



**Interim Management Statements
at March 31, 2012**

PIRELLI & C. Società per Azioni

Head office in Milan

Viale Piero e Alberto Pirelli, 25

Share Capital euro 1,345,380,534.66

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

Interim Management Statements at March 31, 2012

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Board of Directors¹

Chairman and Chief Executive Officer	Marco Tronchetti Provera
Deputy Chairman	Vittorio Malacalza
Deputy Chairman	Alberto Pirelli
Independent Director	Carlo Acutis
Independent Director	Anna Maria Artoni
Director	Gilberto Benetton
Independent Director	Alberto Bombassei
Independent Director	Franco Bruni
Independent Director	Luigi Campiglio
Independent Director	Paolo Ferro-Luzzi
Independent Director	Pietro Guindani
Director	Giulia Maria Ligresti
Independent Director	Elisabetta Magistretti
Director	Massimo Moratti
Director	Renato Pagliaro
Director	Giovanni Perissinotto
Independent Director	Luigi Roth
Lead Independent Director	Carlo Secchi
Independent Director	Manuela Soffientini
Director	Giuseppe Vita
Secretary to the Board	Anna Chiara Svelto

Board of Statutory Auditors²

Chairman	Francesco Fallacara
Statutory Auditors	Antonella Carù
	Enrico Laghi
Alternate Auditors	Umile Sebastiano Iacovino
	Andrea Lorenzatti

Internal Control, Risks and Corporate Governance Committee

Chairman of the Committee – Lead Independent Director	Carlo Secchi
Independent Director	Franco Bruni
Independent Director	Paolo Ferro-Luzzi
Independent Director	Elisabetta Magistretti
Independent Director	Luigi Roth

Remuneration Committee

Chairman of the Committee – Independent Director	Carlo Acutis
Independent Director	Anna Maria Artoni
Independent Director	Pietro Guindani
Independent Director	Luigi Roth

Appointments and Successions Committee

Chairman of the Committee	Marco Tronchetti Provera
Independent Director	Luigi Campiglio
Deputy Chairman	Vittorio Malacalza
Independent Director	Luigi Roth

Strategies Committee

Chairman of the Committee	Marco Tronchetti Provera
Independent Director	Franco Bruni
General Counsel and Corporate Affairs	Francesco Chiappetta
General Manager	Francesco Gori
Deputy Chairman	Vittorio Malacalza

Director	Renato Pagliaro
Lead Independent Director	Carlo Secchi

General Manager³ --

Independent Auditor⁴ Reconta Ernst & Young S.p.A.

Corporate Financial Reporting Manager⁵ Francesco Tanzi

- 1 Appointment: April 21, 2011. Expiry: Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2013. Director Soffientini and Director Vita, appointed by the Board of Directors on March 1, 2012, as replacement for Director Profumo and Director Cucchiani have been confirmed in their office by the Shareholders' Meeting May 10, 2012.
- 2 Appointment: May 10, 2012. Expiry: Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2014. On the date the Interim Management statements at March 31, 2012 was approved the Board of Statutory Auditors was composed as follows: Enrico Laghi (Chairman), Paolo Gualtieri e Paolo Domenico Sfamini (Statutory Auditors), Franco Ghiringhelli e Luigi Guerra (Alternate Auditors).
- 3 Francesco Gori resigned as General Manager on May 10, 2012.
- 4 Post assigned by the Shareholders' Meeting on April 29, 2008 for the nine-years period - 2008/2016.
- 5 Appointment: Board of Directors meeting held on April 21, 2011. Expiry: together with the current Board of Directors.

Prof. Giuseppe Niccolini was appointed Joint Representative of the Savings Shareholders for the three-year period 2012-2014 by the general meeting of that body held on January 31, 2012.

MACROECONOMIC AND MARKET SITUATION

The international economy

International growth, which had slowed down in the final quarter of 2011, weakened even further in the first three months of 2012. Western Europe slipped into recession due to deleveraging by banks and the implementation of budget cuts and tax increases. Confidence in Europe began recovering from its nadir at the end of 2011, being boosted by the second long-term refinancing operation carried out by the European Central Bank in February, approval of the second bail-out measure for Greece and restructuring of Greek sovereign debt. Resolution of this crisis will continue to have a major impact on international confidence.

In the United States, economic indicators showed a slight recovery in activity during the first three months of 2012, although Federal Reserve adjustment policies remain a key factor in this as-yet weak recovery. Growth in emerging countries remained essentially stable as compared with December 31, 2011. After an anaemic performance in 2011, recent indicators suggest an acceleration in economic activity in Brazil. At the beginning of April, the Brazilian federal government announced new domestic economic stimulus measures that should buoy growth towards the end of 2012 and mitigate the impact of international turbulence. Growth remained stable in the Asia-Pacific region as compared with Q4 2011, with an acceleration forecast for H2 2012. The year got off to a slow start in China, with its 8.1% growth rate in Q1 2012 reflecting the contraction in exports to the European Union and a slowdown in capital expenditure. Private consumption held up well. With local credit conditions favouring investments and greater external stability, Chinese economic performance is still expected to achieve a “soft landing” in 2012.

Overall international economic growth was somewhat mediocre in Q1 2012. On the downside, risks stem from the recent global increase in oil prices due to geopolitical tension, the continued deleveraging of the European banking sector and the evolving European sovereign debt crisis.

On the foreign exchange front, the Euro enjoyed relative stability throughout the first quarter, dipping just below U.S. dollar 1.30 in the first few weeks of 2012 before gradually recovering thereafter, settling into an average rate of U.S. dollar 1.31 for the quarter. In Q1 2012, the Chinese renminbi remained stable at RMB 6.31 against the U.S. dollar, appreciating slightly from Q4 2011. In mid-April the Chinese central bank relaxed the daily trading range for the renminbi against the U.S. dollar, as part of a gradual plan to render the Chinese currency more flexible. However, no significant appreciation in the renminbi is expected over the short-term.

The Japanese yen traded at an average rate of 79.3 against the U.S. dollar in Q1 2012, slightly weaker than its average rate during the preceding three months. In Latin America, the Brazilian real traded at an average of 1.77 against the U.S. dollar during the first three months of the year, slightly stronger than the average of real 1.80 during the last quarter of 2011. The Argentine peso continued its downward slide at the beginning of 2012, losing 2% of its value as compared with Q4 2011, as high observed inflation undermined the currency.

Automotive markets

Light vehicle registrations in Europe were weak in Q1 2012, with a 1% year-on-year rise being reported only in Germany, while dropping by 1% in the United Kingdom (although the car segment alone grew by 1%), and contracting at a double-digit rate in France and Italy.

This figure contrasts with car registrations in the NAFTA region, where Q1 2012 sales grew at double-digit rates year-on-year

In Asia, the Japanese market reported a 47% rebound in car registrations. This year-on-year growth rate reflects the depressed sales reported in Q1 2011, following the earthquake that hit Japan in March 2011. Sales of light vehicles in China during Q1 2012 fell by 2%, being impacted by rising fuel prices, which might continue influencing sales over the coming months.

Demand for heavy-range commercial vehicles in Europe remained soft during the first two months of the year, with sharp drops in the countries directly impacted by the sovereign debt crisis (Italy, Spain) and a slight contraction in France and Germany. As for cars, truck sales in the NAFTA region are holding up well, recovering from pent-up demand during the financial crisis. In Brazil, truck sales were weak at the beginning of the year, after the implementation of Euro 5 rules for vehicles in 2011. However, government incentives implemented to support the domestic economy in general might support the weak demand for commercial vehicles.

Tyre markets

Sales figures for the first three months of 2012 confirm the trends reported in the closing months of 2011, with a slowdown both on mature markets and emerging markets. However, they also confirm the substantial resilience of the premium segment, which performed markedly better than the general trends reported for other market segments in all regions.

In Q1 2012 replacement tyre sales in Europe slowed down on both sales channels, the consumer business and the industrial business. Sales of original equipment in the North American consumer business continued growing at double-digit rates, while the replacement segment showed negative performance, with the exception of growth in the premium segment.

In South America, replacement tyre sales for cars increased by nearly 2% in the first two months of the year, with accelerating growth in the premium segment, while original equipment sales decreased, especially in the light vehicle segment.

Also in South America, the deadline for implementation of Euro 5 emission standards sustained the market for original equipment on trucks between May and December 2011, followed by a drop in demand in Q1 2012.

The performance of the Chinese market reflects the different number of working days resulting from the Chinese New Year, which fell in January this year. After discounting for this effect, market performance was consistent with the trends reported for December, with good results for replacement equipment sales in the light vehicle segment and weak sales of original equipment in the consumer segment, which nonetheless showed healthy sales growth in the premium segment, and in the industrial segment.

