



**Interim management statements  
at 30 September 2010**

**PIRELLI & C. Società per Azioni**

**Registered Office in Milan**

**Viale Piero e Alberto Pirelli no. 25**

**Share Capital - Euro 1,377,878,879.78**

**Milan Companies Register No. 00860340157**

**Economic Administrative File (REA) No. 1055**

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

## **Interim management report at 30 September 2010**

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

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

Secretary to the Board	Anna Chiara Svelto
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## Board of Statutory Auditors <sup>2</sup>

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

## General Manager

General Management Tyre and Parts	Francesco Gori
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## Independent Auditors <sup>3</sup>

Reconta Ernst & Young S.p.A.

## Manager responsible for corporate financial reporting <sup>4</sup>

Francesco Tanzi

<sup>1</sup> Appointment: 29 April 2008. Expiry: Shareholders' meeting called to approve the financial statements at 31 December 2010. Vittorio Malacalza was co-opted by the Board of Directors on 29 July 2010 to replace Carlo Alessandro Puri Negri who resigned on the same date. Posts conferred by the Board of Directors to Marco Tronchetti Provera and Alberto Pirelli on 29 April 2008 and Vittorio Malacalza on 14 October 2010.

<sup>2</sup> Appointment: 21 April 2009. Expiry: Shareholders' meeting called to approve the financial statements at 31 December 2011.

<sup>3</sup> Post conferred by the shareholders' meeting held on 29 April 2008.

<sup>4</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 31 December 2010.

## **SEPARATION OF PIRELLI & C. REAL ESTATE BUSINESS**

On **4 May 2010** the Board of Directors of Pirelli & C. S.p.A. resolved to submit a transaction (the “Transaction”) for shareholder approval aimed at separating the business of Pirelli & C. Real Estate S.p.A. (now Prelios S.p.A.) from the other businesses performed by the Pirelli Group, in order to concentrate on the business in the tyre industry, at the same time allowing its shareholders, already indirect investees in the real estate business, to have a direct investment in Pirelli & C. Real Estate S.p.A. (now Prelios S.p.A.).

The Transaction is part of the management rationalisation and optimisation actions which started in 2008 and continued in 2009, and are outlined in the strategic program for the 2009/2011 three year business plan focussing on core business activities in the tyre industry.

The Transaction will improve the financial and capital structure of the Pirelli Group, lead to simplification of the Pirelli & C. S.p.A. corporate structure and allow a quicker understanding of the business strategy and financial-economic data of the Pirelli Group by the market, with potentially positive outcomes related to additional “holding discount” reduction.

The Transaction was performed by assigning Pirelli & C. S.p.A. shareholders almost all Pirelli & C. Real Estate S.p.A ordinary shares held by the Company, totalling approximately 58.0% of share capital, carried out through a reduction in share capital whose actual amount was determined by the **Extraordinary Shareholders’ Meeting of Pirelli & C. S.p.A. on 15 July 2010** equivalent to the fair value of the Pirelli RE investment being assigned (totalling Euro 178,813,982.89), in turn determined based on the official price of Pirelli RE shares (totalling Euro 0.367) on 14 July 2010, Stock Exchange opening the date prior to the shareholders’ meeting.

On **25 October 2010**, under the terms of article 2445, paragraph 3 of the Italian Civil Code, after ninety days has elapsed from the registration date in the Companies Register of the **Pirelli & C Extraordinary Shareholders' meeting resolution**, the Transaction was completed.

In compliance with accounting regulations, **Pirelli & C. S.p.A.** recalculated the liability from the Transaction from Euro 178,813,982.89 to Euro 211,312,328 in the **statutory financial statements** based on the official stock exchange price of **Pirelli & C. Real Estate S.p.A.** on the aforesaid closing date of the Transaction (Euro 0.4337), and carried with a change in equity amounting to Euro 32,498,345. At the same time, against the assignment of **Pirelli & C. Real Estate S.p.A.** shares, **Pirelli & C. S.p.A.** recognised a loss totalling Euro 118.3 million in the income statement, corresponding to the difference between the value of the liability, as redetermined above, and the book value of **Prelios S.p.A.** shares.

The impact of the transaction on the **consolidated financial statements** is negative for Euro 219.2 million, including the transfer of net losses to the income statements previously recognised in equity and related to **Pirelli RE** (around Euro 32 million) and elimination of goodwill allocated to the real estate business (around Euro 33 million).

The Transaction resulted in the proportional assignment of 487,231,561 ordinary **Pirelli & C. Real Estate S.p.A.** shares to **Pirelli & C. S.p.A.** shareholders at a ratio of 1 **Pirelli RE** share for each ordinary or savings share possessed, compared to a total of 487,798,972 shares held by **Pirelli & C S.p.A.** prior to the Transaction. The failure to assign all of the held **Pirelli RE** shares is entirely due to technical requirements, in order to determine a unfractioned assignment ratio for the **Pirelli & C. S.p.A.** shareholders.

Since the disposal group qualifies as a discontinued operation, the loss at 30 September 2010 resulting from the adjustment to fair value (Euro 235.8 million) along with the income of the nine months of discontinued operation (negative for Euro 29 million) and costs directly attributable to the Transaction (Euro 0.8 million), are classified under “net income from discontinued operations” in the income statement (for a total loss of Euro 265.6 million).

This loss does not include the relative tax effect since the requirements for its recovery do not exist.

## **GROUP'S PERFORMANCE**

The first nine months of 2010 confirmed the good performance registered in the first half of the year, with a decisive improvement of operating income compared to the same period of the previous year.

In the first nine months of 2010 the **Pirelli Group** registered consolidated sales totalling Euro 3,703.4 million, for a growth of 18.9% against the same period in 2009 (totalling Euro 3,114.7 million). In particular, sales for Euro 1,276.9 million were recorded in the third quarter, for a growth of 17.3% against the Euro 1,088.5 million in the third quarter of 2009.

Operating income amounted to Euro 309.6 million, up by 69.7% compared to 30 September 2009 (totalling Euro 182.4 million). The 8.4% ratio to sales shows a significant improvement over the 5.9% of the first nine months of 2009. In particular, the operating income totalled Euro 116.2 million with a growth of 82.7% compared to Euro 63.6 million in the third quarter of 2009, with an increased ratio to sales of 9.1% against 5.8%.

For **Pirelli Tyre**, the commercial component, represented by the growth in volumes and positive contribution of the price/mix variant along with internal efficiencies, more than compensated the increase in cost of raw materials and other production factors, with a consequent improvement in operating income.

During the first nine months of 2010, Pirelli Tyre's operating income after restructuring expenses amounted to Euro 334.3 million, for a 50.0% increase compared to the Euro 222.7 million at 30 September 2009 with a ratio on sales of 9.4% (7.5% in the first nine months of 2009). Sales for the period amounted to Euro 3,559.1 million (+20.0% on the Euro 2,958.6 million at 30 September 2009).

**The Group's net financial debt** at 30 September 2010 totalled Euro 704.9 million compared to Euro 696.9 million at 30 June 2010 (Euro 528.8 million at the end of December 2009).



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

Pirelli & C. S.p.A.'s **net income, excluding the loss for adjustment to fair value of the Pirelli & C. Real Estate S.p.A. investment**, was positive for Euro 134.1 million compared to the Euro 69 million in the first nine months of 2009. It mainly includes dividends received from group companies for Euro 169.7 million compared to Euro 100.7 million received in the first nine months of 2009.

**Equity** at 30 September 2010 totalled Euro 1,514.2 million against the Euro 1,822.8 million at 31 December 2009. The decrease compared to December 2009 is primarily due to the reduction in share capital (Euro 178.8 million) following assignment of the Pirelli & C. Real Estate S.p.A. shares and loss resulting from the difference between the fair value of the Pirelli & C. Real Estate S.p.A. shares and the book value of the investment.

## **SIGNIFICANT EVENTS DURING THE THIRD QUARTER**

The extraordinary shareholders' meeting of Pirelli & C. S.p.A. shareholders was held on **15 July 2010**. It resolved to eliminate the nominal value of ordinary and savings shares and group them in a ratio of 1 ordinary or savings share for every 11 shares of the same category held and the related articles of association amendments.

Following this grouping, the total number of issued shares will be reduced to 487,991,493 shares, without a nominal value, of which 475,740,182 ordinary shares and 12,251,311 savings shares.

After amending article 5 of the articles of association, the separation of Pirelli Re from the Pirelli group was approved through the proportional assignment to ordinary and savings shareholders of 487,231,561 ordinary Pirelli Re shares held by Pirelli & C. S.p.A. For this purpose a reduction in share capital was approved for an amount totalling Euro 178,813,982.89 corresponding to the value of the Pirelli Re investment subject of the assignment determined based on the official price of Pirelli Re shares on 14 July 2010.

On **15 July 2010** Pirelli Ambiente, through its subsidiary Solar Utility S.p.A., and GWM group, through its subsidiary GWM Renewable Energy, signed a strategic agreement for the joint development of business in the photovoltaic sector in Italy. To perform this agreement, Solar Utility S.p.A., a company held at 100.0% by Pirelli Ambiente S.p.A., involved in the photovoltaic sector, conferred its production activity to a new company called GP Energia S.p.A. in which GWM Renewable Energy, a GWM Group company specialised in renewable energy investments, acquired 60.0% of its share capital and the remaining 40.0% is held by Solar Utility S.p.A. The initial value of the joint venture amounts to around Euro 20 million, its aim is to acquire around 100 MW in Italy. Subsequently, on 28 September 2010 Solar Utility S.p.A. transferred 9.0% of its investment in GP Energia S.p.A. thus reducing it to 31.0%.

On **23 September 2010** at the “Factory of Champions” industrial centre in Izmit, Turkey, Pirelli inaugurated the plant where the group will manufacture tyres for all the Formula One teams for the 2011-2013 period. The centre, celebrating its 50<sup>th</sup> anniversary this year, has been home to the production line of Motorsport tyres since 2007 and is getting ready to become the heart of Pirelli’s business dedicated to Formula One, in synergy with the Milan Research and Development centre. The Izmit plant with its 8 million pieces including motorsport, autos and trucks, is the factory where Pirelli manufactures the greatest number of tyres, the Group has invested Euro 140 million in the past ten years and will invest another Euro 30 million in 2011 to support its expansion strategy in Turkey and nearby emerging markets. The Izmit factory, inaugurated in 1960, manufactures tyres for the auto and industrial segments, in addition to Motorsport. The Turkish plant’s production supplies the main European and Middle East markets and numerous car makers including Mercedes, Jaguar, Fiat and Renault. The centre, also home to a plant which has been producing steel cord for twenty-five years, covers an area of 340 thousand square meters and employees 1,800 people.

