Half-yearly Financial Report

At June 30, 2011

PIRELLI & C. Società per Azioni

Registered office in Milan

Head office in Milan – Viale Piero e Alberto Pirelli, 25

Share capital euro 1,377,878,879.78

Milan Companies Register No. 00860340157

Administrative Business Register (REA) No. 1055

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

Half-yearly Financial Report at June 30, 2011

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Board of Directors

Chairman and Chief Executive Officer	Marco Tronchetti Provera § #
Deputy Chairman	Vittorio Malacalza § #
Deputy Chairman	Alberto Pirelli
Directors:	Carlo Acutis *^
	Anna Maria Artoni *^
	Gilberto Benetton
	Alberto Bombassei *
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	Giovanni Perissinotto
	Francesco Profumo * #
	Luigi Roth * °^§
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* Independent director
o Member of the Internal Control, Risks and Corporate Governance Committee
^ Member of the Remuneration Committee
§ Member of the Nominations Committee
\# Member of the Strategy Committee

Secretary to the Board	Anna Chiara Svelto

Board of Statutory Auditors [2]

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

General Manager

Tyre General Management	Francesco Gori

Independent Auditor [3]

Reconta Ernst & Young S.p.A.

Corporate Financial Reporting Manager [4]

Francesco Tanzi

1 Appointment: April 21, 2011. Expiry: Shareholders' Meeting called to approve the financial statements at December 31, 2013.
2 Appointment: April 21, 2009. Expiry: Shareholders' Meeting called to approve the financial statements at December 31, 2011.
3 Post conferred by the Shareholders' Meeting held on April 29, 2008.
4 Appointment: post conferred by the Board of Directors meeting held on April 21, 2011. Expiry: Shareholders' Meeting called to approve the financial statements at December 31, 2013.

The General Meeting of Savings Shareholders held on January 28, 2009 appointed Mr Giovanni Pecorella as their Joint Representative for the three-year period 2009-2011.
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OVERVIEW OF GROUP PERFORMANCE

The accounts for 2010 have been reclassified in order to show the activities related to Pirelli RE and Pirelli Broadband Solutions as discontinued operations as these businesses were sold in 2010.

Pirelli Group **operating results at June 30, 2011** confirmed the continuous growth and improvement of all operating indicators. These improvements were driven by the effective mix component, with progressive concentration of sales in the Premium segment, and the price component, which offset the increase in raw material costs. Continuous cost efficiency gains further boosted these positive results, against the backdrop of a market sustained by growing demand in the tyre sector, which represents 99% of Group sales.

Total **net sales** totalled euro 2,789.3 million, up 17.7% from H1 2010.

Operating income was euro 290.1 million, up more than 50% from June 30, 2010. The return on sales ("ROS", equal to the ratio of operating income to sales) was 10.4%, up more than 2 percentage points from the same period a year earlier.

Second quarter operating results continued the growth trend previously reported in Q1 2011, with sales of euro 1,388.4 million (+12.5%) and operating income of euro 146.8 million (compared with euro 104.3 million in Q2 2010). In Q2 2011, ROS was 10.6% (8.5% in the same period of 2010).

Consolidated net income at June 30, 2011 totalled euro 158.8 million, which more than doubled from euro 77.0 million on a like-for-like basis (before discontinued operations) in H1 2010. Then the consolidated net loss was euro 175.6 million, including the negative euro 252.6 million impact on discontinued operations, resulting principally from the assignment of Prelios shares.

The **net financial position at June 30, 2011** was a negative euro 778.9 million, compared with a negative euro 712.8 million at March 31, 2011 and a negative euro 455.6 million at December 31, 2010.

Net cash flow in Q2 2011 was a negative euro 66.1 million, impacted mainly by payment of the euro 81.1 million Parent company dividend.

Total net cash flow in H1 2011, negative euro 323.3 million, was affected not only by the dividend payout but also by investments in property, plant and equipment and intangible assets totalling euro 234.1 million (euro 135.4 million in H1 2010). This was consistent with the forecast made in the business plan and the negative seasonal impact of net working capital, although this contracted in Q2 2011.

The sales and profitability growth trend of **Pirelli Tyre**, the core business that accounts for 99% of Group sales, was confirmed in line with strategic business plan targets.

At June 30, 2011 **net sales** totalled euro 2,760.9 million, up 19.4% on a like-for-like basis from the same period of 2010, of which 15.9% was accounted for by the price/mix component while the volume component added another 3.5%.

In Q2 2011 net sales, totalled euro 1,376.4 million, growing on a like-for-like basis by 17.0%. Volumes grew by 1.2% and the price/mix component was a positive 15.8%. The exchange rate effect was a negative 3.7%.

Growth was strong in both business segments, with the **Consumer** segment reporting sales growth of 21.1% at June 30, 2011 from a year earlier and before recognising the exchange rate effect, while the **Industrial** segment reported a year on year increase of 15.4%, again on a like-for-like basis and before the exchange rate effect.

Operating income at June 30, 2011 was euro 312.5 million, compared with euro 217.3 million at June 30, 2010, with profitability of 11.3% as compared with 9.3% at June 30, 2010.
The results for the two business segments grew, increasing at a faster rate in the **Consumer** segment, which rose from euro 147.3 million in H1 2010 (ROS 9.1%) to euro 241.1 million at June 30, 2011 (ROS 12.4%). Industrial segment operating income was euro 71.4 million, compared with euro 70.0 million at June 30, 2010. **Industrial** segment ROS stood at 8.7%, down 1.2 percentage points from June 30, 2010.

Net cash flows used in operating activities totalled a negative euro 87.5 million in H1 2011, due to investments in property, plant and equipment and intangible assets of euro 228.3 million (ratio of 2.1 to depreciation). The negative impact stemmed from the typically seasonal nature of net working capital, although this specific item was down from its level in Q1 2011.

Pirelli resumed participation in the Formula 1 world championship during H1 2011, on the basis of an agreement signed in June 2010 that designated it as exclusive supplier for the 2011-2013 seasons. Construction of a new plant in Mexico also got underway, in fulfilment of the 2011-2013 Business Plan that calls for expanding production capacity, especially for NAFTA area markets. The plant in Mexico will be dedicated to making Premium segment tyres.

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

The **net income** of Pirelli & C. S.p.A. at June 30, 2011 was a positive euro 153.6 million, compared with a net loss of euro 27.1 million in H1 2010 (which included the negative impact of euro 167.1 million resulting from assignment of the shares in Prelios S.p.A.). The H1 2011 result essentially consists of dividends received from Group companies. In comparison with the previous year, it also benefits from revision of the royalties for use of the brand by Pirelli Tyre S.p.A., which rose from 0.7% to 1,0%.

Equity at June 30, 2011 totalled euro 1,657.9 million (including euro 1,343.3 million for share capital), compared with euro 1,584.6 million at December 31, 2010.

Confirming the key role played by the tyre business and in view of supporting the capital expenditure plans laid out in the 2011-2013 business plan, the Parent Pirelli & C. S.p.A. carried out a euro 500 million capital increase in favour of its subsidiary Pirelli Tyre S.p.A..

SIGNIFICANT EVENTS IN THE FIRST HALF OF THE YEAR

On **January 13, 2011** Pirelli & C. S.p.A. sold its investment in the associate CyOptics Inc. (34.41% shareholding) for USD 23.5 million.

On **February 10, 2011** Pirelli & C. S.p.A. successfully concluded its placement of an unrated bond issue worth a nominal euro 500 million with international institutional investors on the Eurobond market. This issue was enthusiastically received by investors, with requests totalling more than euro 4.5 billion, or over nine times the amount offered. More than 93% of the bond issue was placed with foreign investors. The placement, executed in accordance with the Pirelli & C. Board of Directors resolution of July 29, 2010, is one of the actions being taken to streamline the Group debt structure by lengthening the average duration of debt and diversifying funding sources. The notes have the following characteristics:

- issuer: Pirelli & C. S.p.A.
- guarantor: Pirelli Tyre S.p.A.
- amount: euro 500 million
- settlement date: February 22, 2011
- maturity: February 22, 2016
- coupon: 5.125%
- issue price: 99.626%
- redemption price: 100%
- minimum denomination: euro 100 thousand and additional multiples of euro 1000.

The effective yield at maturity is 5.212%, corresponding to a yield of 230 basis points over the corresponding reference rate (mid-swap). The notes are listed on the Luxembourg Stock Exchange. The placement was handled by Barclays Capital, acting as global coordinator, Banca IMI, Mediobanca, SG CIB and Unicredit as joint bookrunners.

On **March 29, 2011,** Pirelli presented the Cinturato P1, the new high-tech green tyre designed for small and mid-sized vehicles, which provides lower fuel consumption, respect for the environment, and high performance on all surfaces. The Cinturato P1, which is to be launched subsequently also in Latin America and Asia, will be available on the European Replacement channel by the end of 2011 (14" and 16" sizes) and has already been chosen by BMW as original equipment, including the “runflat” version. Cinturato P1 extends Pirelli’s green range, which was inaugurated three years ago with the Cinturato P4 and P6 for city cars and compacts and was then further enhanced with the P7 for medium and high-powered vehicles. Cinturato P1 has been created in accordance with the cutting-edge design standards previously tested and perfected with the Cinturato P7, which has passed the leading tests conducted by the leading European certifying bodies and by the most authoritative automotive magazines. Cinturato P1 was developed at Pirelli’s research and development centre in Milan, at the very heart of Pirelli technology, which is also where the company designs its Formula 1 tyres. This new tyre embodies the environmental experience acquired by Pirelli with its Green Performance technology and continuous testing to ensure top safety performance.

As such, the very DNA of the Cinturato P1 embodies the green features of the Cinturato and of the Scorpion Verde, the green tyre designed for SUVs and crossovers, as well as the technology designed for the PZero family of tyres

The Cinturato P1 has been designed to comply with the latest European regulations in anticipation of the arrival of the new labelling in 2012. By reducing the weight of the tyre by 15% and using innovative technology, the latest edition to the Cinturato family reduces rolling resistance by up to 25%. The Cinturato P1 is also green in that it reduces ambient noise by 1.5 dB and noise within the vehicle by 1 dB, thereby ensuring greater comfort and driving pleasure. Ecology meets advanced technology in the P1, and the new tyre is even available in runflat versions for certain sizes to ensure the continued mobility of cars equipped with them.

The extraordinary shareholders meeting held on **April 21, 2011** approved a voluntary reduction in share capital of euro 32,498,345.12, pursuant to Article 2445 Italian Civil Code, to be charged to equity. This reduction completed the assignment of Prelios S.p.A. (formerly Pirelli RE S.p.A.) shares executed in 2010, and had no impact on Group equity, since the amount of the reduction in equity was designed to eliminate the negative reserve accrued upon conclusion of the assignment process. It is expected that the reduction in share capital may be completed by next August, upon expiry of current statutory deadlines.

GROUP: selected economic and financial data

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

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

- **Gross Operating Profit (EBITDA):** this financial measure is used by the Group as a financial target for internal presentations (e.g. business plans) and external presentations to analysts and investors. It is a useful unit of measurement to assess the overall operating performance of the Group and its individual business segments in addition to operating income. Gross operating profit is an intermediate economic measure deriving from operating income, but excluding depreciation and amortisation of property, plant and equipment and amortisation of intangible assets;
- **Non-current assets:** this measure is the sum of “property, plant and equipment,” “intangible assets,” “investments in associates” and “other financial assets”;
- **Provisions:** this measure is the sum of “provisions for liabilities and charges (current and non-current),” “provisions for employee benefits” and “provisions for deferred tax liabilities”;
- **Net working capital:** this measure consists of all items not included in the two measures above, in “Equity” and “net financial (liquidity)/debt position”;
- **Net financial (liquidity)/debt position:** this measure is represented by gross financial debt less cash and cash equivalents and other financial receivables. The section “Explanatory notes to the condensed interim financial statements” presents a table showing the line items used to calculate this measure.

Consolidated financial highlights for the Group are illustrated as follows:

(in millions of euro)

	06/30/2011	06/30/2010	12/31/2010
Net sales	**2,789.3**	**2,369.0**	**4,848.4**
Gross operating profit before restructuring expenses	410.9	305.2	653.7
% of net sales	14.7%	12.9%	13.5%
Operating income/(loss) before restructuring expenses	297.8	199.8	432.5
% of net sales	10.7%	8.4%	8.9%
Restructuring expenses	(7.7)	(7.9)	(24.7)
Operating income	**290.1**	**191.9**	**407.8**
% of net sales (ROS)	10.4%	8.1%	8.4%
Net income/(loss) from equity investments	0.9	(4.0)	23.4
Financial income/(expenses)	(44.7)	(40.6)	(65.8)
Net income/(loss) before income tax	**246.3**	**147.3**	**365.4**
Income tax	(87.5)	(70.3)	(137.4)
Tax rate %	35.5%	47.7%	37.6%
Net income/(loss) from continuing operations	**158.8**	**77.0**	**228.0**
Net income/(loss) from discontinued operations	**-**	**(252.6)**	**(223.8)**
Total net income/(loss)	**158.8**	**(175.6)**	**4.2**
Total net income/(loss) attributable to owners of Pirelli & C. S.p.A.	161.7	(165.5)	21.7
Total net earnings per share attributable to the owners of Pirelli & C. S.p.A. (in euro)*	0.331	(0.339)	0.044
Non-current assets	3,203.0	3,022.3	3,164.1
Net working capital	402.4	296.5	116.7
Net invested capital	**3,605.4**	**3,318.8**	**3,280.8**
Net invested capital of discontinued operations		**557.6**	**-**
Total net invested capital	**3,605.4**	**3,876.4**	**3,280.8**
Equity	**2,047.2**	**2,316.3**	**2,028.0**
Provisions	779.3	803.1	797.2
Provisions of discontinued operations	-	60.1	-
Net financial (liquidity)/debt position	**778.9**	**659.4**	**455.6**
Net financial (liquidity)/debt position - discontinued operations	**-**	**37.5**	**-**
Equity attributable to owners of Pirelli & C. S.p.A.	2,013.6	2,004.9	1,990.8
Equity per share attributable to owners of Pirelli & C. S.p.A. (in euro) *	4.126	4.108	4.080
Investments in property, plant and equipment and intangible assets	234.1	135.4	438.6
Research and development expenses	84.9	70.8	149.7
% of net sales	3.0%	3.0%	3.1%
Employees (number at end of period)	31,643	30,989	29,573
Industrial sites (number)	20	21	20
Pirelli & C. S.p.A. shares			
Ordinary shares (number in millions)	475.7	5,233.1	475.7
of which treasury shares	0.4	3.9	0.4
Savings shares (number in millions)	12.3	134.8	12.3
of which treasury shares	0.4	4.5	0.4
Total shares (number in millions)	**488.0**	**5,367.9**	**488.0**

* The equity per share attributable to owners of the Company in June 30, 2010 has been restarted on a comparable basis after the reverse stock split pursuant to the General Meeting resolution of July 15, 2010

To facilitate understanding of Group performance, the income data and net financial (liquidity)/debt position are presented below, broken down by business segment.

(in millions of euro)

	Tyre		Other businesses (*)		Total	
	H1 2011	H1 2010	H1 2011	H1 2010	H1 2011	H1 2010
Net sales	**2,760.9**	**2,325.3**	**28.4**	**43.7**	**2,789.3**	**2,369.0**
Gross operating profit before restructuring expenses	427.9	323.9	(17.0)	(18.7)	410.9	305.2
Operating income/(loss) before restructuring expenses	320.2	225.2	(22.4)	(25.4)	297.8	199.8
Restructuring expenses	(7.7)	(7.9)	-	-	(7.7)	(7.9)
Operating income/(loss)	**312.5**	**217.3**	**(22.4)**	**(25.4)**	**290.1**	**191.9**
% of net sales	*11.3%*	*9.3%*			*10.4%*	*8.1%*
Net income/(loss) from equity investments	(0.7)	0.4	1.6	(4.4)	0.9	(4.0)
Financial income/(expenses)	(47.0)	(38.7)	2.3	(1.9)	(44.7)	(40.6)
Net income/(loss) before taxes	**264.8**	**179.0**	**(18.5)**	**(31.7)**	**246.3**	**147.3**
Income tax	(102.0)	(68.6)	14.5	(1.7)	(87.5)	(70.3)
tax rate %	*38.5%*	*38.3%*			*35.5%*	*47.7%*
Net income/(loss) from continuing operations	**162.8**	**110.4**	**(4.0)**	**(33.4)**	**158.8**	**77.0**
Net income/(loss) from discontinued operations					**-**	**(252.6)**
Net income/(loss)					**158.8**	**(175.6)**
Net financial (liquidity)/debt position of continuing operations	**963.9**	**1,212.9**	**(185.0)**	**(553.5)**	**778.9**	**659.4**
Net financial (liquidity)/debt position of discontinued operations					-	**37.5**
Net financial (liquidity)/debt position					**778.9**	**696.9**

(*) This item includes the Pirelli Ecotechnology Group, the Pirellli Ambiente Group, PZero S.r.l., all holding companies (including the Parent), the other service companies and, for the item "net sales", elimination of intercompany transactions.

Net sales

Net sales at June 30, 2011 totalled euro 2,789.3 million, of which 98.9% were generated by the Tyre business, and were up 17.7 % from H1 2010.

Net sales in Q2 2011 totalled euro 1,388.4 million, up 12.5% from the same period of 2010, when they totalled euro 1,234.0 million.

Operating income

Operating income before restructuring expenses at June 30, 2011 was euro 297.8 million, compared with euro 199.8 million at June 30, 2010, for an increase of 49%.

The **restructuring expenses** (euro 7.7 million, compared with euro 7.9 million) referred to the Tyre business and mainly reflected continued streamlining programmes underway in Europe.

Operating income (EBIT) at June 30, 2011 totalled euro 290.1 million, compared with euro 191.9 million in H1 2010 (+51.2%), for a ROS of 10.4% as opposed to 8.1% in H1 2010. The growth was substantially attributable to the improved results of the Tyre business.

Operating income (EBIT) in Q2 2011 totalled euro 146.8 million, compared with euro 104.3 million in the same period of 2010 (+40.7%). The ROS was 10.6%, compared with 8.5% in 2010.

The changes in net sales and operating income in each quarter are illustrated as follows:

(in millions of euro)

	Q1		**Q2**		**H1**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Net sales	1,400.9	1,135.0	1,388.4	1,234.0	2,789.3	2,369.0
Operating income	143.3	87.6	146.8	104.3	290.1	191.9
% of net sales	10.2%	7.7%	10.6%	8.5%	10.4%	8.1%

Net income/(loss) from equity investments

Net income from equity investments for at June 30, 2011, in the amount of euro 0.9 million, refers mainly to the gain on the sale of the entire stake held in Gruppo Banca Leonardo S.p.A..

Net income/(loss)

Consolidated net income at June 30, 2011 totalled euro 158.8 million, compared with a consolidated net loss of euro 175.6 million in H1 2010. That result reflected the negative impact of discontinued operations, principally associated with the assignment of Prelios S.p.A. shares. **Net income before discontinued operations at June 30, 2010** was euro 77.0 million. The like-for-like figure at June 30, 2011 was more than double the H1 2010 result.

The tax rate also improved, falling from 47.7% in H1 2010 to 35.5% in H1 2011. This reflected an improved mix of countries that generate profits and tax losses carried forward.

Net financial expenses increased from euro 40.6 million at June 30, 2010 to euro 44.7 million in H1 2011. This was partially affected by growth in the average cost of debt in consequence of the 2011-2016 bond issue. However, that same bond issue improved the Group’s financial structure by lengthening maturities and diversifying sources of financing.

The **share of net income attributable to owners Pirelli & C. S.p.A.** at June 30, 2011 was a positive euro 161.7 million (euro 0.331 per share), compared with the negative euro 165.5 million in H1 2010 (negative euro 0.339 per share).

Equity

Consolidated Equity rose from Euro 2,028.0 million at December 31, 2010 to euro 2,047.2 million at June 30, 2011.

Equity attributable to owners of Pirelli & C. S.p.A. at June 30, 2011 was euro 2,013.6 million (euro 4.126 per share), compared with euro 1,990.8 million at December 31, 2010 (euro 4.080 per share).

The change is summarised as follows:

(in millions of euro)

	Group	Non-controlling interests	Total
Equity at 12/31/2010	**1,990.8**	**37.2**	**2,028.0**
Translation differences	(63.4)	(3.0)	(66.4)
Net income/(loss) for the period	161.7	(2.9)	158.8
Adjustment to fair value of other financial assets/derivative instruments	7.1	-	7.1
Other changes to items recognised in Equity	(0.8)	-	(0.8)
Actuarial gains/(losses) on employee benefits	(9.7)	-	(9.7)
Dividends paid	(81.1)	(2.4)	(83.5)
Venezuela inflation effect	9.2	0.4	9.6
Capital increases	-	4.4	4.4
Other changes	(0.2)	(0.1)	(0.3)
Total changes	**22.8**	**(3.6)**	**19.2**
Equity at 06/30/2011	**2,013.6**	**33.6**	**2,047.2**

Net financial (liquidity)/debt position

The Group's negative net financial position slipped from euro 455.6 million at December 31, 2010 to euro 778.9 million at June 30, 2011, with net negative cash flow of euro 323.3 million, after paying euro 83.5 million in dividends (of which euro 81.1 million by the Parent).

Compared with the net financial position at March 31, 2011 (euro 712.8 million), net cash flow was negative for euro 66.1 million, including euro 82.8 million for payment of dividends.

Operating cash flow in Q2 2011 was positive for euro 88.4 million, with a positive contribution made by net working capital as compared with Q1 2011.