Commodities

In Q1 2012 natural rubber prices rose by 3% compared to the last quarter of 2011. The current stability of rubber prices, which are fluctuating in the range of U.S. dollar 3,600 – 3,800 per tonne, reflects softening demand in Europe and China on the one hand, and the recent measures announced by the Thai government for market support of natural rubber prices, on the otherhand..

After the fall to slightly less than euro 1,700 per tonne in January 2012, butadiene prices rose to euro 2,185 per tonne in March. This increase resulted from plant closures, partly for maintenance work and partly to boost prices. Minimal increases were reported in Europe during April, due to lower than expected demand.

While weak international growth is exerting downward pressure on petroleum prices, geopolitical tensions are prevailing for the moment, especially in regard to the embargo on Iranian oil. In Q1 2012, crude oil prices averaged U.S. dollar 118/bbl., up 8% from the closing months of 2011.

SIGNIFICANT EVENTS DURING THE FIRST QUARTER 2012

During “Sustainability Day” on **January 23, 2012**, Pirelli signed the voluntary agreement with the Ministry of Environment and Protection of Territory and the Sea to reduce the climate impact of activities related to production and use of its tyres. The agreement envisages a commitment to reduce specific emissions of CO₂ by 15% and specific water uptake by over 50% by 2015.

The agreement testifies to the commitment made by Pirelli, which uses its own technologies to develop production systems and products that can guarantee quality and safety for consumers and reduced environmental impact. These elements allow Pirelli constantly to improve its efficiency, with major economic benefits, and to exploit an additional competitive advantage on international markets, especially those where these characteristics are imposed by law and appreciated by consumers. The agreement is one of the various actions taken by Pirelli to limit environmental impact. In 2011, these actions led the Group to reduce its energy consumption by 6% from 2010, accompanied by a 20% reduction in specific water uptake. In aggregate, the measures taken by Pirelli since 2009 have allowed it to reduce its water consumption by 2 million cubic metres every year, with 5% less CO₂ emissions than in 2009.

On **January 31, 2012** the Extraordinary General Meeting of Savings Shareholders of Pirelli & C. S.p.A. assembled on the third call and chose Professor Giuseppe Niccolini as their joint representative for the 2012, 2013 and 2014 financial years. Giuseppe Niccolini replaces Mr Giovanni Pecorella, whose term had expired.

On **February 29, 2012** Pirelli & C. S.p.A. and Russian Technologies finalised the transaction for transfer of the Voronezh tyre plant by the Sibur petrochemical group to the joint venture between Pirelli and Russian Technologies.

This transaction follows the transfer by Sibur of the Kirov tyre plant last December.

The Voronezh plant will concentrate its activity on high-end tyres, with annual output of 2 million units in 2012, set to rise to 4 million units in 2014, while production at Kirov, already at 6.5 million units per year, will remain unchanged, with more than 60% of the total output being converted to the Pirelli brand.

On **March 1, 2012** the Pirelli Board of Directors co-opted Giuseppe Vita, in replacement of Enrico TommasoCucchiani, who resigned as Director on December 16, 2011, and Manuela Soffientini, who replaced Francesco Profumo, who resigned as Director on November 16, 2011.

GROUP PERFORMANCE AND RESULTS IN THE FIRST QUARTER 2012

In addition to the financial performance measures established by the International Financial Reporting Standards (IFRSs), this report presents alternative performance indicators that are derived from IFRSs. These performance indicators are used to facilitate the understanding of the Group operating performance. These indicators are: Gross Operating Profit, Non-current assets, Provisions, Net working capital, Other receivables and payables, Net financial (liquidity)/debt position. Please refer to the section “Alternative performance indicators” for a more analytical description of these indicators.

GROUP PERFORMANCE AND RESULTS

Continuous expansion of the Group’s production activities in rapidly developing economies and the focusing of its activity on the premium segment – which is not only the most profitable but also the fastest growing segment in the tyre business – allowed Pirelli to conclude Q1 2012 with additional improvement in its key operating and earnings indicators, in the face of on-going macroeconomic contraction in Western economies, causing an aggregate reduction in sales volumes of 7.4% on a like-for-like basis.

Consolidated **net sales** at March 31, 2012 totalled euro 1,556.5 million, up 11.1% from euro 1,400.9 million in Q1 2011. Consolidated **operating income** amounted to euro 209.4 million, up 46.1% from euro 143.3 million in Q1 2011. ROS was 13.5%, more than three percentage points higher than the 10.2% reported for the same period of 2011. **Total net income** was euro 125.3 million, up 54% from euro 81.4 million in March 2011.

The consolidated **net financial (liquidity)/debt position** was a negative euro 1,305.0 million, compared with euro 737.1 million at December 31, 2011 (and a negative euro 712.8 million at March 31, 2011). The change reflects the normal seasonal variation in business working capital and capital expenditure exceeding the value of amortisation, depreciation and impairment. Moreover, an outlay of euro 154.5 million was made during the quarter as the virtually final balance for purchase of the Kirov and Voronezh production sites in Russia, culminating the strategic decision to enter that country's market.

The positive performance reported by the **Tyre Business**, which remains the Group's core business with 99% of its net sales, reflects the effectiveness of the Pirelli strategy to focus on the premium consumer segment. That segment not only features higher profit margins but also higher growth rates. This strategy has made it possible to offset the general softening in demand due to contraction at the macroeconomic level. This phenomenon is reflected particularly in the industrial segment, which is more exposed to business cycles.

The positive impact on the mix resulting from this choice combined with the ability to leverage its price has more than offset the increase in raw material costs, which still had a negative impact of about euro 85 million in Q1 2012.

Supported by the strong performance of the price/mix variable (+16.5%), net sales at March 31, 2012 were 11.4% higher (+11.3% net of the virtually negligible exchange rate effect), in spite of a 7.4% contraction in volumes on a comparable basis, totalling euro 1,542.6 million.

Premium net sales rose by 29.2% in Q1 2012 year-on-year, reaching euro 584.4 million. In the car business alone, they account for 52.6% of the total, with growth of over five percentage points from the 47.4% recorded in the same period of 2011.

Operating income totalled euro 215.2 million, up 41.2% from euro 152.4 million in Q1 2011, with profitability reaching record level of 14.0%, up three percentage points from the 11.0% posted in Q1 2011.

In comparison with Q1 2011, the consumer segment enjoyed a 17.1% increase in net sales, with its profitability rising from 11.9% to 15.8%. The industrial segment, more heavily impacted by the challenging business cycle, suffered a 2.6% fall in net sales, with profitability of 8.5%, down slightly from 8.9%.

Consolidated financial highlights for the Group are illustrated as follows:

(in millions of euro)	03/31/12	03/31/11	12/31/11
Net sales	1,556.5	1,400.9	5,654.8
Gross operating profit before restructuring expenses	275.8	203.4	834.6
% of net sales	17.7%	14.5%	14.8%
Operating income before restructuring expenses	211.4	146.5	609.7
% of net sales	13.6%	10.5%	10.8%
Restructuring expenses	(2.0)	(3.2)	(27.8)
Operating income	209.4	143.3	581.9
% of net sales	13.5%	10.2%	10.3%
Net income (loss) from equity investments	0.5	0.8	(17.3)
Financial income/(expenses)	(18.7)	(14.8)	(89.5)
Pre-tax income (loss)	191.2	129.3	475.1
Income tax	(65.9)	(47.9)	(162.5)
Tax rate %	34.5%	37.0%	34.2%
Net income (loss) from continuing operations	125.3	81.4	312.6
Prior period deferred tax assets - Italy	-	-	128.1
Total net income (loss)	125.3	81.4	440.7
Net income attributable to owners of Pirelli & C. S.p.A.	122.9	82.8	451.6
Total net earnings per share attributable to owners of Pirelli & C. S.p.A. (in euro)	0.252	0.170	0.926
Non-current assets	3,679.1	3,142.4	3,558.1
Inventories	1,115.3	747.0	1,036.7
Trade receivables	1,059.9	953.6	745.2
Trade payables	(1,207.8)	(1,087.4)	(1,382.8)
Net working capital	967.4	613.2	399.1
% of net sales ^(°)	15.5%	10.9%	7.1%
Other receivables/other payables	(245.1)	(196.8)	(243.9)
Total net working capital	722.3	416.4	155.2
% of net sales ^(°)	11.6%	7.4%	2.7%
Net invested capital	4,401.4	3,558.8	3,713.3
Equity	2,320.1	2,072.0	2,191.6
Provisions	776.3	774.0	784.6
Net financial (liquidity)/debt position	1,305.0	712.8	737.1
Equity attributable to the owners of Pirelli & C. S.p.A.	2,274.6	2,034.7	2,146.1
Equity per share attributable to the owners of Pirelli & C. S.p.A. (in euro)	4.661	4.169	4.398
Capital expenditure	80.1	96.9	626.2
Research and development expenses	45.9	41.0	169.7
% of net sales ^(°)	2.9%	2.9%	3.0%
Headcount (number at end of period)	36,068	30,344	34,259
Industrial sites (number)	22	20	21

(°) the net sales figure is annualised in interim periods

To facilitate understanding of Group performance, the income and expense data are presented below, broken down by business segment.

