.6)	-	-	-	-	(2.6)
Operating income	95.5	(0.8)	3.9	0.2	(7.1)	91.7
Net income from equity investments	0.2	-	-	-	(3.1)	(2.9)
Operating income including net income from equity investments excluding property value adjustments and before restructuring expenses			3.9			
Financial income/(expenses)	(16.4)	(0.5)	1.2	1.1	(0.7)	(15.3)
Income tax	(29.2)	(0.1)	(4.1)	(0.1)	(1.1)	(34.6)
Net income	50.1	(1.4)	1.0	1.2	(12.0)	38.9
<b>Net financial (liquidity)/debt position</b>	<b>1,122.5</b>	<b>42.0</b>	<b>55.3</b>	<b>(23.6)</b>	<b>(517.8)</b>	<b>678.4</b>

**SITUATION at 03/31/2009** (in millions of euro)

	Tyre	Eco Technology	Real Estate	Broadband Access	Other (*)	Total
<b>Net sales</b>	<b>926.9</b>	<b>14.3</b>	<b>53.8</b>	<b>44.0</b>	<b>4.0</b>	<b>1,043.0</b>
Gross operating margin before restructuring expenses	107.8	(2.3)	(0.5)	2.7	(6.0)	101.7
Operating income before restructuring expenses	61.0	(2.8)	(2.2)	2.5	(8.2)	50.3
Restructuring expenses	(3.5)	-	-	-	-	(3.5)
Operating income	57.5	(2.8)	(2.2)	2.5	(8.2)	46.8
Net income from equity investments	3.5	-	(12.5)	-	9.8	0.8
Operating income including net income from equity investments excluding property value adjustments and before restructuring expenses			(14.7)			
Financial income/(expenses)	(23.1)	(0.6)	0.2	0.4	2.9	(20.2)
Income tax	(23.3)	-	(2.1)	(0.1)	(0.8)	(26.3)
Net income	14.6	(3.4)	(16.6)	2.8	3.7	1.1
<b>Net financial (liquidity)/debt position</b>	<b>1,521.8</b>	<b>26.8</b>	<b>309.3</b>	<b>(32.3)</b>	<b>(546.7)</b>	<b>1,278.9</b>

(\*) The item includes the Environment business, 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 first quarter 2010, net sales amounted to 1,212 million euro, up by 16.2% compared to 1,043 million euro in first quarter 2009.

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

	1st quarter 2010	1st quarter 2009
Tyre	91.6%	88.9%
Eco Technology	1.6%	1.4%
Real Estate	4.3%	5.2%
Broadband Access	2.2%	4.2%
Other	0.3%	0.3%
	<b>100.0%</b>	<b>100.0%</b>

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

Tyre	+	18.8%	
Eco Technology	+	37.1%	
Real Estate	-	3.9%	
Broadband Access	-	38.2%	
<b>Group Total</b>			<b>+ 15.3%</b>
Foreign exchange effect			+ 0.9%
<b>Total change</b>			<b>+ 16.2%</b>

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

(in thousands of euro)

	1st quarter 2010		1st quarter 2009	
Europe:				
- Italy	207,899	17.14%	212,759	20.40%
- Rest of Europe	358,853	29.61%	325,973	31.25%
North America	94,981	7.84%	73,000	7.00%
Central and South America	380,631	31.41%	288,304	27.64%
Oceania, Africa and Asia	169,602	14.00%	143,000	13.71%
	<b>1,211,966</b>	<b>100.00%</b>	<b>1,043,036</b>	<b>100.00%</b>

## **Operating income**

The **operating income (EBIT) before restructuring expenses** at March 31, 2010 was 94.3 million euro, a clear improvement compared to the 50.3 million euro of first quarter 2009.

**Restructuring expenses** (2.6 million euro compared with 3.5 million euro in first quarter 2009) were concentrated in the Tyre segment where actions are continuing to rationalize the staffing structures and the manufacturing base in Europe.

At March 31, 2010 **operating income (EBIT)** amounted to 91.7 million euro and practically doubled (+95.9%) compared with the 46.8 million euro of the corresponding period of 2009, showing a ratio to sales up to 7.6% compared with 4.5% of the corresponding period of 2009.

In relation to the Group's businesses, the change was as follows:

(in millions of euro)

<b>Operating income 1st quarter 2009</b>		<b>46.8</b>
Tyre	37.1	
Eco Technology	2.0	
Real Estate	6.1	
Broadband Access	(2.3)	
Restructuring expenses	0.9	
Other	1.1	
<b>Total</b>		<b>44.9</b>
<b>Operating income 1st quarter 2010</b>		<b>91.7</b>

## **Net income from equity investments**

At March 31, 2010 net income from equity investments – which includes the share of the net income of companies carried at equity, the effects of sales or impairment losses, and dividends from unconsolidated equity investments – was a negative 2.9 million euro, compared with a positive figure of 0.8 million euro in the same period of 2009.

Excluding the gain realized in first quarter 2009 on the sale of the equity investment in Alcatel-Lucent Submarine Networks (11.2 million euro) the net income for first quarter 2010 was a great improvement as regards the share of the companies carried at equity in the Real Estate segment.

### **Net income**

**Total net income** amounted to 38.9 million euro reflecting the considerable improvement in operating income and a sharp increase compared with the 1.1 million euro of first quarter 2009.

The **total net income attributable to equity holders of Pirelli & C. S.p.A.** at March 31, 2010 was 39.2 million euro, compared with 9.5 million euro in first quarter 2009.

### **Equity**

**Consolidated equity** increased from 2,494.7 million euro at December 31, 2009 to 2,596 million euro at March 31, 2010.

**Equity attributable to equity holders of Pirelli & C. S.p.A.** at March 31, 2010 was 2,271.8 million euro (0.423 euro per share) compared with 2,175 million euro (0.405 euro per share) at December 31, 2009.

The change is summarised below:

(in millions of euro)

	<b>Group</b>	<b>Minorities</b>	<b>Total</b>
<b>Equity at 12/31/2009</b>	<b>2,175.0</b>	<b>319.7</b>	<b>2,494.7</b>
Translation differences	61.5	4.3	65.8
Net income for the period	39.2	(0.3)	38.9
Adjustment to fair value of available-for-sale financial assets/derivatives	(7.1)	-	(7.1)
Impact of inflation in Venezuela	1.7	0.3	2.0
Share of other components recognised with the net equity method related to associates and joint ventures	(0.9)	(0.7)	(1.6)
Other changes	2.4	0.9	3.3
<b>Total changes</b>	<b>96.8</b>	<b>4.5</b>	<b>101.3</b>
<b>Equity at 03/31/2010</b>	<b>2,271.8</b>	<b>324.2</b>	<b>2,596.0</b>

### **Net financial position**

The Group's financial position went from 528.8 million euro at December 31, 2009 to 678.4 million euro at March 31, 2010. The difference is due to the normal seasonal effect of changes in working capital in the businesses.