The change during the period is summarised by the following statement of cash flows:

(in millions of euro)

	Q1		Q2		H1	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Operating income/(loss) before restructuring expenses	146.5	90.2	151.3	109.6	297.8	199.8
Amortisation and depreciation	56.9	51.7	56.2	53.7	113.1	105.4
Investments in property, plant and equipment and intangible assets	(96.9)	(50.2)	(137.2)	(85.2)	(234.1)	(135.4)
Changes in working capital/other	(313.5)	(143.2)	18.1	42.2	(295.4)	(101.0)
Operating cash flow	**(207.0)**	**(51.5)**	**88.4**	**120.3**	**(118.6)**	**68.8**
Financial income/(expenses)	(14.8)	(17.6)	(29.9)	(22.9)	(44.7)	(40.5)
Income tax	(47.9)	(30.4)	(39.6)	(40.0)	(87.5)	(70.4)
Ordinary net cash flow	**(269.7)**	**(99.5)**	**18.9**	**57.4**	**(250.8)**	**(42.1)**
Financial investments/divestments	24.4	-	-	-	24.4	-
Dividends paid by Parent	-	-	(81.1)	(81.1)	(81.1)	(81.1)
Other dividends paid	(0.7)	-	(1.7)	(4.0)	(2.4)	(4.0)
Cash out for restructuring expenses	(2.8)	(34.0)	(5.7)	(9.9)	(8.5)	(43.9)
Net cash flow of discontinued operations	-	(26.1)	-	(5.8)	-	(31.9)
Foreign exchange differences/other	(8.4)	10.0	3.5	24.9	(4.9)	34.9
Net cash flow	**(257.2)**	**(149.6)**	**(66.1)**	**(18.5)**	**(323.3)**	**(168.1)**

The following table breaks down the net financial (liquidity)/debt position by business segment:

(in millions of euro)

	Tyre		Other businesses		Corporate		Consolidated	
	06/30/2011	12/31/2010	**06/30/2011**	12/31/2010	**06/30/2011**	12/31/2010	**06/30/2011**	12/31/2010
Gross debt	1,391.3	1,613.6	91.9	83.3	708.4	123.0	1,400.5	1,147.0
of which due to Corporate	696.1	589.6	83.2	83.3				
Financial receivables	(114.7)	(98.3)	(5.1)	(4.8)	(932.3)	(806.7)	(261.0)	(236.9)
of which receivable from Prelios S.p.A.					(150.0)	(140.4)	(150.0)	(140.4)
Cash, cash equivalents, securities held for trading	(312.7)	(405.4)	(3.6)	(6.6)	(44.3)	(42.5)	(360.6)	(454.5)
Net financial (liquidity)/debt position	**963.9**	1,109.9	**83.2**	71.9	**(268.2)**	(726.2)	**778.9**	**455.6**

The column "Other businesses" includes Pirelli & C. Eco Technology, Pirelli & C. Ambiente and PZero.

The structure of gross debt is broken down by type and maturity as follows:

(in millions of euro)

	Financial Statements 06/30/2011	Maturity date			
		2011	2012	2013	2014 and beyond
Use of committed credit facilities	90.0	-	-	-	90.0
Bond 5.125% - 2011/2016	500.0	-	-	-	500.0
Other financing	810.5	219.0	145.8	85.9	359.8
Total gross debt	**1,400.5**	**219.0**	**145.8**	**85.9**	**949.8**
		15.6%	10.4%	6.1%	67.9%

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FIRST HALF

On **July 5, 2011** Pirelli acquired 15% of the company Pirelli Tyre Co. Ltd from the minority shareholder for Yuan Renminbi 256 million, or about euro 28 million. This share purchase, made in view of reinforcing the Group's business in China, raised its shareholding to 90%.

On **July 7, 2011** Pirelli Ambiente, acting through its subsidiary Solar Utility S.p.A., acquired a 16.9% shareholding in GWM Renewable Energy II S.p.A. (Gwm RE II), the vehicle that controls the renewable energy activities of the GWM Group. The other shareholders are Intesa Sanpaolo Group, with a shareholding of 12.5%, and GWM Renewable Energy I, which owns the remaining 70.6%.
Pirelli Ambiente will consequently participate in an international project in the renewable energy sector. GWM RE II aims to become a major European player in the renewable energy sector. The company already controls 42 Megawatt of photovoltaic power generation in Italy and Spain and another 222 Megawatt of wind power generation capacity currently installed in four European countries. It also has 52 Megawatt of capacity under construction, operating through the Danish company Greentech, which owns about 20% of the capital.
Acquisition of this equity interest by Solar Utility S.p.A., at a total price of about euro 25 million, including euro 10 million in cash and the remainder coming from reinvestment of the sale proceeds of its shareholding in GP Energia S.p.A., a joint venture established last year with the GWM Group, to which Solar Utility S.p.A. had contributed its own photovoltaic activities. The agreement is part of the project to simplify the equity investments of Pirelli Ambiente and identify strategic partners for the development of its activities and enhancement of its know-how through non-controlling interests.

On **July 25, 2011** Pirelli, Russian Technologies and Sibur Holding signed an agreement that lists the assets to be transferred to the new joint venture between Pirelli and Russian Technologies. This joint venture will be the principal entity responsible for management of the activities that can be converted back to Pirelli standards in the car and light truck sector in Russia, pursuant to the memorandum of understanding (MOU) signed on November 26, 2010. In particular, the agreement envisages the transfer of the Kirov plant by November 2011. This plant is currently capable of producing over 7 million units in the car and light truck sector. The agreement also defines the commitment to transfer additional assets that are expected to raise the production capacity of the joint venture to 11 million units by 2014. These assets will be transferred in exchange for a total consideration of euro 222 million, with the obligation being split between the partners in proportion to their shareholdings and an outlay of euro 55 million in 2011 and euro 167 million in 2012. The Pirelli branded product may account for up to 50% of installed capacity (about 11 million units total). The joint venture will produce winter tyres for the replacement market, with a special focus on studdable tyres to meet demand in the Russian and CIS area markets. The joint venture will have a market share of about 20%. The joint venture is forecast to generate sales of about euro 300 million in 2012, growing to over euro 500 million in 2014. That growth would be realised partly through capital expenditure totalling euro 200 million for the transformation and expansion of production capacity between 2012 and 2014. Once the start-up phase has been completed, it is expected that profitability will reach double-digit rates from 2013. The agreements made for the new joint venture between Russian Technologies and Pirelli allow the latter to increase its equity investment from 50% to 75% through a three-year put and call option. The joint venture will be consolidated by Pirelli at the time of the acquisition, partly in accordance with the existing management agreement.

BUSINESS OUTLOOK

The positive demand trend, together with continuous efficiency gains and effective improvements made to the price/mix component, allow Pirelli to revise its earnings target (EBIT after restructuring/sales expenses) for the current year upward from the forecast published last May, upon presentation of the results for Q1 2011. This upward revision is attributable in particular to the positive results generated by the focus on Premium segment products and the slowdown in raw material price rises as compared with the forecasts made last May. Barring currently unforeseeable events, Pirelli now forecasts that its consolidated earnings growth will be in the range of 9.5%-10% (8.5%-9.5% previously) and that the earnings growth of Pirelli Tyre will be in the range of 10%-11% (9%-10% previously). The earnings forecast is confirmed as being "more than euro 5.85 billion" at the consolidated level and “more than euro 5.8 billion” for Pirelli Tyre, with the volume component growing by more than 5% (the previous forecast was for volume growth topping 6%) and the price/mix component growing more than 16% (compared with about 15% in the previous forecast). The net financial position is confirmed to be approximately negative for euro 700 million, excluding the investment in Russia.

PIRELLI TYRE

The consolidated results for H1 2011 as compared with those of the same period of 2010 are highlighted in the following table:

(in millions of euro)

	06/30/2011	06/30/2010	12/31/2010
Net sales	**2,760.9**	**2,325.3**	**4,772.0**
Gross operating profit before restructuring expenses	427.9	323.9	684.3
% of net sales	15.5%	13.9%	14.3%
Operating income before restructuring expenses	320.2	225.2	476.3
% of net sales	11.6%	9.7%	10.0%
Restructuring expenses	(7.7)	(7.9)	(23.2)
Operating income	**312.5**	**217.3**	**453.1**
% of sales	11.3%	9.3%	9.5%
Net income/(loss) from equity investments	(0.7)	0.4	0.3
Financial income/(expenses)	(47.0)	(38.7)	(66.4)
Net income/(loss) before taxes	**264.8**	**179.0**	**387.0**
Income tax	(102.0)	(68.6)	(134.4)
Tax rate	38.5%	38.3%	34.7%
Net income/(loss)	**162.8**	**110.4**	**252.6**
% of net sales	5.9%	4.7%	5.3%
Net financial (liquidity)/debt position	**963.9**	**1,212.9**	**1,109.9**
Net operating cash flow	(87.5)	96.6	368.5
Investments in property, plant and equipment and intangible assets	228.3	132.1	405.0
Employees (number at end of period)	30,973	29,048	28,865
Industrial sites (number)	19	20	19

Net sales at June 30, 2011 totalled euro 2,760.9 million, up 18.7% from the euro 2,325.3 million reported for the same period a year earlier.

The change on a like-for-like basis in H1 2011 showed a 19.4% increase from the same period a year earlier, with positive contributions being made both by the volume component (+3.5%) and the price/mix component (+15.9%). The foreign exchange effect was a negative 0.7%.

Net sales in Q2 2011 totalled euro 1,376.4 million, up 13.3% from euro 1,215.3 million in Q2 2010. The like-for-like change was an increase of 17.0%. That change reflected growth in both components analysed: volumes up by 1.2% and the price/mix component up by 15.8%.

The foreign exchange effect was a negative 3.7%.

Both business segments reported higher net sales: the Consumer segment showed a positive change of 20.1% in H1 2011 (inclusive of -1.0% due to the exchange rate effect) and the Industrial segment a positive change of 15.5% (inclusive of +0.1% for the exchange rate effect).

A summary of the change in net sales is illustrated as follows:

	Q1		**Q2**		**H1**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Volume	6.1%	17.4%	1.2%	7.5%	3.5%	12.3%
Price/Mix	15.9%	1.4%	15.8%	10.1%	15.9%	5.9%
Change on a like-for-like basis	**22.0%**	**18.8%**	**17.0%**	**17.6%**	**19.4%**	**18.2%**
Foreign exchange effect	2.7%	1.0%	-3.7%	5.3%	-0.7%	3.2%
Total change	**24.7%**	**19.8%**	**13.3%**	**22.9%**	**18.7%**	**21.4%**

Net sales grew in all geographical areas, with a lower rate in the MEA area, in consequence of the political crises affecting north Africa.

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

Geographical area

	H1 2011			H1 2010
	Euro\mln	*Δ yoy*		
Italy	267.9	*39%*	10%	8%
Rest of Europe	884.7	*19%*	32%	32%
Nafta	287.8	*21%*	10%	10%
Central and South America	918.9	*17%*	33%	34%
Asia/Pacifico	168.0	*20%*	6%	6%
Middle East/Africa	233.6	*4%*	9%	10%
Total	**2,760.9**	***19%***	**100%**	**100%**

Product

	H1 2011			H1 2010
	Euro\mln	*Δ yoy*		
Car tyres	1,697.4	*21%*	61%	60%
Motovelo tyres	244.8	*13%*	9%	10%
Consumer	***1,942.2***	***20%***	***70%***	***70%***
Industrial vehicle tyres	753.3	*15%*	28%	28%
Steelcord	65.4	*26%*	2%	2%
Industrial	***818.7***	***16%***	***30%***	***30%***

Gross operating profit before restructuring expenses at June 30, 2011 was euro 427.9 million (15.5% of net sales), up 32.1% from H1 2010, when it totalled euro 323.9 million (13.9% of net sales). In **Q2 2011** this item totalled euro 218.4 million, compared with euro 177.5 million in Q2 2010 (+23.0%).

Operating income before restructuring expenses at June 30, 2011 was euro 320.2 million (11.6% of net sales), up 42.2% from H1 2010, when it totalled euro 225.2 million (9.7% of net sales).

In **Q2 2011** this item totalled euro 164.6 million, compared with euro 127.1 million in Q2 2010.

Operating income at June 30, 2011 totalled euro 312.5 million (+43.8% from the same period the previous year), with a ROS of 11.3%, as compared with 9.3% in H1 2010. The factors contributing to this performance were principally the following:

- the positive impact of commercial variables, especially the price/mix component, partially in consequence of the strategic shift of products towards the Premium segment, which managed to outpace the growth in raw material costs during both quarters;
- the increased cost of raw materials, whose effects were exacerbated in Q2 2011, with an aggregate impact of about euro 212 million;
- continuous industrial efficiency gains, partially the result of operating at nearly full capacity.

The breakdown of changes from the individual periods of the previous year is illustrated as follows:

(in millions of euro)

	Q1	Q2	H1
Operating income 2010	**95.5**	**121.8**	**217.3**
Foreign exchange effect	2.5	(5.5)	(3.0)
Price/mix	128.1	154.3	282.4
Volumes	28.7	8.8	37.5
Cost of production factors (raw materials)	(81.8)	(129.7)	(211.5)
Cost of production factors (labour/energy/other)	(13.4)	(15.8)	(29.2)
Efficiency	15.6	22.1	37.7
Depreciation, amortisation and other	(22.2)	3.3	(18.9)
Restructuring expenses	(0.6)	0.8	0.2
Change	**56.9**	**38.3**	**95.2**
Operating income 2011	**152.4**	**160.1**	**312.5**

The principal indicators of earnings performance during each quarter as compared with the corresponding periods of the previous year are illustrated in this table:

(in millions of euro)

	Q1		Q2		H1	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Net sales	1,384.5	1,110.0	1,376.4	1,215.3	**2,760.9**	**2,325.3**
↗ yoy	*24.7%*	*19.8%*	*13.3%*	*22.9%*	***18.7%***	***21.4%***
Gross operating profit before restructuring expenses	209.5	146.4	218.4	177.5	**427.9**	**323.9**
% of net sales	*15.1%*	*13.2%*	*15.9%*	*14.6%*	***15.5%***	***13.9%***
Operating income before restructuring expenses	155.6	98.1	164.6	127.1	**320.2**	**225.2**
% of net sales	*11.2%*	*8.8%*	*12.0%*	*10.5%*	***11.6%***	***9.7%***
Operating income	152.4	95.5	160.1	121.8	**312.5**	**217.3**
% of net sales (ROS)	*11.0%*	*8.6%*	*11.6%*	*10.0%*	***11.3%***	***9.3%***

Net income at June 30, 2011 totalled euro 162.8 million (net of financial expenses of euro 47.7 million and income taxes of euro 102.0 million). This compares with net income of euro 110.4 million a year earlier (net of financial expenses of euro 38.3 million and income taxes of euro 68.6 million) in the same period of 2010.
The tax rate in H1 2011 was 38.5%, compared with 38.3% in June 2010.

The **net financial position** was negative for euro 963.9 million, compared with euro 1,109.9 million at December 31, 2010. The Parent was paid dividends of euro 120.0 million during H1 2011, which were offset by the euro 500 million capital increase received by the Parent in support of the capital expenditure plans set out in the 2011-2013 business plan.

During H1 2011 net cash flow used in operating activities totalled a negative euro 87.5 million. This compared with a positive euro 96.6 million in H1 2010. The 2011 figure was affected by the near doubling in capital expenditure from 2010, in line with business plan targets, and the seasonal performance of net working capital at higher absolute values than those reported for the growth in the value of net sales.

Net cash flow provided by operating activities in Q2 2011 totalled a positive euro 89.1 million.

The following table breaks down the components of cash flow during the period:

(in millions of euro)

	Q1		Q2		H1	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Operating income (EBIT) before restructuring expenses	155.6	98.1	164.6	127.1	320.2	225.2
Amortisation and depreciation	53.9	48.3	53.8	50.4	107.7	98.7
Investments in property, plant and equipment and intangible assets	(94.5)	(47.6)	(133.8)	(84.5)	(228.3)	(132.1)
Changes in working capital/other	(291.6)	(132.2)	4.5	37.0	(287.1)	(95.2)
Operating cash flow	**(176.6)**	**(33.4)**	**89.1**	**130.0**	**(87.5)**	**96.6**
Financial expenses/income tax	(63.6)	(45.6)	(85.4)	(61.7)	(149.0)	(107.3)
Ordinary net cash flow	**(240.2)**	**(79.0)**	**3.7**	**68.3**	**(236.5)**	**(10.7)**
Other dividends paid	(0.7)	-	(1.7)	(3.8)	(2.4)	(3.8)
Cash out for restructuring expenses	(1.8)	(22.2)	(5.7)	(8.3)	(7.5)	(30.5)
Foreign exchange differences/other	(6.4)	6.0	18.8	9.4	12.4	15.4
Net cash flow before payment of dividends to Parent	**(249.1)**	**(95.2)**	**15.1**	**65.6**	**(234.0)**	**(29.6)**
Dividends paid to Parent	-	-	(120.0)	(156.0)	(120.0)	(156.0)
Capital increase by Parent	-	-	500.0	-	500.0	-
Net cash flow	**(249.1)**	**(95.2)**	**395.1**	**(90.4)**	**146.0**	**(185.6)**

Total headcount at June 30, 2011 was 30,973 employees, compared with 28,865 employees at December 31, 2010. The growth in headcount resulted principally from increased employment of blue collar workers (+1,970 employees). That increase resulted in turn from growing production volumes in China, Romania and South America and normal seasonal factors in Germany and Turkey, aimed at maintaining constant production volumes during summer holiday periods.

Consumer Business

The table below shows the performance for H1 2011 compared with the same period of the previous year:

(in millions of euro)

	Q1		Q2		H1	
	2011	2010	2011	2010	**2011**	**2010**
Net sales	983.3	780.9	958.9	835.8	**1,942.2**	**1,616.7**
Δ yoy	*25.9%*	*16.5%*	*14.7%*	*19.1%*	***20.1%***	***17.8%***
Gross operating profit before restructuring expenses	160.6	106.0	169.7	122.4	**330.3**	**228.4**
% of net sales	*16.3%*	*13.6%*	*17.7%*	*14.6%*	***17.0%***	***14.1%***
Operating income before restructuring expenses	119.7	69.5	128.6	84.7	**248.3**	**154.2**
% of net sales	*12.2%*	*8.9%*	*13.4%*	*10.1%*	***12.8%***	***9.5%***
Operating income	116.8	67.0	124.3	80.3	**241.1**	**147.3**
% of net sales (ROS)	*11.9%*	*8.6%*	*13.0%*	*9.6%*	***12.4%***	***9.1%***

In regard to market performance in H1 2011, the **Original Equipment** channel grew by 7% in Europe (although it did contract in June 2011), by 9% in the NAFTA area (with a slowdown in Q2 2011) and by 8% in the Mercosur area (recovering after a slowdown in March). The **Replacement** channel expanded by 4% in Europe (albeit down from Q1 2011) and 1% in the NAFTA area (reflecting a negative 5% in Q2 2011), while contracting 2% (repeating the March figure) in the Mercosur area.

Net sales at June 30, 2011 totalled euro 1,942.2 million (+20.1% from the same period of 2010). In **Q2 2011** net sales totalled euro 958.9 million (+14.7% from the same period of 2010).

The following table summarises the changes in net sales:

	Q1		Q2		H1	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Volume	9.0%	14.9%	2.6%	6.2%	5.7%	10.5%
Price/Mix	14.6%	1.2%	16.2%	8.7%	15.4%	5.0%
Change on like-for-like basis	**23.6%**	**16.1%**	**18.8%**	**14.9%**	**21.1%**	**15.5%**
Foreign exchange effect	2.3%	0.4%	-4.1%	4.2%	-1.0%	2.3%
Total change	**25.9%**	**16.5%**	**14.7%**	**19.1%**	**20.1%**	**17.8%**

The Q2 2011 slowdown in growth by the volume component partly reflected the shift in output to rebuild inventories of Winter products in anticipation of forecast sales in H2 2011. However, net sales in the Premium segment grew strongly in Q2 2011 (+30%), bringing the total growth figure to +33%.

In **H1 2011 operating income** totalled euro 241.1 million, with ROS of 12.4%, compared with euro 147.3 million in the same period of 2010, when ROS was 9.1%.
In **Q2 2011** earnings topped the performance reported a year earlier, both in absolute terms (with operating income of euro 124.3 million, compared with euro 80.3 million in 2010) and on a percentage basis, with ROS of 13.0% (+3.4 percentage points more than in the same period of 2010).

Industrial Business

The table below shows the performance for H1 2011 compared with the same period of the previous year:

(in millions of euro)

	Q1		Q2		H1	
	2011	2010	2011	2010	2011	2010
Net sales	401.2	329.1	417.5	379.5	**818.7**	**708.6**
Δ yoy	*21.9%*	*28.4%*	*10.0%*	*32.0*	***15.5%***	***30.3%***
Gross operating profit before restructuring expenses	48.9	40.4	48.7	55.1	**97.6**	**95.5**
% of net sales	*12.2%*	*12.3%*	*11.7%*	*14.5%*	***11.9%***	***13.5%***
Operating income before restructuring expenses	35.9	28.6	36.0	42.4	**71.9**	**71.0**
% of net sales	*8.9%*	*8.7%*	*8.6%*	*11.2%*	***8.8%***	***10.0%***
Operating income	35.6	28.5	35.8	41.5	**71.4**	**70.0**
% of net sales (ROS)	*8.9%*	*8.7%*	*8.6%*	*10.9%*	***8.7%***	***9.9%***

In regard to market performance in H1 2011, the **Original Equipment** channel grew by 57% in Europe (down from Q1 2011) and 3% in Mercosur (with a recovery in the last two months after a negative two months). The **Replacement** channel expanded by 14% in Europe (down slightly from the Q1 2011 figure), and 6% in the Mercosur area (this figure too was lower than that reported for Q1 2011).

Net sales at June 30, 2011 totalled euro 818.7 million (+15.5% from the same period of 2010). In **Q2 2011** net sales totalled euro 417.5 million (+10.0% from the same period of 2010).

The following table summarises the changes in net sales:

	Q1		Q2		H1	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Volume	-0.7%	24.1%	-1.9%	10.4%	-1.4%	16.9%
Price/Mix	19.0%	1.8%	14.9%	13.7%	16.8%	8.0%
Change on like-for-like basis	**18.3%**	**25.9%**	**13.0%**	**24.1%**	**15.4%**	**24.9%**
Foreign exchange effect	3.6%	2.5%	-3.0%	7.9%	0.1%	5.4%
Total change	**21.9%**	**28.4%**	**10.0%**	**32.0%**	**15.5%**	**30.3%**

The contraction in volumes was impacted by the slowdown of activity in Egypt and other north African countries due to the regional political crisis and lower net sales by the conventional segment in the Mercosur area.

