

Pirelli & C. S.p.A. - Milan

**Half-yearly Financial Report
at June 30, 2009**

PIRELLI & C. Società per Azioni

Registered office in Milan, Via G. Negri n. 10

Share Capital - Euro 1,556,692,865.28

Milan Companies Register No. 00860340157

Economic Administrative File (REA) n. 1055

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Board of Directors ¹

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

* Independent director

^o Member of the Internal Control and Corporate Governance Committee

[^] Member of the Remuneration Committee

Secretary to the Board	Anna Chiara Svelto
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Board of Statutory Auditors ³

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

General Manager

Operations	Claudio De Conto
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Independent Auditors ⁴

Reconta Ernst & Young S.p.A.

Manager responsible for the preparation of financial reports ⁵

Claudio De Conto

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

² Post conferred by the Board of Directors' meeting held on 29 April 2008.

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

⁴ Post conferred by the shareholders' meeting held on 29 April 2008.

⁵ Appointment: Post conferred by the board of directors' meeting held on 29 April 2008. Expiry: Shareholders' meeting called to approve the financial statements at 31 December 2010.

THE GROUP

The **Pirelli & C. Group** has closed the second quarter of 2009 with a progressive improvement in the overall operating result compared to the first quarter, above all due to the restructuring measures, which began last year and continued in the first half of 2009, in order to contrast a scenario characterized still today by a slowdown in the automotive industry and in real estate, where the Group operates. The benefits achieved by such measures allowed for closing the half-year with positive operating indicators, overall in line with the forecasts of the 2009-2011 industrial plan, albeit lower than the previous year when the economic crisis had not yet had a significant impact on the various sectors in which the Group is active.

All together, the Group closed the six-month term with **revenues** of Euro 2,137.6 million and **operating profit** of Euro 101.1 million, with an EBIT margin, understood as the ratio between operating profit and sales, of 4.7% after restructuring costs for Euro 21.2 million. The consolidated net profit for the period attributable to the equity shareholders of the Company amounts to Euro 6.3 million, while the total consolidated net result shows a loss of Euro 12.4 million, having also been affected by the a further writedown of the equity investment in Telecom Italia subsequent to the alignment of the value to the market price at 30 June 2009 (0.99 euro per share), with a negative impact of Euro 19.8 million.

The Group's **net financial position** at 30 June 2009 is negative for Euro 1,107.6 million, which is an improvement, however, on the negative figure of 1,278.9 million at 31 March 2009 (Euro 823 million at 30 June 2008), showing the first positive effects of the actions taken on the working capital of Pirelli Tyre, as well as the cash inflow of about Euro 46 million from the sale of the Telecom Italia shares last April, and Euro 25 million from the sale of the second tranche of Alcatel-Lucent Submarine Networks shares.

After a first quarter conditioned by the marked contraction in the Industrial segment in both sales channels (Original Equipment and Replacement) and by the worsening of the crisis in the Original Equipment market in the Consumer segment, in the second quarter **Pirelli Tyre** began to benefit from the positive impact of the reduced cost of raw materials, the efficiencies achieved thanks to the restructuring measures and the first signals of recovery shown by the market, although the main markets still had negative growth. The restructuring, which was started up in Europe, is progressing with the expected results, and will also be fundamental in the future to guarantee competitiveness through the optimization of industrial, product and structural costs.

From the operating viewpoint, this led to results for the second quarter which, although lower in absolute values than those of the corresponding period of 2008, show improved profit margins: the Ebitda margin for the second quarter is 13.4%, compared to 12.4% for the second quarter of 2008, and the Ebit margin before restructuring expenses is 8.6% compared to 8.1% for the same period in 2008. The first six months of 2009 have closed with an overall fall in sales of 9.3% compared to the first half of 2008 and profitability, understood as the ratio between operating result and sales (Ebit margin), of 7.1% in line with the targets of the industrial plan for 2009.

Above all, thanks to improved efficiency in the management of working capital, the second quarter has also registered a positive operating cash flow of Euro 130 million compared to the first quarter, and the negative net financial position has improved from Euro 1,521.8 million at 31 March 2009 to Euro 1,467.0 at 30 June 2009, after the payment of dividends to the parent company for Euro 64 million, and restructuring expenses of Euro 8 million.

Lastly, in the first six-month term, efficiencies in labour costs, the use of materials and purchasing processes, as well as advantages obtained on the cost of raw materials gross of exchange rate effects, allowed for reaching 45% of the cost reduction target of Euro 200 million, at par exchange rate, foreseen for Pirelli Tyre for the financial year 2009 according to the Group's 2009-2011 industrial plan.

Pirelli Eco Technology, the Group's company dedicated to sustainable mobility, has continued to develop its activity during the period, focused on antiparticulate filters, reinforcing its commercial position on the international market. During the period, the company obtained approval for its filters in China, where sales have therefore been launched, and received the first provisional approval of those required for the German market, which was then confirmed in the middle of July, for Euro 3 engines for light commercial vehicles.

Sales volumes increased from 396 units in the corresponding period of 2008 to 1,948 units, in spite of the delay in the implementation of legislation to limit traffic pollution and in the approval procedures. The operating result is still negative because of the starting up costs of the factory in Romania, and the organizing of the commercial side of the business and pre-marketing on the markets of reference.

Pirelli Real Estate is completing the reorganization which began last year, in a context which continues to be difficult for the real estate sector, also because of the credit squeeze. However, the Company is managing to conclude real estate transactions at values that are on average in line with the appraised values. The new management has outlined a strategic course aimed at further recovery of efficiency and greater equilibrium between recurring income and costs of the structure, also through the confirmation of the strategic centralization of the Group SGR (*Società Gestione Risparmio* – Savings Investment Company) and of real estate services rendered by the Pirelli RE Group. In the first half year, actions launched have allowed for a saving of around Euro 29 million on the structure, ahead of the annual target of Euro 50 million, which has therefore been increased to Euro 55/60 million, while service activities, including the central costs of the holding company, are almost at break-even point (with an operating result of negative Euro 3.2 million). The Company has also confirmed the asset sale target of Euro 1 billion within 2009, of which it will benefit in proportion to its own quota.

After the closure of the half-year period, Pirelli RE has also concluded, with the total adhesion of the market, a share capital increase for about Euro 400 million, which allows it to reinforce its equity structure and to pursue the targets of the industrial plan with more flexibility. As part of strengthening of the capital structure, the Company also reached an agreement with a pool of banks for a credit line for a maximum sum of Euro 320 million, expiring in July 2012, bringing the availability of its committed bank credit lines from Euro 380 million to Euro 470 million, whose average maturity will increase from 9 to 29 months.

With regard to **other activities**, we mention the good trend of Pirelli Broadband Solutions which, also thanks to the diversification process towards new operators and new markets, has closed the period with a growth in revenues of almost 15%, a positive net profit of Euro 4.1 million, and a positive net financial position of Euro 31.9 million, in line with March 2009 and improved over the December 2008 figure.

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

The **net result** of Pirelli & C. S.p.A. at 30 June 2009 is Euro 83.8 million, compared to a loss of Euro 17.9 million in the first half of 2008.

The result of the first six months of 2009 includes mainly dividends from subsidiaries net of direct and indirect impairment (through the subsidiary Pirelli Finance Luxembourg S.A.) of the Telecom Italia shares for Euro 19.8 million, while the loss in the first half of 2008 was affected by the write downs for Euro 155.3 million of the equity investment directly and indirectly held in Telecom Italia S.p.A. **Shareholders' equity** at 30 June 2009 is Euro 1,787.2 million, compared to Euro 1,685.6 million at the end of 2008.

SIGNIFICANT EVENTS IN THE FIRST HALF

On 27 January 2009 Brembo, Magneti Marelli and Pirelli announced the start of technological cooperation aimed at developing avant-garde solutions for the Italian and international automotive industry.

Cyber Tyre, the “smart” tyre developed by Pirelli, will be integrated with Magneti Marelli electronic control systems and Brembo advanced braking systems for ad hoc technological solutions, to meet performance and safety needs of all user types.

The internationally recognized skill and excellence of the three Italian groups will allow for the creation of important synergies and for the development of applications, especially in the field of safety systems for cars, also aimed at reducing environmental impact and in line with the evolution of international provisions and with the new restrictions on CO2 emissions foreseen by the European Union as from 2012.

On 11 February 2009 the Pirelli group presented the guidelines of the 2009-2011 industrial plan.

On 5 March 2009, the Pirelli RE Board of Directors ratified the resolutions passed in February, approving an operation aimed at strengthening the Company’s equity structure and supporting the new business model by proposing a capital increase against payment, in divisible form, to be offered as options to its shareholders.

The capital increase is an element of the 2009-2011 industrial plan and will boost the company by allowing it to pursue the actions foreseen by the said plan and to improve the ratio between liabilities and equity, thus reinforcing the equity structure.

On 17 April 2009, an extraordinary Shareholders' Meeting approved the capital increase. In June, the conditions for the capital increase were approved, according to which 798,574,564 ordinary shares were to be issued as from 1 January 2009, with a nominal value of Euro 0.50 without premium. The ratio for the allocation of the option was 135 new shares for every 7 shares already held, for a total value of Euro 399.3 million. The term for exercising the option right closed on 3 July 2009.

On 24 March 2009, Pirelli and Alcatel-Lucent reached an agreement by which Pirelli sold to Alcatel-Lucent its shares of Alcatel-Lucent Submarine Networks, a company working in the field of under-sea telecommunications systems. The operation took place as a result of Pirelli's exercise of its put option, agreed between the two companies in 2004, at the time of the agreement by which Alcatel acquired certain Pirelli submarine systems assets. The sale, for a total value of Euro 56 million, produced gains of Euro 11.2 million. The sale on the part of Pirelli is consistent with its strategy of focusing on its core business, as announced by the Group in the introduction of its 2009-2011 Industrial Plan.

On 26 March 2009, Pirelli Tyre launched Cinturato P7, the first environment-friendly high-performance tyre for the high end of the market. P7 completes the Cinturato green product family, launched last year with models P4 and P6 for mid-range cars. From an environmental viewpoint, Cinturato P7, besides cutting down CO2 emissions by as much as 4 grams per kilometer, with consequently reduced fuel consumption, also lowers sound emissions by 30%.

With regard to safety, it guarantees excellent performance on both dry and wet surfaces. The tyre of a vehicle accounts for an average of 20% of total consumption and of carbon dioxide emissions.

At the same time as the launch of the new product, Pirelli Tyre has introduced a new incentive program for tyre replacement in Italy, with a totally self-financed initiative which, like that for vehicle scrapping, offers a contribution for the purchase of fuel to those who replace their tyres with Pirelli environment-friendly products. This measure, a complete novelty for the industry, is aimed at sustaining demand at a time of economic crisis and at encouraging the adoption of products with low environmental impact for each segment of the car market and at fostering road safety, by subsidizing the replacement of tyres whose wear exceeds legal limits.

The worn tyre replacement incentive is part of the Pirelli program to develop increasingly innovative and environment-friendly products and solutions, in line with its announced 2009-2011 Industrial Plan introduced by the Group last February.

On 7 April 2009, the 150 million euro bond issued by Pirelli & C. S.p.A. in 1999 at a fixed rate of 5.125% was redeemed.

On 8 April 2009, Carlo A. Puri Negri left his position as executive deputy chairman of Pirelli & C. Real Estate S.p.A. At the same time, Giulio Malfatto joined the Group as Managing Director of Pirelli & C. Real Estate S.p.A., with responsibility for the business, while Claudio De Conto, Financial Managing Director, remains in charge of supervision and direction in financial areas.

On 26 May 2009, the Pirelli RE Board of Directors confirmed the economic targets of 2011, adjusting some strategic choices, however, mainly due to the decision to concentrate the Group's activities on the so-called core business which generates recurring revenues. In this way, the Pirelli RE Group hopes to reposition itself on the market, exploiting the particular skills which allowed it to gain success in the years immediately after its listing as a company providing fund management and specialist real estate services (mainly agency and property management), as well as the credit servicing activity precisely because this latter can generate recurring revenues. The Board of Directors consequently approved the new management's proposal which is to maintain Pirelli RE SGR (the sale of a significant share had previously been considered, in order to cash in the value), considering it preferable to continue to benefit as much as possible from the revenues generated by the same in the form of management commissions. Similarly, the original idea of conferring the specialist real estate services on Pirelli RE SGR, was also reconsidered, and they will now remain within the Group organized as at present to allow for their autonomous revitalization and relaunch on the third-party market. Lastly, a further action of rationalization and efficiency recovery at group level was approved.

On 9 June 2009, the Arcandor Group, the tenant of the properties in the "HighStreet" portfolio (of which the RE group holds 12.1% through Sigma RE B.V.) presented a claim before the Court of Essen, opening an insolvency procedure under German law. The said procedure could have effects on the rental contracts – with annual fees amounting to approximately Euro 280 million – and therefore on future payment of the rents.

For the moment, the commissioners appointed by the court have confirmed the intention of complying with the obligations of the existing rental contracts (master lease agreements), particularly for the months of July and August 2009 including maintenance expenses for the properties.

At the beginning of September, the commissioners are expected to produce a restructuring plan which will be presented to the creditors for their approval. This circumstance, as well as the positive attitude that the parties involved or interested in the process – directly and indirectly, public and private – have shown so far, suggests at present that the Arcandor Group's reorganization and restructuring process will be possible without impact on the rental contracts in force with the "HighStreet" companies. However, it is clear, because of the complexity of the issues relative to the Arcandor Group, the many interests and parties involved and the importance, also social, that the restructuring operation has assumed in Germany that unexpected changes in the present situation cannot be ruled out.

In order to obtain an objective external opinion, a third party expert – Cushman Wakefield – was asked to analyze the value of the HighStreet portfolio on the basis of the tenant's restructuring hypotheses now deemed as feasible taking into account the information available and presupposing constant payment of rent. The expert's analysis, taking into consideration the above-mentioned uncertainties, indicated further impairment of the HighStreet portfolio, which results as worth Euro 4.07 billion at 30 June 2009. This diverse valuation resulted in a further write down of the investment held by Pirelli RE, of Euro 28.1 million, in addition to the Euro 38.3 million already written down when the 2008 balance sheet was approved.

On 29 June, within the sphere of the non performing loans, Pirelli RE reduced its financial engagement in the European NPL S.à r.l. investment platform (67% DGAD International S.à r.l., a company held entirely by Calyon S.A., and 33% Pirelli RE) thanks to the refinancing of Euro 250 million issued by DGAD International S.à r.l. which allowed Pirelli RE to recover its own shareholders' loan. The said operation also involved DGAD International S.à r.l. undertaking a 20% stake in the equity of Pirelli RE Credit Servicing S.p.A. By the effect of the above, Pirelli RE has registered a positive change in its net financial position, gross of the shareholders' loan, for about Euro 89 million. The aims of the operation include the acquisition of management mandates for the non-performing loans portfolios, on behalf of third parties, coherent with the growing interest on the part of the Pirelli RE Group in the services sector.

In the first six-month term of 2009, Pirelli Finance (Luxembourg) S.A. sold 53,190,000 Telecom Italia S.p.A. shares on the market, for a total sum of Euro 56.7 million. At 30 June 2009 the Group holds 123,923,185 Telecom Italia S.p.A. ordinary shares, equal to 0.93% of the voting capital.

THE GROUP: MAIN FINANCIAL AND ECONOMIC FIGURES

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

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

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

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

On the financial schedules, the Integrated Facility Management assets of Pirelli Real Estate and of Photonics, sold in 2008, were considered as “discontinued operations” and were therefore included only in the net income.