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

(in millions of euro)

	<b>1st quarter 2010</b>	<b>1st quarter 2009</b>
Operating income (EBIT) before restructuring expenses	94.3	50.3
Amortization and Depreciation	53.0	51.4
Property, plant and equipment and intangible assets	(50.1)	(42.9)
Change in working capital/other	(155.9)	(262.8)
<b>Operating cash flow</b>	<b>(58.7)</b>	<b>(204.0)</b>
Financial income/(expenses)	(15.3)	(20.2)
Income tax	(34.6)	(26.3)
<b>Net operating cash flow</b>	<b>(108.6)</b>	<b>(250.5)</b>
Financial investments/divestments	-	37.9
Cash Out for restructuring expenses	(38.3)	(45.8)
Exchange differences/other	(2.7)	7.2
<b>Net cash flow</b>	<b>(149.6)</b>	<b>(251.2)</b>

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

(in millions of euro)

	Tyre	Real Estate	Other businesses	Corporate	Consolidated 03/31/2010
Gross debt	1,489	487	104	259	1,768
of which due to Corporate	400	66	79	-	-
Financial receivables	(97)	(414)	(26)	(545)	(511)
Cash equivalents and securities held for trading	(269)	(18)	(10)	(282)	(579)
<b>Net financial position</b>	<b>1,123</b>	<b>55</b>	<b>68</b>	<b>(568)</b>	<b>678</b>

(in millions of euro)

	Tyre	Real Estate	Other businesses	Corporate	Consolidated 03/31/2009
Gross debt	1,553	489	101	276	1,824
of which due to Corporate	411	72	73	-	-
Financial receivables	(84)	(415)	(37)	(561)	(502)
Cash equivalents and securities held for trading	(442)	(33)	(4)	(314)	(793)
<b>Net financial position</b>	<b>1,027</b>	<b>41</b>	<b>60</b>	<b>(599)</b>	<b>529</b>

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

(in millions of euro)

	Financial Statements 03/31/2010	Year of maturity			
		2010	2011	2012	2013
Utilization of committed lines	980	25	60	895	-
Other loans	788	294	100	145	249
<b>Total gross financial debt</b>	<b>1,768</b>	<b>319</b>	<b>160</b>	<b>1,040</b>	<b>249</b>
		18.0%	9.0%	58.8%	14.2%

(in millions of euro)

	Financial Statements 12/31/2009	Year of maturity			
		2010	2011	2012	2013
Utilization of committed lines	1,061	35	50	976	-
Other loans	763	283	100	143	237
<b>Total gross financial debt</b>	<b>1,824</b>	<b>318</b>	<b>150</b>	<b>1,119</b>	<b>237</b>
		17.4%	8.2%	61.3%	13.0%

## **TRANSACTIONS WITH RELATED PARTIES**

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 effects of related party transactions on the income and financial position of the Pirelli & C. Group at March 31, 2010 are shown below.

### **Transactions with associates and joint ventures**

(in millions of euro)

Revenues from sales and services	27.6	The item refers to mandates signed by the Group companies relating to fund and asset management services (real estate and non-performing loans) and to technical and commercial services.
Other expenses	2.7	The item refers to redebiting of various kinds, connected among other things, with consortium expenses.
Financial income	6.8	The item includes mainly interest accrued on financial receivables claimed from Group companies, and on intra-group current accounts in being with associates or joint ventures.
Financial expenses	0.1	
Current trade receivables	92.9	The item includes the receivables in the item "Operating income".
Non-current other receivables	1.0	
Non-current financial receivables	393.0	The item includes loans made for real estate developments managed by the individual companies of the Group. These receivables are classified as non-current on the basis of their time to collection, in relation to the plans for the disposal of real estate assets held directly or indirectly by the companies, which are realized in a time horizon of between two and six years. These loans are disbursed at market terms with the exception of certain companies to which interest-free loans were granted.
Current other receivables	9.1	The item includes receivables for dividends approved but not yet collected, for a total of 3,316 thousand euro.
Current financial receivables	10.5	The item is mostly attributable to intra-group current accounts held by businesses owning real estate assets in Germany.
Current trade payables	21.0	The item relates to sundry services.
Current other payables	10.4	The item includes redebiting of various kinds.
Non-current other payables	2.6	
Current borrowings from banks and other financial institutions	2.2	The item includes the negative balances of intercompany current accounts.
Provisions for other liabilities and charges	5.2	The item includes provisions to cover losses of associates and joint ventures exceeding their carrying amounts.
Current tax payables	1.1	The item regards the payable to the company Trixia S.r.l. deriving from this company's participation in the fiscal transparency regime pursuant to Art. 115 of the Consolidated Income Tax Act (TUIR), by virtue of which shareholders are responsible for the taxable income or loss of the company.



### Related party transactions through directors

(in millions of euro)

Revenues from sales and services	0.2	These refer to services rendered by Pirelli & C. Ambiente Site Remedation S.p.A. and Pirelli & C. S.p.A. to the Camfin group.
Other expenses	3.0	Expenses for the sponsorship of F.C. Internazionale Milano S.p.A.
Other income	0.1	
Current trade receivables	1.7	Receivables connected with services rendered to Camfin.
Current trade payables	3.1	Payables connected with the sponsorship expenses as above

### **SIGNIFICANT EVENTS AFTER THE END OF THE QUARTER**

On **April 14, 2010** Pirelli inaugurated the Pirelli Foundation and opened to the city its Historical Archive, which is the “core” of the Foundation.

The presentation was made in the presence of Marco Tronchetti Provera, Chairman of Pirelli; Alberto Pirelli, Deputy Chairman of Pirelli; Cecilia Pirelli, Honorary Chairwoman of the Foundation; Antonio Calabrò, Director of the Foundation. The Pirelli Foundation, created last year, promotes and disseminates awareness of the cultural, historical and documentary heritage of the Group, which is an integral part of the entrepreneurial, social and creative history of our Country, with an international scope. One of the aims of the Foundation is the promotion and enhancement of cultural initiatives with features of affinity and consistency with the Pirelli corporate culture.

The Historical Archive conserves documents, writings, films, objects, works of art and photographs which trace the 138 years of industrial and cultural history of the company, from its incorporation in 1872 down to today.

On **May 4, 2010**, as communicated to the market, the Board of Directors of Pirelli & C. S.p.A., approved the plan for the separation of Pirelli Real Estate from the Pirelli Group, to be implemented by assigning almost all the Pirelli & C. Real Estate S.p.A. shares held by Pirelli & C. S.p.A. to the ordinary and savings shareholders of Pirelli & C. S.p.A., after a voluntary reduction of the share capital of Pirelli & C. S.p.A..

The Board of Directors of Pirelli & C. Real Estate S.p.A., which met on the same date, acknowledged and agreed to the separation plan, as a result of which the name of the company will also be changed.

On the subject of this plan, the lending banks, the agreements with which include early repayments clauses in the event that Pirelli Real Estate ceases to be a part of the Pirelli Group, gave their full support to the operation. The sustainability of a "stand alone" Pirelli Real Estate was, in fact, assessed positively on the basis of the assumptions underlying the industrial plan to 2011, presented to the financial market on the occasion of the capital increase last June, of the gradual improvement of all the main economic indicators with respect to the last financial year and of the track record obtained up to now in actions to reduce overheads.

At the same board meeting of May 4, 2010, a proposal was also approved – to be submitted to the Shareholders' Meeting – to give the Board of Directors of Pirelli & C. Real Estate S.p.A. the option to carry out a paid increase in the share capital of Pirelli RE within one year of the date of the Shareholders' Meeting and for up to a maximum amount of 10% of the existing share capital, through the issue of ordinary shares with the exclusion of the option right due to shareholders. In this context, Mediobanca and UniCredit declared their willingness to subscribe a capital increase for a total amount of 20 million euro, divided equally between them, on the basis of terms and conditions to be agreed also nearer the separation.

## **OUTLOOK FOR THE CURRENT YEAR**

Taking account of the positive performance of Pirelli Tyre in the first quarter and of the current market scenario, the foreseeable net sales for the **Group** for the entire year are between 4.9 and 5.0 billion euro, an improvement compared with the 4.7 – 4.8 billion euro indicated on the occasion of presentation of the 2009 results, with an operating income (EBIT) of at least 6.5%, and confirmation of a target of a negative net financial position of approximately 700 million euro, after payment of 81.1 million euro of dividends relating to financial year 2009.