In **H1 2011 operating income** totalled euro 71.4 million, with ROS of 8.7%, compared with euro 70.0 million in the same period of 2010, when ROS was 9.9%.
In **Q2 2011** earnings fell short of the performance reported a year earlier, both in absolute terms (with operating income of euro 35.8 million, compared with euro 41.5 million in 2010) and on a percentage basis, with ROS of 8.6% compared to 10.9% in the same period of 2010. This reflected the combined impact of lower sales volumes and the rising cost of natural rubber, which has a greater impact on this business.

OTHER BUSINESSES

The other businesses are comprised by Pirelli & C. Eco Technology S.p.A., Pirelli & C. Ambiente S.p.A., PZero S.r.l., and the Group holding and service companies, including the Parent, Pirelli & C. S.p.A..

Both Pirelli & C. Eco Technology S.p.A. and Pirelli & C. Ambiente S.p.A. are 51% owned by Pirelli & C. S.p.A. and 49% by Cam Partecipazioni S.p.A., a Camfin Group company.

The following table the breakdown of earnings figures by activity:

(in millions of euro)

	Pirelli Eco Technology		Pirelli Ambiente		Pzero		Other		Total other businesses	
	H1 2011	**H1 2010**	**H1 2011**	**H1 2010**	**H1 2011**	**H1 2010**	**H1 2011**	**H1 2010**	**H1 2011**	**H1 2010**
Net sales	24.1	35.1	0.5	3.6	4.3	3.5	(0.5)	1.5	**28.4**	**43.7**
Operating income/(loss)	(5.6)	(3.5)	(4.2)	(1.8)	(4.5)	(0.6)	(8.1)	(19.5)	**(22.4)**	**(25.4)**
Net income/(loss)	(6.6)	(5.0)	(4.5)	(2.6)	(4.7)	(0.6)	11.8	(25.2)	**(4.0)**	**(33.4)**
Net (liquidity)/debt position	51.7	37.2	27.0	47.9	4.5	3.2	(268.2)	(641.8)	**(185.0)**	**(553.5)**

At June 30, 2011 **net sales** totalled euro 28.4 million, attributable almost entirely to the activities of Pirelli & C. Eco Technology, while the **operating loss** was euro 22.4 million, compared with euro 25.4 million in the same period in 2010.

Problems remain in development of the particulate filter market, while the results of Pirelli Ambiente reflect the one-off impact of inventories and assets. PZero faces costs to reinforce and develop its business model, which entails developing the retail channel with the opening of its first single-brand store in Milan.

The residual amount, which includes the Parent, and, the elimination of net sales, compares favourably with 2010 due to the previously mentioned revision of royalties paid by Pirelli Tyre for use of the company brand.

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

Pirelli & C. S.p.A. directly or indirectly controls a number of companies with registered offices in countries that are not members of the European Union (Non-EU Companies) and which are of significant importance under the terms of Art. 36 of Consob Regulation 16191/2007 on market regulation ("Market Regulation").

At December 31, 2010, the Non-EU Companies that were directly or indirectly controlled by Pirelli & C. S.p.A. and of material interest pursuant to Article 36 of the Market Regulation were Pirelli Pneus Ltda (Brazil); Pirelli Tire LLC (USA); Pirelli Tyre Co. Ltd (China); Turk Pirelli Lastikleri A.S. (Turkey); Pirelli de Venezuela C.A. (Venezuela); Alexandria Tire Company S.A.E. (Egypt); Pirelli Neumaticos S.A.I.C. (Argentina).

Also under the terms of the same regulations, 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 Regulations[1]. Under the terms of the said Operating Rules, the competent corporate functions of the Parent precisely and periodically identify and disclose all Non-EU Companies of material interest 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 of the Market Regulations, 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.

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[1] Even before adoption of the aforementioned "Group Operating Rules," the administrative, accounting and reporting systems in place at the Pirelli Group already allowed the Company to comply substantially with the regulatory requirements.

Finally, the above “Operating Rules,” in keeping with the regulatory provisions, prescribe how the financial statements (the statement of financial position 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.

Therefore, it is certified that the Company has fully complied with the provisions of Article 36 of Consob Regulation 16197/2007 and that its conditions have been satisfied.

HALF-YEARLY CORPORATE GOVERNANCE REPORT

Pirelli & C. has complied with the Italian Stock Exchange's Self-Regulatory Code since it was first issued, and in March 2007, it declared its commitment to compliance with the new version of the Code[2].

Awareness of the importance of an efficient Corporate Governance system represents one of the essential elements for achieving the objectives of creating sustainable value and prompts the Company to keep its corporate governance system constantly in line with national and international best practice.

The distinctive elements of Pirelli's Corporate Governance model are: (i) the central role of the Board of Directors as the top body in charge of Company management; (ii) the central role of independent directors, who represent the majority of members of the Board of Directors; (iii) correct disclosure practices concerning the choices and processes by which company decisions are formulated; (iv) a structured internal control system including an innovative proactive risk management system; (v) an incentives system for managers linked with medium and long term goals; (vi) strict regulation of potential conflicts of interest and solid ethical principles governing transactions with related parties.

It should be noted that although not required to do so by the Self-Regulatory Code, the Company voluntarily highlights updates and additions made to its corporate governance system since the preceding annual report in its yearly report[3].

[2] Published in March 2006, the updated version of the code is available at www.borsaitaliana.it.

[3] http://www.it.pirelli.com/it_IT/browser/attachments/pdf/Pirelli_C_SpA-Relazione_sul_governo_societario_e_gli_assetti_proprietari-esercizio_2010.pdf

The results of “good governance” have earned the company important acknowledgements in recent months. Pirelli was in fact declared "Best Corporate Governance in Italy" in the 2011 World Finance Corporate Governance Award. Moreover, in June 2011 GMI - Governance Metrics International, an independent research institute, confirmed its grade of 10/10 (the only company in Italy to be given this grade) for Pirelli’s corporate governance in its home market (the most recent ”Country Ranking”, September 2010, gave Italy an average rating of 5.25/10) and assigned it a grade of 8.5/10 for the Global Market, an evaluation well above the average, and higher than any of the Group’s competitors.

* * *

The Board of Directors’ mandate expired with approval of the December 31 2010 Financial Statements. The April 21 2011 shareholders’ meeting therefore renewed the Board. The Shareholders’ Meeting appointed a Board of Directors with 20 members, confirming a majority of independent directors for the 2011/2013 three-year period.

By voting on a slate , the minority shareholders were able to nominate four Directors, i.e. one fifth of the total (Directors Franco Bruni, Pietro Guindani, Elisabetta Magistretti and Francesco Profumo).

Two slates were presented to the Shareholders' Meeting: one of participants in the Pirelli & C. Share Block Syndicate[4] (which obtained about 84% of the votes represented at the meeting[5]) and one of a group of mutual savings management and institutional investors[6] (who obtained about 15.6% of the votes of voting capital).

Those proposing the slates made the candidates' profiles available to shareholders in order for them to take note in advance of their personal and professional characteristics, as well as, for some candidates, possession of the qualification of independent. The curriculum vita of each director, presented when the slates were filed, was published on the Company website, where all the curricula remain available.

[4] The slate was presented by: Camfin S.p.A.; Mediobanca S.p.A.; Edizione S.r.l.; Fondiaria-Sai S.p.A.; Allianz S.p.A.; Assicurazioni Generali S.p.A.; Intesa Sanpaolo S.p.A.; Sinpar S.p.A.; Massimo Moratti.

[5] Cf. http://www.it.pirelli.com/it_IT/browser/attachments/pdf/Pirelli_C_SpA-assemblea_21-4-2011-rendiconto_sintetico_votazioni.pdf.

[6] The minority slate was presented by: Amber Capital Italia SGR S.p.A. (manager of the Amber Italia Equity fund); Amber Capital LP (manager of the PM Manager Fund, SPC); Amber Global Opportunities Master Fund Ltd.; Anima SGR S.p.A. (manager of the Europa, Sforzesco, Visconteo Italia, Iniziativa Europa and Anima Europa funds); APG Algemene Pensione Groep N.V. (manager of the Stichting Depositary APG Developed Markets Equity Pool fund); Arca Sgr S.p.A. (manager of the Arca Azioni Italia and Arca BB funds); Ersel Sicav; Ersel Asset Management SGR S.p.A. (manager of the Fondersel Italia fund); Eurizon Capital SGR S.p.A. (manager of the Eurizon Focus Azioni Italia and Eurizon Italia 130/30 funds); Eurizon Capital SA (manager of the Eurizon Stars Fund European Small Cap Equity, Eurizon Stars Fund Italian Equity, Eurizon Easy Fund Equity Consumer Discretionary, Eurizon Easy Fund Equity Europe, Eurizon Easy Fund Euro and Eurizon Easy Fund Equity Italy funds); Fideuram Investimenti SGR S.p.A. (manager of the Fideuram Italia fund); Fideuram Gestions SA (manager of the Fonditalia Equity Italy, Fondiatalia Euro Cyclical, Fideuram Fund Equity Itlay, Fideuram Fund Equity Europe and Fideuram Fund Equity Europe Growth funds); Interfund Sicav (manager of the Interfund Equity Italy fund); Kairos Partners SGR S.p.A. (manager of the Kairos Italia – Speculative Fund); Mediolanum International Funds Limited (manager of Challenge Funds); Pioneer Asset Management SA; Pioneer Investment Management SGR S.p.A. (manager of the Pioneer Azionario Crescita fund); Pioneer Alternative Investment Management Limited; Prima SGR S.p.A. (manager of the Prima Geo Italia S.p.A. fund).

The composition of the Board of Directors as at the Report Date is given below:

- Marco Tronchetti Provera
- Vittorio Malacalza
- Alberto Pirelli
- Carlo Acutis (independent)
- Anna Maria Artoni (independent)
- Franco Bruni (independent)
- Gilberto Benetton
- Alberto Bombassei (independent)
- Luigi Campiglio (independent)
- Enrico Tommaso Cucchiani
- Pietro Guindani (independent)
- Paolo Ferro-Luzzi (independent)
- Giulia Maria Ligresti
- Elisabetta Magistretti (independent)
- Massimo Moratti
- Renato Pagliaro
- Giovanni Perissinotto
- Francesco Profumo (independent)
- Luigi Roth (independent)
- Carlo Secchi (independent)

At the end of the meeting, the “new” Board of Directors, on the basis of available information and the statements made by the interested parties, confirmed the existence of the requisites of independence of all Directors who declared themselves independent upon presentation of the slates.

The Board considered that the majority of the directors (11 out of 20) may be considered independent under both the Unified Finance Law and the Self-Regulatory Code of the Italian Stock Exchange. In particular, the following Directors were considered to be independent: Carlo Acutis, Anna Maria Artoni, Alberto Bombassei, Luigi Campiglio, Paolo Ferro-Luzzi, Luigi Roth, Carlo Secchi, Franco Bruni, Elisabetta Magistretti, Francesco Profumo and Pietro Guindani.

The Board of Directors therefore appointed:

- **Chairman and CEO**: Director Marco Tronchetti Provera (who also superintends the operation of the internal control system);
- **Deputy Chairmen**: Directors Vittorio Malacalza and Alberto Pirelli.

The Board of Directors also confirmed Director Carlo Secchi in the position of Lead Independent Director.

At the same meeting, the Board confirmed the establishment of a Remuneration Committee and an Internal Control, Risks and Corporate Governance Committee consisting exclusively of Independent Directors (4 and 5, respectively). Notably:

- the Remuneration Committee includes Directors Carlo Acutis (Chairman); Anna Maria Artoni; Pietro Guindani; Luigi Roth;
- the Internal Control, Risks and Corporate Governance Committee includes Directors Carlo Secchi (Chairman); Franco Bruni; Paolo Ferro-Luzzi; Elisabetta Magistretti; Luigi Roth.

The Board of Directors also set up two new committees: an Appointments Committee and a Strategies Committee.

In accordance with the previous Board's recommendation[7], the Board of Directors considered it advisable to set up an Appointments Committee entrusted with identifying the criteria applicable to definition of succession plans for top and senior management with the aim of ensuring continuity in the company's business strategies. In addition, the newly established Committee is specifically asked to assist the Board in coming up with "emergency" plans for succession to the positions of Chairman and General Manager, establishing the steps involved and the requirements for identification (within or outside the Group) of professionals qualified to replace these professionals in an emergency.

The Committee includes the Chairman of the Board of Directors, Marco Tronchetti Provera (Chairman) as well as Deputy Chairman Vittorio Malacalza and Directors Luigi Campiglio and Luigi Roth.

The Board of Directors also resolved to set up a Strategies Committee to assist the Managing Director, and the Board as a whole, in definition of strategic business guidelines and identification and definition of the conditions and terms of particularly important operations.

The Committee includes Chairman and Managing Director Marco Tronchetti Provera (Chairman), Deputy Chairman Vittorio Malacalza, Directors Franco Bruni; Renato Pagliaro; Francesco Profumo and Carlo Secchi; General Manager Francesco Gori and Group General Counsel Francesco Chiappetta.

In the same session, the Board of Directors appointed a new **Supervisory Body**, as required by Organisational Model 231, adopted by the Company. This body will remain in office until the end of the mandate of the "new" Board of Directors. The members of this body include Director Carlo Secchi, Statutory Auditor Paolo Domenico Sfameni and Internal Control Office and Internal Audit Director Maurizio Bonzi.

[7] In this regard, cf. point 7 of the Annual Report on Corporate Governance and Shareholding Structure.

Lastly, the Board of Auditors confirmed the position of Group Finance Director Francesco Tanzi as executive in charge of preparing the company's accounting documents.

As of the date of this report, following the appointment of the Board of Directors: the Board has met twice; the Internal Control, Risks and Corporate Governance Committee has met twice and the Remuneration Committee has met once. The independent directors and the members of the Remuneration Committee have also held a meeting.

The newly appointed members of the Internal Control, Risks and Corporate Governance Committee and the Remuneration Committee have also held specific induction meetings. After the summer break a general induction meeting will be held by the directors to improve their knowledge of the company's business and investor relations.

* * *

In addition to approving the annual financial statements and appointing the Board of Directors, the Shareholders' Meeting was asked to express an opinion regarding "General Group Remuneration Policy".

One year before the deadline set by law, the company submitted to the shareholders for consultation and voting its policy defining the principles and guidelines which the Pirelli Group is to apply (i) in determining and (ii) in monitoring application of policy for pay of Directors assigned particular tasks, general managers, executives with strategic responsibilities and the senior management and executives of the Pirelli Group in general.

This policy, which was approved by about 90% of the share capital represented at the meeting, is the result of a clear, transparent process and is aimed at attracting, motivating and retaining human resources with the professional qualities required to profitably pursue the Group's goals and specifically the goal of creation of value in a way which is sustainable in the long term.

The Group’s General Remuneration Policy is attached to the Annual Report on Corporate Governance and Ownership Structure for the year 2010 and on the Company’s internet site.

In an extraordinary meeting, the Shareholders resolved to amend the Company’s Statute to implement in the text of the statute a number of options permitted by the legislation implementing the Community Directive regarding the rights of shareholders in listed companies in Italy (known as the shareholders’ rights directive).

The extraordinary shareholders’ meeting also approved a voluntary reduction of the company’s share capital by 32,498,345.12 euro pursuant to section 2445 of the civil code, to be allocated to the company’s net worth.

This reduction is intended to complete the assignment of shares in Prelios S.p.A. (formerly Pirelli & C. Real Estate S.p.A.) in the year 2010 and does not result in any decrease of the Company’s net worth, as the full amount of the reduction is allocated to shareholders’ equity in order to bring to zero the negative reserve generated on the occasion of conclusion of the assignment operation.

The reduction will go into effect when the deadline set by the legislation has passed.

The Board of Directors

Milan, July 27, 2011

THE GROUP

CONDENSED INTERIM FINANCIAL STATEMENTS

AT JUNE 30, 2011

CONTENTS

CONSOLIDATED BALANCE SHEET (in thousands of euro)

		06/30/2011		12/31/2010	
			of which related parties		of which related parties
4	Property, plant and equipment	2,040,257		1,977,106	
5	Intangible assets	847,949		848,761	
6	Investments in associates	136,471		152,927	
7	Other financial assets	178,315		185,267	
8	Deferred tax assets	60,625		69,642	
10	Other receivables	336,870	150,000	315,531	140,419
11	Tax receivables	10,782		10,755	
	Non-current assets	**3,611,269**		**3,559,989**	
12	Inventories	844,309		692,259	
9	Trade receivables	887,057	11,215	676,681	8,067
10	Other receivables	255,611	16,242	174,982	9,335
13	Securities held for trading	224,775		209,770	
14	Cash and cash equivalents	135,835		244,725	
11	Tax receivables	29,952		25,235	
22	Derivative financial instruments	42,095		35,159	
	Current assets	**2,419,634**		**2,058,811**	
	Total Assets	**6,030,903**		**5,618,800**	
15.1	Equity attributable to owners of the Parent:	2,013,619		1,990,831	
	- Share capital	1,343,285		1,375,733	
	- Reserves	508,593		593,346	
	- Net income (loss)	161,741		21,752	
15.2	Equity attributable to non-controlling interests:	33,598		37,152	
	- Reserves	36,572		54,675	
	- Net income (loss)	(2,974)		(17,523)	
15	**Equity**	**2,047,217**		**2,027,983**	
18	Borrowings from banks and other financial institutions	1,054,909		894,711	
20	Other payables	43,144		41,664	
16	Provisions for liabilities and charges	164,551		165,732	
8	Provisions for deferred tax liabilities	28,717		33,733	
17	Employee benefit obligations	474,754		481,724	
21	Tax payables	5,433		5,547	
	Non-current liabilities	**1,771,508**		**1,623,111**	
18	Borrowings from banks and other financial institutions	342,404	133	247,515	77
19	Trade payables	1,140,772	3,944	1,066,361	5,434
20	Other payables	484,038	2,182	403,373	1,174
16	Provisions for liabilities and charges	111,340		115,984	
21	Tax payables	71,056		64,559	
22	Derivative financial instruments	62,568		69,914	
	Current liabilities	**2,212,178**		**1,967,706**	
	Total liabilities and Equity	**6,030,903**		**5,618,800**	

For a description of the items reflecting related party transactions, please refer to note 36 of the Explanatory Notes.

CONSOLIDATED INCOME STATEMENT (in thousands of euro)

		1st Half 2011		1st Half 2010	
			of which related parties		of which related parties
24	Revenue from sales and services	2,789,252	5,730	2,368,957	2,312
25	Other income	73,938	1,769	58,227	204
	Change in inventories of work in progress, semi-finished and finished products	52,597		(16,608)	
	Raw materials and consumables (net of change in inventories)	(1,124,039)		(912,664)	
26	Personnel expense	(559,044)	(1,593)	(507,290)	(1,425)
	- of which non-recurring events	*(7,654)*		*(7,908)*	
27	Amortisation, depreciation and impairment	(113,147)		(105,592)	
28	Other costs	(830,875)	(11,725)	(694,301)	(11,452)
	Additions to property, plant and equipment for internal work	1,393		1,171	
	Operating income	**290,075**		**191,900**	
29	Net income (loss) from equity investments	916		(4,047)	
	- share of net income (loss) of associates and joint ventures	(286)	(286)	(3,246)	(3,246)
	- gains on equity investments	1,325		15	
	- losses on equity investments	(556)		(3,742)	
	- dividends	433		2,926	
30	Financial income	228,178	3,806	167,409	
31	Financial expenses	(272,929)		(207,956)	
	Net income (loss) before income tax	**246,240**		**147,306**	
32	Income tax	(87,473)		(70,332)	
	Net income (loss) from continuing operations	**158,767**		**76,974**	
33	Net income (loss) from discontinued operations	-		(252,544)	28,395
	Net income (loss)	**158,767**		**(175,570)**	
	Attributable to:				
	Owners of the parent	161,741		(165,487)	
	Non-controlling interests	(2,974)		(10,083)	

34	**Earnings (losses) per share (euro per shares)**				
	basic earnings per share				
	- continuing operations	0.33		0.16	
	- discontinued operations	-		(0.50)	
		0.33		**(0.34)**	

For a description of the items reflecting related party transactions, please refer to note 36 of the Explanatory Notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in thousands of euro)

		1st Half 2011		
		Gross	**Tax Effect**	**Net**
A	**Net income (loss) for the period**			**158,767**
	Other components recognised in Equity:			
	(Gains)/losses on other financial assets transferred to income statement, previously recognised in Equity	(82)	-	(82)
	(Gains)/losses on cash flow hedges transferred to income statement, previously recognised in Equity	868	(372)	496
B	**(Gains)/losses transferred to income statement previously recognised in Equity**	**786**	**(372)**	**414**
	Exchange differences from translation of foreign financial statements	(66,386)	-	(66,386)
	Fair value adjustment of other financial assets	857	-	857
	Net actuarial gains/(losses) on employee benefits	(9,733)	392	(9,341)
	Fair value adjustment of derivatives designated as cash flow hedges	7,145	(2,784)	4,361
	Share of other components recognised in Equity related to associates and joint ventures	314	-	314
C	**Gains (losses) recognised in Equity in the period**	**(67,803)**	**(2,392)**	**(70,195)**
B+C	**Total other components recognised in Equity**	**(67,017)**	**(2,764)**	**(69,781)**
A+B+C	**Total comprehensive income/(losses) for the period**			**88,986**
	Attributable to:			
	- Owners of the parent			94,936
	-Non-controlling interests			(5,950)

(in thousands of euro)