With the start-up of the division dedicated to Formula One, Pirelli is expanding its production line of tyres used for all automotive sports activities. In 2011 the company will manufacture a total of 200 thousand competition tyres, including 50 thousand to supply the F1 Team and around 70 thousand to the Gp2 and Gp3 championships, where Pirelli is the sole supplier.

The remaining production is earmarked for 60 international road and track races where the Milan Company is the exclusive supplier, in addition to the more prestigious single brand championships, including the Ferrari Challenge, Lamborghini Super Trofeo and Maserati Trofeo. Overall, the entire Pirelli range for car sports uses is composed of 200 types of competition tyres, including rally tyres.

The tyres for F1 will be exclusively manufactured in the Izmit plant based on simulation models, compounds and structures devised by Pirelli Research and Development which boasts a staff of more than one thousand engineers and technicians. The Formula One line extends over an area of 15 thousand square metres, and uses the most advanced machinery for the production of sports tyres.

The Izmit centre, in synergy with the Pirelli's sports tyre preparation centre in Burton on Trent (United Kingdom), will also be the heart of all logistics activities related to Formula One.

The supply for Formula One is also based on environmental sustainability criteria in line with Pirelli's Green Performance strategy, which is aimed at developing products and solutions able to best combine performance and safety with respect for the environment.

## **GROUP: main income, balance sheet and financial data**

In this document, in addition to the financial performance measures established by International Financial Reporting Standards (IFRS), certain non-IFRS measures originated from the latter are presented although they are not required by the IFRSs (Non-GAAP Measures). These performance measures are presented to enable a clearer understanding of the trend of the Group's operations and should not be construed as a substitute for the information required by the IFRSs.

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

- **Gross Operating Margin:** this economic measure is used by the Group as a financial target for internal presentations (business plans) and external presentations (to analysts and investors), and is a useful unit of measurement to assess the overall operating performance of the Group and of the individual business segments in addition to Operating Income. The Gross Operating Margin is an intermediate economic measure deriving from Operating Income, but excluding depreciation and amortization of property, plant and equipment and intangible assets;
- **Fixed assets:** this measure consists of the sum of the items "Property, plant and equipment", "Intangible assets", "Investments in associates and JV" and "Other financial assets";
- **Provisions:** this measure consists of the sum of the items "Provisions for liabilities and charges (current and non-current)", "Provision 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 and other financial receivables less cash and cash equivalents. The "Statements" section contains a table showing the balance sheet items used for its determination.

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

(in millions of Euro)

	3rd quarter 2010	3rd quarter 2009	30/09/2010	30/09/2009	31/12/2009
<b>Sales</b>	<b>1,276.9</b>	1,088.5	<b>3,703.4</b>	3,114.7	4,198.5
Gross operating margin before restructuring expenses	<b>176.0</b>	132.5	<b>483.1</b>	361.2	513.1
% on sales	<b>13.8%</b>	12.2%	<b>13.0%</b>	11.6%	12.2%
<b>Operating income before restructuring expenses</b>	<b>120.7</b>	82.0	<b>322.0</b>	210.5	309.4
% on sales	<b>9.5%</b>	7.5%	<b>8.7%</b>	6.8%	7.4%
Restructuring expenses	<b>(4.5)</b>	(18.4)	<b>(12.4)</b>	(28.1)	(55.7)
<b>Operating income</b>	<b>116.2</b>	63.6	<b>309.6</b>	182.4	253.7
% on sales	<b>9.1%</b>	5.8%	<b>8.4%</b>	5.9%	6.0%
Net income from equity investments	<b>22.0</b>	5.8	<b>18.0</b>	(1.2)	(11.6)
Financial income/(expenses)	<b>(15.6)</b>	(16.4)	<b>(53.6)</b>	(54.8)	(69.8)
Income taxes	<b>(39.3)</b>	(33.3)	<b>(109.9)</b>	(76.4)	(90.1)
<b>Net income from continuing operations</b>	<b>83.3</b>	19.7	<b>164.1</b>	50.0	82.2
<b>Net Income from discontinued operations</b>	<b>(9.2)</b>	(16.0)	<b>(265.6)</b>	(58.7)	(104.8)
<b>Total net income</b>	<b>74.1</b>	3.7	<b>(101.5)</b>	(8.7)	(22.6)
Total net income attributable to parent company			<b>(87.0)</b>	18.2	22.7
Earnings per share (in euro) (*)			<b>(0.178)</b>	0.037	0.047
Fixed assets in continuing operations			<b>2,986.2</b>	3,490.0	3,596.2
Working capital in continuing operations			<b>107.7</b>	511.0	221.8
<b>Net capital invested in continuing operations</b>			<b>3,093.9</b>	4,001.0	3,818.0
<b>Net capital invested in discontinued operations</b>			<b>587.6</b>		
<b>Total net capital invested</b>			<b>3,681.5</b>	4,001.0	3,818.0
<b>Equity</b>			<b>2,132.3</b>	2,570.7	2,494.7
Provisions for continuing operations			<b>783.9</b>	738.9	794.5
Provisions for discontinued operations			<b>60.4</b>		
<b>Net Financial (liquidity)/debt position - continuing operations</b>			<b>616.6</b>	691.4	528.8
<b>Net Financial (liquidity)/debt position - discontinued operations</b>			<b>88.3</b>		
Equity attributable to parent company			<b>1,823.2</b>	2,244.9	2,175.0
Equity per share (in euro) (*)			<b>3.736</b>	4.600	4.457
No. employees (at end of period)			<b>31,050</b>	29,509	29,570
No. industrial sites			<b>20</b>	23	21
<b>Pirelli &amp; C. S.p.A. shares</b>					
Ordinary (number in millions)			<b>475.7</b>	5,233.1	5,233.1
of which treasury			<b>0.4</b>	3.9	3.9
Savings (number in millions)			<b>12.3</b>	134.8	134.8
of which treasury			<b>0.4</b>	4.5	4.5
<b>Total shares (millions)</b>			<b>488.0</b>	5,367.9	5,367.9

(\*) the 2009 attribution per share was reclassified on a like-for-like basis after grouping shares following the shareholders' meeting resolution of July 15, 2010 (1 to 11 ratio)

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 30/09/2010 (in millions of Euro)**

	<b>Tyre</b>	<b>Eco Technology</b>	<b>Broadband Access</b>	<b>Other (*)</b>	<b>Total</b>
<b>Sales</b>	<b>3,559.1</b>	<b>46.6</b>	<b>85.1</b>	<b>12.6</b>	<b>3,703.4</b>
Gross operating margin before restructuring expenses	496.9	(4.5)	3.0	(12.3)	483.1
Operating income before restructuring expenses	346.7	(6.3)	2.3	(20.7)	322.0
Restructuring expenses	(12.4)	-	-	-	(12.4)
<b>Operating income</b>	<b>334.3</b>	<b>(6.3)</b>	<b>2.3</b>	<b>(20.7)</b>	<b>309.6</b>
Net income from equity investments	0.4	-	-	17.6	18.0
Financial income/(expenses)	(52.7)	(1.4)	0.9	(0.4)	(53.6)
Income taxes	(105.4)	(0.6)	0.6	(4.5)	(109.9)
<b>Net income from continuing operations</b>	<b>176.6</b>	<b>(8.3)</b>	<b>3.8</b>	<b>(8.1)</b>	<b>164.1</b>
<b>Net income from discontinued operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(265.6)</b>
<b>Total net income</b>	<b>176.6</b>	<b>(8.3)</b>	<b>3.8</b>	<b>(8.1)</b>	<b>(101.5)</b>
<b>Net Financial (liquidity)/debt position - continuing operations</b>	<b>1,205.0</b>	<b>38.8</b>	<b>(12.9)</b>	<b>(614.3)</b>	<b>616.6</b>
Net Financial (liquidity)/debt position - discontinued operations					<b>88.3</b>
<b>Total net financial (liquidity)/debt position</b>					<b>704.9</b>

**SITUATION at 30/09/2009 (in millions of Euro)**

	<b>Tyre</b>	<b>Eco Technology</b>	<b>Broadband Access</b>	<b>Other (*)</b>	<b>Total</b>
<b>Sales</b>	<b>2,958.6</b>	<b>38.8</b>	<b>103.1</b>	<b>14.2</b>	<b>3,114.7</b>
Gross operating margin before restructuring expenses	382.8	(7.2)	3.6	(18.0)	361.2
Operating income before restructuring expenses	240.8	(8.8)	2.9	(24.4)	210.5
Restructuring expenses	(18.1)	-	-	(10.0)	(28.1)
<b>Operating income</b>	<b>222.7</b>	<b>(8.8)</b>	<b>2.9</b>	<b>(34.4)</b>	<b>182.4</b>
Net income from equity investments	3.8	-	-	(5.0)	(1.2)
Financial income/(expenses)	(59.7)	(1.9)	0.1	6.7	(54.8)
Income taxes	(75.9)	-	0.5	(1.0)	(76.4)
<b>Net income from continuing operations</b>	<b>90.9</b>	<b>(10.7)</b>	<b>3.5</b>	<b>(33.7)</b>	<b>50.0</b>
<b>Net income from discontinued operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(58.7)</b>
<b>Total net income</b>	<b>90.9</b>	<b>(10.7)</b>	<b>3.5</b>	<b>(33.7)</b>	<b>(8.7)</b>
<b>Total net financial (liquidity)/debt position</b>	<b>1,298.6</b>	<b>42.9</b>	<b>(17.9)</b>	<b>(588.7)</b>	<b>734.9</b>
Net Financial (liquidity)/debt position - discontinued operations					<b>(43.5)</b>
<b>Total net financial (liquidity)/debt position</b>					<b>691.4</b>

(\*) The item includes the Pirelli Ambiente group, PZero S.r.l., all financial companies (including the parent company), the other services companies and, as far as the sales item is concerned, the consolidation intergroup eliminations

## Sales

**Sales in the first nine months** of 2010 totalled Euro 3,703.4 million for an increase of 18.9% compared to the Euro 3,114.7 million for the same period in 2009.