For **Pirelli Tyre**, in particular, the year up to now is characterized by exceptional growth in sales in the first quarter and by a sharp increase in the cost of raw materials starting in the second quarter. The growing cost competitiveness deriving from the restructuring work, the planned price increases and the positive contribution of the product mix deriving from “green” products (Cinturato P7, Snowcontrol II, Scorpion Verde) in the Consumer segment, enable us to forecast, if the markets remain on the positive trend, growth in net sales in 2010 of more than 10% and operating income (EBIT), in absolute terms, at least in line with the profitability target indicated on the occasion of presentation of the 2009 figures (320-330 million euro).

As already announced on the occasion of presentation of the 2009 results, Pirelli will present the new 2011-2013 three-year plan to the financial community by the end of 2010.

## **PIRELLI TYRE**

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

(in millions of euro)

	<b>03/31/2010</b>	<b>03/31/2009</b>	<b>12/31/2009</b>
<b>Net sales</b>	<b>1,110.0</b>	926.9	3992.9
Gross operating margin before restructuring expenses	<b>146.4</b>	107.8	538.0
% of net sales	<b>13.2%</b>	11.6%	13.5%
Gross operating income before restructuring expenses	<b>98.1</b>	61.0	345.5
% of net sales	<b>8.8%</b>	6.6%	8.7%
Restructuring expenses	<b>(2.6)</b>	(3.5)	(37.0)
<b>Operating income</b>	<b>95.5</b>	57.5	308.5
% of net sales	<b>8.6%</b>	6.2%	7.7%
Net income from equity investments	<b>0.2</b>	3.5	4.2
Financial income/(expenses)	<b>(16.4)</b>	(23.1)	(76.1)
Income tax	<b>(29.2)</b>	(23.3)	(90.0)
<b>Net income</b>	<b>50.1</b>	14.6	146.6
% of net sales	<b>4.5%</b>	1.6%	3.7%
<b>Net financial (liquidity)/debt position</b>	<b>1,122.5</b>	1,521.8	1027.3
Net operating cash flow	<b>(79.0)</b>	(230.8)	395.4
Employees (number at end of period)	<b>28,078</b>	27,304	27,481
Industrial sites no.	<b>20</b>	21	20

**Net sales** reached 1,110.0 million euro, an increase of 19.8% compared to the same period last year.

On a like-for-like basis the growth was 18.8%, with a significant contribution of volumes for 17.4% and a positive variant in price/mix of 1.4%. Exchange rates determined a positive change of 1.0%

The following table shows a summary of the change, compared with the same period of last year and with the total for the last financial year:

	<b>1st quarter 2010</b>	<b>1st quarter 2009</b>	<b>12/31/2009</b>
Volumes	17.4%	-18.1%	-5.8%
Prices/Mix	1.4%	6.9%	4.2%
<b>Change on a like-for-like basis</b>	<b>18.8%</b>	<b>-11.2%</b>	<b>-1.6%</b>
Foreign exchange effect	1.0%	-2.7%	-1.6%
High inflation			0.6%
<b>Total change</b>	<b>19.8%</b>	<b>-13.9%</b>	<b>-2.6%</b>

A breakdown of the distribution of sales by geographical area and product category for the first quarter is shown below:

<b>Geographical Area</b>	<b>1st quarter 2010</b>	<b>1st quarter 2009</b>
Italy	10%	10%
Rest of Europe	32%	36%
North America	9%	8%
Central and South America	34%	31%
Africa\Asia\Pacific	15%	15%

  

<b>Product category</b>	<b>1st quarter 2010</b>	<b>1st quarter 2009</b>
Car tyres	60%	62%
Motovelocidad tyres	10%	10%
<b><i>Consumer</i></b>	<b><i>70%</i></b>	<b><i>72%</i></b>
Tyres for industrial vehicles	27%	25%
Steelcord	3%	3%
<b><i>Industrial</i></b>	<b><i>30%</i></b>	<b><i>28%</i></b>

In the setting of a market which showed signs of growth in practically all areas, the proportion of sales in the areas of North America and Central and South America grew compared with first quarter 2009, with a consequent reduction of the share of the European area.

In terms of product, the percentage of tyres for industrial vehicles, 27% of the total, grew with respect to the same period of 2009.

**The operating income** of first quarter 2010, of 95.5 million euro (+66% over the figure of first quarter 2009) was affected substantially by the following factors:

- significant growth in sales volumes in both business segments (Consumer +14.9%, Industrial +24.1%);
- stability of the price/mix component;
- a gradual increase in the cost of raw materials, especially natural rubber, the impact of which in the quarter was attenuated by the consumption of stocks;
- efficiency in industrial activities.

The **gross operating margin before restructuring expenses** was 146.4 million euro (13.2% of net sales), an increase of 35% over the corresponding period of 2009, when it amounted to 107.8 million euro (11.6% of net sales).

The **operating income before restructuring expenses** was 98.1 million euro (8.8% of net sales), an increase over the first quarter of 2009 when it amounted to 61.0 million euro (with a ratio to net sales of 6.6%).

The changes can be summarized as follows:

(in millions of euro)	1st quarter 2010	1st quarter 2009
<b>Operating income before restructuring expenses</b>	<b>61.0</b>	<b>102.8</b>
Foreign exchange effect	(5.2)	(1.6)
Prices/mix	6.1	43.0
Volumes	50.8	(28.7)
Cost of production factors (raw materials)	(6.7)	(38.6)
Cost of production factors (labour/energy/others)	(7.4)	(15.3)
Efficiencies	7.6	(1.2)
Amortization, depreciation and other (*)	(8.1)	0.6
<b>Change</b>	<b>37.1</b>	<b>(41.8)</b>
<b>Operating income before restructuring expenses</b>	<b>98.1</b>	<b>61.0</b>
(*) of which fixed from/to stock	3.8	(2.7)

**Operating income** was 95.5 million euro (8.6% of net sales), an increase over the first quarter of 2009, when it amounted to 57.5 million euro (with a ratio to net sales of 6.2%).

**Net income** was a positive 50.1 million euro (after financial expenses and net income from equity investments of 16.2 million euro and income taxes amounting to 29.2 million euro) compared with a figure for the previous year of 14.6 million euro (after financial expenses and net income from equity investments of 19.6 million euro and income taxes amounting to 23.3 million euro).

It is worth recalling that in first quarter 2009 the purchase for 4 million euro of the equity interests of minorities in the associates in Turkey had been substantially completed, with a further positive impact on net income from equity investments of 3.5 million euro, deriving from the purchase price being lower than the book value.

The net financial (liquidity)/debt position was a negative 1,122.5 million euro compared with 1,027.3 million euro of December 31, 2009, an increase which, although in a period of negative seasonality, was limited to 95.2 million euro thanks to careful management of net working capital which more or less halved the amount of cash absorbed compared with first quarter 2009.

The change can be summarised as follows:

(in millions of euro)

	1st quarter 2010	1st quarter 2009	12/31/2009
Operating income (EBIT) before restructuring expenses	98.1	61.0	345.5
Amortization and depreciation	48.3	46.8	192.5
Property, plant and equipment and Intangible assets	(47.6)	(36.8)	(217.4)
Change in working capital/other	(132.2)	(255.4)	240.9
<b>OPERATING CASH FLOW</b>	<b>(33.4)</b>	<b>(184.4)</b>	<b>561.5</b>
Financial and tax expenses	(45.6)	(46.4)	(166.1)
<b>NET OPERATING CASH FLOW</b>	<b>(79.0)</b>	<b>(230.8)</b>	<b>395.4</b>
Dividends paid	-	-	(66.5)
Purchase of minorities in Turkey and asset sales	-	11.0	11.0
Cash out for restructuring expenses	(22.2)	(39.0)	(62.4)
Exchange differences/other	6.0	3.8	(38.0)
<b>NET CASH FLOW</b>	<b>(95.2)</b>	<b>(255.0)</b>	<b>239.5</b>



## Consumer Business

The table below shows the results of first quarter 2010 compared with the corresponding period of the previous year:

(in millions of euro)

	1st quarter 2010	1st quarter 2009
Net sales	780.9	670.5
<i>delta for year over previous</i>	<i>16.5%</i>	
Gross operating margin before restructuring expenses	106.0	77.4
<i>% of net sales</i>	<i>13.6%</i>	<i>11.5%</i>
Gross operating income before restructuring expenses	69.5	41.9
<i>% of net sales</i>	<i>8.9%</i>	<i>6.2%</i>

Net sales of the **Consumer segment** amounted to a total of 780.9 million euro (+16.5% compared to 2009), whereas the gross operating income before restructuring expenses reached 69.5 million euro, with a ROS of 8.9% , against 41.9 million euro achieved in the same period of 2009, with a ROS of 6.2%.