(in millions of euro)

	Total Tyre		Other businesses (*)		Total	
	03/31/2012	03/31/2011	03/31/2012	03/31/2011	03/31/2012	03/31/2011
Net sales	1,542.6	1,384.5	13.9	16.4	1,556.5	1,400.9
Gross operating profit before restructuring expenses	280.3	209.5	(4.5)	(6.1)	275.8	203.4
Operating income before restructuring expenses	217.2	155.6	(5.8)	(9.1)	211.4	146.5
Restructuring expenses	(2.0)	(3.2)	-	-	(2.0)	(3.2)
Operating income (loss)	215.2	152.4	(5.8)	(9.1)	209.4	143.3
<i>% of net sales</i>	<i>14.0%</i>	<i>11.0%</i>			<i>13.5%</i>	<i>10.2%</i>
Net income (loss) from equity investments					0.5	0.8
Financial income/(expenses)					(18.7)	(14.8)
Pre-tax income (loss)					191.2	129.3
Income tax					(65.9)	(47.9)
<i>tax rate %</i>					<i>34.5%</i>	<i>37.0%</i>
Net income (loss)					125.3	81.4
Net financial (liquidity)/debt position					1,305.0	712.8

(*) In 2012 this item includes the Pirelli Ecotechnology Group, the Pirelli Ambiente Group and PZero S.r.l., while in 2011 this item also included the figures for the holding and services companies (including the Parent Company), which have been consolidated this year in the Total Tyre.

Net sales

In Q1 2012 net sales rose to euro 1,556.5 million, up 11.1% from the previous year (euro 1,400.9 million in Q1 2011), with 99% of sales being generated by the Tyre business, which is the Group's core business.

Operating income

Operating income rose by 46.1% to euro 209.4 million, with a ROS of 13.5%.

This result was impacted by **non-recurring expenses** of euro 2.0 million for on-going organisational streamlining measures. Non-recurring expenses in the first quarter of the previous year totalled euro 3.2 million.

Net income

Total net income at March 31, 2012 rose by 53.9% to euro 125.3 million, compared with euro 81.4 million in Q1 2011.

The increase in **incometax** from euro 47.9 million to euro 65.9 million is essentially due to the improvement in results, while the tax rate in Q1 2012 was 34.5%, down by one percentage point from the same period of the previous year. This reduction stemmed from improvements in the mix of countries that generate profits, which was already apparent at December 31, 2011.

Financial expenses rose from euro 14.8 million to euro 18.7 million, mainly due to growth in average indebtedness during the period. The average cost of debt for the period was 5.5%.

The **total net income attributable to owners of Pirelli & C. S.p.A.** was a positive euro 122.9 million (euro 0.252 per share) at March 31, 2012, compared with euro 82.8 million at March 31, 2011 (euro 0.170 per share).

Equity

Consolidated **equity** rose from euro 2,191.6 million at December 31, 2011 to euro 2,320.1 million at March 31, 2012.

Equity attributable to owners of Pirelli & C. S.p.A. at March 31, 2012 was euro 2,274.6 million (euro 4.661 per share), compared with euro 2,146.1 million at December 31, 2011 (euro 4.398 per share).

The change, whose detailed breakdown is shown in the table below, stemmed mainly from the net income for the period (positive euro 125.3 million) and the change in exchange rates used to translate equities denominated in foreign currencies.

(in millions of euro)

	Group	Non-controlling interests	Total
Equity at 12/31/2011	2,146.1	45.5	2,191.6
Translation differences	(15.2)	(1.3)	(16.5)
Net income (loss) for the period	122.9	2.4	125.3
Adjustment to fair value of other financial assets/derivative instruments	8.6	-	8.6
Other changes to items recognised in equity	6.6	-	6.6
Dividends paid	-	(2.2)	(2.2)
Venezuela inflation effect	5.2	0.2	5.4
Other changes	0.4	0.9	1.3
Total changes	128.5	-	128.5
Equity at 03/31/2012	2,274.6	45.5	2,320.1

Net financial (liquidity)/debt position

The Group's net financial debt position totalled euro 1,305.0 million at March 31, 2012, compared with a net financial debt position of euro 737.1 million at December 31, 2011.

(in millions of euro)

	03/31/2012	12/31/2011
Current borrowings from banks and other lenders	323.1	369.5
Non-current borrowings from banks and other lenders	1,720.4	1,408.6
Total gross debt	2,043.5	1,778.1
Cash on hand	(291.9)	(557.0)
Securities held for trading	(126.9)	(160.5)
Current financial receivables	(67.4)	(72.8)
Non-current financial receivables	(252.3)	(250.7)
<i>of which Prelios</i>	<i>(160.0)</i>	<i>(160.0)</i>
Total financial receivables, cash and cash equivalents	(738.5)	(1,041.0)
Net financial (liquidity)/debt position	1,305.0	737.1

The **operating cash flow** was a negative euro 317.1 million, mainly due to the seasonal changes in working capital and capital expenditure during the period (which was 1.24 times the amount of amortisation, depreciation and impairments). This result reflected implementation of the strategy to increase the output of premium segment products.

Total net cash flow was a negative euro 567.9 million. This figure includes euro 154.5 million allocable to the virtually final balance paid for acquisition of the two production sites in Russia.

The following table summarises the changes in cash flow during the period:

(in millions of euro)

	Q1	
	2012	2011
Operating income (EBIT) before restructuring expenses	211.4	146.5
Amortisation and depreciation	64.4	56.9
Capital expenditures of property, plant and equipment and intangible assets	(80.1)	(96.9)
Change in working capital/other	(512.8)	(313.5)
Operating cash flow	(317.1)	(207.0)
Financial income/expenses	(18.7)	(14.8)
Ordinary tax charges	(65.9)	(47.9)
Net operating cash flow	(401.7)	(269.7)
Financial investments/disinvestments	3.2	24.4
Russia investment	(154.5)	-
Dividends paid to non-controlling interests	(2.2)	(0.7)
Cash out for restructuring expenses	(4.2)	(2.8)
Foreign exchange differences/other	(8.5)	(8.4)
Net cash flow	(567.9)	(257.2)

The **structure of gross debt**, which has an average maturity of about four years and of which over 75% falls due beginning in 2015, is shown as follows:

(in millions of euro)

	Financial Statements 03/31/2012	Maturity date				
		2012	2013	2014	2015	2016 and beyond
Use of committed credit facilities	675.0	-	-	-	675.0	-
Bond 5.125% - 2011/2016	500.0	-	-	-	-	500.0
EIB Loans	300.0	25.0	25.0	-	100.0	150.0
Other financing	568.5	236.9	92.2	128.5	26.7	84.2
Total gross debt	2,043.5	261.9	117.2	128.5	801.7	734.2
		12.8%	5.7%	6.3%	39.2%	36.0%

At March 31, 2012 the Group had euro 525 million available as unused portion of committed credit facilities.

OPERATING PERFORMANCE:

TOTAL TYRE BUSINESS

The consolidated results for Q1 2012 as compared with those for Q1 2011 are highlighted in the following table:

(in millions of euro)

	03/31/2012	03/31/2011	12/31/2011
Net sales	1,542.6	1,384.5	5,601.6
Gross operating profit before restructuring expenses	280.3	209.5	875.5
% of net sales	18.2%	15.1%	15.6%
Operating income before restructuring expenses	217.2	155.6	661.7
% of net sales	14.1%	11.2%	11.8%
Restructuring expenses	(2.0)	(3.2)	(17.8)
Operating income (loss)	215.2	152.4	643.9
% of net sales	14.0%	11.0%	11.5%

Net sales

Net sales in Q1 2012 totalled euro 1,542.6 million, up 11.4% from the euro 1,384.5 million reported a year earlier.

The like-for-like change, before the positive 0.1% effect from consolidation translation differences, showed an 11.3% increase.

The volume component (excluding the Russia JV) was a negative 7.4%, confirming the difficulties caused by the macroeconomic situation, which was more accentuated in the industrial segment, where the sales volume fell by 12.3%. However, the premium segment continued to make a positive contribution to the consumer business, with a 15.8% increase in volumes compared with an 8.7% dip in other segments.

The negative impact on sales volumes was more than offset by the combined positive 2.2% contribution made by the Russia JV and the positive 16.5% price/mix component, which reflects the focus on the premium segment and the capacity to recover the negative impact of higher raw materials costs by charging higher prices for Company products, which were gradually increased over the course of 2011.