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

	(in millions of euros)		
	June 30, 2009	June 30, 2008	December 31, 2008
. Net sales	2,137.6	2,454.8	4,660.2
. Gross operating profit before restructuring expenses	226.1	305.8	396.1
% of net sales	10.6%	12.5%	8.5%
. Operating profit before restructuring expenses	122.3	202.1	187.4
% of net sales	5.7%	8.2%	4.0%
. Restructuring expenses	(21.2)	(21.2)	(144.2)
. Operating profit	101.1	180.9	43.2
% of net sales	4.7%	7.4%	0.9%
. Earnings (losses) from investments	(28.6)	(95.5)	(366.5)
. Operating profit (loss) incl. earnings (losses) from investments	72.5	85.4	(323.3)
. Financial income (expenses)	(39.4)	(22.5)	(80.0)
. Income taxes	(45.5)	(64.7)	(72.6)
. Income (loss) from continuing operations	(12.4)	(1.8)	(475.9)
% of net sales	(0.6%)	(0.1%)	(10.2%)
. Income(loss) from discontinued operations	-	(7.7)	63.4
. Total income/(loss)	(12.4)	(9.5)	(412.5)
. Income/(loss) attributable to the equity holders of Pirelli & C. S.p.A.	6.3	(36.2)	(347.5)
. Earnings per share (in euros)	0.001	(0.007)	(0.065)
. Fixed assets	3,581.9	3,910.0	3,665.4
. Net working capital	627.3	616.4	418.4
. Net invested capital	4,209.2	4,526.4	4,083.8
. Equity	2,369.6	3,002.4	2,374.4
. Provisions	732.0	701.0	681.7
. Net financial (liquidity)/debt position	1,107.6	823.0	1,027.7
. Equity attributable to the equity holders of Pirelli & C. S.p.A.	2,202.1	2,608.1	2,171.8
. Equity per share (in euro)	0.410	0.486	0.405
. Employees (number at period-end)	29,525	31,368	31,056
. Factories	23	24	23
<i>Pirelli & C. shares outstanding</i>			
. ordinary shares (number in millions)	5,233.1	5,233.1	5,233.1
<i>of which treasury shares</i>	3.9	2.6	3.9
. savings shares (number in millions)	134.8	134.8	134.8
<i>of which treasury shares</i>	4.5	4.5	4.5
. Total shares outstanding	5,367.9	5,367.9	5,367.9

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

1st Half ending June 30, 2009						
(in millions of euros)	Tyre	Eco Technology	Real Estate	Broadband Access	Other (*)	TOTAL
. Net sales	1,915.9	28.3	115.8	72.8	4.8	2,137.6
. Gross operating profit before restructuring expenses	240.8	(4.4)	(2.6)	3.2	(10.9)	226.1
. Operating profit (loss) before restructuring expenses	146.5	(5.5)	(6.2)	2.7	(15.2)	122.3
. Restructuring expenses	(9.7)	-	(11.5)	-	-	(21.2)
. Operating profit	136.8	(5.5)	(17.7)	2.7	(15.2)	101.1
. Earnings (losses) from investments	3.8	-	(21.6)	-	(10.8)	(28.6)
. Operating profit (loss) incl. earnings (losses) from investments before restructuring expenses	150.3	(5.5)	(27.8)	2.7	(26.0)	93.7
. Operating profit (loss) incl. earnings (losses) from investments	140.6	(5.5)	(39.3)	2.7	(26.0)	72.5
. Financial income (expenses)	(43.0)	(1.1)	(1.0)	0.7	5.0	(39.4)
. Income taxes	(43.4)	-	(2.4)	0.7	(0.4)	(45.5)
. Income (loss) from continuing operations	54.2	(6.6)	(42.7)	4.1	(21.4)	(12.4)
. Income/(loss) from discontinued operations	-	-	-	-	-	-
. Total income/(loss)	54.2	(6.6)	(42.7)	4.1	(21.4)	(12.4)
. Net financial (liquidity)/debt position	1,467.0	32.8	337.4	(31.9)	(697.7)	1,107.6

1st Half ending June 30, 2008						
(in millions of euros)	Tyre	Eco Technology	Real Estate	Broadband Access	Other (*)	TOTAL
. Net sales	2,166.3	33.4	192.8	63.4	(1.1)	2,454.8
. Gross operating profit (loss) before restructuring expenses	286.5	(3.3)	24.3	3.6	(5.3)	305.8
. Operating profit (loss) before restructuring expenses	191.0	(3.9)	20.0	3.2	(8.2)	202.1
. Restructuring expenses	(5.0)	-	(16.2)	-	0.0	(21.2)
. Operating profit (loss)	186.0	(3.9)	3.8	3.2	(8.2)	180.9
. Earnings (losses) from investments	0.3	-	16.9	-	(112.7)	(95.5)
. Operating profit (loss) incl. earnings (losses) from investments before restructuring expenses	191.3	(3.9)	36.9	3.2	(120.9)	106.6
. Operating profit (loss) incl. earnings (losses) from investments	186.3	(3.9)	20.7	3.2	(120.9)	85.4
. Financial income (expenses)	(29.7)	(0.8)	(7.2)	(2.8)	18.0	(22.5)
. Income taxes	(54.9)	-	(6.5)	(0.2)	(3.1)	(64.7)
. Income (loss) from continuing operations	101.7	(4.7)	7.0	0.2	(106.0)	(1.8)
. Income/(loss) from discontinued operations	-	-	4.4	-	(12.1)	(7.7)
. Total income/(loss)	101.7	(4.7)	11.4	0.2	(118.1)	(9.5)
. Net financial (liquidity)/debt position	773.4	7.1	270.5	26.7	(254.7)	823.0

(*) the item includes the Environment business, Pzero Moda, all financial companies (including the Parent Company) and other service companies, and for the item sales, the inter-elimination of consolidated

Net sales

In the first half year, sales amounted to Euro 2,137.6 million, compared to Euro 2,454.8 million for the same period of 2008.

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

	1st Half 2009	1st Half 2008
Tyre	89.6%	88.3%
Eco Technology	1.3%	1.5%
Real Estate	5.4%	7.9%
Broadband Access	3.4%	2.6%
Other	0.3%	-0.3%
	<u>100.0%</u>	<u>100.0%</u>

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

. Tyre	-	9.3%
. Eco Technology	-	15.3%
. Real Estate	-	39.9%
. Broadband Access	+	14.8%
		<hr/>
Total Group	-	11.1%
		<hr/>
. Foreign exchange effect	-	1.8%
Total change	-	12.9%
		<hr/>

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

	<i>(in millions of euros)</i>			
	1st Half 2009		1st Half 2008	
Europe:				
. Italy	405.2	18.96%	415.9	16.95%
. Other European countries	651.0	30.45%	883.3	35.98%
North America	155.7	7.29%	148.9	6.06%
Central and South America	610.0	28.54%	678.1	27.62%
Oceania, Africa and Asia	315.7	14.76%	328.6	13.39%
	2,137.6	100.00%	2,454.8	100.00%

Operating profit

The operating profit (EBIT), including restructuring expenses, amounts to Euro 101.1 million, accounting for 4.7% of revenues, in line with the targets of the 2009-2011 Industrial Plan, whereas the figure for the first half of 2008 was Euro 180.9 million. The restructuring expenses in the term amounted to Euro 21.2 million (of which Euro 9.7 million was for Pirelli Tyre, and Euro 11.5 million was for Pirelli Real Estate), in line with the first half of 2008. In the second quarter, **the operating profit (EBIT) including restructuring expenses**, is Euro 54.3 million, compared to Euro 65.8 million for the second quarter of 2008, and showing 16% growth on the first quarter of 2009.

The following table shows the operating profit trend in the two quarters broken down according to the single businesses:

(in millions of euros)	1st Quarter 09	2nd Quarter 09	1st Quarter 08	2nd Quarter 08
Tyre	61.0	85.5	102.8	88.2
Eco Technology	(2.8)	(2.7)	(2.1)	(1.8)
Real Estate	(2.2)	(4.0)	22.7	(2.7)
Broadband Access	2.5	0.2	1.1	2.1
Other	(8.2)	(7.0)	(4.6)	(3.6)
Operating income/(loss) before restruct. expenses	50.3	72.0	119.9	82.2
Restructuring expenses	(3.5)	(17.7)	(4.8)	(16.4)
Operating profit	46.8	54.3	115.1	65.8

In relation to to Group activities, the change is shown below (in millions of Euros):

Operating Profit at June 30, 2008	180.9
<hr/>	
. Tyre	(44.5)
. EcoTechnology	(1.6)
. Real Estate	(26.2)
. Broadband Access	(0.5)
. Restructuring expenses	0.0
. Other	(7.0)
	(79.8)
Operating Profit at June 30, 2009	101.1
<hr/>	

Earnings (losses) from investments

The **earnings (losses) from investments**, which include the share of the profit of companies valued with the equity method, the effects of sales or write downs, and dividends on non-consolidated equity investments, is negative Euro 28.6 million, having improved on the figure for the first half of 2008, of negative Euro 95.5 million.

The most important events include the deterioration in the share of earnings (losses) of associated companies and joint ventures of the Real Estate Group, which have decreased from plus Euro 16.9 million for the first half of 2008, to negative Euro 21.6 million for the same period of 2009, as well as lower dividends (from Euro 21.7 million for the first six months of 2008 to Euro 7.1 million for the same term in 2009).

With regard to write downs, in the first half of 2009 the value of the Telecom Italia shares was adjusted subsequent to alignment to market value at 30 June 2009 (Euro 0.99 per share), with a negative impact of Euro 19.8 million, while in 2008 the said shares were written down by Euro 155.3 million.

Net income

Total net income amounts to negative Euro 12.4 million, compared to negative Euro 9.5 million in the first half of 2008.

In the first half of 2008, **discontinued operations** showed a loss (negative Euro 7.7 million) consequent to the negative effect deriving from the Photonics assets (Euro 12.1 million) partially counter balanced by the positive effect of the Facility Management assets held by Pirelli Real Estate (Euro 4.4 million). Both businesses were sold in 2008.

The **net profit attributable to the equity holders of Pirelli & C. S.p.A.** at 30 June 2009 amounts to Euro 6.3 million (Euro 0.001 per share), compared to a loss of Euro 36.2 million in the first half of 2008 (negative Euro 0.007 per share).

Shareholders' equity

Consolidated shareholders' equity shows a decrease, from Euro 2,374.4 million at 31 December 2008 to Euro 2,369.6 million at 30 June 2009, summarized as follows:

	<i>(in millions of euros)</i>		
	Group	Minority interests	Total
Shareholders' equity at December 31, 2008	2,171.8	202.6	2,374.4
Foreign exchange differences	44.3	(1.5)	42.8
Income (loss) for the period	6.3	(18.7)	(12.4)
Dividends paid	-	(2.3)	(2.3)
Tyre minorities acquisition	-	(7.4)	(7.4)
Change in fair value of available-for-sale financial assets/derivatives	15.00	(0.1)	14.9
Share of other comprehensive income of associates and joint venture	(8.3)	(6.0)	(14.3)
Net actuarial gain (loss) on employee benefits	(26.6)	(0.2)	(26.8)
Other changes	(0.4)	1.1	0.7
Total changes	30.3	(35.1)	(4.8)
Shareholders' equity at June 30, 2009	2,202.1	167.5	2,369.6

The shareholders' equity attributable to the equity holders of Pirelli & C. S.p.A. at 30 June 2009 amounts to Euro 2,202.1 million (Euro 0.410 per share) compared to Euro 2,171.8 million at 31 December 2008 (Euro 0.405 per share).

Net financial position

The Group's net financial position increased from Euro 1,027.7 million at 31 December 2008 to Euro 1,107.6 million at 30 June 2009.

The change in the period is summarized in the following cash flow table:

	<i>(in millions of euros)</i>			
	1st Quarter 2009	2nd Quarter 2009	1st Half 2009	1st Half 2008
Operating profit	46.8	54.3	101.1	180.9
Amortization	51.4	52.4	103.8	103.7
Net investments	(42.9)	(37.4)	(80.3)	(128.1)
Change in working capital/other	(258.7)	96.0	(162.7)	(263.2)
FREE CASH FLOW	(203.4)	165.3	(38.1)	(106.7)
Financial income/(expenses)	(20.2)	(19.2)	(39.4)	(22.7)
Income taxes	(26.3)	(19.2)	(45.5)	(64.7)
Other	(0.6)	18.4	17.8	0.4
OPERATING CASH FLOW	(250.5)	145.3	(105.2)	(193.7)
Impact of Speed S.p.A. acquisition	-	-	-	(835.5)
Financial investments/divestments	37.9	78.1	116.0	92.4
Dividends paid	-	(2.4)	(2.4)	(167.9)
Cash out for restructuring expenses	(45.8)	(25.1)	(70.9)	(12.8)
Foreign exchange differences/other	7.2	(24.6)	(17.4)	(7.6)
NET CASH FLOW	(251.2)	171.3	(79.9)	(1,125.1)

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

	<i>in millions of euros</i>				
	Tyre	Real Estate	Other Businesses	Corporate	Consolidated
Gross debt	1,726	899	50	394	2,050
of which to Corporate	502	434	48		
Financial receivables	(86)	(503)	(37)	(991)	(597)
Cash and cash equivalents and securities held for trading	(173)	(59)	(4)	(109)	(345)
Net financial position	1,467	337	9	(706)	1,108

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

in millions of euros

	Financial Statement June 30, 2009	Year of maturity			
		2009	2010	2011	2012
Use of committed lines	1,155	120	210	69	756
Other loans	895	433	115	98	249
Total gross debt	2,050	553	325	167	1,005
		<i>27.0%</i>	<i>15.9%</i>	<i>8.1%</i>	<i>49.0%</i>

At 30 June 2009, the undrawn committed credit lines amount to Euro 700 million. The sum of this figure plus the Group's liquidity (Euro 345 million) confirms that the Group, considering the maturity dates, does not need to refinance its own debt until 2011.

Subsequent to the result of the Pirelli Real Estate capital increase, concluded in July 2009, and the agreement reached by Pirelli RE with a pool of leading banks for a new credit line for a maximum amount of Euro 320 million, expiring in July 2012, 65% of the present gross financial debt will mature in three years, instead of 49% as at present.

Employees

At 30 June 2009, the Group had 29,525 employees, compared to 31,056 at 31 December 2008.

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

	June 30, 2009		December 31, 2008	
Geographical area				
Europe:				
. Italy	4,711	15.96%	5,095	16.41%
. Other European countries	8,249	27.94%	9,174	29.54%
North America	241	0.82%	265	0.85%
Central and South America	11,486	38.89%	11,819	38.06%
Oceania, Africa and Asia	4,838	16.39%	4,703	15.14%
	29,525	100.00%	31,056	100.00%
Business segment				
Tyre	27,241	92.26%	28,601	92.10%
Eco Technology	283	0.96%	218	0.70%
Real Estate	1,326	4.49%	1,558	5.02%
Broadband Access	123	0.42%	113	0.36%
Other businesses	552	1.87%	566	1.82%
	29,525	100.00%	31,056	100.00%

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FIRST HALF

On 2 July 2009, during a press conference held at the Brazilian factory at Santo André, the Pirelli Group announced its intention of continuing to reinforce its investment in Brazil, where this year the Group celebrates its 80th anniversary of industrial and business presence.

Consistently with the 2009-2011 industrial plan, the Group will invest about 200 million dollars in the three-year period, in addition to last year's investment of 100 million dollars. The reinforcement strategy for the area will consolidate the Pirelli Group's leadership on South American markets.

The new investments will allow for a 20% increase in the production of car and motorcycle tyres. One third of the total investment of 300 million dollars for the period 2008-2011 will be for research and development, while the remaining amount will be used to increase production capacity.

Pirelli Tyre's growth target in Brazil for the three year term 2009-2011 is an overall 10% increase on 2008 sales, despite the negative impact of the strong crisis in 2009 in demand at world level.

In 2008, South America accounted for 33% of total Pirelli Tyre sales. It has a position of absolute leadership in South America for both the Original Equipment market, and for all main Replacement markets. About 90% of Pirelli Tyre production in South America is concentrated in Brazil, of which more than 35% is destined for export also to the markets of the NAFTA area (United States, Canada, Mexico) for products with high technological content.

The option offer term relative to the capital increase of Pirelli & C. Real Estate, which opened on 15 June 2009, closed on 3 July 2009. 41,142,801 option rights were exercised and 793,468,305 newly issued ordinary Pirelli RE shares were underwritten, equal to approximately 99.361% of the total shares offered on option, for a total counter value of about Euro 396.7 million.

Pursuant to the commitments undertaken, the majority shareholder Pirelli & C. S.p.A. exercised all its option rights, underwriting 463,752,540 newly issued ordinary Pirelli RE shares, equal to approximately 58.07% of the total, for a counter value of about Euro 231.9 million. Pirelli & C. S.p.A. underwrote the stake due to the same, converting part of the financial credit with Pirelli RE into capital.

Pirelli RE, acknowledging the commitment of Pirelli & C. S.p.A. to exercise its entire option rights and the former's willingness to underwrite any of the newly issued shares which on conclusion of the offer term, pursuant to art. 2441, clause 3, of the civil code, had not been underwritten, decided that it was not necessary to constitute a guarantee consortium.

On closure of the option term, therefore, 264,768 option rights had not been exercised, giving the right to underwrite a total of 5,106,240 newly issued ordinary Pirelli RE shares, for a total counter value of approximately Euro 2.6 million. Pursuant to art. 2441, clause 3, of the civil code, the remaining available options rights were offered on the Stock Exchange in the sessions on 13, 14, 15, 16 and 17 July 2009.