Both in the **Original Equipment** channel and in the **Replacements** channel significant rates of recovery were recorded compared with the very depressed market of first quarter 2009. In the Original Equipment channel growth was recorded in all areas of reference, with Europe +28%, Nafta +70% and Mercosur +25% ; in the Replacements channel +10% in Europe, +8% in Nafta and growth of 25% in the Mercosur region.

The total change in sales volumes for Pirelli was 14.9%, to which must be added a positive change in the price/mix component of 1.2%, with consequent organic growth in sales of 16.1%. The positive change in exchange rates, 0.4%, generated a negative total change in net sales of 16.5%.

Sales of **Motorcycle** tyres were also affected by the recovery deriving from the market scenario.

## Industrial Business

The table below shows the results of first quarter 2010 compared with the corresponding period of the previous year:

(in millions of euro)

	1st quarter 2010	1st quarter 2009
Net sales	329.1	256.4
<i>delta for year over previous</i>	28.4%	
Gross operating margin before restructuring expenses	40.4	30.4
<i>% of net sales</i>	12.3%	11.9%
Gross operating income before restructuring expenses	28.6	19.1
<i>% of net sales</i>	8.7%	7.5%

In the **Industrial segment** net sales amounted to a total of 329.1 million euro, an increase of 28.4% compared to the corresponding period of 2009 (coming back substantially to the levels of 2008, when they were 328.6 million euro). Gross operating income before restructuring expenses was 28.6 million euro, with an ROS of 8.7%, compared with 19.1 million euro achieved in 2009, an ROS of 7.5% (30.2 million euro in 2008 with an ROS of 9.2%).

Also in the Industrial segment the performance of the market was recovering in both sales channels compared with the very critical scenario of the first quarter of 2009, above all in the Mercosur area (+65% in Original Equipment and +26% in the Replacements channel); there were positive changes also in Europe (+38% in Replacements and +1% in Original Equipment).

Total sales volumes for Pirelli Tyre were 24.1% more than in first quarter 2009 (they were down 25.7% in first quarter 2009 from the corresponding period of 2008), and there was a positive change in the price/mix component of 1.8%, bringing the overall figure to an increase of 25.9%. A positive foreign exchange effect of 2.5% determined total growth in sales of 28.4%, compared with the corresponding period of 2009.

**Outlook for the current year**

The year up to now has been characterized by exceptional growth in sales in the first quarter and by a sharp increase in the cost of raw materials starting in the second quarter. The growing cost competitiveness deriving from the restructuring work, the planned price increases and the positive contribution of the product mix deriving from “green” products (Cinturato P7, Snowcontrol II, Scorpion Verde) in the Consumer segment, enable us to forecast, if the markets remain on the positive trend, growth in sales in 2010 of more than 10% and EBIT, in absolute terms, at least in line with the profitability target indicated on the occasion of presentation of the 2009 figures (320-330 million euro).

## PIRELLI ECO TECHNOLOGY

The data can be summarised as follows:

(in millions of euro)

	03/31/2010	03/31/2009	12/31/2009
<b>Net sales</b>	<b>19.6</b>	14.3	56.6
Gross operating margin	<b>(0.2)</b>	(2.3)	(9.1)
<b>Operating income</b>	<b>(0.8)</b>	(2.8)	(10.8)
Financial income/(expenses)	<b>(0.5)</b>	(0.6)	(2.5)
Income tax	<b>(0.1)</b>	-	(0.4)
<b>Net income</b>	<b>(1.4)</b>	(3.4)	(13.7)
<b>Net financial (liquidity)/debt position</b>	<b>42.0</b>	26.8	47.2
Employees (number at end of period)	<b>293</b>	266	284

At March 31, 2010 **net sales** amounted to 19.6 million euro compared with 14.3 million euro in first quarter 2009 and were made up of 9.1 million euro of filters and 10.5 million euro from the Gecam product.

The **gross operating margin** was a negative 0.2 million euro compared with the negative figure of 2.3 million euro of first quarter 2009.

**Operating income** was a negative 0.8 million euro, a notable improvement over the same period of 2009 when a loss of 2.8 million euro was recorded.

**Net income** was a negative 1.4 million euro (after deduction of borrowing costs and taxes of 0.6 million euro) compared with a negative amount of 3.4 million euro.

The **net financial (liquidity)/debt position** was a negative 42 million euro an improvement compared with the 47.2 million euro of December 31, 2009.

On March 31, 2010, there were 293 **employees**, an increase compared with December 31, 2009, mostly at the new production site in China.

**GECAM – White Diesel**

The first quarter of 2010 showed a slowdown both in sales volumes (-30%) and in sales (-0.9%), affected both by the different channelling of sales, by the increase in minimum community duties and by higher average unit sales due to a rise in the price of diesel.

**PARTICULATE FILTERS - Feelpure**

In the first three months of the current year, 2,134 units Feelpure filtering systems were sold for a total of 8.5 million euro, compared to 903 units sold in the first quarter of 2009 corresponding to total sales of 3.5 million euro. The sales are concentrated essentially in Italy.

In Germany an exclusive distribution agreement was signed with Pneumobil while in Spain Pirelli Eco Technology was one of the winners of the first public tender competition for the sale and installation of Filtering Systems in Barcelona.

**Outlook for the current year**

Taking into account the performance of the first quarter of the year, the prospects for double-figure sales growth, for the achievement of break-even at the operating level (EBIT) and for positive cash generation are confirmed.

## **PIRELLI & C. REAL ESTATE**

Pirelli Real Estate, which has been listed on the Milan Stock Exchange since 2002, is one of the leading operators in the real estate sector in Italy and at the European level; it does business in Italy, Germany and Poland.

In the pursuance of its objectives, at the end of first quarter 2010 Pirelli Real Estate can count on approximately 1,070 resources, of which 570 in Italy: an extremely well-qualified structure, with profound sectoral and interdisciplinary skills accumulated also in the international competitive context.

Pirelli Real Estate is a fund & asset manager which manages real estate portfolios on behalf of third-party investors, enhances their value, through a distinctive model based on the integration of specialist services (Agency, Property and Facility Management) functional to the management activity (Fund & Asset Management).

Under its new business model Pirelli Real Estate will no longer make significant equity investments in the real estate sector: in the past, it took qualified minority equity interests in managed investment initiatives, with the aim of seizing their opportunities for revaluation; from 2009 onwards, the Company has opted for a less risky business model which defines it as a “pure manager”, continuing to carry on the work of identification and management of investment opportunities for third parties and setting itself the aim of gradually reducing the equity investments still in its portfolio.

## Economic and financial analysis

In the first quarter of 2010, although still in presence of the well-known international economic recession, for Pirelli Real Estate the improving trend of the main economic and financial indicators continued. This trend began in the last financial year and was accompanied by achievement of the break-even point in net income attributable.

