Half-yearly Financial Report

at June 30, 2010

PIRELLI & C. Società per Azioni

Registered office in Milan

Viale Piero e Alberto Pirelli n. 25

Share Capital Euro 1,556,692,862.67

Milan Companies Register No. 00860340157

Economic Administrative File (REA) n. 1055

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

Half-yearly Financial Report at June 30, 2010

CONTENTS

Interim management report

Board of Directors [1]

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

* Independent director
o Member of the Internal Control, Risks and Corporate Governance Committee
^ Member of the Remuneration Committee

Secretary to the Board	Anna Chiara Svelto

Board of Statutory Auditors [3]

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

General Manager

General Management Tyre and Parts	Francesco Gori

Independent Auditors [4]

Reconta Ernst & Young S.p.A.

Manager responsible for the preparation of financial reports [5]

Francesco Tanzi

1 Appointment: April 29, 2008. Expiry: Shareholders' Meeting called to approve the financial statements at December 31, 2010. On 29 July 2010 the Board of Directors coopt Vittorio Malacalza and took note of the resignation of Director and Vice Chairman Carlo Puri Negri
2 Post conferred by the Board of Directors on April 29 2008.
3 Appointment: April 21, 2009. Expiry: Shareholders' Meeting called to approve the financial statements at December 31, 2011.
4 Post conferred by the Shareholders' Meeting held on April 29, 2008.
5 Appointment: Post conferred by the Board of Directors on September 16, 2009. Expiry: Shareholders' Meeting called to approve the financial statements at December 31, 2010.

PIRELLI & C. REAL ESTATE BUSINESS SPIN OFF

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

The Operation falls within the sphere of the management rationalisation and optimisation process which was launched in 2008 and continued in 2009, and according to the strategic course outlined in the three-year industrial plan 2009-2011 of focusing on the industrial core business in the tyre sector.
The Operation will improve the equity and financial structure of the Pirelli group, it will simplify the corporate structure of Pirelli & C. S.p.A., and will allow for more immediate comprehension of the industrial strategy and of the economic-equity data of the Pirelli group on the part of the market, with a potentially positive effect in terms of further reduction in the holding discount.

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

The capital reduction of the above-indicated amount will also facilitate adapting the entity of the Company’s own means to the new operating structure subsequent to the Operation.

The said Shareholders’ Meeting of July 15, 2010 also passed resolution in favour of.

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

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

The Operation, pursuant to article 2445, clause 3, of the Italian civil code, may be carried out only after the ninety day term from the date of the registration of the resolution of the Pirelli & C. Extraordinary Shareholders’ Meeting on the Companies Register, always providing no opposition is raised by any subject which was a creditor of the company before the registration. Pursuant to article 2445, clause 4, of the civil code, if opposition is raised within the aforesaid term, the Court may allow the Operation to take place in any case if it maintains that the risk of prejudice to the creditors is without grounds or if the Company provides suitable collateral.
The assignment of the Pirelli RE shares to the Pirelli & C. shareholders is therefore expected to be completed by October.

According to IFRS 5 (“*Non-current assets held for sale and for discontinued operations*”), the assets and liabilities relative to the Pirelli RE shares to be assigned, which represent a group being disposed of, are classified on the condensed interim financial report at June 30, 2010 as “held for distribution”; the net book value of the group subject to disposal has been aligned to the fair value at June 30, 2010, equal to the official price of Pirelli RE shares on that date, and precisely Euro 0,3339, resulting in a loss of Euro 235.8 million posted on the income statement.

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

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

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

The loss of control of Pirelli RE wil cause, in the consolidated financial statement of Pirelli & C. S.p.A., the reclassification to profit and loss of gains and losses recognised in other comprehensive income related to Pirelli & C. Real Estate Group.

THE GROUP

There has been a decided improvement in the net income from operations in the half year compared to the same period of the previous year, especially thanks to the growth in the Pirelli Tyre net sales volumes, already apparent in the last months of 2009, and to the continued benefits deriving from the management efficiency drive launched in 2008 and continued in the following years.

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

The continual growth in volumes and in the price/mix component has more than compensated for the increased cost of raw materials, and has allowed **Pirelli Tyre** to register decidedly improved net income from operations. In the second quarter in particular, Pirelli Tyre achieved the best quarterly business result on record, amounting to 121.8 million euro (+54% compared to the same period of 2009) and an incidence of 10% (8% in the same period of 2009) on revenues, which increased by 22.9% to 1,215.3 million euro. In the half-year, the operating profit from operations after restructuring expenses reached 217.3 million euro, representing an increase of 59% compared to the 136.8 million euro of the first half of 2009, and an incidence of 9.3% (7.1% in the first half of 2009) on revenues equal to 2,325.3 million euro (+21.4% compared to the first half of 2009).