Subsequent to this offer, all the remaining rights were placed on the market. The capital increase procedure therefore concluded with the remaining 5,106,240 ordinary shares underwritten at Euro 0.50 per share, for a total counter value of Euro 2,553,120.

The capital increase therefore concluded with the entire issue of 798,574,545 ordinary shares underwritten, for a counter value of Euro 399,287,272.50 before charges.

The new share capital of Pirelli RE, which will be underwritten for certification with the Companies Register, is therefore now equal to Euro 420,585,888.50, represented by 841,171,777 ordinary shares with a nominal unit value of Euro 0.50.

Pirelli & C. S.p.A. is now the holder of a stake of 487,798,972 shares, representing 57.99% of the new share capital of Pirelli RE.

The part of the capital increase underwritten by the market, worth approximately Euro 168 million, will be used to further reduce the financial debt.

On 29 July 2009, within the activities aimed at reshaping the financing structure of the Company, the Board of Directors of Pirelli Real Estate approved the terms of the agreement reached with a pool of banks for a credit line amounting to a maximum of Euro 320 million, expiring in July 2012. Subsequent to the conclusion of this operation, the availability for Pirelli RE of committed bank credit lines has risen from Euro 380 million to Euro 470 million, and the average maturity will extend from 9 to 29 months.

In July 2009, the Group sold 84,767,885 ordinary Telecom Italia S.p.A. shares on the market for approximately Euro 87.4 million.

The Pirelli Group now holds 39,155,300 ordinary Telecom Italia S.p.A. shares, equal to 0.29% of the voting capital.

OUTLOOK FOR THE CURRENT YEAR

The results of the Group for the first six months of 2009 are in line with the overall targets announced on the occasion of the presentation of the 2009-2011 industrial plan, on 11 February last. Also in consideration of the forecasts indicated for the various business sectors, annual revenues of about Euro 4.3 billion and an operating margin of 4.5-5% are expected. The net financial position at the end of 2009, for which a negative figure of Euro 1 billion was forecast when the industrial plan was presented, is now expected to improve, bringing the net debt to about Euro 800 million, also thanks to the complete success of the Pirelli RE capital increase.

PIRELLI TYRE

The table below illustrates the economic and financial results achieved in the first half of 2009 and a comparison with the same period in 2008:

	<i>(in millions of euros)</i>		
	June 30, 2009	June 30, 2008	December 31, 2008
Net sales	1,915.9	2,166.3	4,100.2
Gross operating profit before restructuring expenses	240.8	286.5	441.2
% of net sales	12.6%	13.2%	10.8%
Gross operating profit before restructuring expenses	146.5	191.0	250.7
% of net sales	7.6%	8.8%	6.1%
Restructuring expenses	(9.7)	(5.0)	(100.0)
Operating profit	136.8	186.0	150.7
% of net sales	7.1%	8.6%	3.7%
Earnings (losses) from investments	3.8	0.3	27.8
Operating profit (loss) incl. earnings (losses) from investments before restructuring expenses	150.3	191.3	278.5
Operating profit (loss) incl. earnings (losses) from investments	140.6	186.3	178.5
Financial income (expenses)	(43.0)	(29.7)	(82.8)
Income taxes	(43.4)	(54.9)	(70.1)
Net income	54.2	101.7	25.6
% on net sales	2.8%	4.7%	0.6%
Net financial (liquidity)/debt position	1,467.0	773.4	1,266.8
Employees (number at period-end)	27,241	28,583	28,601
Factories (number)	23	24	23

Net sales reached Euro 1,915.9 million, showing a decrease of 11.6% compared to the same period last year.

The like-for-like variation in the six-month term is -9.3% compared to last year, with a fall in volumes (-15.7%) and a positive price/mix variation (+6.4%). The exchange rate effect was a negative 2.3%, mainly due to the devaluation of the Brazilian currency, which was particularly heavy in the first quarter.

Sales in the second quarter reached a value of Euro 989 million, with growth of 6.7% on the sales of the first quarter of 2009 amounting to Euro 926 million .

Thanks to less sluggishness in sales in the quarter, the organic fall in sales compared to the corresponding period of 2008 was limited to 7.7%, instead of the 11.2% in the first quarter; the change was above all due to improvement in volumes (-13.3% in the second quarter, compared to -18.1% in the first quarter).

The change, broken down according to the various factors, can be summarized as follows:

	1st Half	2nd Quarter	1st Quarter
• Volumes	-15.7%	-13.3%	-18.1%
• Prices/mix	6.4	5.6%	6.9%
Change on like-for-like basis	-9.3%	-7.7%	-11.2%
• Foreign exchange effect	-2.3	-1.5%	-2.7%
Total change	-11.6%	-9.2%	-13.9%

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

Geographical Area	1st Half 2009	1st Half 2008
Italy	10%	10%
Other European countries	34%	37%
North America	8%	7%
Central and South America	32%	31%
Oceania, Africa, Asia	16%	15%
Total	100%	100%

Product category	1st Half 2009	1st Half 2008
Car tyres	62%	58%
Truck tyres	26%	28%
Motorcycle tyres	10%	10%
Steelcord / other tyres	2%	4%
Total	100%	100%

In this scenario of market recession, particularly strong in the mature markets, results therefore confirm the higher percentage of sales in non-European areas, mainly consequent to the reduction in volumes of the Original Equipment channel, while sales in North America have been positively affected by the revaluation of the US dollar, by about 13% compared to the first half of 2008.

The contraction in sales was particularly strong in the Industrial segment, leading to an increase in the incidence of Consumer sales (72%) against Industrial (28%) sales.

With regard to the **operating profit**, after a **first quarter** conditioned by the strong market contraction in the Industrial segment in both sales channels and a more marked reduction on the Original Equipment market in the Consumer business, the **second quarter** benefited from;

- the positive impact of the fall in raw material costs;
- the continuance of the restructuring actions undertaken, even more important in a scenario in which the production capacity is still under-exploited;
- total sales higher than the negative trend of the market, with generalized improvements in our share of the main markets in both the Consumer and Industrial segments;

allowing the company to reach the operating results shown in the following table, in absolute values slightly lower than the corresponding period last year, but with a recovery, without considering restructuring expenses, of 0.5 % in Operating Profit (8.6% compared to 8.1% for the second quarter of 2008), and of 1% in Gross Operating Profit (13.4% compared to 12.4% for the second quarter of 2008).

(in millions of euros)	2nd Quarter 09	2nd Quarter 08
• Net sales	989.0	1,089.4
• Gross operating profit before restructuring expenses	133.0	135.5
% of net sales	13.4%	12.4%
• Operating profit (loss) before restructuring expenses	85.5	88.2
% of net sales	8.6%	8.1%

The **gross operating profit** for the period **before restructuring expenses** totaled Euro 240.8 million (12.6% of sales), which was 16% less than the same period of 2008, when it amounted to Euro 286.5 million (13.2% of sales). The result for the second quarter was Euro 133.0 million, compared to Euro 135.5 million in the second quarter of 2008.

The **operating profit** for the period **before restructuring expenses** was Euro 146.5 million (7.6% of sales), showing a contraction compared to the same period of 2008 when it amounted to Euro 191.0 million (8.8% of sales).

The result for the second quarter was Euro 85.5 million, compared to Euro 88.2 million in the second quarter of 2008.

The table below shows the change in operating profit before restructuring expenses, broken down according to the various items:

(in millions of euros)	1st Half	2nd Quarter	1st Quarter
Operating profit (loss) 2008 before restructuring expenses	191.0	88.2	102.8
. Foreign exchange effect	(0.2)	1.4	(1.6)
. Prices/mix	78.6	35.6	43.0
. Volumes	(74.8)	(46.1)	(28.7)
. Production factors per unit cost	(40.1)	13.8	(53.9)
. Efficiencies	3.6	4.8	(1.2)
. Depreciation and other	(11.6)	(12.2)	0.6
Change	(44.5)	(2.7)	(41.8)
Operating profit (loss) 2009 before restructuring expenses	146.5	85.5	61.0

The price/mix variance and the efficiencies achieved, which are even more important in view of the negative impact of an operating scenario which still features high over-capacity, and the positive impact of industrial costs, especially thanks to the reduction in raw material prices, have thus allowed for reaching a higher profit percentage in the second quarter of 2009 than in the corresponding period last year, albeit slightly lower in absolute value because of the contraction in sales.

With regard to restructuring, Pirelli Tyre has continued its activities within the sphere of the continuous process aimed at improving efficiency and industrial organisation, as well as adapting the structure of fixed costs to the changed market scenario.

These measures are essentially based on layoff costs, with a resulting staff reduction of 15% in Western Europe by the end of 2009.

Staff reduction measures have been applied to all the major European countries. It has also been decided to discontinue tyre production in the Spanish factory of Manresa within the end of 2009, which had already been cut down by 40% as from last February.

These internal efficiencies on labour costs, together with all those applied on the use of materials and on the purchasing process, and the advantage obtained on the cost of raw materials gross of the exchange rate effect, have allowed for 45% of the measures of the Industrial Plan, for a value of Euro 200 million, to be completed in the first half of the year.

In the first half of the year, the **operating profit after restructuring expenses** was Euro 136.8 million (7.1% of net sales), with a reduction compared to the first quarter of 2008, when it amounted to Euro 186.0 million (8.6% of net sales). The result for the second quarter was Euro 79.3 million, compared to Euro 85.7 million for the second quarter of 2008 (both 7.9% of sales).

Net income amounted to Euro 54.2 million for the period (after financial expenses and earnings from investments of Euro 39.2 million and income taxes of Euro 43.4 million), against Euro 101.7 million (after financial expenses and earnings from investments of Euro 29.4 million and income taxes amounting to Euro 54.9 million) of last year.

In the first quarter, the Euro 4 million acquisition of minority interests in the Turkish subsidiaries was essentially completed, with a further positive Euro 3.4 million impact on earnings from investments, deriving from the purchase value which proved to be lower than book value.

The **net financial position** is negative Euro 1,467.0 million, compared to Euro 1,266.8 million at 31 December 2008, this is Euro 54.8 million less than the figure in March, after payment of the dividends in April for Euro 67 million (Euro 64 million of which regarded the dividends paid to the parent company). The second quarter, therefore, net of the aforesaid dividend payments and restructuring expenses of Euro 8 million, showed a cash generation of Euro 130 million more than for the first quarter, with a positive result from the management of working capital.

The increase in the Net Financial Position compared to 31 December 2008, however, is mainly linked to the following factors:

- Euro 67 million for the aforesaid dividends;
- Euro 47 million cash outflow in the first six months for restructuring measures allocated in the 2008 profit and now implemented, as well as other measures put into practice in the first half of 2009;
- Euro 97 million cash absorption, especially concentrated because of the seasonal nature of the working capital especially in the first quarter, which has nevertheless increased less than in the first quarter of 2008 in terms of business volumes, but above all for a significant reduction of inventory levels which led to improved turnover in the second quarter;
- a mitigation effect achieved by the positive balance of Euro 11 million from the sale of the Central Tyre distribution business in the UK (Euro 15 million), net of a further disbursement of Euro 4 million to complete the purchase of minority stakes in the Turkish subsidiaries.

The number of **factories** is still 23, as at the end of 2008.

Employees at 30 June 2009 number 27,241, which is 1,360 fewer than at 31 December 2008.

Consumer Business

The table below illustrates the economic and financial results achieved in the second quarter 2009, the cumulative in the first half 2009, and the figures of the corresponding periods of 2008 for comparison:

(in millions of euros)	1st Half 09	1st Half 08	2nd Quarter 09	2nd Quarter 08
· Net sales	1372.0	1494.3	701.5	746.0
· Gross operating profit before restructuring expenses	167.8	198.1	90.4	89.4
· <i>% of net sales</i>	<i>12.2%</i>	<i>13.3%</i>	<i>12.9%</i>	<i>12.0%</i>
· Operating profit before restructuring expenses	96.5	126.3	54.6	53.8
· <i>% of net sales</i>	<i>7.0%</i>	<i>8.5%</i>	<i>7.8%</i>	<i>7.2%</i>

Revenues from the Consumer line totaled Euro 1,372.0 million for the period (8.2% less than for the same period in 2008); the gross operating margin before restructuring expenses amounts to Euro 167.8 million, equal to 12.2% of sales (15.3% less than for the same period last year), while the operating profit of core business before restructuring expenses reached Euro 96.5 million, with ROS at 7.0%, compared to Euro 126.3 million for the same period in 2008 with ROS at 8.5%.

In the second quarter, revenues totaled Euro 701.5 million (6% less than for the same period in 2008), with higher profitability than last year both in absolute terms (gross operating margin of Euro 90.4 million against Euro 89.4 million for the same period in 2008, and operating profit of Euro 54.6 million against Euro 53.8 million in 2008, both before restructuring expenses), and in percentage terms showing a gross operating margin before restructuring expenses of 12.9% of sales (0.9% more than the same period in 2008) and an operating profit before restructuring costs of 7.8% of sales (0.6% more than the same period of 2008).

Both the reduction in raw material costs and the focus on the price/mix and on the internal measures for improving competitiveness had a positive influence in the second quarter, and together with the favorable sales channel mix led to the improvement in profitability levels.

With regard to the **Original Equipment** sales channel, after a two months period at the beginning of the year showing strong contraction, the decrease was mitigated and, in some months and in some countries, actually turned to an increase, simultaneously with the positive effects of government incentives for the sale of motor vehicles.

In any case, car manufacturers continued to reduce production in order to contain inventory levels, leading, in the second quarter, to a contraction in the tyre market of 19% in Europe, 50% in North America, and 10% for Mercosur, compared with decreases in the first quarter of 34% in Europe, 49% in North America and 18% for Mercosur, showing a recovery both in Europe and Mercosur, where Brazil registered significant growth in car sales in June.

In the second quarter, the **Replacement** channel still showed significant reductions, both in Europe (-8%), especially East Europe, and in North America (-10%), and a growth of 2% in Mercosur (compared to a first quarter of -5% in Europe, -13% in North America and -4% in Mercosur).

To cope with such market scenarios, where total sales volumes fell by 12.3% in the half year period (-9.8% in the second quarter), Pirelli Tyre focused on the price/mix variation, which increased by 5.9% in the six months period and by 5.1% in the second quarter, limiting the organic reduction of sales to 6.4% for the period as a whole, and to 4.7% in the second quarter. The exchange rate effect was negative 1.8% in the period (-1.3% in the second quarter).

Sales of motorcycle tyres also suffered from the recession, with reductions in all markets of both Replacement and Original Equipment.

Pirelli obtained important approvals for the launch of the Angel ST tyre, the new Sport Touring radial, which immediately made its mark by winning 7 world duration records on the Nardò track.

Metzeler presented Racetec K3 Interact, the new racing tyre that is gaining fame in championships around the world.

Positive results were also achieved in the world of competitions: Pirelli, the sole supplier for World Superbike, has developed new solutions which have allowed for improving lap time and racing performance on circuits around the world, and has also introduced a new tyre for the heats to make the Superpole more spectacular.

For off-road vehicles, Pirelli has reached leadership in the MX2 category of the World Motocross championship. Pirelli also won the prestigious Paris-Dakar race, coming 1st and 2nd with the new Scorpion Rally tyres. Metzeler dominates the World Enduro Championship in all classes. Significant results have also been achieved in Road Racing in national championships both in Europe and in the rest of the world, not only in terms of victories won, but also as regards proven reliability and handling in the series for which it is the sole supplier.

Industrial Business

The table below illustrates the economic and financial results achieved in the second quarter 2009, the cumulative in the first half 2009, and the figures of the corresponding periods of 2008 for comparison:

(in millions of euros)	1st Half 09	1st Half 08	2nd Quarter 09	2nd Quarter 08
· Net sales	543.9	672.0	287.5	343.4
· Gross operating profit before restructuring expenses	73.0	88.4	42.6	46.1
· <i>% of net sales</i>	<i>13.4%</i>	<i>13.2%</i>	<i>14.8%</i>	<i>13.4%</i>
· Operating profit before restructuring expenses	50.1	64.7	31	34.5
· <i>% of net sales</i>	<i>9.2%</i>	<i>9.6%</i>	<i>10.8%</i>	<i>10.0%</i>

Revenues totaled Euro 543.9 million for the period (19.1% less than for the same period in 2008); the gross operating margin before restructuring expenses amounts to Euro 73.0 million, equal to 13.4% of sales (17.4% less than for the same period last year), while the operating profit of core business before restructuring expenses

reached Euro 50.1 million with ROS at 9.2%, compared to Euro 64.7 million for the same period in 2008 with ROS at 9.6%.