Confirmation of the positive trend comes from the positive value reached by the indicator which best reflects the overall result of the business of investment services of the Group: net operating income including net income from equity investments and income from shareholder loans was in fact a positive 10.4 million euro compared with a negative figure of 6.2 million euro of the same period last year.

(in millions of euro)

	03/31/2010	03/31/2009	12/31/2009
<b>Consolidated net sales</b>	<b>51.7</b>	53.8	271.7
Operating income before restructuring expenses and property value adjustments	3.9	(2.2)	(4.5)
Financial income from equity investments	6.5	8.5	19.5
Operating income including net income and revenues from equity investments before restructuring expenses and property value adjustments	10.4	(6.2)	(6.6)
Restructuring expenses	-	-	(23.9)
Property value adjustments	-	-	(31.4)
<b>Net operating income including net income from equity investments</b>	<b>10.4</b>	(6.2)	(61.9)
Financial expenses	(5.3)	(8.3)	(35.1)
Income tax	(4.1)	(2.1)	(7.8)
<b>Net income</b>	<b>1.0</b>	(16.6)	(104.8)
Net income attributable to equity holders of the company	0.4	(15.8)	(104.3)
Equity	666.1	320.1	663.1
<i>of which attributable to equity holders of the company</i>	655.6	317.1	653.4
Net financial position	55.3	309.3	41.3
<i>Receivables for Shareholder Loans</i>	403.3	589.1	404.5
<b>Net financial (liquidity)/debt position gross of shareholder loans</b>	<b>458.6</b>	898.4	445.8
Gearing	0.69	2.81	0.67

In reading the data of the economic indicators used relating to the first quarters of 2010 and 2009 we can note that the impact of restructuring expenses and of property value adjustments is zero (for this last figure the valuations are made every six months).

At March 31, 2010 **consolidated net sales** were 51.7 million euro, substantially in line with the figure of 53.8 million euro at March 31, 2009.

Thanks also to the savings on overheads obtained from the actions implemented, at March 31, 2010 **operating income before restructuring expenses and property value adjustments** was a positive 3.9 million euro compared with a negative figure of 2.2 million euro at March 31, 2009.

**Operating income, including net income and revenues from investments before restructuring expenses and property value adjustments** at March 31, 2010 was a positive 10.4 million euro, a sharp improvement compared with the loss of 6.2 million euro of first quarter 2009. The improvement was due to both the services business and the investment business.

**Net income from equity investments** at March 31, 2010 is at break-even compared with a negative figure of 12.5 million euro at March 31, 2009.

**Net income attributable to equity holders of the company** improved sharply and was a positive 0.4 million euro compared with a loss of 15.8 million euro of the first quarter of last year.

**Equity attributable to equity holders of the company** amounted to 655.6 million euro, compared with 653.4 million euro at December 31, 2009.

The **gearing** was substantially in line with December 31, 2009 at 0.7.

The **net financial position** at March 31, 2010 was a negative 55.3 million euro compared with a negative 41.3 million euro at December 31, 2009.

The **net financial (liquidity)/debt position** gross of **shareholder loans** at March 31, 2010 was a negative 458.6 million euro compared with 445.8 million euro at December 31, 2009.

The change compared with December 31, 2009, of 12.8 million euro, was due to the combined effect of a reduction of 8.8 million euro for sales/distributions from investment companies and funds and an increase mostly attributable to the payment of interest expenses and other financial expenses (5.7 million euro), to the payment



of restructuring expenses (4.3 million euro) and to the contribution of equity in the investee investment companies and funds (3.2 million euro).

It should be noted that at the date of the meeting of the Board of Directors, Pirelli & C. Real Estate S.p.A. has available 430 million euro of committed bank facilities, with an average residual duration of twenty-four months.

### *Services*

The business of management (fund & asset management) and real estate services (property management, agency), including general and administrative expenses, achieved in the first quarter of 2010 a positive **operating income including net income from equity investments and income from shareholder loans** of 5.0 million euro, a significant improvement compared with the figure of March 31, 2009, a negative 1.3 million euro. The improvement of 6.3 million euro compared with the first quarter of the last period was due to a combined effect of lower revenues of 6.1 million euro and lower costs of 12.4 million euro of which 14.2 million euro was due to savings on the structure of overheads.

### *Investment*

At March 31, 2010 the business relating to investment initiatives recorded a positive net income of 5.3 million euro compared with negative net income of 4.9 million euro at March 31, 2009. Considering the data net of the impact of hedging derivatives, the net income at March 31, 2010 would have been a positive 6.8 million euro compared with a positive figure of 3.1 million euro at March 31, 2009. This improvement is, however, attributable to the sale of non-strategic equity investments that generated recurrent losses.

At March 31, 2010 **sales of properties** of 146.5 million euro had been made compared with 174.8 million euro at March 31, 2009. At that date Assets Under Management amounted to a total of 16.4 billion euro (of which 14.9 billion Real Estate and 1.5 billion NPLs) compared with 16 billion euro at December 2009, thanks also to acquisition of the management of a new third-party portfolio worth approximately 0.6 billion euro. Considering the sales completed in April the value of net sales amounted to 401.1 million euro. Worthy of note among these was the sale of the Grosse Strasse complex in Osnabruck, Germany for approximately 33 million euro and of the real estate portfolio of Italia Turismo for approximately 183 million euro accomplished through the sale of the equity interest. During the first quarter of 2010 Pirelli RE completed its real estate transactions achieving an average margin on sales of approximately 5%.

At March 31, 2010 NPLs worth 66.1 million euro were **collected** compared with 81.7 million euro at March 31, 2009.

**Total rents** received at March 31, 2010 amounted to 182.9 million euro (201.5 million euro in first quarter 2009); the proportion of rents attributable to Pirelli RE amounted to 46.0 million euro (47.3 million euro at March 31, 2010).

### **Performance of the divisions**

Pirelli Real Estate carries on its business through a structure organized into geographical areas. The business performance in these areas is described in this section, divided into income/expenses generated by the services business and income/expenses deriving from investing activities.

*Italy Real Estate*

At March 31, 2010 **operating income including net income from equity investments** was a positive 9.8 million euro, a sharp improvement compared with the negative figure of 3.3 million euro of March 31, 2009.

The operating income was made up of 8.4 million euro of net income from services, an improvement compared with the positive figure of 4.9 million of the previous period and of 1.4 million euro of net income from the investment business, an improvement compared with the negative figure of 8.2 million of the previous period.

At March 31, 2010 **sales** of properties amounted to 124.8 million euro compared with 144.8 million euro at March 2009. Considering also the sales made in April (among which the most significant was the sale of properties made through the transfer of 49% of the company Italia Turismo held by the subsidiary Turismo & Immobiliare and of the value of the relevant properties), sales amounted to 320.2 million euro.

**Total rents** amounted to 68.3 million euro (79.6 million euro in the same period of 2009). **Total gains** realized at March 31, 2010 amounted to 4.8 million euro (23.2 million euro at March 31, 2009), while pro-rata gains were 2.2 million euro (7.0 million euro at March 31, 2009).

*Germany Real Estate*

At March 31, 2010 **operating income including net income from equity investments** was a positive 1.5 million euro, a significant improvement compared with the negative figure of 1.0 million euro of March 31, 2009.

The operating income was made up of 0.9 million euro of net income from services, compared with the positive figure of 1.3 million euro of the previous period, and 0.5

million euro of net income from the investment business, a sharp improvement compared with the negative figure of 2.3 million euro of the previous period.

At March 31, 2010 **sales** of properties amounted to 4.9 million euro compared with 15.3 million euro at March 2009. Considering also the sales made in April (among which the most significant related to the Grosse Strasse complex in Osnabruck), the figure was 63.1 million euro.