The percentage distribution, on a like-for-like basis, of sales by activity is as follows:

	30/09/2010	30/09/2009
Tyre	96.1%	95.0%
EcoTechnology	1.3%	1.2%
Broadband access	2.3%	3.3%
Other	0.3%	0.5%
	<b>100.0%</b>	<b>100.0%</b>

The change on a like-for-like basis broken down by business segment is as follows:

Tyre	+ 16.7%
EcoTechnology	+ 20.1%
Broadband Access	- 17.5%
<b>Group Total</b>	<b>+ 15.6%</b>
Exchange rate effect	+ 3.3%
<b>Total change</b>	<b>+ 18.9%</b>



The change per geographic area of use is as follows:

(in thousands of Euro)

	30/09/2010		30/09/2009	
Europe:				
- Italy	444,145	11.98%	433,052	13.90%
- Rest of Europe	1,122,410	30.31%	989,758	31.78%
North America	309,992	8.37%	236,783	7.60%
Central America and South America	1,273,685	34.39%	969,635	31.13%
Oceania, Africa and Asia	553,125	14.95%	485,437	15.59%
	<b>3,703,357</b>	<b>100.00%</b>	<b>3,114,665</b>	<b>100.00%</b>

In the **third quarter** sales totalled Euro 1,276.9 million compared to the Euro 1,088.5 million, with growth concentrated in the tyre business.

### **Operating income**

**Operating income before restructuring expenses at 30 September 2010** totalled Euro 322 million (8.7% on sales) against Euro 210.5 million in the first nine months of 2009 (6.8% on sales).

**Restructuring expenses at 30 September 2010** amounted to Euro 12.4 million compared to Euro 28.1 million for the same period in 2009. Restructuring actions involved the Tyre sector to continue the rationalisation of staff structures in Europe.

**Operating income (EBIT) at 30 September** totalled Euro 309.6 million, and continually improved over the same period in 2009 when it amounted to Euro 182.4 million.

Once again in the **third quarter of 2010 operating income** (Euro 116.2 million compared to Euro 63.6 million) confirmed a positive upward trend over the same period in 2009, due to a growth in sales and internal efficiencies which offset the costs of raw materials and other production factors in the tyre sector.

### **Net income from equity investments**

The net income from equity investments at 30 September 2010 was a positive Euro 18 million compared to a negative value of Euro 1.2 million for the same period in 2009. The equity investment held in Oclaro Inc. (former Avanex) was entirely transferred in the third quarter with capital gain of Euro 18.4 million.

### **Net income**

**Net income from continuing operations in the first nine months** was positive for Euro 164.1 million, more than triple compared to the Euro 50 million for the first nine months of 2009.

**Net income from discontinued operations at 30 September 2010** was negative for Euro 265.6 million. The loss included both the operating income of the Pirelli RE Group (Euro 29 million compared to Euro 58.7 million in the first nine months of 2009) and the loss from assignment of Pirelli & C. Real Estate shares totalling Euro 236.6 million. The assignment loss was unchanged compared to 30 June 2010 despite the presence of a higher Stock Exchange price (Euro 0.4436 at 30 September 2010 against Euro 0.3339 at 30 June 2010) since international accounting standards prohibit reversal of the amount of the loss originally recognised as goodwill (Euro 181 million) until the transaction is closed. The transaction, later closed on 25 October 2010 recorded a total loss of Euro 219 million (described in detail at the beginning of the report in the “Separation of Pirelli & C. Real Estate business”).

**Total net income at 30 September 2010** was therefore negative by Euro 101.5 million compared with a loss of Euro 8.7 million in September 2009.

The **total net income attributable to Pirelli & C. S.p.A.** was a negative Euro 87 million (Euro 0.178 per share), compared with a positive Euro 18.2 million in September 2009 (Euro 0.037 per share).

### Equity

**Consolidated equity** increased from Euro 2,494.7 million at 31 December 2009 to Euro 2,132.3 million at 30 September 2010.

**Equity attributable to Parent Company at 30 September 2010** totalled Euro 1,823.2 million compared to Euro 2,175 million at 31 December 2009.

The change is summarised below:

(in millions of Euro)

	<b>Group</b>	<b>Minority interest</b>	<b>Total</b>
<b>Equity at 31/12/2009</b>	<b>2,175.0</b>	<b>319.7</b>	<b>2,494.7</b>
Differences from currency translation	72.4	2.4	74.8
Net income for the period	(87.0)	(14.5)	(101.5)
Adjustment to fair value of other financial assets/derivatives	(46.0)	3.0	(42.9)
Distribution of dividends	(81.1)	(4.0)	(85.1)
Other changes for components recognized as equity	11.6	0.4	12.0
Actuarial gains/(losses) on employee benefits	(25.5)	(0.4)	(25.9)
Pirelli & C. Real Estate S.p.A. investment assigned to shareholders	(216.1)	-	(216.1)
Venezuela inflation effect	12.6	0.5	13.1
Other changes	7.3	2.0	9.2
<b>Total changes</b>	<b>(351.8)</b>	<b>(10.6)</b>	<b>(362.4)</b>
<b>Equity at 30/09/2010</b>	<b>1,823.2</b>	<b>309.1</b>	<b>2,132.3</b>

## Net financial position

The Group's **total net financial position** increased from Euro 528.8 million at 31 December 2009 to Euro 704.9 million at 30 September 2010.

By excluding assets held for sale from the net financial position, the **net financial position from continuing operations** amounted to Euro 616.6 million.

The change in the year can be summarised in the following cash flow:

(in millions of Euro)

	Ist quarter 2010	Ist quarter 2009	2nd quarter 2010	2nd quarter 2009	3rd quarter 2010	3rd quarter 2009	30/09/2010	30/09/2009
Operating income (EBIT) before restructuring expenses	90.4	52.5	110.9	76.0	120.7	82.0	322.0	210.5
Depreciation and amortization	51.8	49.7	54.0	50.5	55.3	50.5	161.1	150.7
Investments in property, plant and equipment and intangible assets	(50.1)	(36.3)	(85.4)	(29.1)	(91.8)	(36.9)	(227.3)	(102.3)
Change in working capital/other	(156.7)	(258.8)	40.7	77.0	(20.8)	97.5	(136.8)	(84.3)
<b>Operating cash flow</b>	<b>(64.6)</b>	<b>(192.9)</b>	<b>120.2</b>	<b>174.4</b>	<b>63.4</b>	<b>193.1</b>	<b>119.0</b>	<b>174.6</b>
Financial income/(expenses)	(16.5)	(20.4)	(21.5)	(18.0)	(15.6)	(16.4)	(53.6)	(54.8)
Income taxes	(30.5)	(24.2)	(40.1)	(18.9)	(39.3)	(33.3)	(109.9)	(76.4)
<b>Net operating cash flow</b>	<b>(111.6)</b>	<b>(237.5)</b>	<b>58.6</b>	<b>137.5</b>	<b>8.5</b>	<b>143.4</b>	<b>(44.5)</b>	<b>43.4</b>
Financial investments/disinvestments	-	37.9	-	78.1	9.8	129.4	9.8	245.4
Dividends paid	-	-	(85.1)	(2.4)	-	-	(85.1)	(2.4)
Restructuring cash out	(34.0)	(39.0)	(10.4)	(8.3)	(7.4)	(7.4)	(51.8)	(54.7)
Net cash flow of Pirelli & C. Real Estate	(14.0)	(19.8)	(6.5)	(28.1)	(26.5)	380.9	(47.0)	333.0
Increase share capital Pirelli RE subscribed by Pirelli & C. S.p.A.						(231.9)	-	(231.9)
Exchange differences/other	10.0	7.2	24.9	(5.5)	7.6	1.8	42.5	3.5
<b>Net cash flow</b>	<b>(149.6)</b>	<b>(251.2)</b>	<b>(18.5)</b>	<b>171.3</b>	<b>(8.0)</b>	<b>416.2</b>	<b>(176.1)</b>	<b>336.3</b>

The table below shows a breakdown of the net financial position by continuing operations segment:

(in millions of Euro)

	Tyre	Other businesses	Corporate	Continuing operations consolidated
Gross debt	1,650	83	138	1,207
<i>of which to Corporate</i>	565	75		
Financial receivables	(111)	(19)	(735)	(201)
Cash and cash equivalents and securities held for trading	(334)	(6)	(49)	(389)
<b>Net financial position</b>	<b>1,205</b>	<b>58</b>	<b>(646)</b>	<b>617</b>

The column "Other businesses" includes Pirelli Eco Technology, Pirelli Broadband Access, Pirelli Ambiente and PZero.

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

(in millions of Euro)

	Balance Sheet 30/09/2010	Year of maturity			
		2010	2011	2012	2013 and beyond
Use of committed lines	405	-	-	405	-
Other loans	802	165	135	146	356
<b>Total gross debt</b>	<b>1,207</b>	<b>165</b> 13.7%	<b>135</b> 11.2%	<b>551</b> 45.7%	<b>356</b> 29.4%

## RELATED PARTY TRANSACTIONS

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

The effects of related party transactions on the consolidated income statement and balance sheet of the Pirelli & C. Group at 30 September 2010 are shown below.

### Transactions with associates and joint ventures

(in millions of Euro)

Revenues from sales and services rendered	2.5	Services rendered by Pirelli Ambiente S.p.A. to Idea Granda (Euro 0.5 million), by Pirelli Ambiente Site Remediation S.p.A to Spazio Industriale (Euro 0.4 million) and by Pirelli Tyre S.p.A. to Sino Italian Wire Tech. (Euro 1 million).
Other expenses	0.2	
Current trade receivables	3.3	The amount includes receivables from Cyoptics Inc regarding services rendered by Pirelli Sistemi Informativi (Euro 0.3 million), by Pirelli Labs S.p.A. (Euro 0.4 million) and by Pirelli & C. S.p.A (Euro 0.2 million). Also included are receivables from Idea Granda (Euro 0.6 million) and from Sino Italian Wire Tech. (Euro 1 million) for services rendered by Pirelli Ambiente S.p.A. and by Pirelli Tyre S.p.A., respectively.
Non-current financial receivables	0.2	
Current financial receivables	4.6	Receivables of Solar Utility S.p.A from associate Solar Prometheus S.r.l.
Current trade payables	1.3	
Current borrowings from banks and other financial institutions	0.1	

### Transactions with parties related to Pirelli through directors

(in millions of Euro)

Revenues of sales and services rendered	0.7	These refer to services rendered by Pirelli & C. Ambiente Site Remediation S.p.A. and by Pirelli & C. S.p.A. to the Camfin group.
Other expenses	10.4	Costs of sponsoring F.C. Internazionale Milano S.p.A.
Other income	0.3	
Current trade receivables	0.9	Receivables tied to services rendered to Camfin.
Current trade payables	2.8	Payables tied the sponsorship costs above.
Dividends paid (cash flows)	20.8	Dividends to Camfin S.p.A. (Euro 19.9 million) and to C.M.C. S.p.A. (Euro 0.9 million).