The premium segment confirmed its role as the driving force behind the growth in revenue, with net sales growing over the quarter by 29.2% to euro 584.4 million.

The consumer business expanded by 17.1%, while the industrial business contracted by 2.6%.

When broken down by sales channels, 76.4% of net sales were generated by the replacement channel, while original equipment accounted for 23.6%.

As compared with the same period of the previous year, the change can be summarised as follows:

	Q1	
	2012	2011
Volume (excluding Russia JV)	-7.4%	6.1%
<i>of which Premium volume</i>	<i>15.8%</i>	<i>25.2%</i>
Price/mix	16.5%	15.9%
Change in scope of Russia JV	2.2%	
Change on a like-for-like basis	11.3%	22.0%
Translation effect	0.1%	2.7%
Total change	11.4%	24.7%

The following tables show the **breakdown of net sales by geographic area and product category**:

GEOGRAPHICAL AREA	03/31/2012			03/31/2011
	Euro/mln	yoy		
Italy	110.8	-18%	7.2%	9.8%
Rest of Europe	479.3	10%	31.1%	31.6%
Russia	54.3 *	324%	3.5%	0.9%
Nafta	182.9	23%	11.9%	10.7%
Central and South America	484.4	7%	31.4%	32.8%
Asia/Pacific	96.8	10%	6.3%	6.4%
Middle East/Africa	134.1	24%	8.7%	7.8%
TOTAL	1,542.6	11%	100.0%	100.0%

* of which euro/mln 30.4 from Russia JV

PRODUCT	03/31/2012			03/31/2011
	Euro/mln	yoy		
Car tyres	1,016.4	19%	66%	62%
Motorcycle tyres	135.4	3%	9%	10%
Consumer	1,151.8	17%	75%	72%
Industrial vehicle tyres	361.1	-2%	23%	26%
Steelcord	29.7	-8%	2%	2%
Industrial	390.8	-3%	25%	28%

In Q1 2012, consumer segment products accounted for 75% of total net sales, an increase that is partly accounted for by the more critical market situation in the industrial segment.

Operating income

Operating income at March 31, 2012 totalled euro 215.2 million, with growth of 41.2% from Q1 2011. The ROS also rose to 14.0% from 11.0% at March 31, 2011. During the period, euro 2.0 million in **non-recurring expenses** were sustained. These were concentrated in the consumer segment and stemmed mainly from continuous implementation of structural efficiency and streamlining measures.

The changes in the principal indicators of earnings performance during the quarter are illustrated in the following table:

(in millions of euro)

	Q1	
	2012	2011
Net sales	1,542.6	1,384.5
<i>yoy</i>	<i>11.4%</i>	<i>24.7%</i>
Gross operating profit before restructuring expenses	280.3	209.5
<i>% of net sales</i>	<i>18.2%</i>	<i>15.1%</i>
Operating income before restructuring expenses	217.2	155.6
<i>% of net sales</i>	<i>14.1%</i>	<i>11.2%</i>
Operating income (loss)	215.2	152.4
<i>% of net sales</i>	<i>14.0%</i>	<i>11.0%</i>

The increase in results is strictly tied to the strategy of focusing on premium products, firm and steady application of the price policy, and continuous efficiency gains in industrial activities, which more than offset the negative effects of reduced sales volumes and the persistently negative impact of raw materials costs and the other unit costs of factors of production.

The breakdown of changes from the same quarter of 2011 is illustrated as follows:

(in millions of euro)

	Q1
2011 operating income	152.4
Foreign exchange effect	(1.3)
Prices/mix	159.2
Volumes (excluding change in Russia scope)	(30.2)
Cost of production factors (raw materials)	(85.1)
Cost of production factors (labour/energy/others)	(22.0)
Efficiency gains	25.5
Amortisation, depreciation and other *	15.5
Restructuring expenses	1.2
Change	62.8
2012 operating income	215.2

* includes change in Russia scope

Operating cash flow

(in millions of euro)

	Q1	
	2012	2011
Operating income (EBIT) before restructuring expenses	217.2	155.6
Amortisation and depreciation	63.1	53.9
Capital expenditures of property, plant and equipment and intangible assets	(78.6)	(94.5)
Change in working capital/other	(509.9)	(291.6)
Operating cash flow	(308.2)	(176.6)

In Q1 2012 **operating cash flow** in the Tyre Business was a negative euro 308.2 million, mainly due to seasonal variations in working capital, which was also impacted by the absolute increase in the value of operations.

During the period, **capital expenditure on property, plant and equipment and intangible assets** totalled euro 78.6 million, equal to 1.24 times amortisation, depreciation and impairment. This capital expenditure was focused essentially on the expansion of production capacity in the premium segment, especially in Mexico, South America, China and Romania.

CONSUMER BUSINESS

The following table illustrates the results for Q1 2012 as compared with the corresponding period of 2011:

(in millions of euro)

	Q1	
	2012	2011
Net sales	1,151.8	983.3
<i>yoy</i>	<i>17.1%</i>	<i>25.9%</i>
Gross operating profit before restructuring expenses	232.1	160.6
<i>% of net sales</i>	<i>20.2%</i>	<i>16.3%</i>
Operating income before restructuring expenses	184.0	119.7
<i>% of net sales</i>	<i>16.0%</i>	<i>12.2%</i>
Operating income (loss)	182.1	116.8
<i>% of net sales</i>	<i>15.8%</i>	<i>11.9%</i>

The following table shows the detailed breakdown of **market performance**:

	Q1
EUROPE (*)	
Original Equipment	-6%
Replacement	-12%
NAFTA	
Original Equipment	+16%
Replacement	-8%
SOUTH AMERICA	
Original Equipment	-7%
Replacement	+4%
CHINA	
Original Equipment	+1%
Replacement	-3%

(*) excluding Russia

Net sales in Q1 2012 totalled euro 1,151.8 million, with an increase of 17.1% from 2011. Excluding the translation effect, the like-for-like change was a positive 16.4%, with a 5.1% contraction in volumes (excluding the Russia JV), a 2.7% increase in the scope of consolidation due to the Russian business, and an 18.8% increase in the price/mix component.

The aggregate increase in net sales volumes for the premium segment was 15.8%.

	Q1	
	2012	2011
Volume (excluding Russia JV)	-5.1%	9.0%
<i>of which Premium volume</i>	<i>15.8%</i>	<i>25.2%</i>
Price/mix	18.8%	14.6%
Change in scope of Russia JV	2.7%	
Change on a like-for-like basis	16.4%	23.6%
Translation effect	0.7%	2.3%
Total change	17.1%	25.9%

Gross operating profit before restructuring expenses was euro 232.1 million, or 20.2% of sales (+44.5% from 2011), while **operating income before restructuring expenses** reached euro 184.0 million in Q1 2012, with a ratio of 16.0% to sales, as compared with euro 119.7 million in 2011 (12.2% of sales). **Operating income** totalled Euro 182.1 million (with ROS of 15.8%), up 56% from 2011, when it totalled Euro 116.8 million (with ROS of 11.9%).

Car Business

In Q1 2012 the performance of the **Original Equipment** channel was negative in Europe and South America while it was positive in NAFTA.

On the other hand, most **Replacement** channel turned in negative results, with the exception of the South American market. In Q1 2012 net sales by Pirelli, which totalled euro 996.6 million with an EBIT margin of 15.7%, were generated 73.8% by the Replacement channel and 26.2% by the Original Equipment channel.

Overall, 52.6% of net sales were originated by premium products, which generated 76% of operating income.

In spite of the problems on international markets caused by the economic crisis, business results reflect the strategic focus on the premium segment, which continued to out-perform the overall market in Q1 2012.

Net sales of Pirelli premium products grew strongly in all areas, with aggregate growth of +17.7% in premium volumes.

Transfer of the Voronezh plant to the joint venture between Pirelli and Russian Technologies was completed in the first quarter. This acquisition of assets in Russia fulfilled growth plans for that region.

Motorcycle Business

In Q1 2012 the performance of the **Original Equipment** channel was slightly positive in Europe and negative in South America and Japan.

The reference markets contracted slightly year-on-year in the **Replacement** channel (which accounts for 82% of net sales).

In Q1 2012 net sales by Pirelli totalled euro 135.4 million, with an EBIT margin of 20.7%.

The sportiest-ever Pirelli tyre for road use was introduced on the market in Q1 2012. This is the new Diablo Supercorsa that equips the recent, super-sporty Ducati Panigale and debuted in its racing version for the Stock 1000 championship, which has the exclusive for sales throughout 2012.

Geographical Areas

Europe

The macroeconomic context in this area is extremely unfavourable, negatively impacting overall market performance. However, the stronger performance of the premium segment as compared with the other segments and the improvement in Company market share generated satisfactory results that were up year-on-year.