On June 23, 2010 Pirelli was chosen as the exclusive supplier for the F1 tyres for the three-year period 2011-2013. The Formula One will become an important driving force for further appreciation of the Pirelli brand and for its commercial and industrial growth, without involving any modification to the Company's economic-financial plans. Still for the three-year term 2011-2013, Pirelli was also chosen as the exclusive supplier for the GP2 Series World Championship. Since Pirelli is also a supplier for the GP3 Series, it is now the official supplier for the most prestigious racing car competitions in the world.

The **consolidated net operating cash flow** amounts to plus 55.6 million euro (minus 18.5 million euro in the first half of 2009), notwithstanding the fact that investments are almost double those of the same period of 2009 (135.5 million euro compared to 65.4 million euro), especially within the sphere of the production capacity growth projects.

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

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

The **net income** of Pirelli & C. S.p.A. at June 30, 2009 is minus 27.1 million euro, compared to plus 83.8 million euro in the first half of 2009.
The result of the first half-year of 2010 includes the loss of Euro 167.1 million deriving from the difference between the fair value of the Pirelli & C. Real Estate S.p.A. shares to be assigned (corresponding to the market value at June 30, 2010, equal to Euro 0.3339 per share) and the book value of the equity on the same date (Euro 0.6765 per share), partially counterbalanced by the dividends from companies of the Group for Euro 161.1 million.

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

SIGNIFICANT EVENTS IN THE FIRST HALF YEAR

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

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

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

The Historic Archives contain documents, writings, films, objects, works of art and photographs which cover the 138 years of the Company's industrial and cultural history, from when it was founded in 1872 until today.

On **June 22, 2010** Pirelli Ambiente S.p.A., the company of the Pirelli group dedicated to renewable energy sources, signed a licence agreement with Bosco International, which promotes environmentally sustainable industrial systems and processes; the agreement will allow the Australian company to use the Pirelli patent to produce quality fuel from waste.
At first, Pirelli technology will be used in the Latrobe area, in the Australian state of Victoria, within the sphere of the programme “Towards Zero Waste Policy” introduced by the local government to contain waste, with the aim of converting into quality fuel the 600 thousand tonnes of solid urban waste produced by the city of Melbourne every year. In particular, after obtaining the authorisations of the local authorities, the technological exchange involves an investment on the part of Bosco International for the construction of a plant in the Country for the production of quality fuel from waste.
The integrated system promoted by Pirelli Ambiente has been running successfully since 2002 in the province of Cuneo, where Idea Granda operates, a mixed public-private company partly owned by Pirelli (49%) and by the municipal company ACSR (51%), and where the cement factory Buzzi-Unicem of Robilante uses the quality fuel from waste in its main burner replacing more than 40% of its coal-petcoke need.
Since start up, the system has allowed for the percentage of energy obtained from waste in the area to rise more than 32%, higher than the Italian average (7%) and, above all, higher than the European average (27%).
In addition, according to a study of the Milan Bicocca University, carried out with the Life Cycle Assessment method, the use of Pirelli’s quality waste from fuel is respectively 90 and 72 times more advantageous for the environment than alternative systems such as dumps and other waste to energy plants.

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

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

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

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

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

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

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

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

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

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

THE GROUP: main financial and economic figures

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

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

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

- **Gross Operating Profit:** this item is used by the Group as the financial target for internal business plans and in external presentations (to analysts and investors). It represents a useful unit of measurement, in addition to the Operating Profit, to assess the operating performance of the Group as a whole and of each single segment. The Gross Operating Profit is an intermediate performance measure represented by the Operating Profit from which depreciation and amortization are excluded.
- **Fixed assets**: this measure consists of the sum of "Property, plant and equipment", "Intangible assets", "Investments in associates and JV" and "Other financial assets";
- **Provisions**: this measure consists of the sum of "Provisions for liabilities and charges (current and non-current)", "Employee benefit obligations" and "Deferred tax liabilities";
- **Net working capital**: this measure consists of all the items not included in the two above mentioned measures, the "Shareholders' equity" and "Net financial position";
- **Net financial position:** this performance measure is represented by the gross financial debt minus cash and cash equivalents plus other interest-earning financial receivables. The explanatory notes section within the condensed half-yearly consolidated financial statements presents a table showing the balance sheet items used to calculate the net financial position.

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

(in millions of euro)

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

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

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

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

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

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

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

Net sales

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

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

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

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

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

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

(in thousands of euro)

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

Operating profit

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

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

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

Net income from equity investments

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

The negative balance of the first half year of 2010 mainly includes the value recognised in shareholders' equity of the shareholding in RCS Media Group S.p.A.

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

Net income

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

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

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

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

Shareholders' equity

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

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

The change is summarised below:

(in millions of euro)

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

Net financial position

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

Net of assets destined for distribution, the **net financial position of working assets** amounts to 635.1 million euro.