Revenues for the second quarter amounted to Euro 287.5 million (16.3% less than the same period in 2008), reaching a Gross Operating Profit of Euro 42.6 million which, albeit Euro 3.5 million less than for the corresponding period of 2008, is an improvement in profit percentage (14.8% of sales compared to 13.4% for the same period of 2008).

The Operating Profit shows the same trend, amounting to Euro 31.0 million compared to Euro 34.5 million for the same period of 2008, and reaching 10.8% of sales (against 10% for the second quarter of 2008).

The results of the Industrial line were also positively influenced in the second quarter by both the reduction in raw material costs and the significant price/mix growth, with strategic focus of the business line in the emerging markets, which suffered less from the international market crisis.

In the Industrial segment, the market scenario is in fact negative in both sales channels, especially on the mature markets, but the Pirelli Tyre's strategic positioning in the emerging markets, as regards both production and sales, has favored the maintenance of good revenue levels.

The Industrial segment is generally more cyclical, influenced directly by the general trend of the economy as a whole and by certain specific sectors, such as public works, large work sites, etc. Therefore, the general fall registered in the industrial market in the first quarter of 2009 (Original Equipment in Europe -62%, Original Equipment for Mercosur -26%, Replacement in Europe -33%, Replacement for Mercosur -22%) which was only partially mitigated in the second quarter with lower contraction rates in the Replacement channel in Europe (25% less than that of the previous year) and with growth in China and Egypt, is due to the general negative trend of the economy and the reduced need for industrial transport of merchandise, which continued to have a heavy negative impact on the market in the second quarter in the other areas (Original Equipment Europe -72%, Original Equipment Mercosur -29%, Replacement Mercosur -17%).

Overall sales volumes for Pirelli Tyre are 23.1% less than those of the first six-month term of 2008 (-20.9% for the second quarter), with a positive price/mix variation of 7.4% (+6.8% in the second quarter), bringing the overall change to negative 15.7% in the half year period (-14.1% in the second quarter). The exchange rate effect was negative 3.4% in the period (-2.1% in the second quarter).

Outlook for the current year

The outlook presented in the Industrial Plan on 11 February 2009 has been confirmed, according to which a difficult market in the Industrial business on the mature markets is forecasted for the year for both sales channels, especially in the Original Equipment channel for the Consumer business sector, albeit with more contained reductions than in the first half of the year. For Replacement, a less negative trend, already apparent on some markets, should show due to the reduced stock now held by dealers, reduced fuel costs and a partial recovery of kilometers covered, with an optimistic prevision for the coming winter season.

Increased competition in costs thanks to the restructuring, a positive channel mix and the focus on “green products” (Cinturato P7 and Snowcontrol II) for the Consumer business area and certain core markets of the Industrial business sector especially on the emerging markets, together with reduced raw materials costs, confirm that the 2009 targets of the Industrial Plan should be reached, unless unforeseen events occur.

PIRELLI ECO TECHNOLOGY

The relevant data can be summarized as follows:

	<i>(in millions of euros)</i>		
	June 30, 2009	June 30, 2008	December 31, 2008
. Net sales	28.3	33.4	62.9
. Gross operating profit	(4.4)	(3.3)	(11.0)
. Operating profit	(5.5)	(3.9)	(11.8)
. Earnings (losses) from investments	-	-	-
. Operating loss incl. earnings (losses) from investment	(5.5)	(3.9)	(11.8)
. Financial income (expenses)	(1.1)	(0.8)	(1.6)
. Income taxes	-	-	0.2
. Net income	(6.6)	(4.7)	(13.2)
. Net financial (liquidity)/debt position	32.8	7.1	19.0
. Employees (number at period-end)	283	113	218

Sales at 30 June 2009 amount to Euro 28.3 million, against Euro 33.4 million for the same period last year, and are mostly constituted of the GECAM product which is also influenced by the reduced average unit profit due to the fall in the price of diesel oil.

The **gross operating profit** for the period, which was negative Euro 3.5 million in 2008, has fallen to negative Euro 4.4 million.

The **operating profit** for the period shows a loss of Euro 5.5 million, which is also worse than the figure of negative Euro 3.9 million for 2008.

The GECAM business sector shows a positive result, although lower than last year, due to the fall in the price of diesel oil, while the anti-particle filter business was negatively influenced by the start-up costs for the new production plant in Romania and for the reinforcement of the commercial network and the pre-marketing activity on the relative markets.

The **net income** shows a loss of Euro 6.6 million, after deduction of financial charges and taxes amounting to Euro 1.2 million.

The **Net Financial Position** is negative for Euro 32.8 million compared to Euro 19.0 million at 31 December 2008.

At 30 March 2009, the company had 283 **employees**, with an increase compared to 31 December 2008 due to the start up of operations and staffing in the production site in Bumbesti Jiu, Romania.

Gecam – White Diesel

The first six-month term of 2009 shows a reduction of 14.6% in sales volumes and sales value compared to the first half of 2008. The reduction of sales volumes in Italy is due in part to termination of the ATM (Municipal Transport Companies) purchases, which is partially compensated, however, by an increase in activities in France (5% more than in the first half of 2008).

Anti-particulate Filters

In the first six months of the year, 1948 Feelpure filtering systems were sold (348 at June 2008), for a total of Euro 7.7 million (Euro 1.5 million at June 2008). Sales were concentrated mainly in Italy, Germany and Holland.

Sales began in China, subsequent to the conclusion of the local approval procedure and the signing of a distribution agreement with a distributor of Beijing.

During the period, the factory in Bumbesti Jin, Romania also started production, which will serve both the already active markets and the Original Equipment market for cars for which the first 1,440 filters were delivered.

Outlook for the current year

During the current year, business will be mainly concentrated on the development of the Retrofit line (Feelpure filtering systems) and the product range, the penetration of new markets and the structuring of adequate before and after sales services, for which the company stands out above its competitors in this sector.

Since the end of June, the production of Silicon Carbide Filters has been concentrated in the factory at Bumbesti Jiu, Romania.

In Italy, the Ministry of the Environment allocated Euro 11 million to finance the installation of antiparticulate filtering systems on urban public transport vehicles in all regions.

Provisional approval was also obtained in Germany for the installation of the filters on Euro 3 engines of light commercial vehicles, followed in July by definitive approval. The filters will be installed also on Euro 1 and Euro 2 engines in the forthcoming months, with consequent entry into full production.

The fall in the demand on the markets of reference, linked both to the economic situation and to the aforementioned delay in issuing the implementation rules of reference, will impact the 2009 profit, which is expected to close with an Ebit at about break even point (forecast last February at more than 10% of revenues, with a value of over Euro 100 million).

PIRELLI & C. REAL ESTATE

The present serious international crisis has also involved the real estate sector. The fall in prices, the sluggishness of transactions, and above all the difficulty in obtaining credit, have penalized all companies in this sector. This must therefore be taken into account in the comparison with the first half of 2008.

To react to the changed market conditions, at the end of 2008 Pirelli RE had already announced a cost reduction and reorganization process, mainly in the two macro geographic areas, Italy and Germany-Poland, which are less exposed to the volatility of the real estate market, aimed at relaunching activities and full valorization of the quality assets in the portfolio.

In short, the objective of Pirelli RE, in order to cope with the changed scenario of the real estate sector, is:

- (i) to return to a management style which tends to privilege revenues of a recurring nature, through concentrating on the activities of its own core business (in particular, fund management, exploiting the leverage of the position of pre-eminence in the sector of Pirelli RE SGR in Italy, and other specialist services in both the real estate sector and the outstanding loans management sector);
- (ii) to reduce risks linked to the business model adopted in the recent past (mainly through reducing indebtedness and net invested capital);
- (iii) to further reduce costs through adjustments to the internal and corporate organization.

In July, with the success of the capital increase, which was concluded with total adhesion of the market, and the agreement for the new three-year credit line, Pirelli RE reached a first important target of the relaunching plan, i.e. reinforcement of the company's equity, which is essential to maintain the position of leadership.

Economic/financial analysis

With regard to the main figures of the income statement given below, it must be taken into account that the operating profit including earnings (losses) from investments before restructuring expenses and before properties write-downs/revaluations, must be considered, due to the type of business performed by the Group, the most significant indicator to represent the trend of the results.

With regard to the data given below, it must be remembered that the Integrated Facility Management business, sold in 2008, is classified as "discontinued operations", and is therefore represented only in the net income of the previous year and not in the operating result. The comparative figures for the first half 2008 have been restated on a consistent basis.

The data at 30 June 2009 can be summarized as follows:

	June 30, 2009	June 30, 2008	<i>(in millions of euros)</i> December 31, 2008
Consolidated net sales			
Operating profit (loss) before restructuring expenses and property writedowns/revaluations	115.8	192.8	365.1
Earnings (losses) from investments before property writedowns/revaluations	(2.1)	20.3	(17.7)
Operating profit (loss) including earnings (losses) from investments before restructuring expenses and property writedowns/revaluations	(20.9)	17.3	(42.0)
Restructuring expenses	(23.0)	37.6	(59.7)
Property writedowns/revaluations	(11.5)	(16.2)	(44.2)
Operating profit incl. earnings (losses) from investments	(4.8)	(0.7)	(135.8)
Financial income from investments	(39.3)	20.7	(239.7)
Financial expenses	13.7	13.6	23.0
Income taxes	(14.7)	(20.8)	(49.0)
Income (loss) before discontinued operations	(2.4)	(6.5)	(1.9)
Discontinued operations	(42.7)	7.0	(267.6)
Net income (loss)	-	4.4	74.6
Income (loss) attributable to the equity holders of the company	(42.7)	11.4	(193.0)
Shareholders' equity	(42.3)	9.0	(195.0)
<i>. of which attributable to the equity holders of the company</i>	308.2	657.1	366.4
Net Financial Position	302.3	650.1	361.7
<i>Receivables for shareholder loans</i>	337.4	270.5	289.5
Net financial (liquidity)/debt position gross of shareholder loans	491.1	539.2	572.3
Gearing ratio	828.5	809.7	861.8
	2.69	1.23	2.35

In the first half year, actions launched have allowed for a saving of around Euro 29 million on the structure, ahead of the annual target of Euro 50 million which has therefore been increased to Euro 55/60 million, while services, including the central costs of the holding company, are almost at break-even point (with an operating result of negative Euro 3.2 million). The Company has also confirmed the asset sale target of Euro 1 billion within 2009, and will benefit in proportion to its own share.

In the first six months of 2009, real estate sales amounted to Euro 351.9 million, compared to Euro 527.6 million at 30 June 2008, and non-performing loans were cashed in for Euro 175.8 million against Euro 235.0 million at 30 June 2008. In spite of the afore mentioned macro economic trend, Pirelli RE has nevertheless managed to complete in the first semester 2009 its own real estate transactions as a whole in line with appraised values. **Margin on sales** at 30 June 2009 was 15%, while it was 20.7% for the same period of 2008. **Rents** at 30 June 2009 amounted to Euro 402.2 million (Euro 288.1 million for the first half of 2008 - excluding the HighStreet portfolio). The pro-quota Pirelli RE income on rents is Euro 98.4 million (Euro 83.2 million at June 2008).

Consolidated revenues amount to Euro 115.8 million, compared to Euro 192.8 million at 30 June 2008, when the Company benefited by about Euro 49 million due to the sale of a single asset in Poland. In particular, revenues from services in the first half year amounted to approximately 82% of the total, while in the same period of 2008, such revenues were about 60%.

The **operating profit including earnings (losses) from investments** before restructuring expenses and properties write downs/revaluations, shows an improvement in the second quarter compared to the first (Euro -8.2 million compared to Euro -14.8 million). In spite of this improvement, the overall figure for the first half of 2009 shows a loss of Euro 23 million, compared to a profit of Euro 37.6 million in the first half of 2008, representing a decrease of Euro 60.6 million.

This fall, however, is consequent to the lump sum of over Euro 30 million which the company received in 2008 for the sale of a single asset in Poland, and the indemnity received for the substitution of Pirelli RE SGR in the management of the Berenice fund. In addition, a positive economic impact was felt in the first six-month term of 2008 deriving from the fair value measurement of the derivative hedging instruments (Euro 10.9 million), whereas the impact on the income statement for the first half of 2009 was negative for Euro 7.4 million also because of the interest rate trend.

Furthermore, summing to the operating result including earnings (losses) from investments and before restructuring expenses and properties write downs/revaluations the income from shareholders' loans, the operating loss for the first half of the year reduces to Euro 9.2 million. Two thirds of this negative result is due to the results of vehicle companies and funds (negative Euro 6.0 million) and one third is due to service activities (negative Euro 3.2 million, including the central costs of the holding): the last two have improved by over Euro 12 million compared to the first half of 2008, net of the already mentioned non-recurring income, thanks to the reduction in the costs of the structure. The properties write downs and revaluations for the first half of the year show a negative balance of negative Euro 4.8 million. The revaluations are consequent to the formalization of the already announced strategy for much of the residential real estate in Germany and for selected prestigious assets in Italy, which it is assumed will be maintained in the portfolio for the medium term (hold strategy): these assets have been posted at their carrying value, with a positive economic impact of Euro 45.5 million, according to IAS 40, which allows for the possibility of adjusting real estate properties with strategic importance within the portfolio to their appraised value.

The revaluations, however, are more than set off by the write downs of other portfolios, for Euro 50.3 million, Euro 28.1 million of which regards the investment in the German HighStreet portfolio.

On the basis of the external experts' estimates on a like-for-like basis, the market values of the equity investments have been written down by 2.3%. More in detail, the write downs in Italy amount to 1.7%, and in Germany 2.8% (of which Euro 257 million regards the HighStreet portfolio, with a pro-quota value for Pirelli RE of Euro 28.1 million), while in Poland the write-down is 6%. In consideration of the change of direction put into practice in Germany (regarding 70% of the residential real estate) and on the trophy assets of the Retail & Entertainment fund in Italy, consistent with the already announced strategy of maintaining these assets in the portfolio for the medium term, IAS 40 has been applied, with consequent revaluation.

The **net result attributable to the equity holders of Pirelli Real Estate** of the period shows a loss of Euro 42.3 million, compared to a net profit of Euro 9 million in the first half of 2008 (which benefited, among other things, from the Euro 4.4 million relative to discontinued operations), taking into account gross losses for Euro 16.3 million for restructuring expenses and the negative balance of write downs/revaluations.

The **shareholders' equity attributable to the equity holders of Pirelli Real Estate** for the period amounts to Euro 302.3 million, compared to Euro 361.7 million at 31 December 2008 (Euro 650.1 million at 30 June 2008). The decrease of Euro 59.4 million depends mainly on the net result (Euro -42.3 million) and the change in the period of the reserve for interest rate hedging (Euro -15.7 million). The shareholders' equity attributable to the equity holders of Pirelli Real Estate of the period, taking into consideration the capital increase concluded at the beginning of July, would amount to Euro 701.6 million.

The **net financial position** at 30 June 2009 is negative Euro 337.3 million, against a value of negative Euro 289.5 million at 31 December 2008.

The **net financial position excluding shareholders' loans** is negative Euro 828.5 million compared to Euro 898.4 million at 31 March 2009 (Euro 861.8 million at the end of December 2008). The net financial position excluding shareholders' loans, taking into consideration the capital increase concluded at the beginning of July, amounts to Euro 429.2 million. The improvement of Euro 33.3 million compared to the value at 31 December 2008 is due to the combined effect of, among other things, an improvement achieved by the conclusion of the sale of 20% of the Credit Servicing business, which has allowed Pirelli RE to simultaneously repay its own shareholders' loan on the European NPL investment platform for Euro 89.2 million, which is partly offset by the capital increase on the vehicles and the investments for the period for Euro 43,5 million, as well as the payment of restructuring expenses for Euro 23.6 million.

The **gearing** (ratio between net financial position, excluding shareholders' loans, and shareholders' equity) amounts to 2.69 at 30 June 2009, against 2.81 at 31 March 2009 (2.35 at 31 December 2008). Taking into account the capital increase concluded at the beginning of July, this ratio could increase to 0.61.

At 30 June 2009, the assets under management (at market value according to appraisal and analysis by external experts, and excluding the non-performing loans posted at book value) amounts to Euro 16.8 billion (Euro 17.3 billion at 31 December 2008), with the share of Pirelli RE being equal to Euro 4.4 billion, in line with the December figure. The assets under management is composed of real estate for Euro 15.1 billion (Euro 15.4 billion at 31 December 2008) and non-performing loans for Euro 1.7 billion (Euro 1.9 billion at 31 December 2008).