		1st Half 2010		
		Gross	**Tax Effect**	**Net**
A	**Net income (loss) for the period**			**(175,570)**
	Other components recognised in Equity:			
	(Gains)/losses on associates and joint ventures transferred to income statement, previously recognised in Equity	1,591	-	1,591
	(Gains)/losses on other financial assets transferred to income statement, previously recognised in Equity	353	-	353
	(Gains)/losses on cash flow hedges transferred to income statement, previously recognised in Equity	3,908	(1,094)	2,814
B	**(Gains)/losses transferred to income statement previously recognised in Equity**	**5,852**	**(1,094)**	**4,758**
	Exchange differences from translation of foreign financial statements	148,919	-	148,919
	Fair value adjustment of other financial assets	(35,145)	(34)	(35,179)
	Net actuarial gains/(losses) on employee benefits	(27,000)	4,112	(22,888)
	Fair value adjustment of derivatives designated as cash flow hedges	(14,523)	5,039	(9,484)
	Share of other components recognised in Equity related to associates	(5,959)	61	(5,898)
C	**Income/(losses) recognised in Equity in the period**	**66,292**	**9,178**	**75,470**
B+C	**Total other components recognised in Equity**	**72,144**	**8,084**	**80,228**
A+B+C	**Total comprehensive income/(losses) for the period**			**(95,342)**
	Attributable to:			
	- Owners of the parent			(89,867)
	- Non-controlling interests			(5,475)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of euro)

	attributable to owners of the Parent						
	Share capital	**Translation reserve**	**Total IAS reserves (*)**	**Other reserves/ Retained earnings**	**Total attributable to owners of the Parent**	**Non-controlling interests**	**TOTAL**
Total at 12/31/2010	**1,375,733**	**127,427**	**(378,909)**	**866,580**	**1,990,831**	**37,152**	**2,027,983**
Total other components recognised in Equity	-	(63,409)	(3,396)	-	(66,805)	(2,976)	(69,781)
Net income (loss) for the period	-	-	-	161,741	161,741	(2,974)	158,767
Total comprehensive income (losses)	**-**	**(63,409)**	**(3,396)**	**161,741**	**94,936**	**(5,950)**	**88,986**
Capital increases/(decreases)	(32,448)			32,448	-	4,401	4,401
Dividends paid				(81,113)	(81,113)	(2,393)	(83,506)
Venezuela inflation effect				9,233	9,233	363	9,596
Other				(268)	(268)	25	(243)
Total at 06/30/2011	**1,343,285**	**64,018**	**-382,305**	**988,621**	**2,013,619**	**33,598**	**2,047,217**

(in thousands of euro)

	BREAKDOWN OF IAS RESERVES (*)				
	Reserve for adjustment to fair value of available-for-sale financial assets	Reserve for cash flow hedges	Reserve for actuarial gains/(losses)	Tax effect	**Total IAS reserves**
Balance at 12/31/2010	**16,131**	**(27,509)**	**(405,889)**	**38,358**	**(378,909)**
Total other components recognised in Equity	775	8,326	(9,733)	(2,764)	(3,396)
Balance at 06/30/2011	**16,906**	**(19,183)**	**(415,622)**	**35,594**	**(382,305)**

(in thousands of euro)

	attributable to owners of the Parent							
	Share capital	Translation reserve	Total IAS reserves (*)	Other reserves/ Retained earnings	Reserves for assets/(liabilities) held for distribution to shareholders	**Total attributable to owners of the Parent**	**Non-controlling interests**	**TOTAL**
Total at 12/31/2009	**1,554,269**	**25,234**	**(346,227)**	**941,747**	**-**	**2,175,023**	**319,648**	**2,494,671**
Total other components recognised in Equity	-	142,497	(66,876)	-	-	75,621	4,608	80,229
Net income (loss) for the period				(165,487)		(165,487)	(10,083)	(175,570)
Total comprehensive income (losses)	**-**	**142,497**	**(66,876)**	**(165,487)**		**(89,866)**	**(5,475)**	**(95,341)**
Reserves for assets/(liabilities) held for distribution to shareholders		930	37,987		(38,917)	-		
Dividends paid				(81,114)		(81,114)	(3,968)	(85,082)
Other			(447)	1,298		851	1,210	2,061
Total at 06/30/2010	**1,554,269**	**168,661**	**(375,563)**	**696,444**	**(38,917)**	**2,004,894**	**311,415**	**2,316,309**

(in thousands of euro)

	BREAKDOWN OF IAS RESERVES (*)					
	Reserve for adjustment to fair value of available-for-sale financial assets	Reserve for cash flow hedges	Reserve for actuarial gains/(losses)	Reserve for Equity settled stock options	Tax effect	**Total IAS Reserves**
Balance at 12/31/2009	**57,755**	**(60,778)**	**(383,893)**	**3,500**	**37,189**	**(346,227)**
Total other components recognised in Equity	(34,999)	(13,056)	(26,945)	-	8,124	(66,876)
Reserves for assets/liabilities held for distribution to shareholders	440	38,994	-	-	(1,447)	37,987
Other changes	-	-	-	(447)	-	(447)
Balance at 06/30/2010	**23,196**	**(34,840)**	**(410,838)**	**3,053**	**43,866**	**(375,563)**

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of euro)

		1st Half 2011	of which related parties	1st Half 2010	of which related parties
	Net income (loss) from continuing operations before tax	246,240		147,306	
	Net income (loss) from discontinued operations	-		(16,533)	
	Amortisation, depreciation, impairment losses and reversals of property, plant and equipment and intangible assets	113,147		105,592	
	Reversal of financial expenses	272,929		207,956	
	Reversal of financial income	(228,178)		(167,409)	
	Reversal of dividends	(433)		(2,926)	
	Gains/(losses) on equity investments	(769)		3,727	
	Share of net income from associates and joint ventures	286		3,246	
	Income tax	(87,473)		(70,332)	
	Change in inventories	(176,982)		(87,472)	
	Change in trade receivables/payables	(135,859)		(58,190)	
	Change in other receivables/payables	(8,997)		(546)	
	Change in provisions for employee benefits and other provisions	1,338		39,735	
	Other changes	17,753		15,605	
A	**Net cash flows provided by/(used in) operating activities**	**13,002**		**119,759**	
	Investments in property, plant and equipment	(232,746)		(137,812)	
	Disposal of property, plant and equipment	11,004		10,150	
	Investments in intangible assets	(1,386)		(1,052)	
	Disposal/(acquisition) of equity investments in associates and joint ventures	17,535		(2,057)	
	Disposal/(acquisition) of other financial assets	6,103	*638*	(1,510)	*1,117*
	Dividends received	433		2,926	
B	**Net cash flows provided by/(used in) investing activities**	**(199,057)**		**(129,355)**	
	Increase/(reduction) in Equity	4,401		-	
	Change in financial payables	253,419		(36,726)	
	Change in financial receivables	(39,059)		(80,099)	
	Financial income/(expenses)	(44,751)		(38,044)	
	Dividends paid	(83,506)	*(20,561)*	(85,082)	*(20,763)*
C	**Net cash flows provided by/(used in) financing activities**	**90,504**		**(239,951)**	
	Net cash flows provided by/(used in) operating activities	-		(5,759)	
	Net cash flows provided by/(used in) investing activities	-		2,256	
	Net cash flows provided by/(used in) financing activities	-		(5,295)	
D	**Total cash flow provided by/(used in) discontinued operations**	**-**		**(8,798)**	
E	**Total cash flows provided/(used) during the period (A+B+C+D)**	**(95,551)**		**(258,345)**	
F	**Cash and cash equivalents at beginning of year**	**226,770**		**610,779**	
G	Exchange differences on translation of cash and cash equivalents	(9,168)		(17,664)	
H	**Cash and cash equivalents at end of period (E+F+G) °**	**122,051**		**334,770**	
°	**of which:**				
	cash and cash equivalents	135,835		358,915	
	bank overdrafts	(13,784)		(24,145)	

The Statement of Cash Flows shows transactions with related parties only if they cannot be directly inferred from the other financial statements and are detailed at note 36 of the Explanatory Notes.

The reconciliation between cash and cash equivalents as shown on the balance sheet and cash and cash equivalents as shown on the statement of cash flows is provided at note 14.

EXPLANATORY NOTES

The condensed interim financial statements at June 30, 2011 of Pirelli & C S.p.A. were approved by the Board of Directors of Pirelli & C. S.p.A. on July 27, 2011.

1 . BASIS OF PRESENTATION

Pursuant to Art. 154 ter of Legislative Decree 158/1998, the Pirelli & C. Group has prepared the interim financial statements in accordance with IAS 34, which regulates interim financial reporting, in a condensed form.
The Company has also applied the provisions of Consob Resolution No. 15519 of July 27, 2006 in regard to the formats of financial statements and Consob Notice No. 6064293 of July 28, 2006 in regard to corporate disclosure.

Pursuant to Article 5(2) of Italian Legislative Decree 38 of February 28, 2005, these financial statements have been prepared using the euro as the functional currency.

Financial Statement Formats

The condensed interim financial statements at June 30, 2011 consist of the Balance Sheet and Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Cash Flow Statement and the Explanatory Notes, and are accompanied by the Directors' Report on Operations.

The format adopted for the Balance Sheet classifies assets and liabilities as current and non-current.
The income statement classifies costs by nature.

The Group has opted to present the components of profit or loss for the year in a separate income statement, which shows the costs and revenue used to determine net income, and a second statement (the statement of comprehensive income), which shows net income and, for homogeneous categories, the revenue and costs that, in accordance with IFRSs, are recognised directly in equity.

The Group has decided to present the tax effects and reclassifications to the income statement of gains/losses recognised in equity in previous periods directly in the statement of comprehensive income and not in the explanatory notes.

The statement of changes in equity includes the amounts of transactions with the equity holders and the movements that occurred during the period in the reserves.

In the cash flow statement, the cash flows deriving from operating activities are presented using the indirect method, according to which the profit or loss for the period is adjusted by the effects of non-monetary transactions, by any deferment or accrual of past or future operating receipts or payments, and by any revenue or cost items connected with the cash flows arising from investing activities or financing activities.

Scope of Consolidation

There were no material changes in the scope of consolidation during H1 2011.

2. ACCOUNTING POLICIES

2.1 Adopted accounting standards

The accounting standards adopted are the same as those adopted in the preparation of the consolidated financial statements at December 31, 2010. Reference is made to those financial statements for more details, with the exception of the standards and interpretations listed below, which are applicable from January 1, 2011:

- Amendments to IAS 32 – Financial Instruments: Presentation – classification of rights issues

  The amendments address rights issues – such as warrants and similar rights that are denominated in a currency other than the issuer's functional currency. Previously, these rights issues were recognised as derivative financial liabilities. Now, if certain conditions are satisfied, these rights issues may be classified as equity instruments, regardless of the currency in which the exercise price is denominated.

  Application of these amendments has no impact on the consolidated financial statements.

- Amendments to revised IFRS 1 – First-time Adoption of International Financial Reporting Standards – limited exemptions from the comparative disclosure required under IFRS 7 upon first-time adoption

  This amendment grants an exemption from having to provide the additional comparative disclosure data required under IFRS 7 regarding the measurement of fair value and liquidity risk upon first-time adoption of IFRSs.

  It has no impact on the consolidated financial statements.

- Revised IAS 24 – Related Party Disclosures

  The revised IAS 24 simplifies the disclosures requirements regarding related parties when state-controlled entities are involved and provides a new, simplified and more coherent definition of related parties.

  Application of this revised standard has no material impact on Group disclosures.

- Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement
  The amendments to IFRIC 14 govern the rare case where an entity that is subject to minimum funding requirements for defined benefit plans makes prepayments to guarantee compliance with these requirements. The benefits resulting from prepayments may be recognised as assets.
  These amendments do not apply to the Group.

- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments
  This interpretation provides guidelines on how to account for the extinguishing of a financial liability through the issue of equity instruments (debt for equity swap), i.e. when an entity renegotiates the terms of a debt with its lender, which agrees to receive shares in the entity or other equity instruments to settle the debt in full or in part.
  This interpretation clarifies that:
  - the shares issued are part of the consideration paid to extinguish the financial liability;
  - the shares issued are carried at fair value. If the fair value cannot be determined reliably, the equity instruments issued must be measured in such a way as to reflect the fair value of the liability that is extinguished;
  - the difference between the carrying amount of the financial liability being extinguished and the initial value of the shares issued must be recognised by the entity in the income statement for the period.

  Application of this interpretation has no impact on the consolidated financial statements.

- *“Improvements” to IFRSs (issued by the IASB in May 2010)*

  As part of the project begun in 2008, the IASB has issued a series of amendments to eight current standards.

  The following table summarises the standards and issues addressed by these amendments:

IFRS	Subject of the amendment
IFRS 3 – Business Combinations	• Transitional provisions regarding contingent consideration for business combinations completed before 01/01/2010 • Measurement of non-controlling interests at the acquisition date • Impact of business combinations on accounting of share-based payments
IFRS 7 – Financial Instruments: Disclosures	Clarification in regard to the disclosures to be published for each class of financial assets
IAS 1 – Presentation of Financial Statements	Clarifications regarding the schedule of changes in equity
IAS 27 – Consolidated and Separate Financial Statements	Transitional provisions for amendments to certain standards resulting from the changes introduced by IAS 27 (2008): – IAS 21 – Effects of changes in foreign exchange rates: accounting of translation differences accumulated in equity following total or partial sale of an investment in a foreign entity – IAS 28 – Investments in Associates / IAS 31 – Interests in Joint Ventures: accounting treatment if significant influence or joint control are lost
IAS 34 – Interim Financial Reporting	Disclosures required by IFRS 7 – Financial Instruments: Disclosures and its applicability to interim financial statements
IFRIC 13 – Customer Loyalty Programmes	Fair value of award credits

Application of these amendments has had no material quantitative impact on the consolidated financial statements.

2.2 International Accounting Standards and/or interpretations that have been issued but not yet in force and/or endorsed

The new standards and/or interpretations that have been issued but are not yet in force or not yet endorsed by the European Union, and which are therefore not applicable, are mentioned and described briefly as follows.
None of these standards and interpretations has been early adopted by the Group.

- IFRS 9 – Financial Instruments: Recognition and Measurement

  IFRS 9 represents the completion of the first of three stages of the planned replacement of IAS 39 – Financial Statements: Recognition and Measurement, which has the principal aim of reducing its complexity. In the version issued by the IASB in November 2009, the scope of IFRS 9 was restricted to financial assets only. In October 2010 the IASB amended IFRS 9 by adding the requirements for classification and measurement of financial liabilities, thereby completing the first phase of the project.

  The second stage of the project, concerning the impairment of financial instruments, and the third stage, concerning hedge accounting, led to the issue of two Exposure Drafts in November 2009 and December 2010, respectively. It is expected that the final standards will be issued in the third quarter of 2011.

  The principal changes introduced by IFRS in regard to financial assets can be summarised as follows:

  – financial assets may be classified in only two categories – at fair value or at amortised cost. The categories of loans and receivables, available-for-sale financial assets and financial assets held to maturity are therefore eliminated. Classification within the two categories is made on the basis of the entity's business model and on the basis of the features of the cash flows generated by the assets themselves. Financial assets are measured at amortised cost if both the following requisites are met: the entity's business model envisages that financial assets are held to collect their cash flows (thus, substantially, not to make trading profits) and the characteristics of the cash flows of the assets correspond only to payment of principal and interest. Otherwise, financial assets must be measured at fair value;

- the accounting rules for embedded derivatives have been simplified: separate accounting for the embedded derivative and the “host” financial asset is no longer required;
- all equity instruments – both listed and unlisted – must be measured at fair value. IAS 39 stated instead that if fair value could not be determined reliably, unlisted equity instruments had to be measured at cost;
- the entity has the option of presenting in Equity any change in the fair value of equity instruments not held for trading, while this option is forbidden for those held for trading. This designation is permitted at the time of initial recognition, may be adopted for a single financial instrument and is irrevocable. If this option is taken, the fair value changes of such instruments can never be reclassified from equity to the income statement (either in the event of impairment or in the event of sale). Dividends instead continue to be recognised in the income statement;
- IFRS 9 does not allow reclassifications between the two categories of financial assets except in rare cases where there is a change in the entity's business model. In this case, the effects of the reclassification are applied prospectively;
- the disclosure required in the notes has been adapted to the classification and measurement rules introduced by IFRS 9.

In regard to financial liabilities, the IASB has substantially confirmed the provisions of IAS 39, except for the requirements applicable to the fair value option. When the fair value option is adopted for financial liabilities, the change in fair value attributable to the change in the issuer’s credit risk must be recognised in the statement of comprehensive income and not in the income statement.

The process of endorsement of IFRS 9, which will come into force on January 1, 2013, has been temporarily suspended. It is currently impossible to quantify the impact resulting from future application of this standard to the classification and measurement of financial assets. The changes affecting financial liabilities are not applicable to the Group.

- Amendments to IFRS 7 – Financial Instruments: Disclosures

  These amendments seek to improve financial statement disclosure and consequently improve the transparency and comparability of transactions involving the transfer of financial assets (e.g. securitisations), including the possible effects of risks for which the transferor remains liable.

  These amendments, which will come into force on July 1, 2011, have not yet been endorsed by the European Union. It is not expected that they will impact the Group consolidated financial statements.

- Amendments to IAS 12 – Income Taxes – Deferred Taxes: recovery of underlying assets

  IAS 12 requires measurement of deferred taxes related to an asset or liability according to whether the book value of the asset is recovered through use or through sale. In the case of investment property carried at fair value, determining whether recovery is realised through use or sale might be difficult and subjective. These changes offer a practical solution to the problem, by allowing one to assume that investment property will be recovered entirely through sale. Consequently, SIC 21 – "Income Taxes - Recovery of Revalued Non-Depreciable Assets" is no longer applicable to investment property carried at fair value. The guidelines of SIC 21 that are still applicable have been incorporated in the amended version of IAS 12, and SIC 21 will consequently be abrogated.

  These amendments, which will come into force on January 1, 2012, have not yet been endorsed by the European Union and are not applicable to the Group.

- Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards – Hyperinflation and elimination of fixed dates on first-time adoption

  The amendments that have been introduced concern:

  - guidelines for preparing the financial statements in accordance with IFRSs after a period when application of IFRSs was suspended due to hyperinflation;
  - elimination of fixed dates upon first-time adoption of IFRSs.

    The entities that adopt IFRSs apply the requirements related to derecognition of financial assets and liabilities prospectively from the date of transition to IFRSs, i.e. they are no longer required to reconstruct transactions that occurred before transition to IFRSs and that led to derecognition of financial assets and liabilities.

  These amendments, which will come into force on July 1, 2011, have not yet been endorsed by the European Union and are not applicable to the Group.

- IFRS 11 – Joint Arrangements

  This new standard, which replaces IAS 31 – Interests in Joint Ventures, distinguishes two categories of joint arrangements that are subjected to different accounting treatment:

  - joint operations: these are defined as agreements that give the parties to the agreement, and that have joint control of the initiative, rights to the individual activities and obligations for the individual liabilities resulting from the agreement. In the event of joint operations, the assets and liabilities, costs and revenue of the agreement must be recognised according to the applied accounting standards;

– joint ventures: a joint venture exists when the parties that have joint control of the initiative do not have rights or obligations associated with the individual assets or liabilities resulting from the agreement, but only with the net assets or net income of the initiative. Joint ventures must be consolidated according to the equity method, whereas the previously applicable IAS 31 granted the choice between proportional consolidation and consolidation according to the equity method.

This standard, which will come into force on January 1, 2013, has not yet been endorsed by the European Union. It is not expected that it will impact the consolidated financial statements.

- IFRS 12 – Disclosure of Interests in Other Entities

  IFRS 12 includes and expands on all required disclosure that must be provided in regard to subsidiaries, associates, joint arrangements and other structured entities. Many of the disclosures required under IFRS 12 were previously included in IAS 27 – Consolidated and Separate Financial Statements, IAS 28 – Investments in Associates, and IAS 31 – Interests in Joint Ventures, while other disclosures are new.

  This standard, which will come into force on January 1, 2013, has not yet been endorsed by the European Union. It is expected that future application of this standard will impact disclosures made in the consolidated financial statements.

- IFRS 13 – Fair Value Measurement

  IFRS 13 contains guidelines for the measurement of fair value and mandatory disclosures. This standard does not extend the use of fair value, but provides guidelines for its measurement and application when other standards allow or mandate its use.

  This standard, which will come into force on January 1, 2013, has not yet been endorsed by the European Union. It is not expected to have a significant impact on the consolidated financial statements.

- Amendments to IAS 1 – Presentation of Financial Statements – presentation of other items recognised in equity

  The principal amendments to IAS 1 concern a new approach to the presentation of other items recognised in equity in the statement of comprehensive income. The other items recognised in equity must presented into two groups based on whether or not they may be recycled to the income statement.

  Examples of the items which can be recycled to income statement are illustrated as follows: translation differences, fair value adjustment of derivatives in cash flow hedge, and fair value adjustment of available-for-sale investments. For example, one item that may not be recycled to income statement is the actuarial gain / loss related to defined benefit plans.

  These amendments, which will come into force July 1, 2012, have not yet been endorsed by the European Union. Future application of these amendments will not have a significant impact on the consolidated financial statements.

- IAS 19 – Employee Benefits

  The amendment of IAS 19 is focused on the procedures used for accounting of defined benefits plans, other long-term benefits and employee termination benefits. The main changes from the current standard concern:

  – defined benefits plans: actuarial gains/losses (renamed "remeasurements") must be immediately recognised in full in the statement of comprehensive income. The option that permitted non-recognition of actuarial gains/losses if confined to a certain corridor and to defer them if they fell outside this corridor has been eliminated ("corridor approach");
  – other long-term benefits (e.g. jubilee awards): actuarial gains/losses (renamed "remeasurements") must be immediately and fully recognised in equity in the statement of comprehensive income. Immediate recognition in the income statement will no longer be allowed;
  – elimination of the "expected return on plan assets" and the "interest cost," which will be replaced by a new quantity named "net interest," calculated by applying to net liabilities (i.e. gross liabilities net of the plan assets) the discount rate currently used only for gross liabilities;

- additional disclosures required in the notes to the financial statements in view of better highlighting the risks stemming from defined benefit plans;
- termination benefits: according to the new standard, the factor that determines when the benefit must be recognised on the balance sheet is the fact that the entity may not withdraw the offered benefit, i.e. the benefit is irrevocable. Accordingly, termination benefits may substantially consist of two types:
  - benefits connected to a broader restructuring plan, where the entity may not withdraw the offer and the employee has no alternative but to accept it: in this case, the offer is considered irrevocable when the lay-off plan is notified to the affected parties;
  - individual benefits that the entity may theoretically withdraw at its discretion until they are accepted by the employee: in this case, the offer becomes irrevocable when the employee accepts it.