## **SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE QUARTER**

On **20 October 2010** the development plans were illustrated for Pirelli in Argentina where the group's business started 100 years ago. The projects, aimed at increasing the production capacity and reinforcing the leading position already held by Pirelli in Latin American, are part of the company's international expansion strategy, which in recent years has progressively witnessed a direct increased industrial presence in markets which offer the highest growth rates, in addition to competitive industrial costs. Reinforcing its presence in Argentina in particular, guarantees Pirelli an important place for both meeting a growing demand from the domestic market which accounts for use of around 50.0% of production, and meeting the demand of important export markets including mainly Brazil with other South American markets and the United States.

The 100 million dollars of investments planned by 2013, of which around 20 million dollars in 2010, will be earmarked for technological and quality improvement and increasing in production capacity, which by the end of the period is estimated to increase by more than 6 million pieces per year, with a growth of more than a million pieces compared to the current 5 million. In particular, the increase in production capacity will double the production for high added value segments including SUVs and light trucks which characterise the Argentinean car market.

For the product mix qualification process and in line with a strategy where Pirelli is increasingly committed to the development and production of green performance products, in 2011 the installation of a new production process for compounds is planned which will make it possible to reach a 50.0% tyre production with reduced environmental impact.

The production area, which currently covers 48 thousand square metres, will reach 60 thousand square metres at the end of the period. Overall, the investment projects will generate a progressive growth in employment of 300 employees, reaching 1,200 employees when completed compared to the around 900 in 2009 and 1,000 in 2010.

On **21 October 2010** Pirelli & C. S.p.A. and Advanced Digital Broadcast Holdings SA (ADB), a company listed on the Swiss Stock Exchange, signed an agreement involving ADB's acquisition of the entire share capital of Pirelli Broadband Solutions S.p.A. (PBS), a company held at 100.0% by Pirelli & C. S.p.A..

The total payment was agreed at around Euro 30 million. The agreed price, which will be paid at the closing, is composed of Euro 22 million cash and 400 thousand ADB listed shares, totalling around 7.2% of share capital. For these shares Pirelli & C. S.p.A. has agreed to a lock-up commitment for the first two months after the closing, as well as an agreement for a put option for Pirelli and a call option for ADB, which can be exercised within two years. Closing is scheduled after obtaining authorisation from the Antitrust authority. The disposal of PBS is part of Pirelli's announced strategy to focus on the tyre core business. The transfer to a leading industrial group is aimed at ensuring the additional development and growth of PBS in the market of broadband access systems.



## **OUTLOOK FOR THE CURRENT YEAR**

The positive performance of Pirelli Tyre in the first nine months of the year and the current market situation make it possible to further raise the targets for 2010, similar to what happened when the net income for the first and second quarters were announced.

Specifically, the following is planned:

### **Pirelli & C. Group**

- sales of around Euro 4.8 billion;
- an Ebit margin greater than 7.5% compared to the previous estimate of roughly 7.0%, with an Ebit of approximately Euro 380 million;
- net financial debt less than Euro 700 million compared to the around Euro 700 million forecast earlier.

### **Pirelli Tyre**

- sales greater than Euro 4.7 billion;
- Ebit margin greater than 8.5% with an Ebit of around Euro 420 million, with an increase compared to an Ebit of at least Euro 360 million forecast earlier.

## PIRELLI TYRE

The table below shows the main consolidated economic and financial results obtained in the third quarter of 2010 and progressively to September 2010, compared with the corresponding periods of 2009:

(in millions of Euro)

	3rd quarter 2010	3rd quarter 2009	30/09/2010	30/09/2009	31/12/2009
<b>Sales</b>	<b>1,233.8</b>	1,042.7	<b>3,559.1</b>	2,958.6	3,992.9
<b>Gross operating margin before restructuring expenses</b>	<b>173.0</b>	142.0	<b>496.9</b>	382.8	538.0
% on sales	<b>14.0%</b>	13.6%	<b>14.0%</b>	12.9%	13.5%
Operating income before restructuring expenses	<b>121.5</b>	94.3	<b>346.7</b>	240.8	345.5
% on sales	<b>9.8%</b>	9.0%	<b>9.7%</b>	8.1%	8.7%
Restructuring expenses	<b>(4.5)</b>	(8.4)	<b>(12.4)</b>	(18.1)	(37.0)
<b>Operating income</b>	<b>117.0</b>	85.9	<b>334.3</b>	222.7	308.5
% on sales	<b>9.5%</b>	8.2%	<b>9.4%</b>	7.5%	7.7%
Net income from equity investments	-	-	<b>0.4</b>	3.8	4.2
Financial income/(expenses)	<b>(14.0)</b>	(16.7)	<b>(52.7)</b>	(59.7)	(76.1)
Income taxes	<b>(36.8)</b>	(32.5)	<b>(105.4)</b>	(75.9)	(90.0)
<b>Net income</b>	<b>66.2</b>	36.7	<b>176.6</b>	90.9	146.6
% on sales	<b>5.4%</b>	3.5%	<b>5.0%</b>	3.1%	3.7%
<b>Net Financial (liquidity)/debt position</b>			<b>1,205.0</b>	1,298.6	1,027.3
<b>Net operating cash flow</b>			<b>14</b>	81	395
<b>No. employees (at end of period)</b>			<b>29,118</b>	27,283	27,481
<b>No. industrial sites</b>			<b>19</b>	21	20

**Sales at 30 September 2010** reached Euro 3,559.1 million, with an increase of 20.3% over the first nine months of the previous year.

The like-for-like change, excluding the effect of exchange rate fluctuations, was equal to an increase of 16.7%, with a positive change in volumes (+8.6%) and price/mix component (+8.1%).

The **third quarter** registered a positive organic change in sales of 14.1% against the same period of 2009, confirming as in the prior two quarters, a positive contribution of the volume component (+1.8%) and above all the price/mix lever (+12.3%).

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

	1st quarter		2nd quarter		3rd quarter		30/09/2010	30/09/2009
	2010	2009	2010	2009	2010	2009		
Volume	17.4%	-18.1%	7.5%	-13.3%	1.8%	-3.3%	8.6%	-11.6%
Prices/Mix	1.4%	6.9%	10.1%	5.6%	12.3%	4.7%	8.1%	5.8%
<b>Change on a like-for-like basis</b>	<b>18.8%</b>	<b>-11.2%</b>	<b>17.6%</b>	<b>-7.7%</b>	<b>14.1%</b>	<b>1.4%</b>	<b>16.7%</b>	<b>-5.8%</b>
Exchange rate effect	1.0%	-2.7%	5.3%	-1.5%	4.2%	-3.3%	3.6%	-2.6%
<b>Total change</b>	<b>19.8%</b>	<b>-13.9%</b>	<b>22.9%</b>	<b>-9.2%</b>	<b>18.3%</b>	<b>-1.9%</b>	<b>20.3%</b>	<b>-8.4%</b>

The distribution of sales at 30 September 2010 by geographical area and product category is as follows:

Geographic Area	30/09/2010			30/09/2009	
	Euro/mln		delta on previous year	Euro/mln	
Italy	8%	299.9	8.3%	9%	277.0
Rest of Europe	32%	1,122.4	13.4%	34%	989.8
North America	9%	310.0	30.9%	8%	236.8
Central and South America	35%	1,273.7	31.4%	33%	969.6
Africa\Asia\Pacific	16%	553.1	13.9%	16%	485.4
<b>Total</b>	<b>100%</b>	<b>3,559.1</b>		<b>100%</b>	<b>2,958.6</b>

Product category	30/09/2010			30/09/2009	
	Euro/mln		delta on previous year	Euro/mln	
Car tyres	61%	2,163.0	17%	62%	1,847.7
Motorcycle tyres	9%	300.8	16%	9%	260.3
<b>Consumer</b>	<b>70%</b>	<b>2,463.8</b>	<b>17%</b>	<b>71%</b>	<b>2,108.0</b>
Truck tyres	28%	1,014.6	29%	27%	788.7
Steelcord	2%	80.7	30%	2%	61.9
<b>Industrial</b>	<b>30%</b>	<b>1,095.3</b>	<b>29%</b>	<b>29%</b>	<b>850.6</b>

confirming the growth in Central and South America (+31.0%) and in North America (+31.0%) already witnessed in the first six months.

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

(in millions of Euro)

	1st quarter		2nd quarter		3rd quarter		progressive	
	2010	2009	2010	2009	2010	2009	30/09/2010	30/09/2009
Sales	1,110.0	926.9	1,215.3	989.0	1,233.8	1,042.7	<b>3,559.1</b>	<b>2,958.6</b>
delta on previous year	19.8%	-13.9%	22.9%	-9.2%	18.3%	-1.9%	<b>20.3%</b>	<b>-8.4%</b>
Gross operating margin before restructuring expenses	146.4	107.8	177.5	133.0	173.0	142.0	<b>496.9</b>	<b>382.8</b>
% on sales	13.2%	11.6%	14.6%	13.4%	14.0%	13.6%	14.0%	12.9%
Operating income before restructuring expenses	98.1	61.0	127.1	85.5	121.5	94.3	<b>346.7</b>	<b>240.8</b>
% on sales	8.8%	6.6%	10.5%	8.6%	9.8%	9.0%	9.7%	8.1%
Operating income	95.5	57.5	121.8	79.3	117.0	85.9	<b>334.3</b>	<b>222.7</b>
% on sales	8.6%	6.2%	10.0%	8.0%	9.5%	8.2%	9.4%	7.5%

The **third quarter operating income** confirms the growth against the corresponding periods of the previous year, specifically:

- the total **gross operating margin before restructuring expenses** was Euro 173 million (14.0% on sales), with an increase of 22.0% compared with the same period of 2009, which totalled Euro 142 million (with a ratio on sales of 13.6%).
- **operating income before restructuring expenses** reached Euro 121.5 million (9.8% on sales), Euro 27.2 million (+28.8%) higher than in the corresponding period of 2009 when it amounted to Euro 94.3 million (with a ratio on sales of 9.0%).

The positive elements of the third quarter operating income are, as in the previous quarter, the result of the continuous positive contribution of the growth in sales, in terms of volume but primarily the price/mix and growth of internal efficiencies which offset the increase in external costs of raw materials and other production factors. In terms of raw materials, the impact in the third quarter was negative for Euro 76 million, against the Euro 62 million of the second quarter, bringing the progressive value to a negative impact of Euro 145 million.

**Gross operating margin before restructuring expenses at 30 September 2010** was Euro 496.9 million (14.0% on sales), with an increase of Euro 114.1 million (+29.8%) compared with the same period of 2009, which totalled Euro 382.8 million (with a ratio on sales of 12.9%).

**Operating income before restructuring expenses at 30 September 2010** came to Euro 346.7 million (9.7% on sales), an improvement of Euro 105.9 million compared with the corresponding period of 2009 when it amounted to Euro 240.8 million (with a ratio on sales of 8.1%).