With regard to asset allocation, 50% of the managed real estate of Euro 15.1 billion is managed in Italy, 49% in Germany and 1% in Poland, which percentages are in line with those at 31 December 2008.

The **Net Asset Value** of joint investments of Pirelli RE was assessed by independent third party experts at approximately Euro 1.2 billion, net of the non-performing loans which are posted at book value, and is in line with the figure at 31 December 2008. This value corresponds to the balance between the pro-quota market value of the assets held (Euro 3.9 billion) and the net bank loan excluding payables for shareholders' loans for the vehicle companies and funds attributable to Pirelli RE, amounting to Euro 2.7 billion.

At 30 June 2009, notwithstanding the write downs on the real estate portfolios, Pirelli RE shows an implicit pro-quota capital gain (the difference between market value and book value) of about Euro 1.2 billion, in line with the figure at 31 December 2008.

The pro-quota **Real Estate Net Asset Value**, understood as the difference between market value and relative debt including shareholder's loans, amounts to around Euro 0.8 billion, always in line with 31 December 2008.

The indebtedness of funds and vehicles of Pirelli RE at 30 June 2009 amounts to approximately Euro 13 billion (Euro 11.7 billion bank loans and Euro 1.3 billion of shareholders' loans), of which Euro 1.6 billion regards the non-performing loans.

The Pirelli RE quota of the liabilities of the funds and vehicles amounts to Euro 3.7 billion (of which Euro 0.4 billion represents shareholders' loans for real estate business and Euro 0.1 billion represents shareholders' loans for the non-performing loans). Of the pro-quota bank loans, for Euro 3.2 billion, Euro 2.7 billion is invested in real estate and Euro 0.5 billion is invested in the non-performing loans. This debt, with a remaining average maturity of about 3.2 years, is guaranteed by real estate and by the non-performing loans underlying the loans.

At 30 June 2009, there were 1,267 **employees** (plus another 59 with temporary contracts) compared to 1,473 at 31 December 2008 (plus 85 temporaries).

The trend of the divisions

The Company's structure is divided according to geographic area. The economic trend of the same is shown below, divided between income from fund and vehicle business, and income generated by the services platform and the holding.

The operating profit including earnings (losses) from investments, before restructuring expenses and properties write downs/revaluations, also includes financial income from shareholders' loans granted to the single businesses.

Italy Real Estate

The **operating result including earnings (losses) from investments**, before restructuring expenses and write downs/revaluations and including financial income from equity investments, amounts to a loss of Euro 3.6 million at 30 June 2009, compared to a profit of Euro 26.2 million at 30 June 2008. The above-mentioned indicator is composed of income from the services platform and the holding, for about Euro 6.7 million (an improvement of about Euro 6.8 million on the first half of 2008 net of the non-recurring income) and the loss from the vehicles and the real estate funds for Euro -10.3 million (Euro 9.3 million at 30 June 2008). Real estate sales at 30 June 2009 were worth Euro 273.3 million, against Euro 372.4 million for the same period last year. Total rental fees are Euro 155.1 million (Euro 180.2 million in the same period of 2008). Gains totaled Euro 35.0 million at 30 June 2009 (Euro 69.9 million at 30 June 2008), whereas pro-quota gains for the first six months of 2009 amount to Euro 16.7 billion (Euro 20.0 million at 30 June 2008).

Germany Real Estate

The **operating result including earnings (losses) from investments**, before restructuring expenses and write downs/revaluations and including financial income from equity investments, amounts to Euro 1.8 million at 30 June 2009, compared to a profit of Euro 3.8 million at 30 June 2008. The above-mentioned indicator is composed of income from the services platform and holding, for about Euro 2.7 million (Euro -2.3 million at 30 June 2008 net of the non-recurring income) and the result of the vehicle companies and the real estate funds for negative Euro 0.9 million (Euro 6.1 million at 30 June 2008). Real estate sales at 30 June 2009 were worth Euro 55.1 million, against Euro 95.6 million for the same period last year. Total rental fees are Euro 246.8 million (Euro 107.6 million in the same period of 2008). Gains totaled Euro 11.8 million at 30 June 2009 (Euro 22.4 million at 30 June 2008), whereas pro-quota gains for the first six months of 2009 amount to Euro 2.6 billion (Euro 7.5 million at 30 June 2008).

Poland Real Estate

The **operating profit including earnings (losses) from investments**, before restructuring expenses and write downs/revaluations, and also including financial income from equity investments at 30 June 2009, is Euro 1.6 million, against a profit of Euro 19.2 million at 30 June 2008. The 2008 figure had the benefit of non-recurring revenues from the sale of a single asset in Poland. The above-mentioned indicator is composed of Euro -0.1 million in expenses from services platform and the holding (income of Euro 0.6 million at 30 June 2008) and income of Euro 1.7 million from vehicle companies and real estate funds (Euro 18.7 million at 30 June 2008). Real estate sales at 30 June 2009 were worth Euro 23.5 million, against Euro 59.5 million for the same period last year. Total rental fees are Euro 0.3 million (Euro 0.3 million in the same period of 2008).

Gains totaled Euro 6.2 million at 30 June 2009 (Euro 17.1 million at 30 June 2008), whereas pro-quota gains for the first six months of 2009 amount to Euro 2.5 billion (Euro 16.9 million at 30 June 2008).

Non Performing Loans

The **operating result including earnings (losses) from investments**, before restructuring expenses and write downs/revaluations and including financial income from equity investments, shows a profit of Euro 1 million at 30 June 2009, compared to a profit of Euro 18.2 million at 30 June 2008. The said indicator is composed of a loss of Euro 2.4 million on services platform (Euro 2.3 million at 30 June 2008) and a profit from the vehicle companies for Euro 3.4 million (Euro 15.8 million at 30 June 2008).

Outlook for the current year

The company does not expect any particular improvement in the situation of reference; however, it is reasonably confident, on the basis of negotiations in progress, of being able to reach the one billion Euro sales target of the year, which will benefit Pirelli RE for its quota, without having to substantially compress margins more than budget forecasts.

For the entire year 2009, the Company, engaged on the turnaround, confirms the previously announced target of operating profit including earnings (losses) from investments before restructuring expenses and properties write downs/revaluations (negative Euro 25/35 million).

However, it is well to recall that the projections for 2009 could be heavily influenced by uncontrollable external factors, such as changes in the macroeconomic scenario, the real estate market trend, changes in interest rates and the terms of access to credit.

In particular, with regard to investment initiatives in companies or funds owning real estate in which the Company invests as a unit holder, although not a concrete possibility at present and not included in those specifically noted in this report, if liquidation of the relative equity were to take place otherwise than according to the modalities foreseen by the business plan and/or when there is market tension relative to sale prices, this could involve lower income than foreseen. This would lead to consequent difficulties to repay the quotas of the loans granted and, even more so, of the equity invested.

PIRELLI BROADBAND ACCESS

The following table gives the summarized data for the first six months of 2009:

	<i>(in millions of euros)</i>		
	June 30, 2009	June 30, 2008	December 31, 2008
. Net sales	72.8	63.4	124.6
. Gross operating profit	3.2	3.6	4.8
. Operating profit	2.7	3.2	3.9
. Earnings (losses) from investments	-	-	-
. Operating loss incl. earnings (losses) from investments	2.7	3.2	3.9
. Financial income (expenses)	0.7	(2.8)	(2.6)
. Income taxes	0.7	(0.2)	0.7
. Net income	4.1	0.2	2.0
. Net financial (liquidity)/debt position	(31.9)	26.7	(15.0)
. Employees (number at period-end)	123	106	113

Net sales for the period amount to Euro 72.8 million, an increase of 14.8% on the first half of 2008 (equal to Euro 63.4 million).

The **gross operating profit** is Euro 3.2 million, a slight decrease on the Euro 3.6 million for the same period of the previous year.

The **operating profit** is Euro 2.7 million, compared to Euro 3.2 million for the same period of 2008. This contraction is mainly due to the erosion of prices, only partially compensated by the contribution deriving from higher sales volumes and a positive effect of the mix/product sold.

Net income is Euro 4.1 million (after total financial charges and taxes of Euro 1.4 million) compared to Euro 0.2 million for the first half of 2008 (after total financial charges and taxes of Euro 3.0 million).

The **net financial position** is positive for Euro 31.9 million compared to Euro 15.0 million at 31 December 2008.

At 30 June 2009, **employees** numbered 123, compared to 113 at 31 December 2008.

Business performance

The first six-month term closed with a positive result, in spite of the continuing substantially negative economic scenario. This result can be attributed to the slightly ant cyclical characteristic of this market sector which showed a greater than expected product demand from the main client - Telecom Italia - and continual diversification towards other operators and markets with careful customer selection, particularly in this unfavorable economic climate.

In addition to the above, it must be noted that Telecom Italia in these first six months, notwithstanding the growth of its own demand, has maintained the same level of the previous year, while the signs of diversification are already apparent, with revenue being generated from important customers such as Vodafone and the signing of a two-year agreement with BT Italy.

From the geographic viewpoint, expansion abroad is proceeding despite the fact that the Russian area has showed signs of the financial crisis, while the East European compartment has maintained constant signals of growth. The growth of the South American market has also kept in line with the forecasts, and a sales team and a technician started operating at the beginning of the year with the opening of a local branch.

In terms of product, developments are proceeding substantially according to the forecasts of the industrial plan.

In the **Residential Access Gateways** line, for the high-end bracket, Pirelli has capitalized its position in the new generation IAD platforms, based on VDSL2, being selected by Swisscom as its supplier for the new generation Home Gateways that the Swiss operator will launch in 2010.

While the IAD ADSL2+ line remains the core product in terms of continuity of volumes for the two main customers (Telecom Italia and Fastweb), the IAD line for the medium-low bracket has contributed to the acquisition of new customers such as Portugal Telecom, and to the expansion of the range of other customers, such as Wind.

The ADSL2+ gateway access lines for the medium-low bracket (WiFi Routers and Combo) have continued to successfully cater for the entry of emerging operators, initially oriented towards low cost solutions, with new acquisitions such as BTC (Bulgaria) and CANTV (Venezuela).

The product lines have also developed a promising result in the experimentation of the retail channel, where they are resold through third party distributors.

In the first half of 2009, there was structured expansion in fixed-mobile conversion solutions (femto cell standalone and integrated in IAD) and for mobile connectivity (3G data cards as the IAD module). In this last segment, the company was selected by Vodafone Italia as the supplier for the "Ministation" product, an order which indicates a primary reference of importance in the field of mobile phone access, a market for which significant growth is foreseen, especially in the emerging markets like Latin America.

With regard to the new **Small Business Gateways** line, the IAD ADSL2+ product for users with up to 4 voice channels with IP-PBX (Internet Protocol – Private Branch Exchange), the company has started a technical qualification process at the laboratories of the most important potential customers.

For the **Set-top Box (STB)** line, the growth trend in demand for the hybrid IPTV / Digital Terrestrial for Telecom Italia was confirmed, while for the new products plan, the development of the hardware of the new HY2000 model, which will be introduced on the market within the end of the year, was completed; the model is based on a new generation processor and advanced eco-design features in terms of low consumption and optional use of bio-plastics for the external mechanics. Software development also continued, aimed at extending the integration of the Pirelli STBs towards new system solutions, especially that of Ericsson for IPTV operators.

The **Extenders** line, with the DEX-W50N product, based on Wi-Fi technology optimized for the transport of IPTV video content, has confirmed Pirelli's positioning in the high-end bracket, attracting the interest of new operators including the Telefonic group, which has started assessment tests in its own laboratories.

The **PMP** software for the remote management of the CPE indicates the positive trend of market positioning, confirmed by the acquisition of two new Tier 1 customers (Telecom Argentina and Telekom Serbia) and by the interest of System Integrators for cooperation aimed at resale in system offers. The new successes of the PMP show the progress of the strategic path indicated in the industrial plan, aimed at growth in software and services sales.

Outlook for the current year

Prospects for the current year are in line with the moderate growth forecast last year in the Industrial Plan, which aimed at diversification of the client base with particular regard to East Europe and Latin America. The incidence of Telecom Italia has decreased compared to 2008, mainly due to the growth of other customers, while at the geographic level the expected diversification could be slightly sluggish in the Middle East and Russia.

OTHER BUSINESSES

This section deals with the Environmental sector, the company Pzero Moda and all other financial and services companies of the group including the Parent company.

An overall operating loss of Euro 15.2 million has been registered for the period, compared to a loss of Euro 8.2 million in the first half of 2008.

The difference is mainly due to a gain for the sale of certain real estate areas of the parent company in 2008, and the reduction in royalties on the use of the trademark that the operating sectors recognize to the parent company consequent to the general reduction in business activities.

The Board of Directors

Milan, 29 July 2009

HALF YEARLY REPORT ON CORPORATE GOVERNANCE

Pirelli & C. has adhered to the self-regulatory code of the Italian Stock Exchange ¹ since its first issue, and later, in March 2007 it formalised its adhesion to the new version of the code².

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

The Company uses the traditional administration and control model, founded on the central position of the Board of Directors, based on the presence of consolidated disclosure practices regarding the choices and the procedures for decision-making within the Company, on an effective system of internal controls, on careful monitoring for potential clash of interests and on a rigorous code of conduct for transactions with related parties.

The system of governance is documented in the Code of Ethics, the Company Bylaws, the regulations regarding shareholders' meetings, and a series of principles, rules and procedures, periodically updated, that are available on the Company website ³ and the approach and policies of the Board of Directors.

In accordance with best practice, Pirelli is publishing this report with its half-yearly financial report, to demonstrate the principal amendments and additions made in the first half of the financial year to the date of this report, to the corporate governance system as described in the Annual Report on Corporate Governance.

¹ Published in July 2002

² Published in March 2006, the latest version of which is available on www.borsaitaliana.it

³ Cf. www.pirelli.com Governance section.

The Shareholders' Meeting held on 21 April 2009 appointed the new Board of Statutory Auditors for the three year period 2009-2011 using the slate system. The members of the Board are: Enrico Laghi (who the Meeting appointed as Chairman), Paolo Domenico Sfameni and Paolo Gualtieri as Standing Auditors, and Luigi Guerra and Franco Ghiringhelli as Alternate Auditors. The members of the new Board of Statutory Auditors were selected from the single slate submitted by the members of Pirelli & C. S.p.A. Block Shares Syndicate. The fees of 41,500 euros for Standing Auditors and 62,000 euros for the Chairman of the Board of Statutory Auditors were confirmed.

The curricula vitae of the new Standing Auditors are available on the company website ⁴.

After the Shareholders' Meeting had renewed the Board of Statutory Auditors and confirmed the appointment of Paolo Domenico Sfameni as Statutory Auditor, the Board of Directors confirmed him as a member of the Supervisory Body, which therefore consists of:

- Carlo Secchi (Chairman);
- Paolo Domenico Sfameni;
- Maurizio Bonzi.

Given both best practices and our experience so far, the Board of Directors redefined the remuneration and composition of the two existing board committees, with the approval of the Committee for Internal Control and Clinical Government.

In particular, the Company considered it appropriate to adopt a risk governance model that is anticipatory and proactive, rather than reactive, focussed on identifying risks before they arise, ensuring that appropriate choices are made and tools adopted that can reduce their impact, and manage them effectively. In line with best practice, and based on the notions contained in the international standards developed for Corporate Governance, the Company attributed the responsibilities to the Committee for Internal Control and Corporate Governance, in addition to its responsibilities for Internal Control and Corporate Governance,

⁴ Cf. www.pirelli.com.

renaming the Committee the Committee for Internal Controls, Risks and Corporate Governance. The additional tasks are:

- to assist the Board of Directors in identifying and assessing the most significant risks, meaning those risks whose risks could prejudice or constitute an obstacle to the achievement of the objectives of the business;
- to express an opinion to the Board of Directors on the adequacy of risk management, given the Annual Risk Assessment and Annual Risk Management plan drawn up by Company management;
- to report at least twice a year to the Board of Directors and Board of Statutory Auditors on the activity carried out;
- to provide opinions on specific aspects inherent to the identification and management of the principal business risks.