This standard, which will come into force on January 1, 2013, has not yet been endorsed by the European Union. In regard to the expected impact on the consolidated financial statements, it should be emphasised that elimination of the corridor approach will have no impact since the Group does not currently exercise this option. The other impacts are currently being analysed.

- IFRS 10 – Consolidated Financial Statements

  The new standard replaces IAS 27 "Consolidated and Separate Financial Statements" – for the portion regarding consolidated financial statements – and SIC 12 "Consolidation – Special Purpose Entities". IAS 27 – which has been renamed "Separate Financial Statements" – now specifies only the standards and guidelines for preparing separate financial statements.

  The new IFRS 10 defines a single model of control that applies to all entities in which an equity interest is held. This model is key to determining whether an equity investment must be consolidated. On the other hand, accounting treatment and consolidation procedures are the same as those currently specified in IAS 27.

  The new control model introduces a greater degree of subjectivity and requires management to exercise a high standard of judgement in determining whether an entity is controlled and must consequently be consolidated. The new standard also explicitly envisages the possibility that an entity be controlled even without possessing a majority of voting shares (de facto control), a concept that was not explicitly envisaged in IAS 27.

  This standard, which will come into force on January 1, 2013, has not yet been endorsed by the European Union. The impact on the scope of consolidation stemming from introduction of the new standard in the first year of application is currently being analysed.

Seasonal factors

Trade receivables are subject to certain seasonal factors, resulting in an increase in values at the end of the first half as compared with the corresponding values at the end of the year. On the other hand, revenue performance is not subject to material changes related to seasonal factors.

Estimates and assumptions

The preparation of the condensed interim financial statements entails that management make estimates and assumptions which, under certain circumstances, are based on difficult and subjective assessments and estimates that are based on historical experience, and assumptions which are periodically considered reasonable and realistic in light of the circumstances. The results that actually emerge could therefore differ from such estimates. Estimates and assumptions are reviewed regularly and the effects of each change made to them are recognised in the income statement of the period when the estimate is revised if the revision itself only affects that period, or also in subsequent periods if the revision affects both the current period and future ones. The estimates and assumptions relate mainly to assessments of the recoverability of intangible assets, to the definition of the useful lives of property, plant and equipment, to the recoverability of receivables, to the measurements of financial assets and to the recognition/measurement of provisions and pension schemes and are based on data that reflect the current state of available knowledge.

3. OPERATING SEGMENTS

The Tyre segment is the only reportable segment at June 30, 2011, a situation unchanged from December 31, 2010.

Consequently, segment results for H1 2011 are illustrated as follows:

(in thousands of euro)

	Tyre	Other activities	Eliminations and adjustments	TOTAL 1st Half 2011
Sales to third parties	2,759,880	29,372	-	2,789,252
Sales to group companies	1,010	7,998	(9,008)	-
Total net sales	**2,760,890**	**37,370**	**(9,008)**	**2,789,252**
Gross operating profit	**420,175**	**(16,953)**	**-**	**403,222**
Depreciation and amortisation	(107,684)	(5,463)	-	(113,147)
Operating income (loss)	**312,491**	**(22,416)**	**-**	**290,075**
Net income (loss) from equity investments	(726)	137,874	(136,232)	916
Financial income/(expenses)	(46,993)	2,242	-	(44,751)
Net income (loss) before income tax	**264,772**	**117,700**	**(136,232)**	**246,240**
Income tax	(101,945)	14,472	-	(87,473)
Net income (loss) from continuing operations	**162,827**	**132,172**	**(136,232)**	**158,767**
Net income (loss) from discontinued operations	**-**	**-**	**-**	**-**
Net income (loss)				**158,767**

The segment results for H1 2010 were as follows:

(in thousands of euro)

	Tyre	Other activities	Eliminations and adjustments	TOTAL 1st Half 2010
Sales to third parties	2,324,186	44,771	-	2,368,957
Sales to group companies	1,079	8,615	(9,694)	-
Total net sales	**2,325,265**	**53,386**	**(9,694)**	**2,368,957**
Gross operating profit	**315,993**	**(18,501)**	**-**	**297,492**
Depreciation and amortisation	(98,671)	(6,921)	-	(105,592)
Operating income (loss)	**217,322**	**(25,422)**	**-**	**191,900**
Net income (loss) from equity investments	360	(14,939)	10,532	(4,047)
Financial income/(expenses)	(38,652)	(1,895)	-	(40,547)
Net income (loss) before income tax	**179,030**	**(42,256)**	**10,532**	**147,306**
Income tax	(68,667)	(1,665)	-	(70,332)
Net income (loss) from continuing operations	**110,363**	**(43,921)**	**10,532**	**76,974**
Net income (loss) from discontinued operations				**(252,544)**
Net income (loss)				**(175,570)**

Sales between operating segments are made on an arm’s-length basis.

Reference is made to note 33 for a breakdown of the net income (loss) of discontinued operations in H1 2010.

4. PROPERTY, PLANT AND EQUIPMENT

The breakdown and changes were as follows:

(in thousands of euro)

	06/30/2011			12/31/2010		
	Gross Amount	Accumulated Depreciation	Net Amount	Gross Amount	Accumulated Depreciation	Net Amount
Land	90,112	-	90,112	86,826	-	86,826
Buildings	876,509	(376,184)	500,325	822,873	(369,371)	453,502
Plant and Machinery	3,103,025	(1,861,523)	1,241,502	3,142,269	(1,911,773)	1,230,496
Industrial and commercial equipment	652,124	(515,259)	136,865	645,340	(510,293)	135,047
Other assets	241,566	(170,113)	71,453	216,489	(145,254)	71,235
	4,963,336	**(2,923,079)**	**2,040,257**	**4,913,797**	**(2,936,691)**	**1,977,106**

GROSS AMOUNT (in thousands of euro)

	12/31/2010	Change in scope	Translation differences	Increase	Decrease	Reclassi-fication	Other	06/30/2011
Land	86,826	1,558	(1,719)	4,696	(3)	(1,246)	-	90,112
Buildings	822,873	6,046	(18,146)	57,993	(444)	8,187	-	876,509
Plant and machinery	3,142,269	-	(90,446)	125,028	(44,001)	(29,825)	-	3,103,025
Industrial and commercial equipment	645,340	(10)	(19,375)	16,933	(5,579)	14,815	-	652,124
Other assets	216,489	104	(8,512)	28,096	(2,680)	8,069	-	241,566
	4,913,797	**7,698**	**(138,198)**	**232,746**	**(52,707)**	**-**	**-**	**4,963,336**

ACCUMULATED DEPRECIATION (in thousands of euro)

	12/31/2010	Change in scope	Translation differences	Reclassi-fication	Decrease	Depreciation	Other	06/30/2011
Buildings	(369,371)	(2,503)	8,219	(836)	444	(12,137)	-	(376,184)
Plant and machinery	(1,911,773)	-	58,135	28,241	35,429	(71,555)	-	(1,861,523)
Industrial and commercial equipment	(510,293)	-	14,774	(1,396)	3,868	(22,212)	-	(515,259)
Other assets	(145,254)	(89)	4,693	(26,009)	1,962	(5,416)	-	(170,113)
	(2,936,691)	**(2,592)**	**85,821**	**-**	**41,703**	**(111,320)**	**-**	**(2,923,079)**

NET AMOUNT (in thousands of euro)

	12/31/2010	Change in scope	Translation differences	Increase	Decrease	Reclassi-fication	Depreciation	Other	06/30/2011
Land	86,826	1,558	(1,719)	4,696	(3)	(1,246)	-	-	90,112
Buildings	453,502	3,543	(9,927)	57,993	-	7,351	(12,137)	-	500,325
Plant and machinery	1,230,496	-	(32,311)	125,028	(8,572)	(1,584)	(71,555)	-	1,241,502
Industrial and commercial equipment	135,047	(10)	(4,601)	16,933	(1,711)	13,419	(22,212)	-	136,865
Other assets	71,235	15	(3,819)	28,096	(718)	(17,940)	(5,416)	-	71,453
	1,977,106	**5,106**	**(52,377)**	**232,746**	**(11,004)**	**-**	**(111,320)**	**-**	**2,040,257**

The **increases** during the first half mainly concerned the Tyre segment and essentially reflected the construction of the new industrial site in Mexico and the growth of manufacturing capacity in Brazil, China, Romania and Argentina.

The ratio of investments to depreciation in H1 2011 was 2.1.

Construction in progress at June 30, 2011, included in the individual categories of property, plant and equipment, totalled euro 286,863 thousand (euro 220,361 thousand at December 31, 2010).

5. INTANGIBLE ASSETS

The breakdown and changes were as follows:

(in thousands of euro)

	12/31/2010	Translation differences	Increase	Decrease	Amortisa-tion	Other	06/30/2011
Patents and intellectual property rights	161	-	-	-	(66)	-	95
Concessions/licenses/trademarks	7,634	(335)	28	-	(273)	(66)	6,988
Goodwill	834,461	(84)	-	-	-	74	834,451
Application software	3,550	(13)	24	-	(1,138)	82	2,505
Other intangible assets	2,955	(2)	1,334	-	(354)	(23)	3,910
	848,761	**(434)**	**1,386**	**-**	**(1,831)**	**67**	**847,949**

The allocation of goodwill by operating segment and the cash generating units to which it was allocated are shown in the following table:

(in thousands of euro)

Operating segment	Cash generating unit	06/30/2011	12/31/2010
Tyre	Consumer	517,168	517,174
Tyre	Industrial	312,423	312,427
Other	Eco Technology	4,860	4,860
		834,451	**834,461**

Since there were no indicators of impairment losses for goodwill compared to the financial statements for the year ended December 31, 2010, it was not considered necessary to update the impairment test.

6. INVESTMENTS IN ASSOCIATES

The following changes occurred during the period:

(in thousands of euro)

	06/30/2011	12/31/2010
Opening balance	**152,927**	**593,237**
Discontinued operations	-	(458,055)
Increases	3,760	16,904
Distribution of dividends	(2,301)	(2,288)
Impairment	-	(529)
Reversals of impairment	-	3,956
Disposals and liquidations	(17,535)	-
Share of net income (loss)	(286)	256
Share of other components recognised in Equity	314	(561)
Reclassifications and other	(408)	7
Closing balance	**136,471**	**152,927**

The item **increases** mainly refers to the equity investment in GP Energia S.p.A., which rose from 31% to 43.8% shareholding.

The item **disposals and liquidations** refers to the equity investment in CyOptics Inc. that was sold in January 2011.

In regard to the **share of net income (loss),** see the comments for the income statement item “Share of net income (loss) of associates and joint ventures”.

7. OTHER FINANCIAL ASSETS

The following changes occurred during the period:

(in thousands of euro)

	06/30/2011	12/31/2010
Opening balance	**185,267**	**221,351**
Discontinued operations	-	(10,552)
Increases	1,565	23,516
Decreases	(6,103)	(1,478)
Impairment	(556)	(5,881)
(Gains)/losses transferred to income statement for disposal or impairment losses, previously recognised in Equity	(82)	(8,656)
Adjustment to fair value in Equity	857	(33,342)
Adjustment to fair value in Income Statement	(2,531)	-
Reclassification	-	388
Other	(102)	(79)
Closing balance	**178,315**	**185,267**

The **increases** principally refer to the capital increase associated with the equity investment F.C. Internazionale Milano S.p.A. (euro 638 thousand).

The **decreases** mainly refer to the equity investment in Gruppo Banca Leonardo S.p.A. (euro 5,155 thousand), which was sold in H1 2011.

The **adjustment to fair value in Equity** refers principally to the positive valuation of the equity investment in Mediobanca S.p.A. for euro 3,750 thousand, offset by the negative valuation of the equity investment in Alitalia S.p.A. for euro 3,105 thousand.

The **adjustment to fair value in the Income Statement** refers to the negative valuation of the equity investment in Advanced Digital Broadcast Holdings S.A. which has been recognised in the income statement as Pirelli holds a put option on that equity investment, for which hedge accounting has been adopted (fair value hedge). The loss was offset by the positive fair value measurement of the aforementioned put option for euro 2,531 thousand (see note 22 “Derivative financial instruments” and note 29.3 “Losses from equity investments”), and thus had no impact on the income statement.

8. DEFERRED TAX ASSETS AND LIABILITIES

This item is broken down as follows:

(in thousands of euro)

	06/30/2011	12/31/2010
Deferred tax assets	60,625	69,642
Provision for deferred tax liabilities	(28,717)	(33,733)
	31,908	**35,909**

9. TRADE RECEIVABLES

Trade receivables may be broken down as follows:

(in thousands of euro)

	06/30/2011			12/31/2010		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Associates	5,857	-	5,857	3,127	-	3,127
Customers	948,215	-	948,215	736,728	-	736,728
Receivables for contract work	-	-	-	207	-	207
	954,072	**-**	**954,072**	**740,062**	**-**	**740,062**
Provision for bad debts	(67,015)	-	(67,015)	(63,381)	-	(63,381)
	887,057	**-**	**887,057**	**676,681**	-	**676,681**

The increase from December 31, 2010 is due to the growing value of business and seasonal changes.

10. OTHER RECEIVABLES

Other receivables may be broken down as follows:

(in thousands of euro)

	06/30/2011			12/31/2010		
	Total	Non-current	Current	Total	Non-current	Current
Receivables from associates:						
- financial receivables	12,433	-	12,433	5,926	-	5,926
- other receivables	3,857	-	3,857	3,466	-	3,466
Financial receivables from third parties	246,417	238,687	7,730	230,097	222,757	7,340
Trade & other accrued income and prepaid expenses/others	26,029	1,099	24,930	11,002	338	10,664
Receivables from employees	19,306	1,970	17,336	8,799	2,091	6,708
Receivables from social security and welfare institutions	4,581	-	4,581	7,061	-	7,061
Receivables from tax authorities not related to income	124,741	9,206	115,535	88,653	8,929	79,724
Other receivables	155,148	85,908	69,240	135,681	81,416	54,265
	592,512	**336,870**	**255,642**	**490,685**	**315,531**	**175,154**
Provision for bad debts	(31)	-	(31)	(172)	-	(172)
	592,481	**336,870**	**255,611**	**490,513**	**315,531**	**174,982**

The **non-current financial receivables from third parties** mainly refer to:

- euro 150,000 thousand for use of the variable rate credit line granted to Prelios S.p.A. by Pirelli & C. S.p.A. as part of the spin-off of Real Estate segment assets from the Pirelli Group. This amount is due on July 31, 2012 and might be extended until July 31, 2017. The maximum amount of the credit line is currently being used;
- euro 78,657 thousand deposited to guarantee tax and legal disputes in relation to the subsidiary Pirelli Pneus Ltda. (Brazil), remunerated at market rates.

The **non-current other receivables** refer mainly to amounts deposited as security in labour lawsuits and tax litigation involving the Brazilian unit Pirelli Pneus Ltda (euro 74,081 thousand) and to a receivable of euro 7,400 thousand relating to a cash grant paid in connection with the execution of an equity partnership agreement.

The **current other receivables** mainly consist of:

- advances of euro 40,984 thousand;
- government export subsidies of euro 2,226 thousand;
- receivables of euro 4,500 thousand from Ceat Ltd following disposal of the Ceat brand.

11. TAX RECEIVABLES

Tax receivables total euro 40,734 thousand (including euro 10,782 thousand in non-current assets), compared with euro 35,990 thousand at December 31, 2010 (including euro 10,755 thousand in non-current assets). They mainly refer to IRES (Italian corporate income tax) receivables for the 2008 – 2009 – 2010 tax years, to IRPEG (Italian corporate income tax) receivables of Pirelli & C. S.p.A, and to tax receivables dating from previous years owed to the Brazilian unit Pirelli Pneus Ltda, for which reimbursement has been requested.

12. INVENTORIES

Inventories can be broken down as follows:

(in thousands of euro)

	06/30/2011	12/31/2010
Pirelli Tyre	829,194	682,048
Others	15,115	10,211
	844,309	**692,259**

(in thousands of euro)

	06/30/2011	12/31/2010
Raw and auxiliary materials and consumables	272,646	200,793
Sundry materials	2,203	1,787
Work in progress and semi-finished products	84,998	64,628
Finished products	464,601	415,672
Goods purchased for resale	6,851	3,723
Advances to suppliers	13,010	5,656
	844,309	**692,259**

The increased value of inventories from December 31, 2010 stems both from the higher unit cost of materials and higher volume concentrated in the Consumer segment, in preparation of winter sales during the second half of the year.

Impairment losses on inventories recognised in H1 2011 totalled euro 3,983 thousand (euro 6,525 thousand at December 31, 2010). The reversal of previous impairments totals euro 5,537 thousand (euro 10,077 thousand at December 31, 2010).

13. SECURITIES HELD FOR TRADING

Securities held for trading amounted to euro 224,775 thousand, compared with euro 209,770 thousand at December 31, 2010.
They mainly consist of bonds issued and guaranteed by governments and banks. These securities are kept with major bank counterparties.
The fair value of listed financial instruments corresponds to their stock market price at June 30, 2011. The fair value of unlisted financial instruments was estimated using the best information available.
The changes in fair value are recognised in the income statement at “financial expenses”.

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents totalled euro 135,835 thousand, compared with euro 244,725 thousand at December 31, 2010.
They are concentrated in the Group’s financial companies and the entities that generate liquidity used locally. They are used essentially on the market for short-term maturity deposits with major banking counterparties at interest rates in line with the prevailing market terms.
In the statement of cash flows, the balance of cash and cash equivalents was indicated net of current bank account overdrafts, totalling euro 13,784 thousand at June 30, 2011 and euro 24,145 thousand at June 30, 2010.

15. EQUITY

15.1 Equity attributable to owners of the Parent

The **Equity attributable to owners of the Parent** rose from euro 1,990,831 thousand at December 31, 2010 to euro 2,013,619 thousand at June 30, 2011.
The euro 22,788 thousand increase is principally explained by the net income for the period (positive euro 161,741 thousand) and the positive effect of inflation in Venezuela (euro 9,233 thousand), offset by the reduction caused by dividend payments (euro 81,113 thousand) and the negative exchange differences resulting from translation into euro of the financial statements of subsidiaries prepared using foreign currencies (negative euro 63,409 thousand).

The subscribed and paid-up **Share capital** at June 30, 2011 (including treasury shares) is represented by 475,740,182 ordinary shares and 12,251,311 savings shares, without par value and having normal entitlements, for a total of euro 1,345,381 thousand.
The Share capital is presented net of the value of treasury shares (351,590 ordinary shares, representing 0.07% of all ordinary shares outstanding, and 408,342 savings shares, representing 3.33% of all savings shares outstanding), for a total of euro 1,343,285 thousand.
The total of treasury shares represents 0.16% of Share capital.
The Share capital decreased from December 31, 2010 after the General Meeting held on April 21, 2011 resolved to reduce it voluntarily by euro 32,498 thousand, pursuant to Article 2445 Italian Civil Code, and charge that amount to Equity. This reduction was intended to complete the assignment of Prelios S.p.A. shares executed in 2010, and had no impact on Group Equity, since the amount of the reduction in Equity was designed to eliminate the negative reserve accrued upon conclusion of the assignment process.

Equity per share was euro 4.126.

15.2 Equity attributable to non-controlling interests

The Equity attributable to owners of non-controlling interests declined from euro 37,152 thousand at December 31, 2010 to euro 33,598 thousand at June 30, 2011.

The principal non-controlling interests in Equity are illustrated as follows:

	06/30/2011	**12/31/2010**
Drahtcord Saar Gmbh & Co. K.G. (Germany)	50.00%	50.00%
Pirelli & C. Eco Technology S.p.A. (Italy)	49.00%	49.00%
Pirelli & C. Ambiente S.p.A. (Italy)	49.00%	49.00%
Euro Driver Car S.L. (Spain)	47.18%	47.18%
Driver Polska Sp.ZO.O. (Poland)	37.50%	38.00%
Driver Italia S.p.A. (Italy)	27.46%	27.46%
Pirelli Tyre Co. Ltd (China)	25.00%	25.00%
S.C. Cord Romania S.R.L (Romania)	20.00%	20.00%
Alexandria Tire Co. S.A.E. (Egypt)	10.90%	10.90%
Pirelli de Venezuela C.A. (Venezuela)	3.78%	3.78%

16. PROVISIONS FOR LIABILITIES AND CHARGES

The changes that occurred during the period are shown below:

PROVISIONS FOR LIABILITIES AND CHARGES - NON-CURRENT PORTION (in thousands of euro)	
Opening balance at 12/31/2010	**165,732**
Translation differences	(1,529)
Increases	2,241
Utilization / releases	(1,911)
Other	18
Closing balance at 06/30/2011	**164,551**

PROVISIONS FOR LIABILITIES AND CHARGES - CURRENT PORTION (in thousands of euro)	
Opening balance at 12/31/2010	**115,984**
Translation differences	(3,331)
Increases	10,278
Utilization / releases	(11,891)
Other	301
Closing balance at 06/30/2011	**111,340**

The **non-current portion** refers mainly to provisions accrued for:

- legal and tax disputes concerning the subsidiary Pirelli Pneus Ltda in Brazil (euro 62,047 thousand) and the parent Pirelli & C. S.p.A. (euro 26,610 thousand);
- labour lawsuits (euro 54,247 thousand);
- guarantees offered upon disposal of Pirelli assets in the former Cables Energy and Telecommunication Systems segments to Goldman Sachs Capital Partner in July 2005 (euro 10,000 thousand).

The **increases** mainly involved adjustments related to the needs to cover tax risks and litigation in the Tyre segment.

The **current portion** mainly includes amounts set aside for product warranties, labour disputes and industrial risks in the Tyre segment.

The **increases** refer principally to accruals by the Tyre segment for product warranties and lawsuits. The **decreases** mainly refer to the conclusion of disputes at the Tyre segment units based in Italy.