NAFTA

Total volume on the consumer tyre market for the replacement channel contracted sharply, but the premium segment grew about 8%, while the original equipment channel expanded by 16.9%.

Pirelli managed to maintain its market share in the premium segment by increasing its volumes in that segment by over 20% through strategic focusing and the positive impact of Original Equipment approvals.

South America

A growth strategy focused on the premium segment was also implemented in South America, with premium volumes consequently expanding by over 30%. This allowed the Company to maintain its leadership and significantly improve its results year-on-year.

Apac

The concentration of capital expenditure to increase premium segment production capacity in China is beginning to bear fruit, as confirmed by the expansion of premium volumes in that region by over 80% year-on-year. The positive performance of the premium segment more than doubled the operating income generated in that area.

INDUSTRIAL BUSINESS

The following table illustrates the results for Q1 2012 as compared with the corresponding period of 2011:

(in millions of euro)

	Q1	
	2012	2011
Net sales	390.8	401.2
<i>yoy</i>	-2.6%	21.9%
Gross operating profit before restructuring expenses	48.2	48.9
<i>% of net sales</i>	12.3%	12.2%
Operating income before restructuring expenses	33.2	35.9
<i>% of net sales</i>	8.5%	8.9%
Operating income (loss)	33.1	35.6
<i>% of net sales</i>	8.5%	8.9%

The following table shows the detailed breakdown of **market performance**:

	Q1
EUROPE (*)	
Original Equipment	-6%
Replacement	-30%
SOUTH AMERICA	
Original Equipment	-30%
Replacement	-13%
CHINA	
Original Equipment	-24%
Replacement	+4%

(*) excluding Russia

Net sales in Q1 2012 totalled euro 390.8 million, down 2.6% from Q1 2011. On a comparable basis and excluding translation effects, the change was negative 1.1%, due to the 12.3% contraction in volumes, which was only partially offset by the positive contribution made by the 11.2% change in the price/mix component.

	Q1	
	2012	2011
Volume	-12.3%	-0.7%
Price/Mix	11.2%	19.0%
Change on a like-for-like basis	-1.1%	18.3%
Translation effect	-1.5%	3.6%
Total change	-2.6%	21.9%

Gross operating profit before restructuring expenses was euro 48.2 million, or 12.3% of sales (-1.4% year-on-year), while **operating income** was euro 33.1 million, with a ROS of 8.5%, as compared with euro 35.6 million at March 31, 2011 (8.9% of sales).

The Q1 2012 result was impacted by the market slowdown, which performed negatively in almost all geographical areas and in both sales channels, although Company market share remained substantially stable and/or improved.

In the **Truck** business, which represents 77% of the segment, aggregate net sales fell by 2.5% from 2011. In the **Agro** business, which represents 11% of the segment, aggregate net sales fell by 10%. The **Steel Cord** outsourcing business, which represents 12% of the segment, posted an aggregate decrease of 9%.

Truck Business

The first quarter was marked by negative market performance worldwide. This impacted Company operating results and forced production cutbacks to control inventory.

Notwithstanding these conditions, the profitability of the business remained substantially unchanged from the previous year in terms of ROS.

On the reference markets, the **Original Equipment** channel posted a sharp contraction in turnover. The change was -5.5% in Europe, -16% in Turkey, -24% in China, over -30% in Brazil, due to conversion of vehicle production from the Euro 3 standard to the Euro 5 standard, which was underway at December 31, 2011.

The NAFTA bucked the trend, being driven by the United States (+25%) and the other markets in South America, with growth of around 20%.

Instead, in the **Replacement** channel, the market contracted sharply almost everywhere from 2011, especially in Europe, which ended the quarter down -30%, Turkey -30%, Brazil -11%, NAFTA -14%.

Due to the contracting market, production was cut by 7% as compared with the previous year, with a more limited cut for All Steel Radial (-5%) and sharper cut for Conventional tyres (-22%), to control inventory and reduce the negative impact on working capital.

The new Series 01 products were gradually introduced on the market during Q1 2012. In particular, these included the launch of the Winter product, with a series of live demonstrations organised on snow and ice-covered roads to show journalists and customers the performance and safety features of our new products under extreme use conditions.

In addition to the new Series 01 Winter product for Europe, the Regional, Gravel and Semitrailer applications of the Series 01 were introduced in Istanbul for the Africa and Middle East markets, while the new Diamante Nero product was introduced in Egypt, representing the top of the line of Pirelli products offered in that country.

Agricultural Business

In Q1 2012 aggregate net sales fell by 9.5%, with an 18% reduction in volumes.

The business continues to be heavily focused on South America, which accounts for 85% of total turnover.

In Brazil the market grew by 7% in the Replacement channel and 5% in the Original Equipment channel.

The reduction of net sales in Argentina also had an impact on this business, which suffered from the delayed soybean harvest season.

SteelCord Business

Net sales of the Steel Cord product in Q1 2012 were substantially unchanged year-on-year, although there was a 2.4% increase in the consumer segment and a 2.8% decrease in the industrial segment (Truck+Agro/OTR). On the other hand, net sales of the Hose Wire product fell sharply (-18%), in connection with the production of high pressure tubes for new vehicles.

The lower aggregate volumes and different sales mix made it necessary to reduce production in order to maintain an adequate level of inventories.

Geographical Areas

Europe

In the face of an extremely negative market situation during the period, Pirelli improved its competitive position by maintaining price levels in line with the last quarter of the previous year and improving its mix from the previous year.

Following introduction of the new Series 01 products in 2011, the truck business currently offers a product range that satisfies new European regulations governing eco-sustainability and safety, which will go into effect during the year.

South America

Pirelli confirmed its leadership in the Original Equipment channel by increasing its market share, even if the Brazilian market shrank by over 30%.

The programme to focus on dealers and fleets was launched in the Replacement Channel, while the Formula brand product supporting Pirelli was introduced on the market.

MEA

The Turkish market performed similarly to the European market, with net sales down 30% in the Replacement channel and 16% in the Original Equipment channel, while Pirelli still managed to improve its own position.

In Egypt, the market performed very well in Q1 2012, especially in comparison with Q1 2011, when the revolutions that hit North Africa had impacted both sales and production.

Refocusing on the mix and repositioning of prices continued in Middle East Africa, benefiting from stable demand.

Apac

The Chinese market continued slowing down in Q1 2012, especially in the Original Equipment channel. This trend led Pirelli to refocus on fleets and the mix offered to the domestic market and increase sales in other countries of the region.

BUSINESS OUTLOOK IN 2012

Faced with a general slowdown in the demand for tyres as a reflection of the present macro-economic crisis, predominantly in Southern Europe, Pirelli has revised its 2012 total volume outlook, reducing it from 0/-1% to -1%/-2%.

In particular, the target for total Consumer volumes has been reduced from +1%/0% to -0.5%/-1.5%, while growth of the Premium segment alone is forecast at approximately 20% (previous indication: at least 20%). The forecast for volumes in the Industrial business is confirmed at -2%/-4%.

The target for an improvement in price/mix of 11%/12% is confirmed, thanks to the focus on Premium and price actions taken in 2011 to offset higher raw material costs. Revenues from the Consumer business are expected to be approximately 4.45 billion euro (previous target: ~4.5 billion euro), net of the contribution from the Russian joint venture, the sales target for which has been revised to approximately 250 million euro (previous target: approximately 300 million euro) as a consequence of greater selectivity in sales.

The revenue target for the Industrial business is confirmed at approximately 1.7 billion euro. Total revenues for 2012 are expected to be approximately 6.45 billion euro (previous guidance: ~6.6 billion euro), with an increase of 14% from 5.65 billion euro in 2011.

The Ebit margin is expected to be above 12% (previous target: equal to or above 12%), with an operating result of at least 800 million euro. The negative impact of raw material costs has been reduced from 140 million euro to 90 million euro.

Investment, taking the slowdown in demand into account, is expected to total approximately 500 million euro, a decrease from the previous estimate of approximately 560 million euro. The forecast net financial position is confirmed negative for an amount below one billion euro before dividends (below 1.1 billion euro after dividend payments of 132.4 million euro).

HIGHLIGHTS OF OTHER ACTIVITIES

The other businesses are comprised by Pirelli & C. Eco Technology S.p.A., Pirelli & C. Ambiente S.p.A., PZero S.r.l., while in 2011 they also included the Group holding and service companies, including the parent, Pirelli & C. S.p.A., which are now consolidated in the Tyre Business.