The Company has also created the role of Risk Officer, who – in possession of adequate professional qualifications, independence and authority – is charged with collecting and analysing information on the existing and prospective, internal and external risks to which the Group is exposed, submitting them to the management Risk Committee for consideration. The latter Committee, a further new body:

- participates in defining the methods used to measure risks;
- participates in defining the operating limits assigned to business structures, and defines the procedures for the timely monitoring of these limits;
- examines information on the existing and prospective, internal and external risks to which the Group is exposed;
- supports the executive Director responsible for supervising the operation of the internal control system in its execution of the tasks assigned to it in accordance with the recommendations of the Self Regulatory Code;
- monitors the application of the risk management policy so as to ensure that risk is reduced to “acceptable” levels;
- checks that the nature and level of insurance cover is adequate.

The Company has also created a Group Compliance function with the following specific responsibilities:

- a) to continually identify the legal regulations that apply to the Company and the Group, and assess their impact on business processes and procedures;
- b) to assist the competent functions to identify and define the organisational and procedural solutions needed to ensure adequate risk management;
- c) to assess the adequacy and efficacy of the organisational measures adopted to prevent the risk of regulatory non-compliance;
- d) to arrange adequate flows of information to the decisional bodies of the enterprise and the other structures involved.

The Compliance function reports every three months to the Committee for Internal Control, Risks and Corporate Governance and the Board of Statutory Auditors on the activities it has undertaken.

Also as a result of the above changes to Company corporate governance arrangements, the Board of Directors resolved to enlarge the Committee for Internal Control, Risks and Corporate Governance. The three members currently serving have been joined by Directors Cristiano Antonelli and Luigi Roth.

The Committee for Internal Control and Corporate Governance, and the Remuneration Committee therefore now has the following members:

- Carlo Secchi (Chairman);
- Carlo Angelici
- Cristiano Antonelli
- Franco Bruni
- Luigi Roth

The annual fee for membership of the Committee was also redetermined, now amounting to 24 thousand euro.

The Board of Directors further resolved to enlarge the Remuneration Committee.

The three members currently serving have been joined by Director Umberto Paolucci. The Remuneration Committee now has the following membership:

- Berardino Libonati (Chairman);
- Alberto Bombassei
- Giampiero Pesenti
- Umberto Paolucci

The composition of the Committees again confirms that their membership is drawn from among the independent directors only.

During the first half of the year, the Pirelli Group has also adopted a specific procedure for reporting suspected violations of laws or regulations, of the principles of the Group's Code of Ethics, the procedures used in our business or the system of internal control (whistleblowing), which guarantees people reporting such matters will not suffer detrimental consequences.

It should also be noted that in May 2009, "*GMI - Governance Metrics International*" (valutata "*Top Corporate Governance Research Firm*" part of the *Thomson Reuters Extel Survey* 2009 and the only independent corporate governance research company included in the 10 ten) judged the Pirelli & C corporate governance model the leader in Italy and in its industrial sector (*Automobiles & Parts*).

Pirelli was in fact the only company in Italy to receive a national rating of 10/10 for its corporate governance (the last *GMI Country Ranking* of September 2008 assigned an average rating of 5.32/10 to Italy). Pirelli was also rated 9/10 on a world basis, the highest rating in the "*Automobiles & Parts*" sector (the mean rating of *Automobiles & Parts* sector companies is 5/10).

These flattering results confirm the particular attention Pirelli has always paid to its corporate governance system, always quick to incorporate national and international best practice, reflecting its policy of continuous improvement.

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

In particular, as already made public, the Company applied to bring a civil action (parte civile) against all the persons accused of the crimes which have caused damage or offence to the company. The Company was permitted to bring a civil action in the criminal proceedings for embezzlement and money laundering.

The only civil action that has been permitted to be brought against the Company, the legally accused person pursuant to law 231/2001, is that brought by the Avvocatura dello Stato, the pool of specialised jurists who defend state and other public bodies, in the interest of the Office of the Prime Minister and the Ministries to which the public official involved in the corruption proceedings belong. The Company has also noted the request, by the parties allegedly damaged by the conduct of its ex-employees, for proceedings to be brought against it for civil liability. Such compensatory action is in fact founded in the legal provision by virtue of which the employer, irrespective of its culpability, is answerable financially for the illicit acts committed by its employees. So Pirelli would be called on the answer only for its objective liability.

It should be noted that the Company is proceeding with the civil actions started against the security service suppliers involved in the investigations in order to be compensated for services that were not contractually fulfilled or were even illegal.

The Board of Directors

Milan, 29 July 2009

THE GROUP

**CONDENSED INTERIM FINANCIAL
STATEMENTS
AT JUNE 30, 2009**

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Consolidated balance sheet (in thousands of euro)

	June 30, 2009		December 31, 2008	
		<i>of which related parties</i>		<i>of which related parties</i>
3 Property, plant and equipment	1,617,809		1,598,046	
4 Intangible assets	1,038,208		1,046,108	
5 Investments in associates and joint ventures	529,563		515,300	
6 Other financial assets	396,368		505,899	
7 Deferred tax assets	78,374		72,426	
9 Other receivables	660,390	482,620	723,004	565,152
Tax receivables	9,017		10,264	
20 Derivative financial instruments	-		3,161	
Non current assets	4,329,729		4,474,208	
10 Inventories	759,681		921,110	
8 Trade receivables	828,619	75,171	787,951	77,096
9 Other receivables	204,120	20,776	239,956	23,917
11 Securities held for trading	104,744		115,800	
12 Cash and cash equivalents	237,758		253,905	
Tax receivables	41,450		46,246	
20 Derivative financial instruments	32,376		94,042	
Current assets	2,208,748		2,459,010	
Total assets	6,538,477		6,933,218	
13.1 Attributable to the equity holders of the company:	2,202,108		2,171,804	
- Share capital	1,554,269		1,554,269	
- Reserves	641,505		965,037	
- Income (loss) for the period	6,334		(347,502)	
13.2 Attributable to the minority interests:	167,511		202,558	
- Reserves	186,202		267,582	
- Income (loss) for the period	(18,691)		(65,024)	
Total equity	2,369,619		2,374,362	
17 Borrowings from banks and other financial institutions	1,287,255		1,375,747	
19 Other payables	23,343		48,472	
15 Provisions for other liabilities and charges	155,565		141,191	
7 Deferred tax liabilities	42,452		38,372	
16 Employee benefit obligations	390,529		366,535	
Tax payables	9,578		9,706	
20 Derivative financial instruments	-		2,139	
Non current liabilities	1,908,722		1,982,162	
17 Borrowings from banks and other financial institutions	721,805	2,949	695,561	5,209
18 Trade payables	802,799	19,652	1,108,573	23,843
19 Other payables	465,406	6,509	482,401	7,699
15 Provisions for other liabilities and charges	143,437	65,934	135,650	48,670
Tax payables	40,321	1,051	44,036	1,051
20 Derivative financial instruments	86,368		110,473	
Non current liabilities	2,260,136		2,576,694	
Total equity and liabilities	6,538,477		6,933,218	

Related party transactions in respect of the individual line items in the financial statements are presented in Note 34 of the Explanatory Notes to which the reader is referred.

Consolidated income statement (in thousands of euro)

		1st Half 2009		1st Half 2008	
			<i>of which related parties</i>		<i>of which related parties</i>
22	Revenues from sales and services	2,137,592	55,420	2,454,763	89,074
23	Other income	88,739		87,619	
	- of which non-recurrent events	-		17,000	
	Change in inventories of work in process, semifinished and finished products	(78,974)		41,287	
	Raw materials and consumables (net of change in inventories)	(655,758)		(973,384)	
24	Personnel costs	(482,312)	(1,965)	(548,490)	(1,470)
	- of which non-recurrent events	(9,726)		(20,171)	
25	Amortization, depreciation and impairments	(108,199)		(103,638)	
26	Other expenses	(801,194)	(24,628)	(779,708)	(31,903)
	- of which non-recurrent events	(11,497)		(1,018)	
	Increase in property, plant and equipment from internal work	1,253		2,417	
	Operating profit	101,147		180,866	
27	Earnings (losses) from investments	(28,563)		(95,456)	
	- of which:				
27.1	share of earnings (losses) of associates and joint ventures	(26,861)	(26,861)	11,495	11,495
27.2	gains on equity investments	18,308		28,249	
27.3	losses on equity investments	(27,143)		(156,946)	
27.4	dividends	7,133		21,746	
28	Financial income	226,566	16,963	167,250	13,543
29	Financial expenses	(265,984)		(189,769)	(84)
	Income (loss) before income taxes	33,166		62,891	
30	Income taxes	(45,523)		(64,695)	
	Income (loss) from continuing operations	(12,357)		(1,804)	
31	Income/(loss) from discontinued operations	-		(7,720)	
	Income (loss) for the period	(12,357)		(9,524)	
	Attributable to:				
	Shareholders of the parent company	6,334		(36,243)	
	Minority interests	(18,691)		26,719	
32	Earnings/(losses) per share (Euro per thousand shares)				
	basic earnings per share				
	- continuing operations	1.18		(4.95)	
	- discontinued operations	-		(1.80)	
		1.18		(6.75)	

Related party transactions in respect of the individual line items in the financial statements are presented in Note 34 of the Explanatory Notes to which the reader is referred

STATEMENT OF TOTAL CONSOLIDATED COMPREHENSIVE INCOME

(in thousands of euro)

		1st Half 2009		
		Gross	Income taxes	Net
A	Income/(loss) for the period			(12,357)
	Other components recognised in equity:			
	(Gains)/losses on available for sale financial assets transferred to income statement, previously recognised in equity	(792)	-	(792)
	(Gains)/losses on cash flow hedges transferred to income statement, previously recognised in equity	(2,086)	-	(2,086)
	(Gains)/losses transferred to income statement previously recognised in equity	(2,878)	-	(2,878)
	statements	42,731	-	42,731
	Changes in fair value on available-for-sale financial assets	22,139	-	22,139
	Net actuarial gains/(losses) on employee benefits	(29,284)	2,480	(26,804)
	Changes in fair value on derivatives designated as cash flow hedges	(6,453)	2,117	(4,336)
	Share of other components recognised in equity related to associates and joint ventures	(14,692)	389	(14,303)
C	Income/(losses) recognised directly in equity in the period	14,441	4,986	19,427
B+C	Total other components recognised in equity	11,563	4,986	16,549
A+B+C	Total income/(losses)			4,192
	Attributable to:			
	- Equity holders of the company			30,670
	- Minority interests			(26,478)

(in thousands of euro)

		1st Half 2008		
		Gross	Income taxes	Net
A	Total income/(loss) for the period			(9,524)
	Other components recognised in equity:			
	(Gains)/losses on available for sale financial assets transferred to income statement, previously recognised in equity	(4,550)	935	(3,615)
	(Gains)/losses transferred to income statement previously recognised in equity	(4,550)	935	(3,615)
	statements	(32,236)	-	(32,236)
	Changes in fair value on available-for-sale financial assets	(122,856)	1,148	(121,708)
	Net actuarial gains/(losses) on employee benefits	(110,042)	10,370	(99,672)
	Changes in fair value on derivatives designated as cash flow hedges	7,727	(2,212)	5,515
	Share of other components recognised in equity related to associates and joint ventures	16,053	(828)	15,225
C	Income/(losses) recognised directly in equity in the period	(241,354)	8,478	(232,876)
B+C	Total other components recognised in equity	(245,904)	9,413	(236,491)
A+B+C	Total income/(losses)			(246,015)
	Attributable to:			
	- Equity holders of the company			(273,368)
	- Minority interests			27,353

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

(in thousands of euro)

	Attributable to the equity holders of the company				Total attributable to the equity holders of the company	Total Minority interests	Total
	Share capital	Translation reserve	Total IAS Reserves (*)	Other reserves/ Retained earnings			
Balance at December 31, 2007	1,555,934	119,135	(70,899)	1,376,061	2,980,231	823,840	3,804,071
Total other components recognised in equity	-	(27,716)	(209,409)	-	(237,125)	634	(236,491)
Income (loss) for the half-year period				(36,242)	(36,242)	26,718	(9,524)
Allocation of income as per resolution of 28/4/2008:							
- payment of dividends				(93,172)	(93,172)	-	(93,172)
Other dividends paid to minorities					-	(74,717)	(74,717)
Purchase of Pirelli & C. Real Estate S.p.A. shares					-	(12,787)	(12,787)
Acquisition of Speed S.p.A.					-	(385,525)	(385,525)
Purchase of minorities					-	9,310	9,310
Other	(1,303)		(4)	(4,257)	(5,564)	6,786	1,222
Balance at June 30, 2008	1,554,631	91,419	(280,312)	1,242,390	2,608,128	394,259	3,002,387
Total other components recognised in equity	-	(106,841)	(12,524)	-	(119,365)	(31,559)	(150,924)
Income (loss) for the half-year period				(311,260)	(311,260)	(91,742)	(403,002)
Purchase of Pirelli & C. Real Estate S.p.A. shares					-	(6,870)	(6,870)
Purchase of Tyres minorities					-	(73,713)	(73,713)
Capital subscription by minorities					-	7,105	7,105
Other	(362)		622	(5,959)	(5,699)	5,078	(621)
Balance at December 31, 2008	1,554,269	(15,422)	(292,214)	925,171	2,171,804	202,558	2,374,362
Total other components recognised in equity		44,304	(19,968)		24,336	(7,787)	16,549
Income (loss) for the half-year period				6,334	6,334	(18,691)	(12,357)
Other dividends paid to minorities					-	(2,313)	(2,313)
Purchase of Tyres minorities					-	(7,366)	(7,366)
Other			(1,173)	807	(366)	1,110	744
Balance at June 30, 2009	1,554,269	28,882	(313,355)	932,312	2,202,108	167,511	2,369,619

(in thousands of euro)

	IAS Reserve detail					Total IAS reserves (*)
	Reserve for adjustment to FV of available-for-sale financial assets	Reserve for cash flow hedges	Reserve for actuarial gains/losses	Reserve for equity settled stock options	Reserve for deferred taxes	
Balance at December 31, 2007	127,578	(2,482)	(211,326)	3,638	11,693	(70,899)
Total other components recognised in equity	(122,839)	14,066	(110,354)	-	9,718	(209,409)
Other movements	-	-	(525)	-	521	(4)
Balance at June 30, 2008	4,739	11,584	(322,205)	3,638	21,932	(280,312)
Total other components recognised in equity	12,466	(49,904)	25,416	-	(502)	(12,524)
Other movements	118	337	(550)	(138)	855	622
Balance at December 31, 2008	17,323	(37,983)	(297,339)	3,500	22,285	(292,214)
Total other components recognised in equity	21,222	(16,930)	(28,929)	-	4,669	(19,968)
Other movements	(450)	136	(441)	(144)	(274)	(1,173)
Balance at June 30, 2009	38,095	(54,777)	(326,709)	3,356	26,680	(313,355)

Consolidated Cash Flow Statement (in thousands of euro)

	June 30,2009		June 30,2008	
		<i>of which related parties</i>		<i>of which related parties</i>
Income/(loss) from continuing operations before taxes	33,168		62,891	
Amortization / depreciation / impairment (losses)/reversals of tangible and intangible assets	108,199		103,638	
Financial expenses	265,984		189,769	
Financial income	(226,566)		(167,250)	
Dividends	(7,133)		(21,746)	
Gains/(losses) on equity investments	8,835		128,697	
Share of earnings/(losses) of associates and joint ventures (net of dividends received)	28,538		17,031	
Income taxes	(45,523)		(64,695)	
Change in inventories	161,429		(64,251)	
Change in trade receivables/payables	(346,442)		(143,954)	
Change in other receivables/payables	(33,674)		(79,456)	
Change in employee benefit obligations and other provisions	(1,713)		(20,656)	
Other changes	4,748		5,696	
A Net cash flows provided by / (used for) operating activities	(50,150)		(54,286)	
Investments in property, plant and equipment	(72,920)		(138,060)	
Disposals of property, plant and equipment	12,550		28,690	
Investments in intangible assets	(1,709)		(4,228)	
Disposals of intangible assets	198		1,054	
Acquisitions of investments in associates and joint ventures	(31,469)		(38,636)	
Disposals of investments in associates and joint ventures	-		957	
Acquisition of other financial assets	(2,161)		(6,066)	
Disposals of other financial assets	112,599		18,770	
Acquisition of Speed S.p.A.	-		(434,400)	
Dividends received	7,133		21,746	
Investment/disinvest. of business combinations	(1,968)		(32,586)	
B Net cash flows provided by (used for) investing activities	22,253		(582,759)	
Other changes in equity	-		(16,958)	
Change in financial payables	(63,745)		(874,966)	(218,922)
Change in financial receivables	127,472		1,156	
Financial income/(expenses)	(39,418)		1,327	
Dividends paid	(2,313)		(167,889)	(22,746)
C Net cash flows provided by (used for) financing activities	21,996		(1,057,330)	
D Total cash flows provided (used) during the period (A+B+C)	(5,901)		(1,694,375)	
E Cash and cash equivalents at beginning of the year	227,077		2,010,475	
F Exchange differences on translation of cash and cash equivalents	200		(6,711)	
G Cash and cash equivalents at end of the period (D+E+F) (°)	221,376		309,389	
(°) of which:				
cash in hand	237,760		334,201	
bank overdrafts	(16,384)		(24,812)	

The Cash Flow Statement shows transactions with related parties only if they cannot be directly deduced from the other statements.