17. EMPLOYEE BENEFIT OBLIGATIONS

This item includes:

(in thousands of euro)

	06/30/2011	12/31/2010
Pension funds:		
- funded	200,919	216,762
- unfunded	82,914	85,819
Employees' leaving indemnity (Italian companies)	38,721	44,470
Healthcare plans	18,385	19,768
Other benefits	133,815	114,905
	474,754	**481,724**

- Pension funds

The following table shows a breakdown of pension funds at June 30, 2011:

(in thousands of euro)

	06/30/2011					
	Germany	**Total unfunded pension funds**	**USA**	**UK**	**Other countries**	**Total funded pension funds**
Funded funds						
Present value of funded liabilities			124,357	839,371	3,334	967,062
Fair value of plan assets			(83,029)	(680,331)	(2,783)	(766,143)
Unfunded funds						
Present value of unfunded liabilities	82,914	82,914				
Net liabilities recognised	**82,914**	**82,914**	**41,328**	**159,040**	**551**	**200,919**
of which:						
- Tyre	82,914	**82,914**	41,328	91,271	551	**133,150**
- Other activities				67,769		**67,769**

The following table shows a breakdown of pension funds at December 31, 2010:

(in thousands of euro)

	12/31/2010					
	Germany	**Total unfunded pension funds**	**USA**	**UK**	**Other countries**	**Total funded pension funds**
Funded funds						
Present value of funded liabilities			133,851	868,573	3,351	1,005,775
Fair value of plan assets			(81,878)	(740,434)	(2,701)	(789,013)
Unfunded funds						
Present value of unfunded liabilities	85,819	85,819				
Net liabilities recognised	**85,819**	**85,819**	**51,973**	**164,139**	**650**	**216,762**
of which:						
- Tyre	85,819	85,819	51,973	90,641	650	**143,264**
- Other activities				73,498		**73,498**

The changes during the period in the present value of the liabilities for pension funds (funded and unfunded) are as follows:

(in thousands of euro)

	06/30/2011	12/31/2010
Opening balance	1,091,594	1,000,797
Translation differences	(51,298)	34,245
Discontinued operations		(8,142)
Movements through income statement:		
- current service cost	502	2,128
- interest cost	28,062	56,820
- curtailment / settlement	-	(1,049)
Actuarial (gains)/losses recognised in Equity	6,481	60,478
Employee contributions	11	317
Benefits paid	(25,195)	(53,442)
Other	(181)	(558)
Closing balance	**1,049,976**	**1,091,594**

The changes during the period in the fair value of the pension plan assets are as follows:

(in thousands of euro)

	06/30/2011	12/31/2010
Opening balance	(789,013)	(686,119)
Translation differences	39,750	(25,116)
Movements through income statement:		
- expected return on plan assets	(25,693)	(48,864)
Actuarial (gains)/losses recognised in Equity	3,631	(39,665)
Employer contributions	(10,889)	(22,829)
Employee contributions	(6,285)	(13,916)
Benefits paid	22,199	46,937
Other	157	559
Closing balance	**(766,143)**	**(789,013)**

The pension fund costs expensed to the income statement are as follows:

(in thousands of euro)

	1st Half 2011	1st Half 2010
Current service cost	502	1,410
Interest cost	28,062	28,088
Expected return on plan assets	(25,693)	(24,128)
Curtailment / settlements	-	(1,034)
	2,871	**4,336**

The amounts expensed to the income statement are included in the item "Personnel Expense" (note 26).

- Employee's leaving indemnities (TFR)

Employees' leaving indemnities (Italian companies) changed as follows during the period:

(in thousands of euro)

	06/30/2011	12/31/2010
Opening balance	44,470	51,454
Discontinued operations		(5,538)
Movements through income statement	1,114	2,341
Curtailment / settlements	-	371
Actuarial (gains)/losses recognised in Equity	(814)	314
Payments/advances	(5,842)	(4,621)
Other	(207)	149
Closing balance	**38,721**	**44,470**
of which:		
- Tyre	33,418	34,767
- Other activities	5,303	9,703

- Healthcare plans

Healthcare plans are broken down as follows:

(in thousands of euro)

	USA
Liabilities recognised at 06/30/2011	18,385
Liabilities recognised at 12/31/2010	19,768

The healthcare plan existing in the United States (Tyre segment) covers white collar staff and factory workers, both active and retired.

The plan is divided into two components “pre-Medicare” and “post-Medicare”; the latter is reserved for participants more than 65 years old.

Contributions are paid by both the employer and the employees.

The changes in the period in liabilities recognised for healthcare plans are as follows:

(in thousands of euro)

	06/30/2011	12/31/2010
Opening balance	19,768	17,899
Translation differences	(1,506)	1,390
Movements through income statement:		
- current service cost	1	5
- interest cost	459	1,070
Actuarial (gains)/losses recognised in Equity	435	448
Benefits paid	(772)	(1,044)
Closing balance	**18,385**	**19,768**

The healthcare plan costs expensed to the income statement are as follows:

(in thousands of euro)

	1st Half 2011	1st Half 2010
Current service cost	1	2
Interest cost	459	535
Curtailment / settlements		
	460	**537**

The amounts expensed to the income statement are included in the item "Personnel Expense" (note 26).

Additional information regarding post-employment benefits

Net actuarial losses accrued in H1 2011 and recognised directly in Equity totalled euro 9,733 thousand (at December 31, 2010 net actuarial losses totalled euro 21,618 thousand).

The cumulative amount of net losses recognised in Equity at June 30, 2011, euro 415,644 thousand, including euro 415,622 thousand attributable to owners of the parent (at December 31, 2010 net losses totalled euro 405,911 thousand, including euro 405,889 thousand attributable to owners of the parent), is broken down as follows:

(in thousands of euro)

	Cumulative 06/30/2011					
	Italy	**Germany**	**USA**	**UK**	**Other countries**	**Total**
Pension funds	-	(6,884)	(84,716)	(320,150)	(10,384)	(422,134)
Healthcare plans	-	-	(10,124)	-	-	(10,124)
Employees' leaving indemnity	16,614	-	-	-	-	16,614
Total actuarial gains/(losses) recognised in Equity	**16,614**	**(6,884)**	**(94,840)**	**(320,150)**	**(10,384)**	**(415,644)**

The figure includes the portion of actuarial gains (losses) determined upon first-time adoption of IFRSs.

The breakdown by country at December 31, 2010, again including the portion determined upon first-time adoption of IFRSs, was as follows:

(in thousands of euro)

	Cumulative 12/31/2010					
	Italy	Germany	USA	UK	Other countries	Total
Pension funds	-	(8,924)	(85,461)	(307,234)	(10,404)	(412,023)
Healthcare plans	-	-	(9,689)	-	-	(9,689)
Employees' leaving indemnity	15,801	-	-	-	-	15,801
Total actuarial gains/(losses) recognised in Equity	**15,801**	**(8,924)**	**(95,150)**	**(307,234)**	**(10,404)**	**(405,911)**

The principal actuarial assumptions used at June 30, 2011, which changed from December 31, 2010, are as follows:

	Italy	Germany	Netherlands	UK	USA
Discount rate	4.95%	4.95%	4.95%	5.30%	5.00%

The principal actuarial assumptions used at December 31, 2010 were as follows:

	Italy	Germany	Netherlands	UK	USA
Discount rate	4.75%	4.75%	4.75%	5.40%	5.10%
Inflation rate	2.00%	2.00%	2.00%	3.30%	-
Expected return on plan assets	-	-	-	6.56%	7.25%
Expected rate of wage and salary increases	2.00% *	2.50%	2.00%	3.30%	-
Healthcare cost trend rates - initial	-	-	-	-	8.00%
Healthcare cost trend rates - final	-	-	-	-	4.50%

* indicator valid only for companies with less than 50 employees

Other benefits

Other benefits are broken down as follows:

(in thousands of euro)

	06/30/2011	12/31/2010
Long-term bonus plans	76,478	57,847
Jubilee awards	13,321	13,249
Benefits similar to employees' leaving indemnity - non-Italian companies	22,404	23,840
Other long-term benefits	21,612	19,969
	133,815	**114,905**

The long-term bonus plans for management, totalling euro 76,478 thousand (euro 57,847 thousand at December 31, 2010), reflect

the amount accrued during the year for the plan approved by the Board of Directors of Pirelli & C. S.p.A. on April 21, 2009 and reserved for approximately 90 senior managers, and for the plan approved by the Board of Directors of Pirelli & C. S.p.A. on November 3, 2010 that covers the period 2011-2013 and is offered to all Group executives (at June 30, 2011 there were about 280 beneficiaries).

18. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Borrowings from banks and other financial institutions can be broken down as follows:

(in thousands of euro)

	06/30/2011			12/31/2010		
	Total	Non-current	Current	Total	Non-current	Current
Bonds	496,098	496,098	-	-	-	-
Borrowings from banks	855,182	536,272	318,910	1,098,898	868,960	229,938
Borrowings from other financial institutions	9,179	7,439	1,740	10,039	8,982	1,057
Financial lease payables	17,883	14,561	3,322	19,466	16,232	3,234
Financial accrued expenses and deferred income	18,466	539	17,927	9,037	537	8,500
Other financial payables	505	-	505	4,786	-	4,786
	1,397,313	**1,054,909**	**342,404**	**1,142,226**	**894,711**	**247,515**

The reduction in **non-current bank borrowings** stems principally from repayment of the used portion (euro 380 million) of the syndicated credit facility for euro 675 million, signed in February 2007 by Pirelli Tyre S.p.A. and Pirelli International Limited, and cancelled in February 2011.

Bonds refer to the unrated bond issue placed by Pirelli & C. S.p.A. on the eurobond market for a total nominal amount of euro 500 million. The bond has the following characteristics:

- issuer: Pirelli & C. S.p.A.
- guarantor: Pirelli Tyre S.p.A.
- amount: euro 500 million
- settlement date: February 22, 2011
- maturity date: February 22, 2016
- coupon: 5.125%
- issue price: 99.626%
- redemption price: 100%
- effective yield at maturity: 5.212%

The carrying value of the bond issue at June 30, 2011 was determined as follows:

(in thousands of euro)

	06/30/2011
Nominal value	500,000
Transaction costs	(5,296)
Amortisation of effective interest rate	336
Adjustment for fair value hedge derivatives	1,058
	496,098

With reference to covenants and negative pledge clauses on used credit facilities (included in borrowings from banks), it should be noted that the following revolving credit facility is subject to financial covenants and negative pledge clauses:

– syndicated facility (granted to Pirelli & C. S.p.A., Pirelli Tyre S.p.A. and Pirelli International Ltd) for a total of euro 1,200,000 thousand, used for euro 90,000 thousand and for which just one financial covenant applies, i.e. the undertaking to maintain a certain ratio between consolidated net indebtedness and gross operating profit. This parameter was fully satisfied at June 30, 2011.

  In regard to the negative pledges, the credit facility requires a commitment not to grant secured guarantees, above a threshold defined as the greater of euro 100,000 thousand and 3% of Total Assets (as defined in the consolidated financial statements of Pirelli & C. S.p.A.), with the exception of secured guarantees on the existing debt or debt to replace it, to be granted pursuant to law, relating to “export finance,” “project finance” and subsidised finance.

The other outstanding financial payables do not contain financial covenants.

Five other loans were outstanding at June 30, 2011, having been granted by the European Investment Bank (EIB) in favour of Pirelli & C. S.p.A. and Pirelli Tyre S.p.A. for research and development projects and in favour of S.C. Pirelli Tyres Romania S.r.l. for local industrial investments. These loans total euro 400,000 thousand, with utilisation of euro 380,000 thousand, and are classified under non-current borrowings from banks for euro 267,500 thousand, while the remaining euro 112,500 thousand is classified under current borrowings from banks.

19. TRADE PAYABLES

Trade payables are broken down as follows:

(in thousands of euro)

	06/30/2011			12/31/2010		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Associates	151	-	151	1,439	-	1,439
Suppliers	1,132,446	-	1,132,446	1,053,222	-	1,053,222
Notes payable	8,175	-	8,175	11,700	-	11,700
	1,140,772	**-**	**1,140,772**	**1,066,361**	**-**	**1,066,361**

The increase from December 31, 2010 stems principally from growth in the values of business.

20. OTHER PAYABLES

Other payables are broken down as follows:

(in thousands of euro)

	06/30/2011			12/31/2010		
	Total	Non-current	Current	Total	Non-current	Current
Associates	2,140	-	2,140	1,210	-	1,210
Trade and other accrued liabilities and deferred receivables	87,432	2,758	84,674	85,180	6,930	78,250
Tax payables	87,840	17,477	70,363	70,811	17,171	53,640
Payables to employees	134,049	2	134,047	127,411	74	127,337
Payables to social security and welfare institutions	46,039	14,593	31,446	50,252	11,130	39,122
Dividends approved	1,142	-	1,142	1,125	-	1,125
Other payables	168,540	8,314	160,226	109,048	6,359	102,689
	527,182	**43,144**	**484,038**	**445,037**	**41,664**	**403,373**

The **other current payables** at June 30, 2011 mainly include:

- payables of euro 2,576 thousand for customs duties;
- payables of euro 86,735 thousand for the purchase of property, plant and equipment;
- payables of euro 4,260 thousand to agents, professionals and consultants;
- advances of euro 7,548 thousand granted to the Tyre segment for research projects;
- payables of euro 5,912 thousand for income tax withholding owed by the Tyre segment;
- advances from customers of euro 6,439 thousand;

21. TAX PAYABLES

Tax payables refer to income taxes and total euro 76,489 thousand (including euro 5,433 thousand in non-current liabilities), compared with euro 70,106 thousand at December 31, 2010 (including euro 5,547 thousand for non-current liabilities).

22. DERIVATIVE FINANCIAL INSTRUMENTS

This item includes the fair value measurement of derivative instruments outstanding at June 30, 2011.

The breakdown is shown as follows:

(in thousands of euro)

	06/30/2011				12/31/2010			
	Assets		Liabilities		Assets		Liabilities	
	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	Current
Hedge accounting not adopted								
Foreign currency derivatives - commercial transactions		36,138		(38,914)		32,539		(37,086)
Foreign currency derivatives - included in net financial position		2,142		(3,142)		915		(4,810)
Interest rate derivatives				(18,783)				
Hedge accounting adopted								
- cash flow hedge:								
Foreign currency derivatives - commercial transactions				(1,729)		1,705		
Interest rate derivatives								(28,018)
Other derivatives		215						
- fair value hedge								
Interest rate derivatives		1,058						
Other derivatives		2,542						
		42,095		**(62,568)**		**35,159**		**(69,914)**

Derivative financial instruments for which hedge accounting has not been adopted

The value of **foreign currency derivatives** corresponds to the fair value of forward currency purchases/sales outstanding at the closing date of the period. These involve hedges of Group commercial and financial transactions for which hedge accounting was not adopted. The fair value is determined by using the exchange rate at the reporting date.

The value of **interest rate derivatives**, recognised under current liabilities for euro 18,783 thousand, corresponds to the fair value measurement of “plain vanilla” interest rate swaps on a notional amount of euro 950 million (of which euro 375 million maturing in February 2012 and euro 575 million for forward start transactions beginning in February 2012 and expiring in February 2015). These derivatives were made to hedge against a rise in interest rates associated with the variable rate revolving credit facility for euro 675 million, signed in February 2007 by Pirelli Tyre S.p.A. and Pirelli International Limited, and with the forecasted new variable rate loans with similar characteristics replacing that revolving credit facility at maturity. For these derivatives hedge accounting was adopted. At December 31, 2010 the fair value of these derivatives was a negative euro 28,018 thousand. Following issuance of the fixed rate bond for euro 500 million in February 2011 and simultaneous repayment of the used portion of the aforementioned credit facility for euro 380 million, hedge accounting was discontinued on February 28, 2011 for all existing derivatives, insofar as the conditions set out in IAS 39 are no longer satisfied.

The following table summarises the changes in the aforementioned derivatives and the amounts recognised in Equity and in the income statement for the period:

(in thousands of euro)

	12/31/2010	**02/28/2011 - fair value recognition in Equity**	**02/28/2011 - Interruption of hedge accounting**	**04/07/2011 - closure of derivatives**	**06/30/2011 - fair value recognition in income**	**06/30/2011**
Notional						
- derivatives in hedge accounting	1,050,000		(1,050,000)			-
- derivatives not in hedge accounting	-		1,050,000	(100,000)		950,000
Carrying value:						
- derivatives in hedge accounting	(28,018)	9,631	18,387			-
- derivatives not in hedge accounting			(18,387)		(396)	(18,783)

A positive euro 11,061 thousand was recognised in Equity for the period (negative euro 5,212 thousand at December 31, 2010), and is broken down as follows:

– euro 9,631 thousand for the gains recognised in Equity during the period (losses of euro 10,598 thousand at December 31, 2010), corresponding to the fair value measurement of derivative financial instruments at February 28, 2011, the date on which hedge accounting was discontinued;
– euro 1,430 thousand for reclassification to the income statement of losses that had previously accumulated in Equity and concerning derivative instruments for which hedge accounting was discontinued on February 28, 2011.

Derivative financial instruments for which hedge accounting has been adopted

- *Cash flow hedge*

The value of **foreign currency derivatives** (current liabilities of euro 1,729 thousand at June 30, 2011; current assets of euro 1,705 thousand at December 31, 2010) corresponds to the fair value of forward currency purchases. The purpose of this hedge, implemented in Q4 2010, is to limit exposure to the economic effects resulting from a change in the exchange rate on future purchases planned until December 2011 and that are denominated in U.S. dollars, mainly for natural rubber.

A negative euro 3,434 thousand was recognised in Equity for the period (positive euro 1,705 thousand at December 31, 2010), and is broken down as follows:

– euro 3,072 thousand for losses recognised in Equity during the period;
– euro 362 thousand for reclassification to the income statement of gains that were previously recognised in Equity. Such gains have adjusted the amount related to the purchases of natural rubber of the period.

The value of **other derivatives** (current assets of euro 215 thousand) reflects the fair value of futures contracts acquired for the purchase of natural rubber. The purpose of this hedge, made beginning in May 2011, is to limit exposure to the economic effects resulting from a change in the prices of natural rubber, and thus stabilise the cost of future supplies for a limited portion of total procurement requirements forecasted for the period May 2011 – February 2012. The net amount recognised in Equity for the period was a positive euro 386 thousand, including euro 586 thousand for the gains recognised in Equity during the period and euro 200 thousand for reclassification to the income statement of gains that were previously recognised in Equity. Such gains have adjusted the amount related to the purchases of natural rubber of the period.

- *Fair value hedge*

The value of **interest rate derivatives** (current assets of euro 1,058 thousand) corresponds to the fair value of interest rate swaps on a notional amount of euro 125 million, made in order to hedge the risk of changes in the fair value of a portion of the fixed rate bond issued by Pirelli & C. S.p.A. in February 2011 for euro 500 million (see note 18 “Borrowings from banks and other financial institutions”). Fair value hedge accounting has been adopted for these derivative financial instruments. Consequently, the positive change in the fair value of the derivative instrument is recognised in the income statement and it is offset by a loss on the bond issue attributable to the risk hedged for the same amount, recognised in the income statement under financial expenses and as an adjustment of the carrying value of the bond issue (“basis adjustment”).

The value of **other derivatives** (current assets of euro 2,542 thousand) reflects the fair value measurement of the put option held by Pirelli & C. S.p.A. on the shares of Advanced Digital Broadcast Holdings S.A., which have been classified as available-for-sale financial assets, as protection against the risk of a reduction in the market value of the shares held. Fair value hedge accounting has been adopted for these derivative financial instruments. Consequently, the positive change in the fair value of the derivative financial instrument (euro 2,531 thousand) is recognised in the income statement and offsets the negative fair value of available-for-sale financial assets recognised in the income statement for the portion attributable to the hedged risk. Also see note 29.3 “Losses from equity investments”.

23. COMMITMENTS AND CONTINGENCIES

Commitments for purchase of equity interests/fund units

These refer to commitments by Pirelli Finance (Luxembourg) S.A. to subscribe units of the company Equinox Two S.c.a., a private equity company specialised in investments in listed and unlisted companies with high growth potential, for a maximum countervalue of euro 5,259 thousand.

Commitments for purchase of property, plant and equipment

The commitments to purchase property, plant and equipment relate mainly to the Tyre segment and amount to euro 233.5 million (euro 197.8 million at December 31, 2010), mostly regarding companies in Mexico, Brazil, China, Italy, Argentina, Romania and Germany.

Guarantees given on the sale of Olimpia

On the sale of the equity interest in Olimpia S.p.A., the sellers (Pirelli and Sintonia) remained contractually liable for all the contingent tax liabilities regarding the years up to the date of sale.

The current tax litigation can be summarised as follows.

At the end of 2006, the Italian Internal Revenue Agency ("Agenzia delle Entrate") served Olimpia S.p.A. with an assessment notice for **2001**, concerning IRAP (regional tax on productive activity).

More precisely, for this financial year, on the basis of an assumption which is entirely groundless both legally and economically, the Agenzia delle Entrate had found that non-existent financial income had been realised on the Bell Bond Loan redeemable with Olivetti shares, with a consequent IRAP tax of euro 26.5 million, plus penalties for the same amount.

The Company appealed against this tax assessment, claiming that the ascertained taxable income was manifestly non-existent.

At the trial level, the Trial Tax Court accepted the Company's appeal, cancelling the entire tax assessment.

The Agenzia delle Entrate subsequently appealed this decision.

The appeal by the Agenzia delle Entrate was also rejected by the Regional Tax Court.

Notwithstanding the double judgements against it, the Agenzia delle Entrate filed an appeal with the Court of Cassation, against which the Company has filed a cross-appeal.

In the assessment for the **2002** tax year, served at the end of 2007, Olimpia was characterised as a “shell company,” on the basis of perfectly arbitrary reclassification of items on its financial statements and arbitrary statutory interpretations. The Company’s appeal was not only accepted by the trial court, but the Ministry of Finance was also ordered to pay all legal costs. The IRPEG (corporate income tax) claim amounted to euro 29.3 million, plus penalties for the same amount.

Despite such a clear judgement, the Agenzia delle Entrate lodged its own appeal, which was heard before the Regional Tax Court. We are awaiting the judgement on this appeal, which we expect will uphold the trial court decision.

At the end of 2008, a second notice of assessment was served for the **2003** tax year, in which Olimpia was once again characterised as a “shell company.”

The IRPEG (corporate income tax) claim amounted to euro 28.5 million, plus penalties for the same amount.

The Company appealed to the Tax Court of first instance against this tax assessment, which was, like the other ones, absolutely unfounded. The Tax Court ruled in favour of the Company.

Finally, at the end of 2009, a third notice of assessment was served for the **2004** tax year, in which Olimpia was yet again characterised as a “shell company.”