(in millions of euro)

	Pirelli Eco Technology		Pirelli Ambiente		Pzero		Other		Total other activities	
	Q1 2012	Q1 2011	Q1 2012	Q1 2011	Q1 2012	Q1 2011	Q1 2012	Q1 2011	Q1 2012	Q1 2011
Net sales	9.7	13.2	0.4	0.4	3.8	2.9	-	(0.1)	13.9	16.4
Gross operating profit before restructuring expenses	(1.2)	(2.4)	(0.3)	(1.5)	(3.0)	(1.7)	-	(0.5)	(4.5)	(6.1)
Operating income (loss) before restructuring expenses	(2.1)	(3.2)	(0.5)	(1.6)	(3.2)	(1.7)	-	(2.6)	(5.8)	(9.1)
Restructuring expenses	-	-	-	-	-	-	-	-	-	-
Operating income (loss)	(2.1)	(3.2)	(0.5)	(1.6)	(3.2)	(1.7)	-	(2.6)	(5.8)	(9.1)

At March 31, 2012 **net sales** totalled euro 13.9 million, compared with euro 16.4 million a year earlier, with the decrease being attributable to Pirelli & C. Eco Technology.

Operating income was a negative euro 5.8 million, compared with a negative value of euro 9.1 million for the same period of 2011. The euro 2.6 million improvement in the figure was due to consolidation of the financial and service activities in the Tyre Business, and the remainder to consolidation of the streamlining activities, especially for the portion related to environmental products.

PARENT HIGHLIGHTS

The following table illustrates highlights of the parent's operating results, earnings and financial position:

(in millions of euro)

	31/03/2012	31/03/2011	31/12/2011
Operating income (loss)	(1.8)	(2.9)	(23.8)
Net financial income and net income from equity investments	2.9	7.9	150.8
Net income of continuing operations	1.6	5.3	144.4
Prior period deferred tax assets - Italy	-	-	128.1
Net income	1.6	4.8	272.5
Non-current financial assets	1,438.4	955.7	1,367.4
Equity	1,742.5	1,594.5	1,740.6
Net financial (liquidity)/debt position	(159.8)	(582.8)	(200.7)

In first quarter of the year, the income statement still does not reflect the dividends paid out by the subsidiaries (which are customarily accrued in the second quarter), with net income closing near the break-even point.

Net financial (liquidity)/debt position is impacted essentially by capital increases executed in January in favour of the subsidiaries operating in the environmental products business, for a total of about euro 70 million.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE QUARTER

On **April 16, 2012** Pirelli signed an agreement with the family Faria da Silva for purchase of 60% of the share capital of Campneus, one of the principal tyre distribution chains in Brazil, for about reais 54 million, equal to about euro 22.5 million, subject to adjustment on the basis of the balance sheet at the closing date.

Consistently with the 2012-2014 Business Plan presented in London last November, Pirelli aims to reinforce its market leadership in Brazil through this transaction, both in the retail and wholesale sectors, by promoting concentration on the higher growth areas of the premium segment and increasing the number of its proprietary sales outlets (Pirelli Pneuc) from the current 48 to 102.

The 54 sales outlets of Campneus that are covered by the agreement are already part of the Pirelli distribution network in Brazil, which has over 600 retail outlets. The Campneus stores, which will continue to use their existing brand name after the acquisition is completed, are located in the Brazilian states of São Paulo, Minas Gerais, Paraná, MatoGrosso do Sul, Santa Catarina and Rio Grande do Sul and sell the complete range of Pirelli tyres for cars, light-truck, truck, bus, agro, and earth-moving and off-road equipment.

The agreement will be submitted for approval to CADE, the Conselho Administrativo de Defesa Econômica (the Brazilian administrative economic defence council), with execution of the deal expected to take place by the end of H1 2012.

On **April 24, 2012** Pirelli initialled an agreement with PT Astra Otoparts, a leading Indonesian firm that produces components for the automotive sector, for the construction of a new factory in Indonesia. The first Pirelli plant to operate in that country, it will produce conventional motorcycle tyres.

The agreement calls for the creation of a joint venture with Pirelli holding a majority stake of 60% of the capital and Astra holding the remaining 40%. The total outlay by the joint venture for construction of the new plant will be about U.S. dollar 120 million between 2012 and 2014.

Construction of the new plant, not far from Jakarta, is scheduled to begin in Q4 2012. The site will cover 25 hectares and employ 750 workers when it achieves full operating capacity in 2016.

It is expected that the new factory will become operational in H2 2013, with output forecasted to reach about 2 million conventional motorcycle tyres in 2014, and 7 million units annually once full capacity is achieved in 2016. Of these, 3 million units will be sold under the Astra brands, while the remaining 4 million units – about 25% of total Pirelli motorcycle tyre production worldwide – under Pirelli brands (Pirelli and Metzeler).

ALTERNATIVE PERFORMANCE INDICATORS

In addition to the financial performance measures established by the International Financial Reporting Standards (IFRSs), this report presents certain measures that are derived from although not required by IFRSs (“Non-GAAP Measures”). These performance measures are presented to facilitate understanding of Group operating performance and should not be construed as substitutes for the information required under the IFRSs.

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

- **Gross Operating Profit:** Gross operating profit is an intermediate economic measure deriving from operating income, but excluding depreciation and amortisation of property, plant and equipment and intangible assets;
- **Non-current assets:** this measure is the sum of “property, plant and equipment,” “intangible assets,” “investments in associates and joint ventures” and “other financial assets”;
- **Provisions:** this measure is the sum of “provisions for liabilities and charges (current and non-current),” “provisions for employee benefits” and “provisions for deferred tax liabilities”;
- **Net working capital:** this measure consists of all items not included in the two measures above, in “equity” and “net financial position/net borrowings”;
- **Net financial (liquidity)/debt position:** this performance measure is represented by gross financial debt less cash and cash equivalents and other financial receivables. The section “Financial Statements” presents a table showing the amounts in equity used to calculate the measure.

OTHER INFORMATION

Related party transactions

Related party transactions, including intercompany transactions, are neither unusual nor exceptional, but are part of the ordinary course of business of Group companies. Such transactions, when not carried out at standard conditions or dictated by specific laws, are in any case settled on an arm's length basis and executed in accordance with the provisions of the Company procedure for related party transactions.

The effects of related party transactions on the consolidated income statement and balance sheet of the Pirelli Group at March 31, 2012 are shown below.

Relations with associated companies

(in millions of euro)

Revenue from sales and services	0.3	The amount mainly concerns services provided by: Pirelli Tyre S.p.A. to Sino Italian Wire Technology Co. Ltd (euro 0.2 million); Pirelli & C. Ambiente S.p.A. to Idea Granda Società Consortile r.l. (euro 0.1 million).
Other costs	3.8	The amount mainly concerns: costs for purchase of products of Pirelli Tyre Co. Ltd (euro 3.5 million) and Pirelli Tyre S.p.A. (euro 0.3 million) from Sino Italian Wire Technology Co. Ltd; costs of Pirelli & C. S.p.A. from CORIMAV (euro 0.1 million).
Financial income	0.2	The amount concerns income of Sino Italian Wire Technology Co. Ltd. from Pirelli International Ltd.
Current trade receivables	5.2	The amount mainly concerns receivables for provision of services by: Pirelli Tyre S.p.A. to Sino Italian Wire Technology Co. Ltd (euro 4.6 million); Pirelli & C. Ambiente S.p.A. to Idea Granda Società Consortile r.l. (euro 0.5 million).
Current other receivables	2.0	The amount consists of receivables of: Solar Utility S.p.A. from G.P. Energia S.r.l. (euro 1.9 million); Pirelli Tyre S.p.A. from Sino Italian Wire Technology Co. Ltd. (euro 0.1 million).
Current financial receivables	27.8	The amount consists of receivables of: Pirelli International Ltd. from Sino Italian Wire Technology Co. Ltd (euro 22.5 million); Solar Utility S.p.A. from GWM Renewable Energy II S.p.A. (euro 5.0 million); Pirelli & C. Ambiente S.p.A. from Green&Co2 S.r.l. (euro 0.3 million).
Current trade payables	1.8	The amount mainly concerns payables for provision of services by: Sino Italian Wire Technology Co. Ltd to Pirelli Tyre Co. Ltd (euro 1.5 million) and to Pirelli Tyre S.p.A. (euro 0.2 million).
Other current payables	2.1	The amount consists of payables of Solar Utility S.p.A. (euro 2.1 million) to G.P. Energia S.r.l.