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

(in millions of Euro)

	1st quarter 2010	2nd quarter 2010	3rd quarter 2010	progressive 30/09/2010
<b>2009 operating income before restructuring expenses</b>	<b>61.0</b>	<b>85.5</b>	<b>94.3</b>	<b>240.8</b>
Exchange rate effect	(5.2)	2.2	2.7	(0.3)
Prices/mix	6.1	86.6	107.3	200.0
Volumes	50.8	25.2	5.2	81.2
Cost factors of production (raw materials)	(6.7)	(62.1)	(76.4)	(145.2)
Cost factors of production (labour/energy/other)	(7.4)	(12.8)	(14.7)	(34.9)
Efficiencies	7.6	5.3	14.4	27.3
Depreciation, amortization and other	(8.1)	(2.8)	(11.3)	(22.2)
<b>Total change</b>	<b>37.1</b>	<b>41.6</b>	<b>27.2</b>	<b>105.9</b>
<b>2010 operating income before restructuring expenses</b>	<b>98.1</b>	<b>127.1</b>	<b>121.5</b>	<b>346.7</b>

This result confirms, even on the progressive figure at September, that the commercial variants and internal efficiencies are able to compensate the growth in production factor costs. It is important to note the significant impact of the price/mix variant, thanks also to the continuous research work for “premium” products, a fundamental backbone of the group’s strategy.

The **operating income at 30 September 2010** was Euro 334.3 million (9.4% on sales), with an improvement over the same period of 2009, which totalled Euro 222.7 million (with a ratio on sales of 7.5%). Operating income in the **third quarter** totalled Euro 117 million (9.5% on sales), compared to the Euro 85.9 million of the same period of the previous year (8.2% on sales).

**Net income at 30 September 2010** was positive for Euro 176.6 million (after financial expenses and net income from equity investments of Euro 52.3 million and income taxes amounting to Euro 105.4 million) and compares with a figure for the previous year of Euro 90.9 million (after financial expenses and net income from equity investments of Euro 55.9 million and income taxes amounting to Euro 75.9 million). It is important to note that the net income for last year benefited from the positive impact in the first quarter due to completion of the minority share acquisition of the affiliates in Turkey (Euro 3.5 million).

The **net financial position** was a negative Euro 1,205 million, an improvement compared to the June 2010 figure (negative for Euro 1,212.9 million).

The change is summarised below:

(in millions of Euro)

	1st quarter 2010	1st quarter 2009	2nd quarter 2010	2nd quarter 2009	3rd quarter 2010	3rd quarter 2009	30/09/2010	30/09/2009
Operating income (EBIT) before restructuring expenses	98.1	61.0	127.1	85.5	121.5	94.3	346.7	240.8
Depreciation and amortization	48.3	46.8	50.4	47.5	51.5	47.7	150.2	142.0
Investments in Property, plant and equipment and intangible assets	(47.6)	(36.8)	(84.5)	(27.6)	(88.1)	(33.2)	(220.2)	(97.6)
Change in working capital/other	(132.2)	(255.4)	37.0	77.4	(9.9)	109.6	(105.1)	(68.4)
<b>Operating cash flow</b>	<b>(33.4)</b>	<b>(184.4)</b>	<b>130.0</b>	<b>182.8</b>	<b>75.0</b>	<b>218.4</b>	<b>171.6</b>	<b>216.8</b>
Financial/tax expenses	(45.6)	(46.4)	(61.7)	(40.0)	(50.8)	(49.2)	(158.1)	(135.6)
<b>Net operating cash flow</b>	<b>(79.0)</b>	<b>(230.8)</b>	<b>68.3</b>	<b>142.8</b>	<b>24.2</b>	<b>169.2</b>	<b>13.5</b>	<b>81.2</b>
Dividends paid to minority interest	-	-	(3.8)	(2.3)	-	-	(3.8)	(2.3)
Purchase Turkey minorities and sale of assets	-	11.0	-	-	-	-	-	11.0
Restructuring cash out	(22.2)	(39.0)	(8.3)	(8.3)	(7.0)	(7.4)	(37.5)	(54.7)
Exchange differences/other	6.0	3.8	9.4	(13.2)	(9.3)	6.6	6.1	(2.8)
<b>Net cash flow before dividends to parent company</b>	<b>(95.2)</b>	<b>(255.0)</b>	<b>65.6</b>	<b>119.0</b>	<b>7.9</b>	<b>168.4</b>	<b>(21.7)</b>	<b>32.4</b>
Dividends paid to parent company	-	-	(156.0)	(64.2)	-	-	(156.0)	(64.2)
<b>Net cash flow</b>	<b>(95.2)</b>	<b>(255.0)</b>	<b>(90.4)</b>	<b>54.8</b>	<b>7.9</b>	<b>168.4</b>	<b>(177.7)</b>	<b>(31.8)</b>

There were 29,118 **employees** at 30 September 2010, up compared to 30 June 2010.

## **Business Consumer**

The table below shows the main economic and financial results obtained in the third quarter of 2010, the progressive figure at September 2010 and their comparisons with the corresponding periods of 2009:

(in millions of Euro)

	1st quarter		2nd quarter		3rd quarter		progressive	
	2010	2009	2010	2009	2010	2009	30/09/2010	30/09/2009
Sales	780.9	670.5	835.8	701.5	847.1	736.0	2,463.8	2,108.0
delta on previous year	16.5%	-10.4%	19.1%	-6.0%	15.1%	3.1%	16.9%	-4.5%
Gross operating margin before restructuring expenses	106.0	77.4	122.4	90.4	118.9	100.4	347.3	268.2
% on sales	13.6%	11.5%	14.6%	12.9%	14.0%	13.6%	14.1%	12.7%
Operating income before restructuring expenses	69.5	41.9	84.7	54.5	80.5	64.1	234.7	160.5
% on sales	8.9%	6.2%	10.1%	7.8%	9.5%	8.7%	9.5%	7.6%

**Sales** for the consumer section for the **nine months** totalled Euro 2,463.8 million (for a growth of 16.9% over 2009); operating income before restructuring expenses reached Euro 234.7 million, with an ROS (ratio on sales) of 9.5%, compared with the Euro 160.5 million reached in the same period of 2009, which had a 7.6% ROS.

The **third quarter** recorded sales for Euro 847.1 million (+15.0% over the same 2009 period), with higher profit than the previous year both in absolute terms, with Income before restructuring expenses of Euro 80.5 million compared with Euro 64.1 million the previous year; and in percentage terms with a ROS of 9.5% against a ROS of 8.7% in the same 2009 period.

Both the **Original Equipment** and **Replacement** channels witnessed a business recovery in the **first nine months** compared to the market in the same 2009 period. Original Equipment recorded growth in all reference areas: Europe +15.0% (but with a slowdown in the 3rd quarter -2.0%); Nafta +54%; Mercosur +15.0%. In the Replacement channel: Europe +9.0%; Nafta +5.0%; Mercosur +16.0%.

The positive change in volumes for Pirelli Tyre totalled 7.1%, in addition to a positive change in the price/mix components of 7.0% for a consequent change on like for like basis of sales of 14.1%. The positive change in exchange rates of 2.8% resulted in the overall change in sales of 16.9%.

### **Industrial Business**

The table below shows the main economic and financial results obtained in the third quarter of 2010, the progressive figure at September 2010 and their comparisons with the corresponding periods of 2009:

(in millions of Euro)

	1st quarter		2nd quarter		3rd quarter		progressive	
	2010	2009	2010	2009	2010	2009	30/09/2010	30/09/2009
Sales	329.1	256.4	379.5	287.5	386.7	306.7	1095.3	850.6
delta on previous year	28.4%	-22.0	32.0%	-16.3	26.1%	-0.1	28.8%	-16.7%
Gross operating margin before restructuring expenses	40.4	30.4	55.1	42.6	54.1	41.7	149.6	114.7
% on sales	12.3%	11.9%	14.5%	14.8%	14.0%	13.6%	13.7%	13.5%
Operating income before restructuring expenses	28.6	19.1	42.4	31.0	41.0	30.2	112.0	80.3
% on sales	8.7%	7.5%	11.2%	10.8%	10.6%	9.8%	10.2%	9.4%

**Sales at 30 September 2010** reached Euro 1,095.3 million for a growth of 28.8% over the same 2009 period; operating income before restructuring expenses reached Euro 112,0 million, with an ROS of 10.2% compared to Euro 80.3 million reached in the corresponding 2009 period, which had a 9.4% ROS.

The **third quarter** recorded sales for Euro 386.7 million (+26.1% over the third quarter of 2009), reaching operating income before restructuring expenses of Euro 41 million against Euro 30.2 million in 2009 (10.6% ratio to sales compared to 9.8% in the third quarter of 2009).



The market trend for the Industrial segment also shows signs of recovery in both sales channels compared to the critical situation in the first nine months of 2009, above all for Mercosur (+58.0% in Original Equipment and +23.0% in Replacements). Positive changes were also recorded in Europe (+46.0% in Original Equipment and +22.0% in the Replacements).

Volumes for Pirelli Tyre were a total of 12.3% higher compared to the first nine months of 2009 and a positive 11.0% change in the price/mix component led to a total like for like increase of 23.3%. The positive 5.5% fluctuation in exchange rate resulted in an overall growth in sales of 28.8%, compared to the corresponding 2009 period.

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

The positive performance of Pirelli Tyre in the first nine months of the year and the current market scenario makes it possible to raise the 2010 financial year targets compared to what was speculated in the half-year report, with sales forecast higher than Euro 4.7 billion and Ebit margin greater than 8.5% with an Ebit of around Euro 420 million, unless unexpected events occur, currently not predictable.

## **PIRELLI ECO TECHNOLOGY**

The data can be summarised as follows:

(in millions of Euro)

	3rd quarter 2010	3rd quarter 2009	30/09/2010	30/09/2009	31/12/2009
<b>Sales</b>	<b>11.5</b>	10.5	<b>46.6</b>	38.8	56.6
Gross operating margin	(2.2)	(2.8)	(4.5)	(7.2)	(9.1)
<b>Operating income</b>	<b>(2.8)</b>	(3.3)	<b>(6.3)</b>	(8.8)	(10.8)
Financial income/(expenses)	(0.5)	(0.8)	(1.4)	(1.9)	(2.5)
Income taxes	-	-	(0.6)	-	(0.4)
<b>Net income</b>	<b>(3.3)</b>	(4.1)	<b>(8.3)</b>	(10.7)	(13.7)
<b>Net Financial (liquidity)/debt position</b>			<b>38.8</b>	42.9	47.2
No. employees (at end of period)			<b>297</b>	296	284

**Sales in the third quarter** of 2010 amounted to Euro 11.5 million compared to the Euro 10.5 million for the same period in the previous year. Particulate Filter sales totalled Euro 4.3 million (+59.0% compared to the same 2009 period) and Gecam sales totalled Euro 7.2 million (-8.0% compared to the same period of the previous year).