The net operating cash flow amounts to plus 55.6 million euro (minus 18.5 million euro in the first half of 2009), notwithstanding investments that have almost doubled compared to the same period of 2009 (135.5 million euro compared to 65.4 million euro), especially within the sphere of the production capacity growth projects.

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

(in millions of euro)

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

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

(in millions of euro)

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

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

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

(in millions of euro)

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

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

Employees

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

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

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

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

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FIRST HALF

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

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

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

OUTLOOK FOR THE CURRENT YEAR

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

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

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

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

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

PIRELLI TYRE

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

(in millions of euro)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(in millions of euro)

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

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

Consumer Business

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

(in millions of euro)	**Q1 2010**	**Q1 2009**	**Q2 2010**	**Q2 2009**	**1st half 2010**	**1st half 2009**
Net sales	780.9	670.5	835.8	701.5	1616.7	1372.0
πᴖ . 0	*16.5%*	*-10.4%*	*19.1%*	*-6.0%*	*17.8%*	*-8.2*
Gross operating profit before restructuring expenses	106.0	77.4	122.4	90.4	228.4	167.8
% of net sales	*13.6%*	*11.5%*	*14.6%*	*12.9%*	*14.1%*	*12.2%*
Gross operating profit before restructuring expenses	69.5	41.9	84.7	54.5	154.2	96.4
% of net sales	*8.9%*	*6.2%*	*10.1%*	*7.8%*	*9.5%*	*7.0%*

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

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

In the half-year, both in the **Original Equipment** channel and in the **Spare Parts** channel, business activities have recovered compared to the same period of 2009. There has been growth in the Original Equipment channel in all areas of reference, with +22% for Europe, +73% for Nafta, and +27% for Mercosur; while for Spare Parts the change has been +11% for Europe, +8% for Nafta and +20% for Mercosur.

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

Industrial Business

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

(in millions of euro)	**Q1 2010**	**Q1 2009**	**Q2 2010**	**Q2 2009**	**1st half 2010**	**1st half 2009**
Net sales	329.1	256.4	379.5	287.5	708.6	543.9
π∩ 9α	*28.4%*	*-2200.0%*	*32.0%*	*-1630.0%*	*30.3%*	*-1910.0%*
Gross operating profit before restructuring expenses	40.4	30.4	55.1	42.6	95.5	73.0
% of net sales	*12.3%*	*11.9%*	*14.5%*	*14.8%*	*13.5%*	*13.4%*
Gross operating profit before restructuring expenses	28.6	19.1	42.4	31.0	71.0	50.1
% of net sales	*8.7%*	*7.5%*	*11.2%*	*10.8%*	*10.0%*	*9.2%*

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

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

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

Outlook for the current year

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

PIRELLI ECO TECHNOLOGY

The consolidated data can be summarised as follows:

(in millions of euro)

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

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

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

The **operating profit from operations** is also negative, at minus 3.5 million euro, however this is also an improvement on the previous year's figure of minus 5.5 million euro.
Profitability of the GECAM business is negatively affected by excise duties and the concentration of net sales volumes, and although the Particulate Filters business has increased (+77% compared to the first half of 2009), the result is negative because of the saturation of the factory in Romania and the investment for starting up business in China.

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

The **net financial position** shows debt of 37.2 million euro, which is a net improvement on the 47.2 million euro at December 31, 2009, above all thanks to improved management of the working capital.

At June 30, 2010 **employees** number 282; this figure, without counting the workforce in Romania and China, is substantially in line with the figure at December 31, 2009.

GECAM – White Diesel

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

Particulate filters.

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

Outlook for the current year

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

PIRELLI BROADBAND ACCESS

The relevant data can be summarised as follows:

(in millions of euro)

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

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

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

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

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

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

Business performance

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

With regard to the portfolio of "**Networking**" products (including the Access Gateways and Extenders lines), in the first half of 2010 the results reflect the fact that the company is the first supplier to Swisscom of the new generation of the IAD product in VDSL2 technology; the company has also been selected by Telekom Austria as supplier of the same type of product.
Still within the sphere of applications for new generation ultra large band networks ("NGA" – Next Generation Access), Pirelli has been selected by Du, the operator of the Arab Emirates, for the supply of Access Gateways in fibre (FTTH) belonging to the platform produced and supplied also to Fastweb and Swisscom.
The growth trend in the high bracket of the market compensates the trend, visible in the case of other operators such as Telecom Italia, to shift the mix towards low bracket products as a result of the austere provisioning policies in the wake of the unfavourable financial situation.
However, also in the low bracket product lines we have created the conditions for maximising opportunities within the sphere of new global calls for tender, activated by the Telefonica Group, in coordination with Telecom Italia, through preparing a new product platform at low cost based on Broadcom chipset.