Related party transactions in respect of the individual line items in the financial statements are presented in Note 34 of the Explanatory Notes to which the reader is referred

EXPLANATORY NOTES

The condensed interim financial statements at June 30, 2009 were approved by the Board of Directors of Pirelli & C. S.p.A. on July 29, 2009.

1. BASIS FOR PRESENTATION

Under the terms of Art.154 ter of Legislative Decree 158/1998 and of the CONSOB rules on the subject, the Pirelli & C. Group prepared the interim financial statements in accordance with IAS 34, which regulates interim financial reporting, in a condensed form.

In conformity with the provisions of Art. 5, clause 2 of Legislative Decree 38 of February 28, 2005, the present financial statements have been prepared using the euro as the presentation currency.

Accounting standards

The accounting standards adopted are the same as those adopted in the preparation of the consolidated financial statements at December 31, 2008, with the exception of the standards and interpretations listed below, which are applicable from January 1, 2009:

- IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions

This interpretation, which was endorsed by the European Union in June 2007 (EC Regulation 611/2007), governs the application of IFRS 2 “Share-based payment” to certain kinds of plan that involve several units of the Group. There are no significant quantitative impacts on the financial statements deriving from application of this interpretation. In June 2009 the IASB issued amendments to IFRS 2 – Share-based payment, which have not yet been endorsed by the European Union, incorporating the guidelines previously included in IFRIC 11; IFRIC 11 will therefore be withdrawn.

- IFRIC 13 – Customer Loyalty Programmes

IFRIC 13 defines the accounting treatment that must be adopted by entities that grant loyalty award credits to customers who buy goods or services. It establishes that the fair value of the obligations connected with the loyalty awards must be separated from sales revenues and deferred until the entity has fulfilled its obligation to the customers. There are no significant quantitative impacts on the financial statements deriving from application of this interpretation.

- IFRIC 14 – IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IAS 19 “Employee Benefits” establishes a limit on the assets of a defined benefit plan which can be recognized in the balance sheet. This interpretation provides guidance on how to assess this limit and clarifies the impact on the assets and liabilities relating to a defined benefit plan deriving from the existence of minimum contractual or statutory funding requirements. This interpretation is not applicable to the Group.

- IFRS 8 – Operating Segments

This standard aligns segment disclosure with the requisites of US GAAP (SFAS 131 Disclosures about Segments of an Enterprise and Related Information), introducing the approach whereby the segments are identified in the same way as they are identified in internal reports for top management. The disclosure required is provided in Note 2 below.

- Amendments to IAS 23 “Borrowing costs”

These amendments, which are part of the project for convergence with US GAAP (SFAS 34 Capitalization of Interest Cost), remove the option of immediately expensing borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Therefore, borrowing costs are required to be capitalized as part of the cost of that asset. The application of these amended standards has no impact on the financial statements since the Group never availed itself of the option eliminated.

- Revision of IAS 1 “Presentation of Financial Statements”

IAS 1 has undergone a revision which is not one of substance but required a change in the name of some of the statements forming the full set of financial statements and the introduction of a new statement (“statement of changes in equity”). The information in this statement had previously been disclosed in the explanatory notes. The changes required by the new IAS 1 also apply to comparative figures presented together with the financial statements for the period. See on this point the next paragraph “Financial statement formats”.

- Amendments to IFRS 2 “Share-based Payment: vesting conditions and cancellations”

The amendments to IFRS 2 aim to clarify the following aspects that are not explicitly dealt with in the current standard:

- vesting conditions: vesting conditions include only service conditions (whereby a party must complete a specific period of service) and performance conditions (whereby it is necessary to reach specific targets). Other conditions, on which the current standard makes no explicit statements, should not be considered vesting conditions;
- cancellations: all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The current IFRS 2 describes the accounting treatment in the case of cancellation by the entity but does not provide any indication in the case of cancellation by parties other than the entity.

There are no quantitative impacts on the financial statements from application of the amendments to this Standard.

- Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements”: Puttable Financial Instruments and Obligations Arising on Liquidation.

These amendments concern the accounting treatment of certain specific types of financial instruments which have features similar to ordinary shares, but are currently classified as financial liabilities, since they give the holder of the instrument the right to request redemption by the issuer.

In accordance with these amendments, the following types of financial instruments must be classified as equity instruments on condition that they have particular characteristics and satisfy specific conditions:

- puttable financial instruments (financial instruments redeemable upon the request of the holder), for example certain types of shares issued by cooperative entities;
- instruments which give rise to an obligation for the entity to deliver to another party a pro-rata share of the net assets of the entity only on liquidation, for example certain partnerships and certain types of shares issued by limited duration companies.

There are no impacts on the financial statements from application of the above amendments.

- “Improvements” to the IFRSs

Under the project begun in 2007, the IASB has issued a series of amendments to the standards in force. The amendments bring about accounting changes for presentation, recognition and measurement and also terminology changes.

The following table summarizes the standards and the issues dealt with by these amendments:

IFRS	Subject of the amendment
IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations	Sale plan involving loss of control of a subsidiary
IAS 1 – Presentation of Financial Statements	Classification of derivative instruments as current / non-current
IAS 16 – Property, Plant and Equipment	Sale of property, plant and equipment held for rental
IAS 19 – Employee Benefits	<ul style="list-style-type: none"> • Distinction between curtailments and negative past service costs • Change in the definition of return on plan assets • Contingent liabilities
IAS 20 – Accounting for Government	Government loan at a below-market rate of interest
IAS 23 – Borrowing Costs	Components of borrowing costs
IAS 27 – Consolidated and Separate Financial Statements	Measurement of a subsidiary held for sale in separate financial statements
IAS 28 – Investments in Associates	<ul style="list-style-type: none"> • Required disclosures when investments in associates are accounted for at fair value through profit or loss • Impairment of investments in associates
IAS 31 – Interests in Joint Ventures	Required disclosures when interests in joint ventures are accounted for at fair value through profit or loss
IAS 29 – Financial Reporting in Hyperinflationary Economies	Description of the bases of accounting measurements
IAS 36 – Impairment of Assets	Disclosure of estimates used to determine recoverable amount
IAS 38 – Intangible Assets	<ul style="list-style-type: none"> • Advertising and promotional activities • Amortisation period and method – unit of production method
IAS 39 – Financial Instruments: recognition and measurement	<ul style="list-style-type: none"> • Reclassification of derivatives into or out of the fair value through profit or loss category • Designation and documentation of a hedge at the operating segment level • Effective interest rate applicable if hedge accounting is no longer adopted
IAS 40 – Investment Property	<ul style="list-style-type: none"> • Property under construction or development for future use as investment property • Investment property held under a lease
IAS 41 – Agriculture	Definition of agricultural activity and other definitions
IFRS 7 – Financial Instruments: Disclosures	Disclosure of borrowing costs
IAS 10 – Events After the Reporting Period	Dividends declared after the end of the reporting period
IAS 34 – Interim Financial Reporting	Disclosure of earnings per share in interim financial reports

There are no significant quantitative impacts on the financial statements from application of the above amendments.

- Amendments to IFRS 1 “First-time Adoption of the IFRSs” and IAS 27 “Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate”

The amendment establishes that on first-time adoption of the IFRSs in its separate financial statements, an entity may choose to use the deemed cost option to account for the cost of an investment in a subsidiary, jointly controlled entity or associate.

At the date of transition to the IFRSs, the deemed cost may be the fair value – determined on the basis of IAS 39 – or the carrying value determined on the basis of the standards in force previously.

Also permitted is recognition as revenue in the separate financial statements of any distribution carried out by subsidiaries, jointly controlled entities or associates, whether this be of reserves formed before or after acquisition.

There are no significant impacts on the financial statements from application of the above amendments.

It should be noted that the IFRSs in force at December 31, 2009 could differ from those used for preparation of the present document, as a result of future endorsements by the European Union of new standards, new interpretations, or guidelines issued by the IFRIC. The financial statements at December 31, 2009 could be affected by such changes.

International accounting standards and/or interpretations issued but not yet effective and/or not yet endorsed

New Standards or Interpretations already issued, but which are not yet effective or have not been endorsed by the European Union and which are therefore not applicable are indicated and described briefly below.

None of these Standards and Interpretations has been early adopted by the Group.

- IFRIC 12 – Service Concession Arrangements

IFRIC 12 addresses private sector operators contracted for the supply of typical public sector services (e.g. roads, airports and energy and water distribution under concession arrangements). Under these arrangements, the assets granted are not necessarily controlled by the private operators which are, however, responsible for constructing, operating or maintaining the public infrastructure. Assets under these arrangements are not necessarily recognized as property, plant and equipment in the financial statements of the private operators but rather as financial assets and/or intangible assets depending on the type of service concession arrangement.

IFRIC 12, which was endorsed by the European Union in March 2009 (EC Regulation 254/2009), applies to the Group starting from January 1, 2010 but no significant effects are expected on the consolidated financial statements.

- IFRIC 15 - Agreements for the Construction of Real Estate

This interpretation provides guidance on how to determine whether an agreement for the construction of real estate units is within the scope of IAS 11 “Construction Contracts” or of IAS 18 “Revenue”, defining the moment when the revenue must be recognized.

In the light of this interpretation residential development comes within the scope of application of IAS 18 “Revenue” entailing recognition of the revenue on completion of sale; construction service work, if carried out on the basis of the client’s technical specifications, comes within the scope of application of IAS 11 “Construction Contracts”.

This interpretation has not yet been endorsed by the European Union. No significant effects are expected on the financial statements from the future application of this interpretation, as the accounting treatment already applied today by the Group is in line with the above amendments.

- IFRIC 16 - Hedges of a Net Investment in a Foreign Operation

This interpretation clarifies certain issues relating to the accounting treatment, in consolidated financial statements, of hedges of net investments in foreign operations, specifying which types of risks have the requisites for application of hedge accounting. In particular, it states that hedge accounting is only applicable to exchange rate differences arising between the functional currency of the foreign entity and the functional currency of the parent, and not between the functional currency of the foreign entity and the presentation currency of the consolidated financial statements.

This interpretation, which was endorsed by the European Union in June 2009 (EC Regulation 460/2009), applies to the Group starting from January 1, 2010. No effects are expected on the financial statements from future application of this interpretation.

- IFRIC 17 – Distributions of Non-cash Assets to Owners

This interpretation clarifies that:

- dividend payables should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity;
- dividend payables should be measured at the fair value of the net assets to be distributed;
- the difference between the dividends paid and the carrying amount of the net assets distributed should be recognized in the income statement.

This interpretation has not yet been endorsed by the European Union. No significant impacts on the Group's financial statements are expected following the future application of this interpretation.

- IFRIC 18 – Transfers of assets from customers

This interpretation, which was issued in January 2009, is particularly significant for companies operating in the utilities sector and clarifies the requisites that must be observed if agreements are entered into on the basis of which an entity receives from a customer an asset that the entity itself uses to connect the customer to a network or to ensure the customer ongoing access to the provision of goods and services (for example the supply of electricity, water or gas). This interpretation has not yet been endorsed by the European Union. No impacts on the Group's financial statements are expected following the future application of this interpretation.

- Revision of IFRS 3 “Business Combinations”

This revision is part of the project for convergence with US GAAP and has the purpose of aligning the accounting treatment of business combinations. The main changes from the previous version relate to:

- recognition in the income statement - when incurred - of the expenses relating to business combination transactions (legal, advisory, valuation and audit fees and professional fees in general);
- the option of recognizing minority interests at fair value (full goodwill); this option can be elected for each single business combination transaction;
- specific rules for the recognition of step acquisitions: in the case of the acquisition of control of a company in which a minority interest is already held, the previously held investment must be measured at fair value, recognizing the effects of this adjustment in the income statement;

- contingent consideration, that is, the obligations of the acquirer to transfer additional assets or shares to the seller if certain future events occur or specific conditions are fulfilled, should be recognized and measured at fair value at the date of acquisition. Subsequent changes in the fair value of such agreements are normally recognized in the income statement.

These changes, which were endorsed by the European Union in June 2009 (EC Regulation 495/2009), apply to the Group starting from January 1, 2010. As of today the effects of the new standard on the financial statements in the year of first adoption are unforeseeable.

- Amendments to IAS 27 “Consolidated and Separate Financial Statements”

The revision of IFRS 3 “Business Combinations” also required amendments to IAS 27 “Consolidated and Separate Financial Statements”, which can be summarized as follows:

- changes in equity interests in a subsidiary, which do not entail the loss of control, qualify as equity transactions. In other words, the difference between the price paid/received and the share of net assets acquired/sold must be recognized in equity;
- in the event of the loss of control, but where an interest is retained, such interest must be measured at fair value at the date on which the loss of control occurs.

These changes, which were endorsed by the European Union in June 2009 (EC Regulation 494/2009), apply to the Group starting from January 1, 2010. As of today the effects of the new standard on the financial statements in the year of first adoption are unforeseeable.

- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement – eligible hedged items”

This amendment illustrates and clarifies what can be designated as a hedged item in certain particular situations:

- designation of a one-sided risk item as a hedged item, that is, when only the changes in the cash flows or fair value of a hedged item above or below a specified value, instead of the total change, are designated as a hedged item;
- designation of inflation as a hedged item.

These revisions have not yet been endorsed by the European Union. No significant impacts on the financial statements are expected from future application of the above amendments.

- Amendments to IFRS 7 – “Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments”

This amendment focuses on disclosures relating to the fair value measurement and liquidity risk. As regards fair value measurement, enhanced disclosures are now required by the standard and the amendment also introduced a fair value hierarchy with 3 levels, for each of which specific quantitative information is required. As regards disclosures relating to liquidity risk, the changes clarify the items to be included in the analysis by maturities and require greater integration between quantitative disclosures and qualitative disclosures.

These revisions have not yet been endorsed by the European Union. No significant impacts on the disclosures provided by the Group are expected following the future application of this interpretation.

- Amendments to IFRIC 9 and to IAS 39 – Embedded Derivatives

These amendments clarify the accounting treatment for embedded derivatives when they are reclassified out of the category of financial assets carried at fair value through profit or loss, as permitted by the amendments made in October 2008 to “IAS 39 Financial Instruments: Recognition and Measurement”. On the basis of these amendments, in the event of reclassification, embedded derivatives must be assessed and separately accounted for in financial statements.

These revisions have not yet been endorsed by the European Union. No significant impacts on the financial statements are expected from future application of the above amendments.

- “Improvements” to the IFRSs

Under the project begun in 2007, the IASB has issued a series of amendments to the 12 standards in force and has thus completed the 2007-2009 stage of this project.

The following table summarizes the standards and the issues affected by these amendments:

IFRS	Subject of the amendment
IFRS 2 – Share-based Payment	Scope of application of IFRS 2 and revised IFRS 3
IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations	Disclosures about non-current assets (or disposal groups) classified as held for sale or discontinued operations
IFRS 8 – Operating segments	Disclosures about operating segment assets
IAS 1 – Presentation of Financial Statements	Current/non-current classification of convertible instruments
IAS 7 – Statement of Cash Flows	Classification of expenditures on unrecognized assets
IAS 17 – Leases	Classification of leases of land and buildings
IAS 18 – Revenue	Determining whether an entity is acting as a principal or as an agent
IAS 36 – Impairment of Assets	Dimension of the cash generating unit for performance of goodwill impairment test
IAS 38 – Intangible Assets	<ul style="list-style-type: none"> • Additional consequential amendments arising from revised IFRS 3 • Measuring the fair value of an intangible asset acquired in a business combination
IAS 39 – Financial Instruments: Recognition and Measurement	<ul style="list-style-type: none"> • Treating loan prepayment penalties as closely related embedded derivatives • Scope exemption for business combination contracts • Cash flow hedge accounting
IFRIC 9 – Reassessment of Embedded Derivatives	Scope of IFRIC 9 and revised IFRS 3
IFRIC 16 - Hedges of a Net Investment in a Foreign Operation	Amendment to the restriction on the entity that can hold hedging instruments.