Total **sales at 30 September 2010** amounted to Euro 46.6 million against Euro 38.8 million in 2009, and was composed of Euro 19.2 million Particulate Filter business and Euro 27.4 million from Gecam products.

**Gross operating margin at 30 September 2010** was a negative Euro 4.5 million compared with the previous year's negative figure of Euro 7.2 million.

**Operating income for the third quarter** was negative for Euro 2.8 million compared with a negative operating income of Euro 3.3 million, in part affected by the start up of the production site in China which is completing.

The **operating income at 30 September 2010** was a negative Euro 6.3 million, an improvement over the previous year's figure of Euro 8.8 million.

Gecam's profitability was negatively affected by the increase in excise taxes and lower volumes, while the Particulate Filter business, despite its growth (+77.0% compared to September 2009) was influenced by the insaturation of the production site in Romania and investment for business development in China.

**Net income** was a negative Euro 8.3 million after deduction of borrowing expenses and taxes of Euro 2 million.

**Net financial position** was a negative Euro 38.8 million, an improvement compared to the Euro 47.2 million at 31 December 2009.

There were 297 **employees** at 30 September 2010, an increase compared to 31 December 2009, due to additional staff in China.

### **Gecam – White Diesel**

In the first nine months of 2010 it recorded a decrease in volumes of 28.0% compared to the same 2009 period. This slowdown is mainly concentrated in Italy (-45.0%) and partly offset by a development of business in France (+4.0% compared to the first nine months of 2009).

### **Particulate filters**

During the first nine months of the year 4,368 Feelpure filtering systems were sold (2,462 to September 2009) for a total of Euro 19.2 million (Euro 10.9 million to September 2009). Sales correspond to 41.0% of the total (it was 28.0% in 2009) and are primarily concentrated in Italy.

**Outlook for the current year**

The current year has seen business primarily concentrated on developing and expanding the Retrofits line (Feelpure filtering systems) and enlarging new markets. Production is scheduled for the fourth quarter of this year for Silicon Carbide Filters in China, destined for the emerging local market. To date overall business has been later in reaching set goals mainly linked to lower volumes of Retrofit systems and Gecam products.

## PIRELLI BROADBAND ACCESS

The data can be summarised as follows:

(in millions of Euro)

	3rd quarter 2010	3rd quarter 2009	30/09/2010	30/09/2009	31/12/2009
<b>Sales</b>	<b>27.3</b>	30.3	<b>85.1</b>	103.1	132.1
Gross operating margin	<b>1.1</b>	0.4	<b>3.0</b>	3.6	5.3
<b>Operating income</b>	<b>0.8</b>	0.2	<b>2.3</b>	2.9	4.0
Financial income/(expenses)	<b>(1.6)</b>	(0.6)	<b>0.9</b>	0.1	0.3
Income taxes	<b>0.8</b>	(0.2)	<b>0.6</b>	0.5	0.3
<b>Net income</b>	<b>-</b>	(0.6)	<b>3.8</b>	3.5	4.6
<b>Net Financial (liquidity)/debt position</b>			<b>(12.9)</b>	(17.9)	(35.7)
No. employees (at end of period)			<b>135</b>	127	128

**Sales at 30 September 2010** totalled Euro 85.1 million, a decrease of 17.5% compared to the first nine months of 2009 (which amounted to Euro 103.1 million).

**Gross operating margin** was positive for Euro 3 million, recording a decrease of Euro 3.6 million against the same period in the previous year.

**Operating income** was positive for Euro 2.3 million, compared to the positive income of Euro 2.9 million recorded in the same 2009 period. The worsening of operating income was mainly affected by the drop in volumes, only partly offset by the positive sold product mix.

**Net income** was positive for Euro 3.8 million (after financial and tax income totalling Euro 1.5 million) compared to a positive income of Euro 3.5 million in the first nine months of 2009 (after financial and tax income of Euro 0.6 million).

There were 135 **employees** as of 30 September 2010, compared to a staff of 128 at 31 December 2009.

## **Business performance**

Despite general economic conditions which are still mainly negative and a significant drop in demand for products from the main customer Telecom Italia, the Company ended the first nine months of business with positive income, although recording a decrease compared to the same period in 2009, primarily thanks to the results of the successful diversification process aimed at other operators and markets.

In terms of products, developments have basically continued along the lines of the business plan.

In terms of the “**Networking**” product portfolio, including the Access Gateways and Extenders lines, the first nine months of the year 2010 witnessed PBS capitalise on positioning efforts in the high value market of IAD products for new generation VDSL2 networks, with stable start up of supplies to Swisscom and Telekom Austria. The growing commitments in the high end of the market is counterbalanced with a complementary trend, seen in other operators such as Telecom Italia, with a mix towards low end products as a result of purchasing policies affected by the unfavourable financial situation.

However the first nine months confirmed the stability and continuation of the foreign client base created in the diversification process, the most significant being the Latin American and East European areas.

In terms of the “**Multimedia**” product portfolio, essentially composed of the Set-top Box (STB) lines, the Italian scenario witnessed a slowdown in orders due to the decrease in Telecom Italia investments for the IPTV products, while the foreign scenario remained positive supported by orders from Romtelecom (incumbent operator in Romania) and OTE in Greece, both the result of a PBS joint endeavour with Ericsson, as environment partners for IPTV solutions.

Related to the “**Software**” product portfolio, including embedded applications (incorporated in the product), backend applications (located on remote servers for interaction with embedded applications) and professional services, development activity continued which the Company views as strategic, along with the introduction of these activities at potential customers who have expressed an interest of assessing the evolution of the new Epicentro<sup>TM</sup> software architecture.

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

For the year in progress business has been primarily concentrated in the geographic and channel diversification process, aimed at maintaining the position of CPEs on the market by technologically renewing the product portfolio.

Certification and partnership programs are underway which could develop into favourable sales opportunities resulting from sales through system integrators such as Ericsson.

The strategic innovation program is also continuing towards the creation of a new value chain with Epicentro<sup>TM</sup> the new CPE Pirelli software architecture which is open, modular and expandable and proposes to intercept new emerging needs of landline telephony and broadband service operations.

## **OTHER BUSINESSES**

The other businesses include the Ambiente group, PZero S.r.l. company and all of the financial and service companies for the Group, including the Parent Company.

Overall for the first nine months of 2010 they recorded a negative operating income of Euro 8.1 million compared to a loss of Euro 33.7 million for the same period in 2009 (including Euro 10 million restructuring expenses). Non-recurring costs were recognised in the period for studies to define the new framework of the group and a provision for a lawsuit related to businesses disposed in the 1990s, offset by a capital gain realised on the sale of land in Brazil.



## **PERFORMANCE OF DISCONTINUED OPERATIONS**

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

Even if still in the presence of a difficult economic and financial context which continued to have negative effects on the economy and real estate sector, the Real Estate Group improved its main economic/financial ratios in the first nine months of 2010.

The ratio which best reflects the joint net income of service business and business investment, the **operating income including income from equity investments and revenues from shareholder loans**, reached a positive value of Euro 24.9 million against a negative value of Euro 8.9 million for the same 2009 period.

In particular, the improvement is attributable to the **income from service businesses** which reached Euro 14.1 million, against a negative income of Euro 0.5 million in the same 2009 period, and the **income from investment businesses**, positive for Euro 10.8 million against a negative income of Euro 8.4 million in the same 2009 period.

In terms of the cost efficienting plan, in the first nine months of the year the Company achieved savings on overheads of approximately Euro 35 million, greatly surpassing the goal communicated to the market for year-end (Euro 25-30 million), a goal which was reached in the first half of the year.

**Consolidated revenues** at 30 September 2010 recorded an improvement and totalled Euro 210.2 million, against Euro 199.2 million at 30 September 2009.

**Operating income** at 30 September 2010 was positive for Euro 8.2 million compared to a negative value of Euro 18.6 million at 30 September 2009. This was due in part to savings on overhead costs obtained from the implemented actions.

**Income from equity investments** at 30 September 2010 was negative for Euro 28.6 million against a negative value of euro 36.7 million at 30 September 2009.

**Net income attributable**, negative for Euro 29.6 million, was mainly due to property impairment (- Euro 25.8 million) and is a sharp improvement compared to the loss of Euro 57.9 million at 30 September 2009.

**Equity attributable** totalled Euro 633.4 million against Euro 653.4 million at 31 December 2009. The change is primarily due to a negative net income for the period totalling Euro 29.6 million and the change in the period of the reserve for interest rate hedging instruments positive for Euro 7.3 million.

The **net financial position at 30 September 2010** was negative for Euro 88.3 million against a negative value of Euro 41.3 million at 31 December 2009. The **net financial position excluding receivables for shareholders' loans** at 30 September 2010 is negative for Euro 480.6 million against Euro 445.8 million at 31 December 2009.