Related party transactions through Directors

(in millions of euro)

Other income	0.2	The amount mainly concerns services provided by Pirelli Sistemi Informativi S.p.A. to the Prelios Group and the Camfin Group (euro 0.1 million) and lease income and related operating expenses of Pirelli & C. S.p.A. owed to Prelios S.p.A. and the Camfin Group.
Other costs	3.4	The amount mainly refers to advertising costs owed to FC Internazionale Milano S.p.A. (euro 3.3 million) and costs for leases of Poliambulatorio Bicocca S.r.l. (euro 0.1 million) by the Prelios Group.
Financial income	3.7	The amount refers to accrued interest (euro 3.5 million) and up-front fees (euro 0.2 million) on the outstanding loan with Prelios S.p.A. of Pirelli & C. S.p.A.
Other non-current receivables	160.0	The amount mainly refers to the loan to Prelios S.p.A. as part of the spin-off operation (euro 160 million).
Current trade receivables	2.9	The amount refers to receivables connected with services provided to the Prelios Group (euro 2.2 million), to the Camfin Group (euro 0.5 million) and to the Partecipazioni Industriali S.p.A. Group (euro 0.1 million), of which mainly, in detail: Pirelli Sistemi Informativi (euro 1.5 million); Pirelli & C. S.p.A. (euro 0.6 million); Pirelli & C. Ambiente Site Remediation S.p.A. (euro 0.4 million); Poliambulatorio Bicocca S.r.l. (euro 0.2 million); Pirelli Tyre S.p.A. (euro 0.1 million).
Current other receivables	3.5	The amount refers to receivables for interest accrued by Pirelli & C. S.p.A. from Prelios S.p.A.
Non-current borrowings from banks and other financial institutions	3.1	The amount refers to deferred income on up-front fees for the outstanding loan made to Prelios S.p.A. of Pirelli & C. S.p.A.
Current borrowings from banks and other financial institutions	0.7	The amount refers to deferred income on up-front fees for the outstanding loan to Prelios S.p.A. of Pirelli & C. S.p.A.
Current trade payables	3.8	The amount mainly refers to payables to FC Internazionale Milano S.p.A. (euro 3.4 million) and to the Prelios Group (euro 0.4 million).
Investments in other financial assets (cash outflow)	0.6	This refers to the capital increase of F.C. Internazionale Milano S.p.A.

Other related party transactions

(in millions of euro)

Other costs	0.6	The amount mainly refers to insurance costs of Pirelli Tyre S.p.A. (euro 0.4 million) and Pirelli Industrie Pneumatici S.r.l. (euro 0.1 million) to Allianz S.p.A., Assicurazioni Generali S.p.A. and Fonsai S.p.A.
Other non-current receivables	0.5	The amount refers to receivables of Pirelli & C. S.p.A. from Allianz S.p.A.
Current other receivables	0.3	The amount refers to deferrals for the insurance costs shown above incurred by Pirelli Tyre S.p.A. (euro 0.2 million) and Pirelli Industrie Pneumatici S.r.l. (euro 0.1 million) towards Allianz S.p.A., Assicurazioni Generali S.p.A. and Fonsai S.p.A.
Current other payables	0.3	The amount refers to payables for the insurance costs shown above incurred by Pirelli Tyre S.p.A. (euro 0.2 million) and Pirelli Industrie Pneumatici S.r.l. (euro 0.1 million) towards Assicurazioni Generali S.p.A.

The Board of Directors

Milan, May 10, 2012

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET (in thousands of euro)

	03/31/2012	12/31/2011
Property, plant and equipment	2,468,388	2,356,616
Intangible assets	942,835	934,299
Investments in associates and joint ventures	139,693	140,114
Other financial assets	128,197	127,037
Deferred tax assets	179,910	198,748
Other receivables	351,620	347,870
Tax receivables	10,200	10,156
Non-current assets	4,220,843	4,114,840
Inventories	1,115,265	1,036,675
Trade receivables	1,059,854	745,238
Other receivables	308,062	281,737
Securities held for trading	126,911	160,503
Cash and cash equivalents	291,929	556,983
Tax receivables	32,432	29,484
Derivative financial instruments	52,147	70,346
Current assets	2,986,600	2,880,966
Total Assets	7,207,443	6,995,806
Equity attributable to owners of the Parent:	2,274,605	2,146,099
- Share capital	1,343,285	1,343,285
- Reserves	808,386	351,206
- Net income	122,934	451,608
Equity attributable to non-controlling interests:	45,473	45,479
- Reserves	43,140	56,436
- Net income	2,333	(10,957)
Total Equity	2,320,078	2,191,578
Borrowings from banks and other financial institutions	1,707,374	1,402,497
Other payables	62,554	53,980
Provisions for liabilities and charges	157,663	156,898
Provision for deferred tax liabilities	19,460	21,298
Employee benefit obligations	479,984	481,736
Tax payables	4,616	4,817
Non-current liabilities	2,431,651	2,121,226
Borrowings from banks and other financial institutions	323,107	369,451
Trade payables	1,207,773	1,382,772
Other payables	631,747	626,811
Provisions for liabilities and charges	119,213	124,671
Tax payables	85,184	75,385
Derivative financial instruments	88,690	103,912
Current liabilities	2,455,714	2,683,002
Total Liabilities and Equity	7,207,443	6,995,806

CONSOLIDATED INCOME STATEMENT (in thousands of euro)

	Q1 2012	Q1 2011
Revenue from sales and services	1,556,531	1,400,873
Other income	27,904	25,298
Change in inventories of work in progress, semi-finished and finished products	20,799	(2,522)
Raw materials and consumables (net of change in inventories)	(603,467)	(534,669)
Personnel expense	(313,243)	(273,958)
Amortisation, depreciation and impairment	(64,488)	(56,862)
Other costs	(415,659)	(415,628)
Additions to property, plant & equipment for internal work	973	775
Operating income	209,350	143,307
Net income (loss) from equity investments	544	815
- share of net income of associates and joint ventures	(271)	37
- gains on equity investments	291	1,143
- losses on equity investments	-	(708)
- dividends	524	343
Financial income	26,502	24,648
Financial expenses	(45,195)	(39,481)
Net income (loss) before income taxes	191,201	129,289
Income taxes	(65,934)	(47,908)
Net income (loss)	125,267	81,381
Attributable to:		
Owners of the Parent	122,934	82,819
Non-controlling interests	2,333	(1,438)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in thousands of euro)

		Q1 2012		
		Gross	Income taxes	Net
A	Net income (loss) for the period			125,267
	Other components recognised in Equity:			
	(Gains)/losses on other financial assets transferred to income statement, previously recognised in Equity	(239)	-	(239)
	(Gains)/losses on cash flow hedges transferred to income statement, previously recognised in Equity	6,664	(281)	6,383
	(Gains)/losses transferred to income statement previously recognised directly in Equity	6,425	(281)	6,144
B				
	Exchange differences from translation of foreign financial statements	(16,534)	-	(16,534)
	Fair value adjustment of other financial assets	489	-	489
	Fair value adjustment of derivatives designated as cash flow hedges	8,117	568	8,685
	Share of other components recognised in Equity related to associates and joint ventures	(150)	-	(150)
C	Income/(losses) recognised directly in Equity in the period	(8,078)	568	(7,510)
B+C	Total other components recognised in Equity	(1,653)	287	(1,366)
A+B+C	Total comprehensive income/(losses)			123,901
	Attributable to:			
	- Owners of the Parent			122,875
	- Non-controlling interests			1,026

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in thousands of euro)

		Q1 2011		
		Gross	Income taxes	Net
A	Net income (loss) for the period			81,381
	Other components recognised in Equity:			
	(Gains)/losses on other financial assets transferred to income statement, previously recognised in Equity	(80)	-	(80)
	(Gains)/losses on cash flow hedges transferred to income statement, previously recognised in Equity	39	(94)	(55)
B	(Gains)/losses transferred to income statement previously recognised directly in Equity	(41)	(94)	(135)
	Exchange differences from translation of foreign financial statements	(56,351)	-	(56,351)
	Fair value adjustment of other financial assets	5,194	-	5,194
	Net actuarial gains/(losses) on employee benefits	90	(189)	(99)
	Fair value adjustment of derivatives designated as cash flow hedges	8,614	(2,784)	5,830
	Share of other components recognised in Equity related to associates and joint ventures	101	-	101
C	Income/(losses) recognised directly in Equity in the period	(42,352)	(2,973)	(45,325)
B+C	Total other components recognised in Equity	(42,393)	(3,067)	(45,460)
A+B+C	Total comprehensive income/(losses)			35,921
Attributable to:				
- Owners of the Parent				39,712
- Non-controlling interests				(3,791)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 03/31/2012

(in thousands of euro)

	attributable to owners of the Parent					Non-controlling interests	TOTAL
	Share capital	Translation reserve	Total IAS reserves*	Other reserves/Retained earnings	Total attributable to owners of the Parent		
Total at 12/31/2011	1,343,285	64,446	(513,494)	1,251,862	2,146,099	45,479	2,191,578
Total other components recognised in Equity	-	(15,226)	15,167	-	(59)	(1,307)	(1,366)
Net income (loss)				122,934	122,934	2,333	125,267
Total gains/(losses)	-	(15,226)	15,167	122,934	122,875	1,026	123,901
Dividends paid					-	(2,170)	(2,170)
Venezuela inflation effect				5,228	5,228	205	5,433
Other				403	403	933	1,336
Total at 03/31/2012	1,343,285	49,220	(498,327)	1,380,427	2,274,605	45,473	2,320,078