**Total rents** amounted to 114.5 million euro (121.7 million euro in the same period of 2009). **Total gains** realized at March 31, 2010 amounted to 0.8 million euro (3.4 million euro at March 31, 2009), while pro-rata gains were 0.3 million euro (0.5 million euro in first quarter 2009).

#### *Poland Real Estate*

At March 31, 2010 **operating income including net income from equity investments** was a positive 0.1 million euro, compared with 1.1 million euro of March 31, 2009.

The operating income is made up of negative net income of 0.3 million euro from services compared with the positive figure of 0.5 million of the previous period, and of positive net income of 0.5 million euro relating to the investment business, compared with the 0.7 million euro of the previous period.

At March 31, 2010 **sales** of properties amounted to 16.8 million euro compared with 14.7 million euro at March 2009. Considering also the sales completed in April the figure was 17.8 million euro.

**Total rents** amounted to 0.1 million euro in line with the same period of 2009.

**Total gains** realized at March 31, 2010 amounted to 1.2 million euro (3.9 million euro at March 31, 2009), while pro-rata gains were 0.5 million euro (1.5 million euro at March 31, 2009).

### *Non-performing loans*

At March 31, 2010 **operating income including net income from equity investments** was a positive 2.9 million euro compared with the positive figure of 2.0 million euro of March 31, 2009.

The operating income was made up of net income from services at break-even compared with the negative figure of 2.9 million euro of the previous period, and of positive net income of 2.9 million euro relating to the investment business, compared with the positive figure of 4.9 million euro of the previous period.

### **Outlook for the current year**

For the whole of 2010 the Company expects to achieve for the services business an operating income of between +20 and +30 million euro, thanks to further actions to increase efficiency and leveraging the development of fund management, on internal and external lines. As regards the cost efficienting plan, the Company expects to achieve fully at the end of the year the target of savings on the structure already communicated to the market (25-30 million euro).

The target envisaged for sales of properties by the end of 2010 is between 1.3 and 1.5 billion euro, maintaining total assets under management substantially stable.

It is worth remembering that the projections could be heavily influenced by 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, which are uncontrollable – as they are independent of the decisions of the Company – and at the moment unforeseeable.

## **PIRELLI BROADBAND ACCESS**

The data can be summarised as follows:

(in millions of euro)

	<b>03/31/2010</b>	<b>03/31/2009</b>	<b>12/31/2009</b>
<b>Net sales</b>	<b>27.2</b>	44.0	132.1
Gross operating margin	<b>0.3</b>	2.7	5.3
<b>Operating income</b>	<b>0.2</b>	2.5	4
Financial income/(expenses)	<b>1.1</b>	0.4	0.3
Income tax	<b>(0.1)</b>	(0.1)	0.3
<b>Net income</b>	<b>1.2</b>	2.8	4.6
<b>Net financial (liquidity)/debt position</b>	<b>(23.6)</b>	(32.3)	(35.7)
Employees (number at end of period)	<b>137</b>	123	128

In first quarter 2010, **net sales** amounted to 27.2 million euro, down compared to first quarter 2009 when they amounted to 44 million euro.

The **gross operating margin** was 0.3 million euro, down from 2.7 million euro in the corresponding period of the previous year.

The **operating income** was a positive 0.2 million euro, compared with 2.5 million euro for the same period of 2009. The worsening is attributable above all to a drop in sales volumes and falling prices, only partially offset by the positive effect of the product mix sold.

**Net income** was a positive 1.2 million euro (after financial income and income taxes of 1 million euro) compared with a net income of 2.8 million euro for the first quarter of 2009 (after financial expenses and income taxes of 0.3 million euro).

The **net financial (liquidity)/debt position** was a positive 23.6 million euro compared to 35.7 million euro at December 31, 2009.

At March 30, 2010, there were 137 **employees**, compared to a workforce of 128 at December 31, 2009.

### **Business performance**

The first three months of 2010 ended with lower net income compared with first quarter 2009 (when it was, however, exceptionally positive), as it was affected both by general economic conditions still substantially negative and by falling demand for products on the part of the main customer (Telecom Italia).

Partially offsetting this trend there were positive results from the process of diversification in progress towards other operators and markets, conducted paying always particular attention to the selection of customers, also in relation to the difficult financial period. In particular in the Residential Gateway line the supply to Telekom Austria, Swisscom and Vodafone continued successfully and was accompanied by healthy growth also in the Eastern European segment.

In terms of products, the company continued the development, due for completion in 2010, of the new “hybrid” product platforms consisting, that is, of IP features associated with a digital terrestrial or satellite decoder.

The development work associated with the Pirelli software stack project is also continuing, with the aim of completing it in 2010, in line with the strategic objective of increasing the proportion of value generated by software products and services.

**Outlook for the current year**

During the current year the business is chiefly concentrated on the process of geographical and channel diversification, aiming to maintain presence on the CPE market through technological renewal of the product portfolio.

Processes of certification and partnership are in progress which should lead to commercially favourable opportunities deriving from sales through system integrators such as Ericsson.

Also ongoing is the strategical process of innovation for the creation of new value chains through Epicentro<sup>TM</sup>, a new open, modular and expandable software architecture for Pirelli CPE which is intended to intercept new emerging needs of landline operators.

**OTHER BUSINESSES**

The other businesses include the Environmental sector, the company PZero S.r.l. and all other financial and service companies for the Group including the Parent company.

Altogether in first quarter 2010 they recorded a negative operating income of 7.1 million euro compared with a loss of 8.2 million euro in first quarter 2009.

The Board of Directors

Milan, May 4, 2010



## **FINANCIAL STATEMENTS**

**CONSOLIDATED BALANCE SHEET (in thousands of euro)**

	<b>03/31/2010</b>	<b>12/31/2009</b>
Property, plant and equipment	1,777,289	1,727,391
Intangible assets	1,046,631	1,047,474
Investments in associates and joint ventures	594,766	593,237
Other financial assets	234,678	228,106
Deferred tax assets	96,726	91,164
Other receivables	559,467	557,230
Tax receivables	9,993	9,578
<b>Non-current assets</b>	<b>4,319,550</b>	<b>4,254,180</b>
Inventories	710,747	678,977
Trade receivables	922,806	735,792
Other receivables	213,474	197,144
Securities held for trading	142,670	161,024
Cash and cash equivalents	436,793	632,113
Tax receivables	46,762	41,464
Derivative financial instruments	45,152	26,567
<b>Current assets</b>	<b>2,518,404</b>	<b>2,473,081</b>
<b>Total Assets</b>	<b>6,837,954</b>	<b>6,727,261</b>
Equity attributable to equity holders of the Group:	2,271,833	2,175,023
- <i>Share capital</i>	1,554,269	1,554,269
- <i>Reserves</i>	678,321	598,009
- <i>Net income for the period</i>	39,243	22,745
Equity attributable to minority interests:	324,159	319,648
- <i>Reserves</i>	324,542	364,979
- <i>Net income for the period</i>	(383)	(45,331)
<b>Total net equity</b>	<b>2,595,992</b>	<b>2,494,671</b>
Borrowings from banks and other financial institutions	1,433,381	1,505,805
Other payables	37,698	34,008
Provisions for liabilities and charges	171,908	167,793
Deferred tax liabilities	44,000	44,000
Employee benefits obligations	438,566	451,880
Tax payables	10,551	10,037
<b>Non-current liabilities</b>	<b>2,136,104</b>	<b>2,213,523</b>
Borrowings from banks and other financial institutions	301,210	289,305
Trade payables	1,026,801	987,873
Other payables	461,317	491,035
Provisions for liabilities and charges	149,242	130,783
Tax payables	62,528	43,918
Derivative financial instruments	104,760	76,153
<b>Current liabilities</b>	<b>2,105,858</b>	<b>2,019,067</b>
<b>Total Liabilities and net equity</b>	<b>6,837,954</b>	<b>6,727,261</b>