**Gearing** totalled 0.75, slightly higher than that of June 2010 (0.67 at 31 December 2009).

The Board of Directors

Milan, 3 November 2010

## **STATEMENTS**

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

	<b>30/09/2010</b>	<b>31/12/2009</b>
Property, plant and equipment	1,819,757	1,727,391
Intangible assets	849,273	1,047,474
Equity investments in associates and joint ventures	133,767	593,237
Other financial assets	183,440	228,106
Deferred tax assets	72,478	91,164
Other receivables	157,441	557,230
Tax assets	10,279	9,578
<b>Non-current assets</b>	<b>3,226,435</b>	<b>4,254,180</b>
Inventories	635,011	678,977
Trade receivables	858,878	735,792
Other receivables	271,803	197,144
Securities held for trading	247,913	161,024
Cash and cash equivalents	141,266	632,113
Tax assets	45,442	41,464
Derivative financial instruments	60,926	26,567
Assets held for distribution to shareholders	1,211,804	-
<b>Current assets</b>	<b>3,473,043</b>	<b>2,473,081</b>
<b>Total Assets</b>	<b>6,699,478</b>	<b>6,727,261</b>
Equity attributable to parent company:	1,823,162	2,175,023
- <i>Share capital</i>	1,375,733	1,554,269
- <i>Reserves related to continuing operations</i>	566,635	598,009
- <i>Reserves related to assets/liabilities held for distribution to shareholders</i>	(32,242)	-
- <i>Net Income for the period</i>	(86,964)	22,745
Equity attributable to minority interest:	309,090	319,648
- <i>Reserves</i>	323,606	364,979
- <i>Net Income for the period</i>	(14,516)	(45,331)
<b>Total Equity</b>	<b>2,132,252</b>	<b>2,494,671</b>
Borrowings from banks and other financial institutions	1,033,558	1,505,805
Other payables	37,631	34,008
Provisions for liabilities and charges	153,415	167,793
Deferred taxes liabilities	38,451	44,000
Provisions for employee benefits	474,304	451,880
Tax liabilities	5,468	10,037
<b>Non-current liabilities</b>	<b>1,742,827</b>	<b>2,213,523</b>
Borrowings from banks and other financial institutions	167,559	289,305
Trade payables	961,769	987,873
Other payables	617,020	491,035
Provisions for liabilities and charges	117,824	130,783
Tax liabilities	86,332	43,918
Derivative financial instruments	101,480	76,153
Liabilities related to assets held for distribution to shareholders	772,415	-
<b>Current liabilities</b>	<b>2,824,399</b>	<b>2,019,067</b>
<b>Total Liabilities and Equity</b>	<b>6,699,478</b>	<b>6,727,261</b>

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

	<b>30/09/2010</b>	<b>30/09/2009</b>
Revenues of sales and services rendered	3,703,357	3,114,665
Other income	101,562	97,994
Changes in inventories of finished goods and work in progress	8,069	(125,278)
Raw materials and consumables used (after changes in inventory)	(1,412,835)	(990,643)
Personnel expenses	(784,440)	(687,095)
Amortization, depreciation and impairment	(162,991)	(151,821)
Other expenses	(1,144,957)	(1,077,182)
Increase in property, plant and equipment from internal work	1,830	1,714
<b>Operating income</b>	<b>309,595</b>	<b>182,354</b>
Net income from equity investments	18,064	(1,111)
- <i>share of net income of associates and joint venture</i>	(1,399)	(1,606)
- <i>gains on equity investments</i>	20,279	17,787
- <i>losses on equity investments</i>	(3,743)	(24,090)
- <i>dividends</i>	2,927	6,798
Financial income	222,626	301,366
Financial expenses	(276,244)	(356,199)
<b>Net income before tax</b>	<b>274,041</b>	<b>126,410</b>
Tax	(109,894)	(76,344)
<b>Net income from continuing operations</b>	<b>164,147</b>	<b>50,066</b>
Net income from discontinued operations	(265,627)	(58,739)
<b>Net income from the period</b>	<b>(101,480)</b>	<b>(8,673)</b>
<b>Attributable to:</b>		
Parent company shareholders	(86,964)	18,179
Minority interest	(14,516)	(26,852)

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(in thousands of Euro)

	30/09/2010		
	Gross	Tax	Net
<b>A Net income from the period</b>			<b>(101,480)</b>
<b>Other components recognized in equity:</b>			
Share of (gains)/losses transferred to income statement that were previously directly recognized in equity relating to associates and joint venture	4,796	-	4,796
(Gains)/losses transferred to income statement relating to other financial assets, previously recognized in equity	(8,490)	(48)	(8,538)
(Gains)/losses transferred to income statement, previously directly recognized in equity relating to cash flow hedging instruments	1,991	(1,144)	847
<b>B (Gains)/losses transferred to income statement, previously directly recognized in equity</b>	<b>(1,703)</b>	<b>(1,192)</b>	<b>(2,895)</b>
Exchange rate differences from translation of foreign financial statements	74,778	-	74,778
Adjustment to fair value of other financial assets	(30,601)	(81)	(30,682)
Net actuarial gains/(losses) on employee benefits	(25,864)	4,051	(21,813)
Adjustment to fair value of derivatives designated as cash flow hedging instruments	(7,536)	5,609	(1,927)
Share of other components recognized in equity relating to associates and joint venture	914	(73)	841
<b>C Income/(losses) directly recognized in equity in the period</b>	<b>11,691</b>	<b>9,506</b>	<b>21,197</b>
<b>B+C Total other components recognized in equity</b>	<b>9,988</b>	<b>8,314</b>	<b>18,302</b>
<b>A+B+C Total comprehensive income/(losses) of the period</b>			<b>(83,178)</b>
<b>Attributable to:</b>			
- Parent company shareholders			(74,373)
- Minority interest			(8,805)

(in thousands of Euro)

	30/09/2009		
	Gross	Tax	Net
<b>A Net income from the period</b>			<b>(8,673)</b>
<b>Other components recognized in equity:</b>			
(Gains)/losses transferred to income statement relating to available for sale financial assets, previously recognized in equity	(792)	0	(792)
(Gains)/losses transferred to income statement, previously directly recognized in equity relating to cash flow hedging instruments	(1,934)	-	(1,934)
<b>B (Gains)/losses transferred to income statement, previously directly recognized in equity</b>	<b>(2,726)</b>	<b>0</b>	<b>(2,726)</b>
Exchange rate differences from translation of foreign financial statements	55,908	-	55,908
Adjustment to fair value of available for sale financial assets	49,941	(538)	49,403
Net actuarial gains/(losses) on employee benefits	(27,341)	2,370	(24,971)
Adjustment to fair value of derivatives designated as cash flow hedging instruments	(13,591)	3,845	(9,747)
Share of other components recognized in equity relating to associates and joint venture	(16,273)	568	(15,705)
<b>C Income/(losses) directly recognized in equity in the period</b>	<b>48,643</b>	<b>6,245</b>	<b>54,888</b>
<b>B+C Total other components recognized in equity</b>	<b>45,918</b>	<b>6,245</b>	<b>52,163</b>
<b>A+B+C Total comprehensive income/(losses) of the period</b>			<b>43,490</b>
<b>Attributable to:</b>			
- Parent company shareholders			78,652
- Minority interest			(35,162)

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 30/09/2010

(in thousands of Euro)

	Attributable to parent company						Minority interest	TOTAL
	Share capital	Reserve for translation	Total IAS Reserves (*)	Other reserves/retained earnings	Reserves related to assets/liabilities held for distribution to shareholders	Total attributable to parent company		
<b>Total at 31/12/2009</b>	<b>1,554,269</b>	<b>25,234</b>	<b>(346,227)</b>	<b>941,747</b>	<b>-</b>	<b>2,175,023</b>	<b>319,648</b>	<b>2,494,671</b>
Total other components recognized in equity	-	72,374	(59,783)	-	-	12,591	5,711	18,302
Total net income for the period	-	-	-	(86,964)	-	(86,964)	(14,516)	(101,480)
<b>Total income/(losses)</b>	<b>-</b>	<b>72,374</b>	<b>(59,783)</b>	<b>(86,964)</b>	<b>-</b>	<b>(74,373)</b>	<b>(8,805)</b>	<b>(83,178)</b>
Reserves related to assets/liabilities held for distribution to shareholders	-	739	31,505	-	(32,244)	-	-	-
Dividends distributed	-	-	-	(81,114)	-	(81,114)	(3,968)	(85,082)
Pirelli & C. RE investment assigned to shareholders	(178,814)	-	-	(37,322)	-	(216,136)	-	(216,136)
Venezuela inflation effect	-	-	-	12,588	-	12,588	495	13,083
Other	278	-	(406)	7,302	-	7,174	1,720	8,894
<b>Total at 30/09/2010</b>	<b>1,375,733</b>	<b>98,347</b>	<b>(374,912)</b>	<b>756,237</b>	<b>(32,244)</b>	<b>1,823,162</b>	<b>309,090</b>	<b>2,132,252</b>

(in thousands of Euro)

	IAS RESERVES IN DETAIL (*)					
	Reserve for adjustment to FV of available for sale financial assets	Reserve for cash flow hedge	Reserve for actuarial gains/losses	Reserve for equity settled stock options	Reserve for deferred taxes	Total IAS reserves
<b>Balance at 31/12/2009</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 recognized in equity	(39,834)	(2,725)	(25,696)	-	8,472	(59,783)
Reserves related to assets/liabilities held for distribution to shareholders	(254)	33,045	-	-	(1,287)	31,504
Other movements	-	(28)	-	(378)	-	(406)
<b>Balance at 30/09/2010</b>	<b>17,667</b>	<b>(30,486)</b>	<b>(409,589)</b>	<b>3,122</b>	<b>44,374</b>	<b>(374,912)</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 30/09/2009

(in thousands of Euro)

	Attributable to parent company					Minority interest	TOTAL
	Share capital	Reserve for translation	Total IAS Reserves (*)	Other reserves/retained earnings	Total attributable to parent company		
<b>Total at 31/12/2008</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 recognized in equity	-	57,940	2,531	-	60,471	(8,308)	52,163
Total net income for the period				18,179	18,179	(26,852)	(8,673)
Capital increase of Pirelli Real Estate				(4,486)	(4,486)	167,824	163,338
Other dividends paid to minority shareholders					-	(2,313)	(2,313)
Tyres purchase by minorities					-	(7,442)	(7,442)
Other			(944)	(99)	(1,043)	331	(712)
<b>Total at 30/09/2009</b>	<b>1,554,269</b>	<b>42,518</b>	<b>(290,627)</b>	<b>938,765</b>	<b>2,244,925</b>	<b>325,798</b>	<b>2,570,723</b>

(in thousands of Euro)

	IAS RESERVES IN DETAIL (*)					
	Reserve for adjustment to FV of available for sale financial assets	Reserve for cash flow hedge	Reserve for actuarial gains/losses	Reserve for equity settled stock options	Reserve for deferred taxes	Total IAS reserves
<b>Balance at 31/12/2008</b>	<b>17,324</b>	<b>(37,983)</b>	<b>(297,339)</b>	<b>3,500</b>	<b>22,285</b>	<b>(292,214)</b>
Total other components recognized in equity	48,329	(24,814)	(27,035)	-	6,050	2,531
Other movements	(430)	(892)	(446)	(69)	893	(944)
<b>Balance at 30/09/2009</b>	<b>65,223</b>	<b>(63,688)</b>	<b>(324,820)</b>	<b>3,431</b>	<b>29,228</b>	<b>(290,627)</b>