The IRES (corporate income tax) claim amounts to euro 29.6 million, plus penalties for the same amount.

This assessment, just like the ones that preceded it, is absolutely unfounded. Therefore, the Company lodged an appeal against it too before the Tax Court of first instance, which ruled in favour of the Company just as it had done before.

Other contingencies

In the scope of a European Commission investigation on the underground and submarine electric cable market, Pirelli was notified on July 5, 2011 of charges made against it strictly in relation to its capacity as controlling shareholder of Prysmian Cavi e Sistemi Energia S.r.l. until July 2005.

The notice contains the preliminary analysis by the European Commission on the alleged anti-competitive conduct of Prysmian Cavi e Sistemi Energia S.r.l. However, that analysis in no way prejudices the final decision to be taken by the Commission. Pirelli will now start the necessary analyses, since it finally has access to the investigation dossier compiled by the Commission.

24. REVENUE FROM SALES AND SERVICES

The revenue from sales and services is broken down as follows:

(in thousands of euro)

	H1 2011	H1 2010
Revenue from sales of goods	2,732,013	2,321,069
Revenue from services	57,239	47,888
	2,789,252	**2,368,957**

25. OTHER INCOME

This item amounts to euro 73,938 thousand, compared with euro 58,227 thousand in H1 2010, and mainly includes income from sports activity (principally related to F1), royalties, indemnities, reimbursements and other minor items.

26. PERSONNEL EXPENSE

This is broken down as follows:

(in thousands of euro)

	H1 2011	H1 2010
Wages and salaries	412,157	374,990
Social security and welfare contributions	91,223	80,254
Expenses for employees' leaving indemnity and similar costs*	19,347	17,093
Expenses for defined-contribution pension funds	8,386	7,239
Expenses for defined-benefit pension funds	2,871	4,336
Expenses for defined-benefit healthcare plans	460	537
Expenses for jubilee awards	659	667
Expenses for defined-contribution healthcare plans	17,038	14,719
Other costs	6,903	7,455
	559,044	**507,290**

* includes Italian and foreign companies

The item "wages and salaries" includes euro 18,750 thousand relating to the portion accrued in the period for the long-term management bonus plans.

In regard to the amounts relating to employees' leaving indemnity (TFR), pension funds and defined benefit healthcare plans, see the comment on the item "Employee benefit obligations" (note 17).

Personnel expense in H1 2011 includes euro 7,654 thousand for restructuring expenses classified as non-recurring events (1.4% of the total), compared with euro 7,908 thousand in H1 2010 (1.6% of the total).

27. AMORTISATION, DEPRECIATION AND IMPAIRMENT

The amortisation, depreciation and impairment of property, plant and equipment and intangible assets are broken down as follows:

(in thousands of euro)

	H1 2011	H1 2010
Amortisation	1,827	2,159
Depreciation	111,320	103,433
	113,147	**105,592**

No impairment was charged during the period.

28. OTHER COSTS

This item is broken down as follows:

(in thousands of euro)

	H1 2011	H1 2010
Selling costs	133,077	141,089
Purchases of goods for resale	136,109	96,376
Fluids and power	100,885	90,755
Advertising	89,631	75,114
Professional advice	17,662	18,798
Maintenance	24,396	23,099
Warehouse operating costs	21,910	21,313
Leases and rentals	32,241	26,658
Outsourcing	10,534	10,964
Travel expenses	17,776	15,412
IT expenses	12,284	12,448
Compensation of key managers	3,137	3,574
Other provisions	6,292	8,939
Duty stamps, duties and local taxes	18,772	13,754
Canteen	9,412	8,521
Bad debts	9,194	7,862
Insurance	12,590	11,520
Lease instalments	5,684	7,145
Cleaning expenses	7,156	5,658
Waste disposal	5,541	4,732
Security expenses	4,442	3,924
Telephone expenses	4,608	3,137
Other	147,542	83,509
	830,875	**694,301**

29. NET INCOME (LOSS) FROM EQUITY INVESTMENTS

29.1 Share of net income (loss) of associates and joint ventures

The Group's share of net (loss) income of associates and joint ventures accounted for using the Equity method was a negative euro 286 thousand, compared with a negative euro 3,246 thousand in H1 2010.

The amount for H1 2011 relates principally to the equity investment in RCS Mediagroup S.p.A. (negative euro 769 thousand) and Sino Italian Wire Technology Co. Ltd. (negative euro 900 thousand), offset by Eurostazioni S.p.A. (positive euro 1,340 thousand).

The amount for H1 2010 related principally to the equity investment in RCS Mediagroup S.p.A. (negative euro 4,657 thousand), offset by Eurostazioni S.p.A. (positive euro 1,104 thousand).

29.2 Gains from equity investments

This item is broken down as follows:

(in thousands of euro)

	H1 2011	H1 2010
Gains on disposal of available-for-sale financial assets	1,259	15
Gains on disposal of equity investments in Group companies	66	-
	1,325	**15**

The **gains on disposal of available-for-sale financial assets** refer mainly to disposal of the equity investment in the Gruppo Banca Leonardo S.p.A..

29.3 Losses from equity investments

This item is broken down as follows:

(in thousands of euro)

	H1 2011	H1 2010
Impairment of equity investments in associates and joint ventures	-	15
Impairment of available-for-sale financial assets	556	3,727
	556	**3,742**

The item **impairment of available-for-sale financial assets** refers mainly to the equity investment in Tiglio I S.r.l.

The item also includes a loss of euro 2,531 thousand on the equity investment in Advanced Digital Broadcast Holdings S.A., classified as an available-for-sale financial asset, and recognised in the income statement because the investment is hedged against changes in fair value for effect of the put option held on the investment. Since fair value hedge accounting was adopted for the option, the loss on the equity investment was offset by the positive fair value of euro 2,531 thousand recognised for the put option (see note 22 “Derivative financial instruments”). Consequently, its impact on the income statement was zero.

In H1 2010 this item included euro 3,042 thousand for the equity investment in Gruppo Banca Leonardo S.p.A., euro 580 thousand in Tiglio II and euro 105 thousand in Genextra.

29.4 Dividend income

Dividend income in H1 2011 totalled euro 433 thousand, and stemmed mainly from mutual fund income.

In H1 2010, this item amounted to euro 2,926 thousand and referred principally to dividends paid by Gruppo Banca Leonardo S.p.A. (euro 2,749 thousand).

30. FINANCIAL INCOME

Financial income is broken down as follows:

(in thousands of euro)

	H1 2011	H1 2010
Interest	15,062	8,645
Other financial income	6,368	4,886
Gains on exchange rates	206,748	136,761
Fair value measurement of securities held for trading	-	17,117
	228,178	**167,409**

Gains on exchange rates include the adjustment to the period-end exchange rates of items expressed in currencies other than the functional currency outstanding at the reporting date and gains made on items realised during the period.

31. FINANCIAL EXPENSES

These are broken down as follows:

(in thousands of euro)

	H1 2011	H1 2010
Interest to banks	32,469	23,612
Other financial expenses	18,630	18,836
Losses on exchange rates	194,693	160,959
Fair value measurement of securities held for trading	1,106	818
Fair value measurement of currency derivatives	24,903	-
Fair value measurement of other derivative instruments	1,128	3,731
	272,929	**207,956**

The item **interest to banks** includes euro 9,057 thousand related to the bond issued by Pirelli & C. S.p.A.

Other financial expenses include euro 1,058 thousand for adjustment of the value of the bond issue, upon adoption of fair value hedge accounting for the interest rate swaps made to hedge the risk of changes in fair value.

Losses on exchange rates include the adjustment to the period-end exchange rates of items expressed in currencies other than the functional currency outstanding at the reporting date and losses made on items realised during the period.

The item **fair value measurement of currency derivatives** relates to forward purchases/sales of foreign currencies. For transactions open at June 30, 2011, the fair value is determined using the forward exchange rate at the reporting date.

The **fair value measurement of other derivative instruments** (also see note 22 "Derivative financial instruments") mainly includes:

– euro 1,058 thousand for the positive valuation of the interest rate swaps made by Pirelli & C. S.p.A. on a notional amount of euro 125 million;

– negative euro 1,430 thousand for reclassification to the income statement of losses that had previously accumulated in Equity and were related to derivative instruments for which hedge accounting was discontinued.

32. INCOME TAXES

Income taxes for the period are broken down as follows:

(in thousands of euro)

	H1 2011	**H1 2010**
Current taxes	87,480	67,910
Deferred taxes	(7)	2,422
	87,473	**70,332**

In spite of the absolute increase in current taxes, the tax rate improved, falling from 47.7% in H1 2010 to 35.5% in H1 2011. This reflected an improved mix of countries that generate profits and tax losses carried forward.

33. NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS

The net loss from discontinued operations in H1 2010, euro 252,544 thousand, consisted of euro 256,372 thousand for the loss on assignment of Prelios S.p.A. shares, completed in October 2010, and euro 3,828 thousand for the net income generated by the Broadband Access operating segment, which was sold in November 2010.

34. EARNINGS (LOSSES) PER SHARE

Basic earnings (losses) per share are given by the ratio between net income (loss) attributable to owners of the parent (adjusted to take into account the minimum dividend allocated to savings shares) and the weighted average of the number of ordinary shares outstanding during the period, with the exclusion of treasury shares.

(in thousands of euro)

	H1 2011	H1 2010
Net income (loss) for the period attributable to owners of the parent from **continuing operations** (in thousands of euro)	161,741	78,835
Net income (loss) attributable to savings shares reflecting 2% minimum dividend (in thousands of euro)	(4,008)	(1,954)
Adjusted net income (loss) for the period attributable to owners of the parent from **continuing operations** (in thousands of euro)	157,733	76,881
Weighted average of outstanding ordinary shares (in thousands)	475,389	475,389
Basic earnings (loss) per ordinary share from continuing operations (in euro per shares)	**0.33**	**0.16**
Net income (loss) for the period attributable to owners of the parent from **discontinued operations** (in thousands of euro)	-	(244,322)
Net income (loss) attributable to savings shares reflecting 2% minimum dividend (in thousands of euro)	-	6,054
Adjusted net income (loss) for the period attributable to owners of the parent from **discontinued operations** (in thousands of euro)	-	(238,268)
Weighted average of outstanding ordinary shares (in thousands)	475,389	475,389
Basic earnings (loss) per ordinary share from discontinued operations (in euro per shares)	**-**	**(0.50)**

The **diluted earnings (losses)** per share at June 30, 2011 have not been calculated because, following expiration of the stock option plans on or before December 31, 2010, the prerequisites for such calculation are not met.

35. DIVIDENDS PER SHARE

Pirelli & C. S.p.A. paid to its shareholders dividends based on 2010 earnings equal to euro 0.165 per each of the ordinary shares and euro 0.229 per each of the savings shares, for a total amount of euro 81,151 thousand.

36. RELATED PARTY TRANSACTIONS

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

The statement below shows a summary of the balance sheet and income statement items for continuing operations only that include transactions with related parties and their percentage impact:

(in millions of euro)

	Total reported at 06/30/2011	of which related parties	% share	Total reported at 12/31/2010	of which related parties	% share
BALANCE SHEET						
Non-current assets						
Other receivables	336.9	150.0	44.5%	315.5	140.4	44.5%
Current assets						
Trade receivables	887.1	11.2	1.3%	676.7	8.1	1.2%
Other receivables	255.6	16.2	6.4%	175.0	9.3	5.3%
Current liabilities						
Borrowings from banks and other financial institutions	342.4	0.1	0.0%	247.5	0.1	0.0%
Trade payables	1,140.8	3.9	0.3%	1,066.4	5.4	0.5%
Other payables	484.0	2.2	0.5%	403.4	1.2	0.3%

	Total reported at 06/30/2011	of which related parties	% share	Total reported at 06/30/2010	of which related parties	% share
INCOME STATEMENT						
Revenue from sales and services	2,789.3	5.7	0.2%	2,369.0	2.3	0.1%
Other income	73.9	1.8	2.4%	58.2	0.2	0.4%
Personnel expense	(559.0)	(1.6)	0.3%	(507.3)	(1.4)	0.3%
Other costs	(830.9)	(11.7)	1.4%	(694.3)	(11.5)	1.6%
Financial income	228.2	3.8	1.7%	167.4	-	0.0%

The effects of related party transactions on the consolidated income statement and balance sheet of the Pirelli & C. Group at June 30, 2011 are shown below.

Transactions with associates

(in millions of euro)

Revenue from sales and services	5.6	The amount consists principally of services provided by: Pirelli Tyre S.p.A. to Sino Italian Wire Technology Co. Ltd (euro 5.2 million); Pirelli & C. Ambiente S.p.A. to Idea Granda Società Consortile r.l. (euro 0.3 million).
Other costs	1.5	The amount consists principally of purchases of raw materials by Pirelli Tyre Co. Ltd (euro 1.3 million) and other costs of Pirelli Tyre S.p.A. (euro 0.1 million) from Sino Italian Wire Technology Co. Ltd.
Current trade receivables	5.9	They principally refer to services provided by: Pirelli & C. Ambiente S.p.A. to Idea Granda Società Consortile r.l. (euro 0.5 million); by Pirelli Tyre S.p.A. to Sino Italian Wire Technology Co. Ltd (euro 5.2 million).
Non-current other receivables	3.9	The amount principally refers to the receivables of Solar Utility S.p.A. from G.P. Energia S.r.l. (euro 2.0 million) and of Pirelli & C. S.p.A. from Eurostazioni S.p.A. (euro 1.9 million).
Current financial receivables	12.4	The amount refers to receivables of: Pirelli International Ltd. from Sino Italian Wire Technology Co. Ltd (euro 7.6 million); Solar Utility S.p.A. from Solar Prometheus S.r.l. (euro 4.0 million) and from Solar Utility Salento S.r.l. (euro 0.3 million); Pirelli & C. Ambiente S.p.A. from Serenergy S.r.l. (euro 0.2 million) and from Green&Co2 S.r.l. (euro 0.3 million).
Current trade payables	0.2	The amount refers to payables by Pirelli Tyre S.p.A. to Sino Italian Wire technology Co. Ltd (euro 0.1 million) and by Pirelli & C. S.p.A. to Corimav (euro 0.1 million).
Current other payables	2.1	The amount consists principally of payables by Solar Utility S.p.A. (euro 2.1 million) to G.P. Energia S.r.l.
Borrowings from banks and other financial institutions	0.1	The amount refers to payables by Pirelli Servizi Finanziari S.p.A. To Corimav.

Pirelli related party transactions through its directors

(in millions of euro)

Current trade receivables	5.4	The amount refers to receivables connected with the aforementioned services to the Camfin Group (euro 1.0 million) and to the Prelios Group (euro 4.2 million), of which the following in detail: Pirelli Sistemi Informativi (euro 2.2 million); Pirelli & C. S.p.A. (euro 1.4 million); Pirelli & C. Ambiente Site Remendation S.p.A. (euro 0.4 million).
Non-current other receivables	150.0	The amount refers to the loan to Prelios S.p.A. as part of the spin-off.
Current trade payables	3.8	This amount refers principally to payables to FC Internazionale Milano S.p.A. (euro 2.9 million) and to payables to the Prelios Group (euro 0.9
Dividends paid (cash outflow)	20.6	Dividends to Camfin S.p.A. (euro 20.6 million).
Investments in other financial assets (cash outflow)	0.6	This item refers to the capital increase of F.C. Internazionale Milano S.p.A.
Revenue from sales and services	0.2	The amount refers to services provided mainly to the Camfin Group (euro 0.1 million) by Pirelli & C. S.p.A.
Other income	1.8	This refers principally to services provided by Pirelli Sistemi Informativi S.p.A. to the Prelios Group (euro 1.2 million) and to the Camfin Group (euro 0.1 million); and to lease income and related operating expenses of Pirelli & C. S.p.A. to Prelios S.p.A. (euro 0.1 million).
Other costs	7.1	The amount refers principally to sponsorship costs owed to FC Internazionale Milano S.p.A. (euro 5.9 million).
Financial income	3.8	The amount refers to accrued interest (euro 3.0 million) and fees (euro 0.8 million) on the outstanding loan to Prelios S.p.A.

Transactions with other related parties

(in millions of euro)		
Payment of fees (cash outflow)	1.1	The amount refers to up-front fees for placement of the bond issue paid by Pirelli & C. S.p.A. to Banca IMI S.p.A. and Mediobanca S.p.A.

Benefits for key managers of the Company

At June 30, 2011, benefits payable to key managers, i.e. to those who have the power and responsibility, directly or indirectly, for planning, managing and controlling the business of Pirelli & C. S.p.A., including executive and non-executive directors, amounted to euro 4,730 thousand (euro 4,999 thousand at June 30, 2010). The portion relating to employee benefits was recognised in the income statement item “personnel expense” for euro 1,593 thousand of which euro 277 thousand relating to employees’ leaving indemnity (euro 1,425 thousand at June 30, 2010, of which euro 93 thousand relating to employees’ leaving indemnity) and for euro 3,137 thousand in the income statement item “other costs” (euro 3,574 thousand at June 30, 2010).

37. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FIRST HALF

On **July 5, 2011** Pirelli acquired 15% of the company Pirelli Tyre Co. Ltd from the minority shareholder for Yuan Renminbi 256 million, or about euro 28 million. This share purchase, made in view of reinforcing the Group’s business in China, raised its shareholding to 90%.

On **July 7, 2011** Pirelli Ambiente, acting through its subsidiary Solar Utility S.p.A., acquired a 16.9% shareholding in GWM Renewable Energy II S.p.A. (Gwm RE II), the vehicle that controls the renewable energy activities of the GWM Group. The other shareholders are the Intesa Sanpaolo Group, with a shareholding of 12.5%, and GWM Renewable Energy I, which owns the remaining 70.6%.

Pirelli Ambiente will consequently participate in an international project in the renewable energy sector. GWM RE II aims to become a major European player in the renewable energy sector. The company already controls 42 Megawatt of photovoltaic power generation in Italy and Spain and another 222 Megawatt of wind power generation capacity currently installed in four European countries. It also has 52 Megawatt of capacity under construction, operating through the Danish company Greentech, which owns about 20% of the capital.

Acquisition of this equity interest by Solar Utility S.p.A., at a total price of about euro 25 million, including euro 10 million in cash and the remainder coming from reinvestment of the sale proceeds of its shareholding in GP Energia S.p.A., a joint venture established last year with the GWM Group, to which Solar Utility S.p.A. had contributed its own photovoltaic activities. The agreement is part of the project to simplify the equity investments of Pirelli Ambiente and identify strategic partners for the development of its activities and enhancement of its know-how through non-controlling interests.

On **July 25, 2011** Pirelli, Russian Technologies and Sibur Holding signed an agreement that lists the assets to be transferred to the new joint venture between Pirelli and Russian Technologies. This joint venture will be the principal entity responsible for management of the activities that can be converted back to Pirelli standards in the car and light truck sector in Russia, pursuant to the memorandum of understanding (MOU) signed on November 26, 2010. In particular, the agreement envisages the transfer of the Kirov plant by November 2011. This plant is currently capable of producing over 7 million units in the car and light truck sector. The agreement also defines the commitment to transfer additional assets that are expected to raise the production capacity of the joint venture to 11 million units by 2014. These assets will be transferred in exchange for a total consideration of euro 222 million, with the obligation being split between the partners in proportion to their shareholdings and an outlay of euro 55 million in 2011 and euro 167 million in 2012. The Pirelli branded product may account for up to 50% of installed capacity (about 11 million units total). The joint venture will produce winter tyres for the replacement market, with a special focus on studdable tyres to meet demand in the Russian and CIS area markets. The joint venture will have a market share of about 20%. The joint venture is forecast to generate sales of about euro 300 million in 2012, growing to over euro 500 million in 2014. That growth would be realised partly through capital expenditure totalling euro 200 million for the transformation and expansion of production capacity between 2012 and 2014. Once the start-up phase has been completed, it is expected that profitability will reach double-digit rates from 2013. The agreements made for the new joint venture between Russian Technologies and Pirelli allow the latter to increase its equity investment from 50% to 75% through a three-year put and call option. The joint venture will be consolidated by Pirelli at the time of the acquisition, partly in accordance with the existing management agreement.

38. OTHER INFORMATION

Exchange rates

The main exchange rates used for consolidation purposes are as follows:

(local currency against euro)

	Period-end		Change in %	Average		Change in %
	06/30/2011	12/31/2010		1st half 2011	1st half 2010	
British pound	0.9026	0.8608	4.86%	0.8684	0.8704	(0.23%)
Swiss franc	1.2071	1.2504	(3.46%)	1.2697	1.4360	(11.58%)
Slovakian koruna	30.1260	30.1260	0.00%	30.1260	30.1260	0.00%
American dollar	1.4453	1.3362	8.16%	1.4041	1.3280	5.73%
Canadian dollar	1.3951	1.3322	4.72%	1.3708	1.3728	(0.15%)
Brazilian real	2.2563	2.2264	1.34%	2.2912	2.3858	(3.97%)
Venezuela bolivar	6.2148	5.7457	8.16%	6.2148	5.2765	17.78%
Argentinean peso	5.9402	5.3127	11.81%	5.6892	5.1379	10.73%
Australian dollar	1.3485	1.3136	2.66%	1.3582	1.4854	(8.56%)
Chinese renminbi	9.3534	8.8493	5.70%	9.1844	9.0640	1.33%
Singapore dollar	1.7761	1.7136	3.65%	1.7659	1.8552	(4.81%)
Egyptian pound	8.6277	7.7553	11.25%	8.3047	7.3558	12.90%
Turkish lira	2.3605	2.0590	14.64%	2.2054	2.0255	8.88%

Transactions resulting from atypical and/or unusual operations

Pursuant to Consob Notice of July 28, 2006, the Group certifies that it did not carry out any atypical and/or unusual operations in H1 2011, as defined in the Notice itself.