**CONSOLIDATED INCOME STATEMENT (in thousands of euro)**

	<b>03/31/2010</b>	<b>03/31/2009</b>
Revenues from sales and services	1,211,966	1,043,036
Other income	45,996	51,148
Change in inventories of work in process, semi-finished and finished products	(12,339)	(37,326)
Raw materials and consumables (net of change in inventories)	(440,202)	(336,325)
Personnel expenses	(261,796)	(239,260)
Amortization, depreciation and impairments	(52,984)	(51,549)
Other expenses	(399,542)	(383,546)
Increase in property, plant and equipment from internal work	583	573
<b>Operating income</b>	<b>91,682</b>	<b>46,751</b>
Net income from equity investments	(2,993)	835
- <i>share of net income of associates and joint ventures</i>	(3,839)	(14,658)
- <i>gains on equity investments</i>	582	15,387
- <i>losses on equity investments</i>	(65)	-
- <i>dividends</i>	329	106
Financial income	69,182	102,164
Financial expenses	(84,438)	(122,317)
<b>Net income before income taxes</b>	<b>73,433</b>	<b>27,434</b>
Income taxes	(34,574)	(26,301)
<b>Net income for the period</b>	<b>38,859</b>	<b>1,133</b>
<b>Attributable to:</b>		
Equity holders of the parent company	39,242	9,577
Minority interests	(383)	(8,444)

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(in thousands of euro)

		1st quarter 2010		
		Gross	Income taxes	Net
<b>A</b>	<b>Net income for the period</b>			<b>38,859</b>
	<b>Other components recognised in equity:</b>			
	Portion of (Gains)/losses on associates and joint ventures transferred to income statement, previously recognised directly in equity	856	-	856
	(Gains)/losses on cash flow hedges transferred to income statement, previously recognised directly in equity	(619)	-	(619)
	<b>(Gains)/losses transferred to income statement previously recognised directly in equity</b>	<b>237</b>	<b>-</b>	<b>237</b>
<b>B</b>				
	Exchange differences from translation of foreign financial statements	65,813	-	65,813
	Adjustment to fair value on available-for-sale financial assets	5,128	(41)	5,087
	Net actuarial gains/(losses) on employee benefits	-	-	-
	Adjustment to fair value of derivatives designated as cash flow hedges	(13,624)	4,322	(9,302)
	Share of other components recognised in equity related to associates and joint ventures	(2,462)	(10)	(2,472)
<b>C</b>	<b>Income/(losses) recognised directly in equity in the period</b>	<b>54,855</b>	<b>4,271</b>	<b>59,126</b>
<b>B+C</b>	<b>Total other components recognised in equity</b>	<b>55,092</b>	<b>4,271</b>	<b>59,363</b>
<b>A+B+C</b>	<b>Total comprehensive income/(losses)</b>			<b>98,222</b>
	<b>Attributable to:</b>			
	- Equity holders of the company			94,776
	- Minority interests			3,446

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(in thousands of euro)

		1st quarter 2009		
		Gross	Income taxes	Net
<b>A</b>	<b>Net income for the period</b>			<b>1,133</b>
	<b>Other components recognised in equity:</b>			
	(Gains)/losses on cash flow hedges transferred to income statement, previously recognised directly in equity	(144)	-	(144)
	<b>(Gains) / (losses) transferred to income statement previously recognised directly in equity</b>	<b>(144)</b>	<b>-</b>	<b>(144)</b>
<b>B</b>				
	Exchange differences from translation of foreign financial statements	13,107	-	13,107
	Adjustment to fair value on available-for-sale financial assets	(48,598)	184	(48,414)
	Net actuarial gains/(losses) on employee benefits	2,427	(454)	1,973
	Adjustment to fair value of derivatives designated as cash flow hedges	(7,083)	1,476	(5,607)
	Share of other components recognised in equity related to associates and joint ventures	(24,544)	(5)	(24,549)
<b>C</b>	<b>Income/(losses) recognised directly in equity in the period</b>	<b>(64,691)</b>	<b>1,201</b>	<b>(63,490)</b>
<b>B+C</b>	<b>Total other components recognised in equity</b>	<b>(64,835)</b>	<b>1,201</b>	<b>(63,634)</b>
<b>A+B+C</b>	<b>Total comprehensive income/(losses)</b>			<b>(62,501)</b>
	<b>Attributable to:</b>			
	- Equity holders of the company			(42,523)
	- Minority interests			(19,978)

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 03/31/2010**

(in thousands of euro)

	Attributable to the Parent Company					Minorities	Total
	Share capital	Translation reserve	Total IAS Reserves (*)	Other reserves/retained earnings	Total attributable to the Parent Company		
<b>Total at 12/31/2009</b>	<b>1,554,269</b>	<b>25,234</b>	<b>(346,227)</b>	<b>941,747</b>	<b>2,175,023</b>	<b>319,648</b>	<b>2,494,671</b>
Total other components recognised in equity	-	61,526	(5,991)	-	55,535	3,829	59,364
Net income for the period				39,242	39,242	(383)	38,859
<b>Total gains/(losses)</b>	<b>-</b>	<b>61,526</b>	<b>(5,991)</b>	<b>39,242</b>	<b>94,777</b>	<b>3,446</b>	<b>98,223</b>
Other dividends paid to minorities					-	(171)	(171)
Effect of inflation in Venezuela				1,739	1,739	246	1,985
Other			717	(423)	294	990	1,284
<b>Total at 03/31/2010</b>	<b>1,554,269</b>	<b>86,760</b>	<b>(351,501)</b>	<b>982,305</b>	<b>2,271,833</b>	<b>324,159</b>	<b>2,595,992</b>

(in thousands of euro)

	DETAILS OF IAS RESERVES (*)					
	Reserve for adjustment to FV of available-for-sale financial assets	Reserve for cash flow hedges	Reserve for actuarial gains/losses	Reserve for equity settled stock options	Reserve for deferred taxes	Total IAS reserves
<b>Balance at 12/31/2009</b>	<b>57,755</b>	<b>(60,778)</b>	<b>(383,893)</b>	<b>3,500</b>	<b>37,189</b>	<b>(346,227)</b>
Total other components recognised in equity	4,937	(15,266)	-	-	4,338	(5,991)
Other movements	-	620	97	-	-	717
<b>Balance at 03/31/2010</b>	<b>62,693</b>	<b>(75,425)</b>	<b>(383,796)</b>	<b>3,500</b>	<b>41,527</b>	<b>(351,501)</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 03/31/2009**

(in thousands of euro)

	Attributable to the Parent Company					Minorities	Total
	Share capital	Translation reserve	Total IAS Reserves (*)	Other reserves/retained earnings	Total attributable to the Parent Company		
<b>Total at 12/31/2008</b>	<b>1,554,269</b>	<b>(15,422)</b>	<b>(292,214)</b>	<b>925,171</b>	<b>2,171,804</b>	<b>202,558</b>	<b>2,374,362</b>
Total other components recognised in equity	-	13,380	(65,336)	-	(51,956)	(11,679)	(63,635)
Net income for the period				9,577	9,577	(8,444)	1,133
<b>Total gains/(losses)</b>	<b>-</b>	<b>13,380</b>	<b>(65,336)</b>	<b>9,577</b>	<b>(42,379)</b>	<b>(20,123)</b>	<b>(62,502)</b>
Other dividends paid to minorities					-	-	-
Movements of minorities					-	(7,442)	(7,442)
Other			(477)	68	(409)	(1,608)	(2,017)
<b>Total at 03/31/2009</b>	<b>1,554,269</b>	<b>(2,042)</b>	<b>(358,027)</b>	<b>934,816</b>	<b>2,129,016</b>	<b>173,385</b>	<b>2,302,401</b>