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

	<b>30/09/2010</b>	<b>30/09/2009</b>
Net income from continuing operations before tax	274,041	126,410
Amortization, depreciation, impairments and reversals - property, plant and equipment and intangible assets	162,991	151,821
Reversal of financial expenses	276,244	356,199
Reversal of financial income	(222,626)	(301,366)
Reversal of dividends	(2,927)	(6,798)
Gains/(losses) on equity investments	(16,536)	6,303
Share of net income from associates and joint ventures	1,399	1,606
Tax	(109,894)	(76,344)
Change in inventories	(52,671)	257,412
Change in trade receivables/payables	(158,830)	(433,439)
Change in other receivables/other payables	52,527	70,364
Change in provisions for employee benefits and other provisions	20,540	4,323
Other changes	(13,817)	20,075
<b>A Net cash flow generated/(absorbed) by operating activities</b>	<b>210,441</b>	<b>176,566</b>
Investments in property, plant and equipment	(225,789)	(103,598)
Disinvestments in property, plant and equipment including gains/losses	10,150	17,438
Investments in intangible assets	(1,820)	(1,342)
Disinvestments in intangible assets including gains/losses	-	120
Acquisitions of investments in associated companies and joint ventures	(2,057)	(6,294)
Acquisition of other financial assets	(11,510)	(1,427)
Disposal of other financial assets	19,800	241,041
Acquisition of minority interest	-	(4,166)
Dividends received	2,927	6,798
<b>B Net cash flow generated/(absorbed) by investing activities</b>	<b>(208,298)</b>	<b>148,570</b>
Change in share capital and share premium reserve	-	167,411
Change in financial payables	(127,880)	(283,497)
Change in financial receivables	(200,614)	30,156
Financial income/(expenses)	(53,618)	(54,833)
Dividends paid	(85,082)	(2,313)
<b>C Net cash flow generated/(absorbed) by financing activities</b>	<b>(467,194)</b>	<b>(143,076)</b>
Net cash flow generated/(absorbed) by operating activities	(8,025)	(25,784)
Net cash flow generated/(absorbed) by investing activities	(21,365)	(5,033)
Net cash flow generated/(absorbed) by financing activities	11,275	34,950
<b>D Total cash flow generated/(absorbed) by discontinued operations</b>	<b>(18,115)</b>	<b>4,133</b>
<b>E Total cash flow generated/(absorbed) in the period (A+B+C+D)</b>	<b>(483,166)</b>	<b>186,193</b>
<b>F Net cash and cash equivalents at the beginning of the year</b>	<b>610,779</b>	<b>227,077</b>
<b>G Differences from translation on cash and cash equivalents</b>	<b>2,540</b>	<b>1,198</b>
<b>H Net cash and cash equivalents at the end of the period (E+F+G)</b>	<b>130,153</b>	<b>414,468</b>

## **FORM AND CONTENTS**

This Interim management report at 30 September 2010 has been prepared based on article 154 *ter* of Italian Legislative Decree no. 58/1998 as well as specific Consob provisions.

For measurement of accounting measure the international accounting standards *International Accounting Standards (IAS)* and *International Financial Reporting Standards (IFRS)* issued by the *International Accounting Standards Board (IASB)* have been applied as well as the relative interpretation issued by the *International Financial Reporting Interpretations Committee (IFRIC)*, adopted by the European Commission and in force at the time this Report was approved.

The accounting standards and policies are the same as those used to prepare the financial statements at 31 December 2009, for more information see those statements, with the exception of the following standards and interpretations in force as of 1 January 2010 and adopted by the European Union. Any impacts on the group are explained below:

- IFRIC 12 – Service Concession Arrangements: no significant quantitative impact for the Group;
- IFRIC 15 - Agreements for the Construction of Real Estate: no significant quantitative impact for the Group;
- IFRIC 16 - Hedges of a Net Investment in a Foreign Operation: no significant quantitative impact for the Group;
- IFRIC 17 – Distributions of Non-cash Assets to Owners: the assignment transaction to the shareholders in the Pirelli Real Estate investment was recognised in line this interpretation as described in the paragraph below;
- IFRIC 18 – Transfers of assets from customers: no significant quantitative impact for the Group;

- Revision of IFRS 3 “Business combinations”: no significant quantitative impact for the Group;
- Amendments to IAS 27 – “Consolidated and Separate Financial Statements”: no significant quantitative impact for the Group;
- Amendment to IAS 39 – “Financial Instruments: Recognition and Measurement – eligible hedged items” no significant quantitative impact for the Group;
- “Improvements” to the IFRSs (issued by the IASB in April 2009): no significant quantitative impact for the Group;
- Amendments to IFRS 2 – Share-based Payment: no significant quantitative impact for the Group.

## **DISCONTINUED OPERATIONS**

Due to the effect of approval of the assignment transaction to the shareholders of the Pirelli & C. Real Estate investment by the Board of Directors of Pirelli & C. S.p.A. on 4 May 2010, in compliance with the provisions of IFRS 5 (“Non-current assets held for sale and discontinued operations”), the assets and liabilities related to the Pirelli RE investment subject of the assignment, considered a disposal group, were classified in this report as “held for sale”; the carrying amount of the disposal group was measured at fair value at 30 June 2010, equal to the official price of Pirelli RE shares on that date of Euro 0.3339, determining a loss of Euro 235,820 thousand in the consolidated income statement. Euro 181,038 thousand of this amount was recognised as goodwill. The remaining part was proportionally recognised as other non-current assets, in particular: Euro 51,053 thousand as investments in associates and JV; Euro 2,013 thousand as property, plant and equipment; Euro 1,717 thousand as intangible assets other than goodwill.

It is important to note that IFRS prohibits reversing any impairment of goodwill in later periods, thus in the interim report at 30 September 2010, the loss determined at 30 June was not partially reversed based on the new Stock Exchange price at 30 September 2010 (totalling Euro 0.4436) since the reversal would have been less than the amount of goodwill impairment (Euro 181,038 thousand).

Since the disposal group qualifies as a discontinued operation, the loss resulting from the adjustment to fair value less cost to sell (Euro 236,641 thousand) along with the income of the nine months of discontinued operation (negative for Euro 28,986 thousand) were reclassified under “net income from discontinued operations” in the income statement (thus for a total of Euro 265,627 thousand). This loss does not include the relative tax effect since the requirements for its recovery do not exist. The comparative income statement figures at 30 September 2009 were also reclassified in the same manner.

Following approval of the reduction in share capital by the Shareholders’ Meeting of 15 July 2010, in accordance with the interpretation IFRIC 17 “Distribution of non-cash assets to owners”, the Company recognised a liability due to shareholders for an amount equal to the fair value of the Pirelli RE shares, determined based on the official stock exchange price of the Pirelli RE share on 14 July 2010 (Euro 0.367) totalling Euro 178,814 thousand).

At 30 September 2010, again in compliance with interpretation IFRIC 17, the liability was adjusted from Euro 178,814 thousand to Euro 216,136 thousand, equal to the fair value of the liability at 30 September 2010, determined based on the official stock exchange price of the Pirelli RE share on 30 September 2010 (Euro 0.4436). The adjustment (negative for Euro 37,322 thousand) was recognised in equity.

## Net financial position

(alternative performance measure not envisaged by the accounting standards)

The breakdown of net financial position is shown below:

(in thousands of Euro)

	30/09/2010	31/12/2009 (°)
Current borrowings from banks and other financial institutions	161,343	275,926
Current financial accrued liabilities and deferred income	12,392	42,977
Non-current borrowing from banks and other financial institutions	1,033,558	1,505,805
<b>Total gross debt</b>	<b>1,207,292</b>	<b>1,824,708</b>
Cash and cash equivalents	(141,266)	(632,113)
Securities held for trading	(247,913)	(161,024)
Current financial receivables	(95,781)	(11,281)
Current financial accrued income and prepaid expenses	(11,459)	(5,018)
<b>Net financial debt *</b>	<b>710,874</b>	<b>1,015,272</b>
Non-current financial receivables	(91,815)	(485,810)
Non-current financial accrued income and prepaid expenses	(2,413)	(622)
<b>Net financial position of continuing operations</b>	<b>616,645</b>	<b>528,840</b>
<b>Net financial position of discontinued operations</b>	<b>88,286</b>	
<b>Total net financial position</b>	<b>704,931</b>	<b>528,840</b>

\* Pursuant to Consob Communication dated July 28, 2006 and in conformity with CESR recommendation dated February 10, 2005, "Recommendation for the uniform implementation of the European Commission regulation on prospectuses"

(°) Including discontinued operations equal to Euro 41,300 thousands

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

(in thousands of Euro)

	Balance Sheet	Year of maturity			
		2010	2011	2012	2013 and beyond
Use of <i>committed</i> lines	405			405	-
Other loans	802	165	135	146	356
<b>Total gross debt</b>	<b>1,207</b>	<b>165</b>	<b>135</b>	<b>551</b>	<b>356</b>
		13.7%	11.2%	45.7%	29.4%

## Exchange Rates

(local currency against Euro)

	Period-end		Change in %	Average		Change in %
	06/30/2010	12/31/2009		2010	2009	
British pound	0.8600	0.8881	(3.17%)	0.8577	0.8864	(3.23%)
Swiss franc	1.3287	1.4836	(10.44%)	1.4008	1.5106	(7.27%)
Slovakian koruna	30.1260	30.1260	0.00%	30.1260	30.1260	0.00%
American dollar	1.3648	1.4406	(5.26%)	1.3155	1.3660	(3.69%)
Canadian dollar	1.4073	1.5128	(6.97%)	1.3622	1.5936	(14.52%)
Brazilian real	2.3122	2.5084	(7.82%)	2.3420	2.8404	(17.55%)
Venezuela bolivar	5.8686	6.1946	(5.26%)	5.8686	2.9368	99.83%
Argentinean peso	5.4046	5.4743	(1.27%)	5.1238	5.0571	1.32%
Australian dollar	1.4070	1.6008	(12.11%)	1.4663	1.8233	(19.58%)
Chinese renminbi	9.1457	9.8367	(7.03%)	8.9544	9.3324	(4.05%)
Singapore dollar	1.7942	2.0194	(11.15%)	1.8197	2.0115	(9.54%)
Egyptian pound	7.7814	7.8995	(1.50%)	7.3561	7.6064	(3.29%)
Turkish lira	1.9849	2.1707	(8.56%)	2.0022	2.1479	(6.78%)

**Certification under the terms of article 154-bis paragraph 2  
of Legislative Decree no. 58 of 24 February 1998 (Italian Finance Act)**

The undersigned Francesco Tanzi, Finance Manager and Manager responsible for corporate financial reporting for Pirelli & C. S.p.A., with registered office in Milan, Viale Piero e Alberto Pirelli 25, share capital Euro 1,377,878,879.78, fiscal code, VAT number and Milan Companies Register number 00860340157

Hereby declares

that in accordance with paragraph 2 of article 154 bis of the Italian Finance Act, the accounting information contained in this Interim management report at 30 September 2010 corresponds to the accounting documents, books and records.

Milan, 3 November 2010

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Francesco Tanzi  
Manager responsible for  
corporate financial reporting