Net financial (liquidity)/debt position

(alternative performance measure not envisaged by the accounting standards)

(in thousands of euro)

	Note	06/30/2011		12/31/2010	
			of which related parties		**of which related parties**
Current borrowings from banks and other financial institutions	18	342,404	133	247,515	77
Current derivative financial instruments (liabilities)	22	3,142		4,810	
Non-current borrowings from banks and other financial institutions	18	1,054,909		894,711	
Total gross debt		**1,400,455**		**1,147,036**	
Cash and cash equivalents	14	(135,835)		(244,725)	
Securities held for trading	13	(224,775)		(209,770)	
Current financial receivables	10	(20,163)	(12,433)	(13,266)	(5,926)
Current derivative financial instruments (assets)	22	(2,142)		(915)	
Net financial debt *		**1,017,540**		**678,360**	

Non-current financial receivables	10	(238,687)	(150,000)	(222,757)	(140,419)
Total net financial (liquidity) / debt position		**778,853**		**455,603**	

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

Companies consolidated line-by-line

Company	Business	Headquarters	Currency	Share Capital	% holding	Held by
Europe						
Austria						
Pirelli GmbH	Tyre	Vienna	Euro	726.728	100,00%	Pirelli Tyre (Suisse) SA
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700.000	100,00%	Pirelli Tyre (Suisse) SA
France						
Gecam France S.a.S.	Sustainable mobility	Villepinte	Euro	130.205	70,00%	Pirelli & C. Eco Technology S.p.A.
Pirelli Solutions France S.a.r.l. société en liquidation	Telecommunications	Villepinte	Euro	10.000	100,00%	Pirelli & C. S.p.A.
Pneus Pirelli S.a.S	Tyre	Villepinte	Euro	1.515.858	100,00%	Pirelli Tyre (Suisse) SA
Germany						
Deutsche Pirelli Reifen Holding GmbH	Financial	Breuberg / Odenwald	Euro	7.694.943	100,00%	Pirelli Tyre S.p.A.
Drahtcord Saar Geschaeftsfuehrungs GmbH	Tyre	Merzig	Deut. Mark	60.000	50,00%	Pirelli Deutschland GmbH
Drahtcord Saar GmbH & Co. KG	Tyre	Merzig	Deut. Mark	30.000.000	50,00%	Pirelli Deutschland GmbH
Driver Handelssysteme GmbH	Tyre	Breuberg / Odenwald	Euro	26.000	100,00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Deutschland GmbH	Tyre	Breuberg / Odenwald	Euro	26.334.100	100,00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Personal Service GmbH	Tyre	Breuberg / Odenwald	Euro	25.000	100,00%	Deutsche Pirelli Reifen Holding GmbH
PK Grundstuecksverwaltungs GmbH	Tyre	Hoechst / Odenwald	Euro	26.000	100,00%	Deutsche Pirelli Reifen Holding GmbH
Pneumobil GmbH	Tyre	Breuberg / Odenwald	Euro	259.225	100,00%	Deutsche Pirelli Reifen Holding GmbH
Greece						
Elastika Pirelli S.A.	Tyre	Kallithea (Athens)	Euro	1.192.000	99,90%	Pirelli Tyre (Suisse) SA
					0,10%	Pirelli Tyre S.p.A.
Pirelli Hellas S.A. (in liquidation)	Sundry	Athens	US $	22.050.000	79,86%	Pirelli Tyre S.p.A.
The experts in wheels – Driver hellas S.A.	Tyre	Kallithea (Athens)	Euro	100.000	72,00%	Elastika Pirelli S.A.
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3.000.000	100,00%	Pirelli Tyre (Suisse) SA
Ireland						
Pirelli Reinsurance Company Ltd	Reinsurance	Dublin	US $	7.150.000	100,00%	Pirelli Finance (Luxembourg) S.A.

Company	Business	Headquarters	Currency	Share Capital	% holding	Held by
Italy						
Centro Servizi Amministrativi Pirelli S.r.l.	Services	Milan	Euro	51.000	100,00%	Pirelli & C. S.p.A.
Driver Italia S.p.A.	Commercial	Milan	Euro	350.000	72,54%	Pirelli Tyre S.p.A.
EPRE S.r.l.	Enviroment	Milan	Euro	10.000	100,00%	Solar Utility S.p.A.
IESS Pachino S.r.l.	Enviroment	Milan	Euro	10.000	85,00%	Solar Utility S.p.A.
IN & OUT S.r.l.	Commercial	Bologna	Euro	20.000	51,00%	PZero S.r.l.
Maristel S.p.A.	Telecommunications	Milan	Euro	1.020.000	100,00%	Pirelli & C. S.p.A.
P.A. Società di Gestione del Risparmio S.p.A.	Financial	Milan	Euro	2.000.000	100,00%	Pirelli & C. Ambiente S.p.A.
Perseo S.r.l.	Services	Milan	Euro	20.000	100,00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente S.p.A.	Enviroment	Milan	Euro	1.000.000	51,00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente Site Remediation S.p.A.	Enviroment	Milan	Euro	155.700	100,00%	Pirelli & C. Ambiente S.p.A.
Pirelli & C. Eco Technology S.p.A.	Sustainable mobility	Milan	Euro	17.810.000	51,00%	Pirelli & C. S.p.A.
Pirelli Cultura S.p.A. (in liquidation)	Sundry	Milan	Euro	1.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Industrie Pneumatici S.r.l.	Tyre	Settimo Torinese (To)	Euro	31.000.000	100,00%	Pirelli Tyre S.p.A.
Pirelli Labs S.p.A.	Research and Development	Milan	Euro	5.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Nastri Tecnici S.p.A. (in liquidation)	Sundry	Milan	Euro	384.642	100,00%	Pirelli & C. S.p.A.
Pirelli Servizi Finanziari S.p.A.	Financial	Milan	Euro	1.976.000	100,00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Information Systems	Milan	Euro	1.010.000	100,00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	756.820.000	100,00%	Pirelli & C. S.p.A.
Poliambulatorio Bicocca S.r.l.	Tyre	Milan	Euro	10.000	100,00%	Pirelli Tyre S.p.A.
PZero S.r.l.	Sundry	Milan	Euro	4.000.000	100,00%	Pirelli & C. S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104.000	92,25%	Pirelli & C. S.p.A.
					2,00%	Pirelli Tyre S.p.A.
					1,00%	Pirelli & C. Ambiente S.p.A.
					0,95%	Centro Servizi Amministrativi Pirelli S.r.l.
					0,95%	Pirelli Labs S.p.A.
					0,95%	Pirelli Sistemi Informativi S.r.l.
					0,95%	PZero S.r.l.
					0,95%	Pirelli & C. Eco Technology S.p.A.
Solar Utility S.p.A.	Enviroment	Milan	Euro	14.000.000	100,00%	Pirelli & C. Ambiente S.p.A.
Solar Utility Sicilia S.r.l.	Enviroment	Milan	Euro	10.000	100,00%	Solar Utility S.p.A.
Luxembourg						
Pirelli Finance (Luxembourg) S.A.	Financial	Luxembourg	Euro	13.594.910	100,00%	Pirelli & C. S.p.A.
Poland						
Driver Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	100.000	62,50%	Pirelli Polska Sp.ZO.O.
Pirelli Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	625.771	100,00%	Pirelli Tyre (Suisse) SA
Romania						
S.C. Pirelli & C. Eco Technology RO S.R.L.	Sustainable mobility	Oras Bumbesti-Jiu	Rom. Leu	55.000.000	100,00%	Pirelli & C. Eco Technology S.p.A.
S.C. Cord Romania S.R.L.	Tyre	Slatina	Rom. Leu	36.492.150	80,00%	Pirelli Tyre S.p.A.
S.C. Pirelli Tyres Romania S.R.L.	Tyre	Slatina	Rom. Leu	442.169.800	100,00%	Pirelli Tyre S.p.A.

Company	Business	Headquarters	Currency	Share Capital	% holding	Held by
Russia						
OOO Pirelli Tyre Russia	Commercial	Moscow	Russian Rouble	54.685.259	95,00%	Pirelli Tyre (Suisse) SA
					5,00%	Pirelli Tyre S.p.A.
Slovakia						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Euro	6.638,78	100,00%	Pirelli Tyre (Suisse) SA
Spain						
Euro Driver Car S.L.	Tyre	Barcelona	Euro	852.000	26,06%	Pirelli Neumaticos S.A.
					26,76%	Proneus S.L.
Omnia Motor S.A.	Tyre	Barcelona	Euro	1.502.530	100,00%	Pirelli Neumaticos S.A.
Pirelli Iniciativas Tecnologicas S.L.	Tyre	Barcelona	Euro	10.000	100,00%	Pirelli Neumaticos S.A.
Pirelli Neumaticos S.A.	Tyre	Barcelona	Euro	25.075.907	100,00%	Pirelli Tyre S.p.A.
Proneus S.L.	Tyre	Barcelona	Euro	3.005	100,00%	Pirelli Neumaticos S.A.
Tyre & Fleet S.L.	Tyre	Barcelona	Euro	20.000	100,00%	Pirelli Neumaticos S.A.
Sweden						
Pirelli Tyre Nordic A.B.	Tyre	Bromma	Swed. Krona	950.000	100,00%	Pirelli Tyre (Suisse) SA
Switzerland						
Pirelli Group Reinsurance Company SA	Reinsurance	Lugano	Swiss Franc	8.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Tyre (Suisse) SA	Tyre	Basel	Swiss Franc	1.000.000	100,00%	Pirelli Tyre S.p.A.
The Netherlands						
Pirelli China Tyre N.V.	Tyre	Heinenoord	Euro	38.045.000	100,00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Heinenoord	Euro	18.152	100,00%	Pirelli Tyre (Suisse) SA
Turkey						
Celikord A.S.	Tyre	Istanbul	Turkish Lira	29.000.000	98,733%	Pirelli Tyre S.p.A.
					0,632%	Pirelli International Ltd
					0,367%	Pirelli UK Tyres Ltd
					0,267%	Pirelli Industrie Pneumatici S.r.l.
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	Turkish Lira	140.000.000	99,84%	Pirelli Tyre S.p.A.
					0,15%	Pirelli Industrie Pneumatici S.r.l.
United Kingdom						
CPC 2010 Ltd	Tyre	Burton on Trent	British Pound	10.000	100,00%	Pirelli UK Tyres Ltd
CTC 1994 Ltd	Tyre	Burton on Trent	British Pound	984	100,00%	CTC 2008 Ltd
CTC 2008 Ltd	Tyre	Burton on Trent	British Pound	100.000	100,00%	Pirelli UK Tyres Ltd
Pirelli International Ltd	Financial	Burton on Trent	Euro	250.000.000	75,00%	Pirelli UK Tyre Holding Ltd
					25,00%	Pirelli Tyre S.p.A.
Pirelli Motorsport Services Ltd	Tyre	Burton on Trent	British Pound	1	100,00%	Pirelli Tyre S.p.A.
Pirelli Tyres Ltd	Tyre	Burton on Trent	British Pound	16.000.000	100,00%	Pirelli UK Tyres Ltd
Pirelli UK Ltd	Finance Holding Company	Burton on Trent	British Pound	114.991.278	100,00%	Pirelli & C. S.p.A.
Pirelli UK Tyre Holding Ltd	Holding Company	Burton on Trent	British Pound	96.331.000	100,00%	Pirelli Tyre S.p.A.
Pirelli UK Tyres Ltd	Tyre	Burton on Trent	British Pound	85.000.000	75,00%	Pirelli UK Tyre Holding Ltd
					25,00%	Pirelli Tyre S.p.A.

Company	Business	Headquarters	Currency	Share Capital	% holding	Held by
North America						
Canada						
Pirelli Tire Inc.	Tyre	Fredericton (New Brunswich)	Can. $	6.000.000	100,00%	Pirelli Tyre (Suisse) SA
U.S.A.						
Pirelli North America Inc.	Tyre	Atlanta	US $	10	100,00%	Pirelli Tyre S.p.A.
Pirelli Tire LLC	Tyre	Wilmington (Delaware)	US $	1	100,00%	Pirelli North America Inc.
Central/South America						
Argentina						
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	101.325.176	95,00%	Pirelli Tyre S.p.A.
					5,00%	Pirelli Pneus Ltda
Brazil						
Comercial e Importadora de Pneus Ltda	Tyre	Sao Paulo	Bra. Real	12.913.526	100,00%	Pirelli Pneus Ltda
Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda	Tyre	Santo Andrè	Bra. Real	84.784.342	100,00%	Pirelli Pneus Ltda
Ecosil - Industria Quimica do Brasil Ltda	Tyre	Meleiro	Bra. Real	1.370.000	85,00%	Pirelli Pneus Ltda
Pirelli Ltda	Financial	Sao Paulo	Bra. Real	28.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda	Tyre	Feira de Santana	Bra. Real	341.145.811	100,00%	Pirelli Tyre S.p.A.
TLM - Total Logistic Management Serviços de Logistica Ltda	Holding Company	Santo Andrè	Bra. Real	1.006.000	99,98%	Pirelli Pneus Ltda
					0,02%	Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda
Chile						
Pirelli Neumaticos Chile Limitada	Tyre	Santiago	Chile Peso/000	1.918.451	99,98%	Pirelli Pneus Ltda
					0,02%	Comercial e Importadora de Pneus Ltda
Colombia						
Pirelli de Colombia S.A.	Tyre	Santa Fe De Bogota	Col. Peso/000	3.315.069	92,91%	Pirelli Pneus Ltda
					2,28%	Pirelli de Venezuela C.A.
					1,60%	Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda
					1,60%	TLM - Total Logistic Management Serviços de Logistica Ltda
					1,60%	Comercial e Importadora de Pneus Ltda
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	35.098.400	99,98%	Pirelli Pneus Ltda
					0,02%	Comercial e Importadora de Pneus Ltda
Pirelli Neumaticos S.A. de C.V.	Tyre	Silao	Mex. Peso	500.050.000	99,00%	Pirelli Tyre S.p.A.
					1,00%	Pirelli Pneus Ltda
Pirelli Servicios S.A. de C.V.	Tyre	Mexico City	Mex. Peso	50.000	99,00%	Pirelli Tyre S.p.A.
					1,00%	Servicios Pirelli Mexico S.A. de C.V.
Servicios Pirelli Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	50.000	99,00%	Pirelli Pneus Ltda
					1,00%	Comercial e Importadora de Pneus Ltda
Venezuela						
Pirelli de Venezuela C.A.	Tyre	Valencia	Ven. Bolivar/000	20.062.679	96,22%	Pirelli Tyre S.p.A.

Company	Business	Headquarters	Currency	Share Capital	% holding	Held by
Africa						
Egypt						
Alexandria Tire Company S.A.E.	Tyre	Alexandria	Egy. Pound	393.000.000	89,08%	Pirelli Tyre S.p.A.
					0,03%	Pirelli Tyre (Suisse) SA
International Tire Company Ltd	Tyre	Alexandria	Egy. Pound	50.000	99,80%	Alexandria Tire Company S.A.E.
South Africa						
Pirelli Tyre (Pty) Ltd	Tyre	Centurion	S.A. Rand	1	100,00%	Pirelli Tyre (Suisse) SA
Oceania						
Australia						
Pirelli Tyres Australia Pty Ltd	Tyre	Sydney	Aus. $	150.000	100,00%	Pirelli Tyre (Suisse) SA
New Zealand						
Pirelli Tyres (NZ) Ltd	Tyre	Auckland	N.Z. $	100	100,00%	Pirelli Tyres Australia Pty Ltd
Asia						
China						
Pirelli Scientific and Technological Consulting (Shangai) Co. Ltd	Tyre	Shangai	US $	700.000	100,00%	Pirelli China Tyre N.V.
Pirelli Tyre Co. Ltd	Tyre	Yanzhou	China Renmimbi	1.721.150.000	75,00%	Pirelli China Tyre N.V.
Yanzhou Hixih Ecotech Environment CO. Ltd	Sustainable mobility	Yanzhou	China Renmimbi	130.000.000	60,00%	Pirelli & C. Eco Technology S.p.A.
Japan						
Pirelli Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2.700.000.000	100,00%	Pirelli Tyre S.p.A.
Singapore						
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. $	2	100,00%	Pirelli Tyre (Suisse) SA

Investments accounted for by the equity method

Company	Business	Headquarters	Currency	Share Capital	% holding	Held by
Europe						
Germany						
Industriekraftwerk Breuberg GmbH	Cogeneration	Hoechst / Odenwald	Euro	1.533.876	26,00%	Pirelli Deutschland GmbH
Greece						
Eco-Elastika SA	Tyre	Athens	Euro	60.000	20,00%	Elastika Pirelli S.A.
Italy						
A.P.I.C.E. - società per azioni	Enviroment	Rome	Euro	200.000	50,00%	Pirelli & C. Ambiente S.p.A.
Eurostazioni S.p.A.	Holding	Rome	Euro	160.000.000	32,71%	Pirelli & C. S.p.A.
G.P. Energia S.r.l.	Enviroment	Rome	Euro	1.666.667	43,80%	Solar Utility S.p.A.
Green&Co2 S.r.l.	Enviroment	Milan	Euro	10.000	49,00%	Pirelli & C. Ambiente S.p.A.
Idea Granda Società Consortile r.l.	Enviroment	Cuneo	Euro	1.292.500	49,00%	Pirelli & C. Ambiente S.p.A.
RCS MediaGroup S.p.A.	Finance Holding Company	Milan	Euro	762.019.050	5,33%	Pirelli & C. S.p.A.
Serenergy S.r.l.	Enviroment	Milan	Euro	25.500	50,00%	Pirelli & C. Ambiente S.p.A.
Romania						
S.C. Eco Anvelope S.A.	Tyre	Bucarest	Rom. Leu	160.000	20,00%	S.C. Pirelli Tyres Romania S.R.L.
Spain						
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200.000	20,00%	Pirelli Neumaticos S.A.
Asia						
China						
Sino Italian Wire Technology Co. Ltd	Pneumatici	Yanzhou	China Renmimbi	227.500.000	49,00%	Pirelli Tyre S.p.A.

Other investments considered significant as per Consob resolution no. 11971 of May 14,1999

Company	Business	Headquarters	Currency	Share Capital	% holding	Held by
Belgium						
Euroqube S.A. (in liquidation)	Services	Brussels	Euro	84.861.116	17,79%	Pirelli & C. S.p.A.
France						
Aliapur S.A.	Tyre	Lion	Euro	262.500	14,29%	Pirelli Tyre S.p.A.
Hungary						
HUREC Tyre Recycling Public Benefit Company	Tyre	Budapest	Hun. Forint	50.000.000	17,00%	Pirelli Hungary Tyre Trading and Services Ltd
Italy						
Fin. Priv. S.r.l.	Financial	Milan	Euro	20.000	14,29%	Pirelli & C. S.p.A.
Poland						
Centrum Utylizacji Opon Organizacja Odzysku S.A.	Tyre	Warsaw	Pol. Zloty	1.008.000	14,29%	Pirelli Polska Sp. ZO.O.
Tunisia						
Société Tunisienne des Industries de Pnéumatiques S.A.	Tyre	Tunis	Tun. Dinar	12.623.472	15,83%	Pirelli Tyre S.p.A.
United Kingdom						
Tlcom I Ltd Partnership	Financial	London	Euro	1.204	10,39%	Pirelli Finance (Luxembourg) S.A.

Certification of the Condensed Interim Financial Statements pursuant to Article 81-ter of Consob Regulation no. 11971 of May 14, 1999, as amended

1 The undersigned Marco Tronchetti Provera, in his capacity as Chairman of the Board of Directors and Chief Executive Officer, and Francesco Tanzi, in his capacity as Corporate Financial Reporting Manager of Pirelli & C. S.p.A., hereby certify pursuant to, inter alia, Article 154-bis, clauses 3 and 4, of Legislative Decree 58 of February 24, 1998:

- the adequacy in relation to the characteristics of the company and
- the effective application

of the administrative and accounting procedures for preparation of the condensed interim financial statements, during the period January 1, 2011 – June 30, 2011.

2 In this regard it should be noted that the adequacy of the administrative and accounting procedures for preparation of the condensed interim financial statements at June 30, 2011 was determined on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the "*Internal Control – Integrated Framework*" guidelines issued by the "Committee of Sponsoring Organizations of the Treadway Commission" (COSO), which is a reference framework generally accepted at the international level.

3 We also certify that:

3.1 the condensed interim financial statements:

a) were prepared in accordance with the applicable international accounting standards recognised in the European Union under the terms of Regulation (EC) 1606/2002 of the European Parliament and Council, of July 19, 2002;

b) correspond to the information in the account ledgers and books;

c) give a true and fair view of the assets, liabilities, income, expenses and financial position of the reporting entity and of the group of companies included in the scope of consolidation.

3.2 The interim report on operations includes a reliable analysis of the significant events mentioned in the report that occurred during the first six months of the year and their impact on the condensed interim financial statements, together with a description of the principal risks and uncertainties faced in the remaining six months of the year.

The interim report on operations also contains a reliable analysis of the information provided on material transactions with related parties.

July 27, 2011

The Chairman and Chief Executive Officer	The Corporate Financial Reporting Manager
Marco Tronchetti Provera	Francesco Tanzi

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Auditors' review report on the condensed consolidated interim financial statements (Translation from the original Italian text)

To the Shareholders of
Pirelli & C. S.p.A.

1. We have reviewed the condensed consolidated interim financial statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows and the related explanatory notes, of Pirelli & C. S.p.A. and its subsidiaries (the "Pirelli Group") as of June 30, 2011. Pirelli & C. S.p.A.'s Directors are responsible for the preparation of the condensed consolidated interim financial statements in conformity with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to issue this review report based on our review.

2. We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. Our review consisted mainly of obtaining information on the accounts included in the condensed consolidated interim financial statements and the consistency of the accounting principles applied, through discussions with management, and of applying analytical procedures to the financial data presented in these consolidated financial statements. Our review did not include the application of audit procedures such as tests of compliance and substantive procedures on assets and liabilities and was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, unlike an audit on the annual consolidated financial statement, we do not express an audit opinion on the condensed consolidated interim financial statements.

   With respect to the consolidated financial statements of the prior year and the condensed consolidated interim financial statements of the corresponding period of the prior year, presented for comparative purposes, reference should be made to our reports issued on March 24, 2011 and on August 5, 2010, respectively.

3. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of Pirelli Group as of June 30, 2011 are not prepared, in all material respects, in conformity with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Milan, August 4, 2011

Reconta Ernst & Young S.p.A.
Signed by: Pietro Carena, Partner

This report has been translated into the English language solely for the convenience of international readers

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