(in thousands of euro)

	Breakdown of IAS Reserves *				
	Reserve for adjustment to fair value of available-for-sale financial assets	Reserve for cash flow hedges	Reserve for actuarial gains/losses	Reserve for deferred taxes	Total IAS reserves
Balance at 12/31/2011	(19,216)	(55,304)	(486,562)	47,588	(513,494)
Total other components recognised in Equity	249	14,631	-	287	15,167
Other changes					-
Balance at 03/31/2012	(18,967)	(40,673)	(486,562)	47,875	(498,327)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 03/31/2011

(in thousands of euro)

	attributable to owners of the Parent					Non-controlling interests	Total
	Share capital	Translation reserve	Total IAS reserves*	Other reserves/Retained earnings	Total attributable to owners of the Parent		
Total at 12/31/2010	1,375,733	127,427	(378,909)	866,580	1,990,831	37,152	2,027,983
Total other components recognised in Equity		(53,998)	10,891	-	(43,107)	(2,353)	(45,460)
Net income (loss)			-	82,819	82,819	(1,438)	81,381
Total gains/(losses)	-	(53,998)	10,891	82,819	39,712	(3,791)	35,921
Capital increases				-	-	4,413	4,413
Dividends paid				-	-	(704)	(704)
Venezuela inflation effect				5,076	5,076	249	5,325
Other				(954)	(954)	(20)	(974)
Total at 03/31/2011	1,375,733	73,429	(368,018)	953,521	2,034,665	37,299	2,071,964

(in thousands of euro)

	Dettaglio riserve IAS *					Total IAS reserves
	Reserve for adjustment to fair value of available-for-sale financial assets	Reserve for cash flow hedges	Reserve for actuarial gains/losses	Reserve for deferred taxes		
Balance at 12/31/2010	16,131	(27,509)	(405,889)	38,358	(378,909)	
Total other components recognised in Equity	5,114	8,754	90	(3,067)	10,891	
Balance at 03/31/2011	21,245	(18,755)	(405,799)	35,291	(368,018)	

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of euro)

	Q1 2012	Q1 2011
Net income (loss) from continuing operations before taxes	191,201	129,289
Amortisation, depreciation, impairment losses and reversals of impaired property, plant and equipment and intangible assets	64,488	56,862
Reversal of financial expenses	45,195	39,481
Reversal of financial income	(26,502)	(24,648)
Reversal of dividends	(524)	(343)
Reversal of gains/(losses) on equity investments	(291)	(435)
Reversal of share of net income from associates and joint ventures	271	(37)
Income taxes	(65,934)	(47,908)
Change in inventories	(84,970)	(54,692)
Change in trade receivables	(317,486)	(276,894)
Change in trade payables	(168,184)	21,005
Change in other receivables/payables	42,829	(37,805)
Change in provisions for employee benefits and other provisions	13,370	(19,133)
Other changes	(2,941)	(5,334)
A Net cash flows provided by/(used in) operating activities	(309,478)	(220,592)
Purchase of property, plant and equipment	(79,250)	(96,760)
Disposal of property, plant and equipment	604	1,599
Purchase of intangible assets	(861)	(101)
Disposals/(Acquisitions) of equity investments in subsidiaries - Russia	(154,531)	-
Disposals/(Acquisition) of equity investments in associates and joint ventures	-	17,534
Disposals/(Acquisition) of other financial assets	1,912	5,921
Dividends received	524	343
B Net cash flows provided by/(used in) investing activities	(231,602)	(71,464)
Increase/(reduction) in Equity	-	4,413
Change in financial payables	265,379	240,497
Change in financial receivables	37,484	(10,983)
Financial income/(expenses)	(18,693)	(14,833)
Dividends paid	(2,170)	(704)
C Net cash flows provided by/(used in) financing activities	282,000	218,390
D Total cash flows provided/(used) during the period (A+B+C)	(259,080)	(73,666)
E Cash and cash equivalents at beginning of year	542,443	226,770
F Exchange differences on translation of cash and cash equivalents	(2,039)	(6,866)
G Cash and cash equivalents at end of the period (D+E+F) (°)	281,324	146,238
(°) of which:		
cash and cash equivalents	291,929	163,256
bank overdrafts	(10,605)	(17,018)

FORM AND CONTENTS

The Interim Management Statements at March 31, 2012 have been prepared in accordance with Article 154-ter of Italian Legislative Decree 58/1998 and applicable Consob instructions.

The International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the European Commission and in force at the time of approval of this report, have been followed for the purposes of recognition and measurement.

The accounting standards and policies are the same as those used in preparing the annual report at December 31, 2011, to which reference is made for more details, but with the exception of the following standard, in force from January 1, 2012 and endorsed by the European Union, the application of which has not had a material impact on the Group's accounts:

- Amendments to IFRS 7 – Financial Instruments Disclosures – Transfers of Financial Assets.

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

The following is a breakdown of net financial (liquidity)/debt position:

(in thousands of euro)

	03/31/2012	12/31/2011
Current borrowings from banks and other financial institutions	323,107	369,451
Current derivative financial instruments (liabilities)	12,983	6,138
Non-current borrowings from banks and other financial institutions	1,707,374	1,402,497
Total gross debt	2,043,464	1,778,086
Cash and cash equivalents	(291,929)	(556,983)
Securities held for trading	(126,911)	(160,503)
Current financial receivables	(46,560)	(52,536)
Current derivative financial instruments (assets)	(20,817)	(20,262)
Net financial debt *	1,557,247	987,802
Non-current financial receivables	(252,262)	(250,733)
Total net financial (liquidity)/debt position	1,304,985	737,069

* Pursuant to Consob Notice of July 28, 2006 and in compliance with CESR recommendation of February 10, 2005 "Recommendation for the consistent implementation of the European Commission Regulation on Prospectuses"

Exchange rates

(local currency against euro)

	Period-end		Change in %	Average		Change in %
	03/31/2012	03/31/2011		2012	2011	
Venezuela Bolivar Fuerte	5.7431	6.1090	(5.99%)	5.7431	6.1090	(5.99%)
Australian Dollar	1.2836	1.3736	(6.55%)	1.2425	1.3614	(8.73%)
Canadian Dollar	1.3311	1.3785	(3.44%)	1.3128	1.3484	(2.64%)
Singapore Dollar	1.6775	1.7902	(6.30%)	1.6573	1.7467	(5.12%)
U.S. Dollar	1.3356	1.4207	(5.99%)	1.3108	1.3680	(4.18%)
Swiss Franc	1.2045	1.3005	(7.38%)	1.2080	1.2871	(6.15%)
Egyptian Pound	8.0684	8.4681	(4.72%)	7.9133	8.0382	(1.55%)
Turkey Lira (new)	2.3778	2.1921	8.47%	2.3574	2.1570	9.29%
New Romanian Leu	4.3820	4.1221	6.31%	4.3533	4.2212	3.13%
Argentinean Peso	5.8486	5.7595	1.55%	5.6908	5.5002	3.47%
Mexican Peso	17.1110	16.8903	1.31%	17.0347	16.4958	3.27%
South African Rand	10.2322	9.6507	6.03%	10.1730	9.5875	6.11%
Brazilian Real	2.4336	2.3139	5.17%	2.3203	2.2809	1.73%
Chinese Renminbi	8.4067	9.3147	(9.75%)	8.2679	9.0060	(8.20%)
Russian Ruble	39.1707	40.0223	(2.13%)	39.4220	39.7989	(0.95%)
British Pound	0.8339	0.8837	(5.64%)	0.8345	0.8539	(2.27%)
Japanese Yen	109.5600	117.6100	(6.84%)	103.9932	112.5703	(7.62%)

**Certification pursuant to Article 154-bis(2)
of Legislative Decree 58 of February 24, 1998 (“Consolidated Finance Law”)**

I, Francesco Tanzi, the Corporate Financial Reporting Manager of Pirelli & C. S.p.A., with registered office at Viale Piero e Alberto Pirelli 25, Milan, Italy, with share capital of euro 1,377,878,879.78, taxpayer identification number, VAT registration number and entry in the Milan Companies Register at number 00860340157, hereby

Certify

pursuant to Article 154-bis(2) of the Consolidated Finance Law, that the accounting information contained in the interim management statements at March 31, 2012 corresponds with the company’s accounting records.

Milan, May 10, 2012

Francesco Tanzi
Corporate Financial
Reporting Manager