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

With regard to the "**Multimedia**" product portfolio, including essentially the Set-top Box (STB) lines, in the first six months of the year the profitable collaboration has continued with Ericsson, as integrator of the IPTV solution, which has led to the selection of our product by Romtelecom (the main Romanian operator), as well as the recently concluded contract with OTE in Greece.
While on the Italian front there is sluggishness on the part of Telecom Italia for the Alice Home TV service, with consequent decrease in the expected STB demand levels for 2010, the development lines for renewal of the range of hybrid models (IPTV + Digital Terrestrial, IPTV + Satellite, IPTV + Internet TV) continue in line with the market trend which is already apparent in other European countries, which the company considers as a further opportunity for outlet expansion in the medium term.

With regard to the "**Software**" products portfolio, including the embedded applications (inbuilt into the product), the backend applications (localised on remote servers to allow for interaction with the embedded applications) and the professional services, development continues, recognised by the Company as a customer retention instrument, as valid support for the overall average profitability, and added value through the involvement of new market production and distribution chains. Following the direction indicated by these advanced products, with the launching of sales planned for 2011, the project development of the new software architecture Epicentro™, embedded in the Pirelli Stacks continues, representing a new software platform for access gateways, and with the backend part representing service applications which offer, in addition to the already existing PMP ("Pirelli Management Platform"), new "Portal" applications which can generate an integrated interface accessible to the user via the television set through our Set Box Top.

Outlook for the current year

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

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

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

OTHER BUSINESSES

Other business includes the Environment segment, the PZero S.r.l. company and all the Group’s financial and services companies, including the Parent company.
In the first half of 2010, the Company’s operating profit from operations was negative, amounting to minus 21.9 million euro, compared to a loss of 15.2 million euro in the same period last year. The change is essentially due to non-repetitive costs relative to studies for defining the new organisational structure of the group and to the allocation of funds for a lawsuit linked to activities discontinued in the 1990s.

TREND OF ASSETS FROM DISCONTINUED OPERATIONS

PIRELLI & C. REAL ESTATE

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

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

Group performance in first half 2010

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

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

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

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

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

Real estate sales amount to Euro 562.1 million in the first half of 2010 (Euro 351.9 million in the first half of 2009), reporting an overall positive margin on book value. Following the imminent launch of the Anastasia Fund, year-to-date sales will rise to Euro 771.3 million. On the basis of the current trend, the Company confirms the previously announced target for real estate sales in 2010 of between Euro1.3 and Euro 1.5 billion.

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

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

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

The **net financial position** reports net debt of Euro 61.8 million at June 30th, 2010 (net debt of Euro 41.3 million at December 31st, 2009 and Euro 55.3 million at March 31st, 2010).
The net financial position, excluding shareholder loans granted, reports net debt of Euro 452.3 million, compared with Euro 445.8 million at December 31st, 2010 (and Euro 458.6 million at March 31st, 2010). Gearing (given as the ratio between net financial position, excluding shareholder loans granted, and net equity) is unchanged with respect to December 31st, 2009 at 0.7.

Divisional performance in first half 2010

ITALY

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

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

GERMANY

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

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

POLAND

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

EBIT is Euro 0.2 million compared with Euro1.6 million at June 30th, 2009. EBIT comprises Euro 0.9 million in net losses from services (- Euro 0.1 million in first half 2009) and Euro1 million in income from investment activities (Euro1.7 million in 2009).

NPL

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

EBIT is negative (Euro2.1 million) compared with Euro1 million at June 30th, 2009. EBIT comprises – Euro 0.6 million in net losses from services (- Euro 2.4 million in first half 2009) and - Euro1.5 million in net losses from investment activities (income of Euro 3.4 million in 2009).

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

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

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

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

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

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

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

HALF YEARLY REPORT ON CORPORATE GOVERNANCE AND SHARE OWNERSHIP

Pirelli & C. has adhered to the Self Regulatory Code of Borsa Italiana3 since it was first issued. In the March 2007, it formalised its adhesion to the new release of the same Code[4].

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

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

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

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

[3] Published in July 2002.
[4] Published in March 2006, an updated version of which is available on the website www.borsaitaliana.it
[5] Cf. www.pirelli.com, *Governance* section

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

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

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

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

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

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

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

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

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

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

The Company took note of the provisions of Legislative Decree 39/2010 (the so-called Consolidated Audit Law, which implemented Directive 2006/43/CE on statutory audits of the annual accounts and consolidated accounts in Italy. In particular, the Company immediately implemented the provisions that came into force after the ordinary vacatio legis6, acknowledging that the full effectiveness of many of the other provisions of the aforementioned Consolidated Law depends on the issue of implementing regulations, and that the provisions that have governed the matter up to now continued to be applied, insofar as they were compatible.

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

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

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

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

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[6] the deferment of the coming into force of a law

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

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

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

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