(in thousands of euro)

	DETAILS OF IAS RESERVES (*)					
	Reserve for adjustment to FV of available-for-sale financial assets	Reserve for cash flow hedges	Reserve for actuarial gains/losses	Reserve for equity settled stock options	Reserve for deferred taxes	Total IAS reserves
<b>Balance at 12/31/2008</b>	<b>17,323</b>	<b>(37,983)</b>	<b>(297,339)</b>	<b>3,500</b>	<b>22,285</b>	<b>(292,214)</b>
Total other components recognised in equity	(47,640)	(21,138)	2,427	-	1,017	(65,336)
Other movements	(450)	1	(161)	135	(2)	(477)
<b>Balance at 03/31/2009</b>	<b>(30,767)</b>	<b>(59,121)</b>	<b>(295,073)</b>	<b>3,635</b>	<b>23,300</b>	<b>(358,027)</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of euro)**

	1st quarter 2010	1st quarter 2009
Net income from continuing operations before taxes	73,433	27,434
Amortization, depreciation, impairment losses and reversals of PPE and intangible assets	52,984	51,549
Reversal of Financial expenses	84,438	122,317
Reversal of Financial income	(69,182)	(102,164)
Reversal of Dividends	(329)	(106)
Gains/(losses) on equity investments	(517)	(15,387)
Share of net income from associates and joint ventures (net of dividends received)	3,839	14,658
Income taxes	(34,574)	(26,301)
Change in inventories	(31,770)	96,712
Change in Trade receivables/payables	(148,086)	(366,195)
Change in Other receivables/payables	(31,237)	(65,733)
Change in Provisions for employee benefits and Other provisions	3,698	24,470
Other changes	7,766	9,289
<b>A Net cash flows provided by/(used in) operating activities</b>	<b>(89,537)</b>	<b>(229,458)</b>
Investments in Property, plant and equipment	(50,103)	(39,901)
Disposals of Property, plant and equipment including capital gains/losses	4,649	6,415
Investments in Intangible assets	(421)	(1,130)
Disposal of Equity investments in associates and joint ventures	1,804	-
Acquisition of Other financial assets	(1,586)	(1,576)
Disposal of Other financial assets	112	15,810
Dividends received	329	106
<b>B Net cash flows provided by/(used in) investing activities</b>	<b>(45,215)</b>	<b>(20,276)</b>
Change in Financial payables	(56,427)	248,439
Change in Financial receivables	10,701	(8,789)
Financial income/(expenses)	(15,256)	(20,153)
Dividends paid	(199)	(212)
<b>C Net cash flows provided by/(used in) financing activities</b>	<b>(61,181)</b>	<b>219,285</b>
<b>D Total cash flows provided/(used) during the year (A+B+C)</b>	<b>(195,933)</b>	<b>(30,449)</b>
<b>E Cash and cash equivalents at beginning of year</b>	<b>610,779</b>	<b>227,077</b>
<b>F Exchange differences on translation of cash and cash equivalents</b>	<b>515</b>	<b>600</b>
<b>G Cash and cash equivalents at end of year (D+E+F) (°)</b>	<b>415,361</b>	<b>197,228</b>
<b>(°) of which:</b>		
cash and cash equivalents	436,793	242,360
bank overdrafts	(21,432)	(45,132)

## **FORM AND CONTENT**

The present Interim Management Statement at March 31, 2010 has been prepared in accordance with Art. 154 ter. of Legislative Decree 58/1998 and with the Consob regulations on the subject.

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

The accounting policies and principles adopted are the same as those used in the preparation of the financial statements at December 31, 2009, to which reference should be made for additional details. There are exceptions in respect of the following principles and interpretations in effect as from January 1, 2010, and endorsed by the European Union, the application of which, in the present statement, did not have a significant quantitative impact for the Group:

- IFRIC 12 – Service Concession Arrangements
- IFRIC 15 - Agreements for the Construction of Real Estate
- IFRIC 16 - Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 – Distributions of Non-cash Assets to Owners
- IFRIC 18 – Transfers of assets from customers
- Revision of IFRS 3 “Business Combinations”
- Amendments to IAS 27 “Consolidated and Separate Financial Statements”
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement – eligible hedged items”
- “Improvements” to the IFRSs (issued by the IASB in April 2009)
- Amendments to IFRS 2 – Share-based Payment.

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

The breakdown of the net financial position is as follows:

(in thousands of euro)

	<b>03/31/2010</b>	<b>12/31/2009</b>
Current borrowings from banks and other financial institutions	285,701	275,926
Current financial accrued liabilities and deferred income	48,834	42,977
Non-current borrowings from banks and other financial institutions	1,433,745	1,505,805
<b>Total gross debt</b>	<b>1,768,280</b>	<b>1,824,708</b>
Cash and cash equivalents	(436,793)	(632,113)
Securities held for trading	(142,670)	(161,024)
Current financial receivables	(11,486)	(11,281)
Current financial accrued income and prepaid expenses	(9,424)	(5,018)
<b>Net financial debt *</b>	<b>1,167,907</b>	<b>1,015,272</b>
Non-current financial receivables	(488,941)	(485,810)
Non-current financial accrued income and prepaid expenses	(533)	(622)
<b>Total net financial position</b>	<b>678,433</b>	<b>528,840</b>

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



## Exchange Rates

(local currency against Euro)

	Period-end		Change in %	Average		Change in %
	03/31/2010	12/31/2009		2010	2009	
British pound	0.8898	0.8881	0.19%	0.8876	0.9088	(2.33%)
Swiss franc	1.4276	1.4836	(3.77%)	1.4635	1.4977	(2.28%)
Slovakian koruna	30.1260	30.1260	0.00%	30.1260	30.1260	0.00%
American dollar	1.3479	1.4406	(6.43%)	1.3838	1.3029	6.21%
Canadian dollar	1.3687	1.5128	(9.53%)	1.4395	1.6223	(11.27%)
Brazilian real	2.4006	2.5084	(4.30%)	2.4913	3.0113	(17.27%)
Venezuela bolivar	5.7960	6.1946	(6.43%)	5.7960	2.8012	106.91%
Argentinean peso	5.2272	5.4743	(4.51%)	5.3188	4.6160	15.23%
Australian dollar	1.4741	1.6008	(7.91%)	1.5304	1.9648	(22.11%)
Chinese renminbi	9.2012	9.8367	(6.46%)	9.4471	8.9060	6.08%
Singapore dollar	1.8862	2.0194	(6.60%)	1.9408	1.9709	(1.53%)
Egyptian pound	7.4195	7.8995	(6.08%)	7.5722	7.2611	4.28%
Turkish lira	2.0622	2.1707	(5.00%)	2.0898	2.1629	(3.38%)

**Declaration under the terms of Article 154-bis paragraph 2 of Legislative Decree 58 of February 24, 1998 (“Consolidated Finance Act”)**

The undersigned Francesco Tanzi, Chief Financial Officer and Manager Responsible for Corporate Financial Reporting of Pirelli & C. S.p.A., with registered office in Milan, Viale Piero e Alberto Pirelli 25, share capital of Euro 1,556,692,865.28, tax code, VAT and registration number in the Milan Companies Register 00860340157

attests

in accordance with paragraph 2, Article 154 bis of the Consolidated Law on Financial Intermediation (TUF) that the accounting disclosure made in these **Interim Management Statements at March 31, 2010** corresponds to the accounting documents, records and entries.

Milan, May 4, 2010

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Mr Francesco Tanzi  
Manager Responsible for Corporate  
Financial Reporting