These revisions have not yet been endorsed by the European Union. No significant quantitative impacts on the financial statements are expected from future application of the above amendments.

- Amendments to IFRS 2 – Share-based Payment

These amendments aim to clarify the accounting treatment of cash-settled stock option plans in the financial statements of a subsidiary, if benefits are paid to employees by the parent company or another Group entity other than that in which the employees work. These amendments include guidelines which were dealt with previously in IFRIC 8 “Scope of IFRS 2” and in IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions”, which have therefore been withdrawn.

The amendments to IFRS 2 have not yet been endorsed by the European Union and are not applicable to the Group.

Financial statement formats

In accordance with the provisions of the revision of IAS 1 “Presentation of Financial Statements”, the condensed interim financial statements consist of the Balance Sheet, the 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 entails the distinction of the assets and liabilities into current and non-current.

The income statement format adopted entails the classification of costs by nature. The Group has decided to present the profit (loss) components for the period in a separate income statement.

The “Statement of Comprehensive Income” includes the result for the period and, for homogeneous categories, the revenues and costs which, on the basis of the IFRSs, are accounted for directly in equity. The Group has decided to present both the tax effects of the profits/losses recognized directly in equity and the reclassifications to the income statement of profits/losses recognized directly 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 retained earnings.

In the Cash Flow Statement, the cash flows deriving from operating activities are presented using the indirect method, by means of which the profit or loss of the period is adjusted by the effects of non-monetary transactions, by any deferment or setting aside of past or future operating collections or payments, and by any revenue or cost items connected with the cash flows arising from investing activities or financing activities.

With respect to the consolidated financial statements published at December 31, 2008, the “Statement of recognised income and expenses” was renamed the “Statement of Comprehensive Income” and the “Statement of Changes in Equity”, previously presented in the Explanatory Notes, was included among the primary financial statements.

It should also be noted that a new item has been created in the income statement “earnings (losses) from investments”, made up of the following sub-items:

- share of earnings (losses) of associates and joint ventures;
- gains on equity investments: the sub-item includes gains on the sale of financial assets available for sale, subsidiaries, associates, joint ventures and gains on business combinations, previously classified among financial income, and the positive valuation of equity investments designated at fair value through profit or loss, previously included under the item “Gains (losses) on financial assets carried at fair value”;
- losses on equity investments: the sub-item includes losses on the sale of financial assets available for sale, subsidiaries, associates and joint ventures and impairments of financial assets available for sale, associates and joint ventures, previously classified among financial expenses, and the negative valuation of equity investments designated at fair value through profit or loss, previously included under the item “Gains (losses) on financial assets carried at fair value”;
- dividends: besides dividends received from equity investments other than subsidiaries/associates/joint ventures, the sub-item includes revenues received from real estate investment funds, previously classified as financial income.

Finally, the fair value measurements of securities held for trading and derivatives were reclassified from the item “gains (losses) on financial assets carried at fair value” to the items “financial expenses” or “financial income” depending on the sign.

The item “gains (losses) on financial assets carried at fair value” was therefore eliminated.

The income statement for the first half of 2008, presented for comparative purposes, was consequently reclassified.

In these financial statements the Integrated Facility Management business of Pirelli Real Estate and the Photonics business, which were both sold during 2008, are considered discontinued operations and therefore are included only in the net profit. For a true representation, therefore, the economic data for 2008 have been restated.

The Group applied the provisions of Consob Ruling No. 15519 of July 27, 2006 on financial statement formats and of Consob Communication No. 6064293 of July 28, 2006 on corporate disclosures.

Consolidation area

The consolidation area includes the subsidiaries, associates and joint ventures.

All entities over which the Group has the power to control the financial and operating policies are considered subsidiaries; this condition is normally understood as fulfilled when more than half of the voting rights are held. The financial statements of subsidiaries are included in the consolidated financial statements starting from the date on which control is assumed up to the moment in which such control ceases to exist. The portions of equity and of the profit or loss attributable to minority shareholders are indicated separately in the consolidated balance sheet and income statement respectively.

All companies over which the Group is capable of exercising significant influence (as defined by IAS 28 – Investments in Associates) are considered associates. This influence is normally assumed to exist if the Group holds a proportion of voting rights of between 20% and 50%, or – even with a smaller proportion of voting rights – it has the power to take part in determining the financial and operating policies in virtue of particular legal relationships such as, by way of example, shareholders' agreements together with other forms of significant exercise of rights of governance.

Companies in which, on the basis of a contractual or statutory agreement, two or more parties carry on a business subject to joint control are considered joint ventures.

In particular it is worth noting that on April 2, 2009 the shareholders of Orione Immobiliare Prima S.p.A. – a company in which Pirelli & C. Real Estate S.p.A has a 40.1% interest and Gruppo Partecipazioni Industriali S.p.A. a 29.3% interest – signed an agreement for the assignment to the shareholders themselves, other than Pirelli & C. Real Estate S.p.A., of the real estate property assets held by the company in proportion to their respective equity interests. Again on the basis of this agreement the shareholders also proceeded to transfer their respective stakes in Orione Immobiliare Prima S.p.A. to Pirelli & C. Real Estate S.p.A. which therefore, after the above transaction, holds 100% of the capital of this company.

The accounting for the business combination described above entailed recognition of the assets and liabilities acquired at their fair value, as shown in detail in the table below:

(in thousands of euro)

	<i>Fair value</i>	<i>Book value</i>
Purchase price (inclusive of costs directly attributable to the business combination)	62	
Inventories	17,551	17,551
Trade receivables and trade payables	(603)	(603)
Other receivables and payables	9,970	9,970
Provisions for other liabilities and charges and employee benefit obligations	(2,554)	(1,769)
Cash and cash equivalents	2,861	2,861
Financial receivables and Financial payables	(27,121)	(25,561)
Acquired assets and liabilities	104	2,449
Equity attributable to minority interest		
Acquired net assets and liabilities	104	2,449
Portion acquired	62	
Goodwill	-	

On May 13, 2009 the company Mistral Real Estate B.V., in which an interest of 35% was already held, implemented an operation to change its share capital, as the result of which the existing shares were transformed into “tracking shares”, numbered and assigned so as to create a direct correlation between these shares and the underlying development companies in terms of both participation in the results and exercise of control. Following this transaction Pirelli & C. Real Estate S.p.A. acquired the remaining 65% of certain classes of tracking share thus also acquiring control over the companies to which these shares refer.

The accounting for this last business combination entailed recognition of the assets and liabilities acquired at their fair value, as shown in detail in the table below:

(in thousands of euro)

	<i>Fair value</i>	Book value
Purchase price	10,106	
Investments in associates and jv	111	-
Deferred tax assets and provisions for deferred taxes	(8)	(8)
Inventories	2,613	2,613
Trade receivables and trade payables	701	701
Other receivables and other payables	6,589	6,589
Cash and cash equivalents	59	59
Financial payables	5,500	5,500
Acquired assets and liabilities	15,565	15,454
Equity attributable to minority interest	17	17
Acquired net assets and liabilities	15,548	15,437
Portion acquired	10,106	
Goodwill	-	

Seasonality

The earnings performance is not affected by significant trends associated with seasonal factors.

Going concern

Although in a difficult economic and financial context which determined a slowdown in the global economy, with particularly accentuated effects in the automobile industry and the real estate sector, which consequently had a negative impact on the consolidated results for the first half of 2009, there are no significant doubts about the continuity of the company as a going concern.

The disclosures on the main risks and uncertainties for the six remaining months of the year were summarized in the interim management report.

The market context in which the Group works entailed however a deep review of the strategy and the preparation of an incisive action plan with the aim of ensuring the maximization of efficiency and competitiveness. The main strategic guidelines, the actions taken and the related financial sources available to implement them were announced on the occasion of the presentation to the financial community of the 2009-2011 industrial plan.

As a consequence of the above the condensed interim financial statements were prepared using accounting standards that consider the going concern requirement as fulfilled.

Estimates and assumptions

The preparation of the condensed interim financial statements entails for the management the need to make estimates and assumptions which, in some circumstances, are based on difficult and subjective assessments and valuations which are themselves based on historical experience, and assumptions which are, each time, considered reasonable and realistic in the light of the circumstances. The results that will emerge could therefore differ from such estimates. The estimates and assumptions are reviewed regularly and the effects of each change made to them are recognized in the income statement in the period in which the estimate is revised if the revision itself has effects only on that period, or also in subsequent periods if the revision has effects both on the current period, and on future ones.

In this context it is important to note that the situation caused by the current economic and financial crisis has entailed a need to make assumptions regarding future performance characterized by significant uncertainty, so it cannot be ruled out that, in the next six-monthly period, the results will be different from those estimated and that adjustments, including significant ones, which today can obviously be neither estimated nor foreseen, could therefore be required to the carrying value of the relevant items. Such estimates affect the carrying values of certain assets and liabilities, costs and revenues, and also disclosures relating to contingent assets/liabilities at the balance sheet date.

The estimates and assumptions relate mainly to assessments of the recoverability of intangible assets, to the valuation of the real estate property portfolio owned directly and indirectly through associates and joint ventures, to the definition of the useful life of property, plant and equipment, to the recoverability of receivables (in particular with reference to determination of the amortized cost of non-performing loans), to the measurement of equity interests and financial receivables in associates and joint ventures, and to the recognition/measurement of provisions. The estimates and assumptions are based on data that reflect the current state of knowledge available.

Accounting policies of particular relevance and greater subjectivity

There follows a brief description of the accounting policies that more than others require greater subjectivity on the part of management in the calculation of estimates, and for which a change in the conditions underlying the assumptions used could have a significant impact on the Condensed Interim Financial Statements or for which there is a risk that significant adjustments to the book value of assets and liabilities may emerge in the six months subsequent to the reference period.

Goodwill

In accordance with the accounting standards adopted for preparation of the financial statements, goodwill is assessed annually in order to ascertain the existence of any impairment losses to be recognized in the income statement. In particular, the test in question entails allocation of the goodwill to cash generating units and subsequent determination of their recoverable value, understood as the greater of fair value and value in use.

If the value in use proves to be lower than the book value of the cash flow generating units, the goodwill allocated to them must be written down. The allocation of goodwill to cash generating units and determination of their value in use entails the assumption of estimates that depend on subjective assessments and on factors that can change over time, with consequent and possibly significant effects on the assessments made by the directors.

At the end of each interim period, in the presence of significant impairment indicators with respect to the financial statements at the end of the previous year, the impairment test is repeated with the same methods used at the end of the year.

Impairment of fixed assets

In accordance with the accounting standards of reference, fixed assets are tested in order to ascertain whether there has been a loss of value, which must be recognized through an impairment, when there are signs that difficulties are to be expected for the recovery of their net book value through their use. The test for the existence of the above symptoms requires on the part of the directors the use of subjective assessments based on the information available from both internal and external sources, and on historical experience. Moreover, if it is determined that a potential impairment loss may be generated, this loss is calculated using valuation techniques considered appropriate. The correct identification of elements indicating the existence of a potential impairment loss, and the estimates for calculating their amount, depend on subjective assessments and on factors that may vary over time affecting the assessments and estimates carried out by the directors.

In this context, at December 31, 2008, in carrying out the impairment tests, the different Group Sectors took into consideration the performance expected for 2009, the assumptions and outcomes of which are in keeping with the information given to the financial community on presentation of the 2009-2011 three-year industrial plan. At June 30, 2009, in the presence of significant impairment indicators with respect to the financial statements at the end of the previous year, the impairment test was repeated with the same methods used at the end of the year.

Pension plans and other post-employment benefits

The Group companies have set up pension plans and medical assistance plans in different countries for their employees.

The Group has its main defined-benefit plans in the United States, the United Kingdom and Italy.

The management uses different actuarial assumptions to calculate the liabilities and the future returns on plan assets. The actuarial assumptions of a financial nature regard the discount rate, the expected return on plan assets, the rates of future salary increases, and trends in the costs of medical assistance.

The actuarial assumptions of a demographic nature regard essentially the rates of mortality, disability and turnover.

In particular, with reference to the discount rates, it is important to note that during the first half of 2009 the rate curves showed high volatility as a consequence of the financial crisis and its effects on the yield of high quality corporate bonds.

The Group identified discount rates which it considered balanced, in view of the context.

Deferred taxes

Deferred tax assets are accounted for on the basis of the earnings expected in future years. The assessment of prospective earnings for the purpose of accounting for deferred taxes depends on factors that may change over time and determine significant effects on the assessment of deferred tax assets.

The determination of adjustment items took into consideration the figures in budgets and plans consistent with those used for the purposes of the impairment tests and described in the previous paragraph in relation to the recoverable amount of non-current assets. It is also believed that the adjustment items are sufficient to cover the risk of a further worsening of the assumptions of the plan, taking into account the fact that the net deferred tax assets thus provided for relate to temporary differences/tax losses, a significant amount of which can be recovered over a very long period of time. This is therefore compatible with a scenario in which emergence from the situation of crisis and economic recovery are delayed with respect to the time horizon implicit in the plans mentioned above.

Provisions for liabilities and charges

Provisions were set aside against contingent legal and fiscal liabilities, representing the risk of losing lawsuits. The amount of provisions recognized in relation to these liabilities represents the best estimate at the balance sheet date made by management for lawsuits and tax claims regarding a vast range of issues which are subject to the jurisdiction of various countries. This estimate entails the adoption of assumptions that depend on factors that may change over time and which could therefore have significant effects with respect to the current estimates made by directors for the preparation of the Condensed Interim Financial Statements.

2. OPERATING SEGMENTS

The operating segments defined by the Pirelli & C. Group on the basis of the rules of IFRS 8, which came into force on January 1, 2009, are the following:

- Tyre
- Eco Technology
- Real Estate
- Broadband Access

The rest consists of financial companies (including the Parent Company) and other service companies. None of these is an autonomous operating segment.

With respect to the business segments defined at December 31, 2008, the Eco Technology segment was identified separately, in line with the recent presentation of the Group's industrial plan, in which the Eco Technology segment was identified as a core activity.

Segment results for the first half of 2009 were as follows:

(in thousands of euro)

	Tyre	Eco Technology	Real Estate	Broadband Access	Other companies	Interel. adjustments	TOTAL June 30, 2009
Sales to third parties	1,915,738	28,251	115,265	72,817	5,521	-	2,137,592
Sales to the Group	184	40	486	-	13,487	(14,197)	-
Total Sales	1,915,922	28,291	115,751	72,817	19,008	(14,197)	2,137,592
Gross Operating Profit (Loss)	231,073	(4,406)	(14,058)	3,180	(10,903)	-	204,886
Depreciation tangible/amortization intangible assets	(94,253)	(1,071)	(3,647)	(440)	(4,328)	-	(103,739)
Operating Profit (Loss)	136,820	(5,477)	(17,705)	2,740	(15,231)	-	101,147
Earnings (losses) from investments	3,813	-	(21,616)	-	54,401	(65,161)	(28,563)
Financial income/(expenses)	(43,024)	(1,159)	(984)	721	5,028	-	(39,418)
Income before income taxes	97,609	(6,636)	(40,305)	3,461	44,198	(65,161)	33,166
Income taxes	(43,429)	-	(2,432)	644	(306)	-	(45,523)
Income (loss) from continuing operations	54,180	(6,636)	(42,737)	4,105	43,892	(65,161)	(12,357)
Income (loss) from discontinued operations							
Income (loss) for the period	54,180	(6,636)	(42,737)	4,105	43,892	(65,161)	(12,357)

Segment results for the first half of 2008 were as follows:

(in thousands of euro)

	Tyre	Eco Technology	Real Estate	Broadband Access	Other companies	Interel. adjustments	TOTAL June 30, 2008
Sales to third parties	2,166,261	32,871	185,812	63,369	6,450	-	2,454,763
Sales to the Group	-	547	6,977	-	11,381	(18,905)	-
Total Sales	2,166,261	33,418	192,789	63,369	17,831	(18,905)	2,454,763
Gross Operating Profit (Loss)	281,497	(3,438)	8,068	3,542	(8,119)	2,923	284,474
Depreciation tangible/amortization intangible assets	(95,516)	(446)	(4,236)	(402)	(3,008)	-	(103,608)
Operating Profit (Loss)	185,981	(3,884)	3,832	3,140	(11,127)	2,923	180,866
Earnings (losses) from investments	286	-	16,874	-	(8,668)	(103,948)	(95,456)
Financial income/(expenses)	(29,735)	(817)	(7,194)	(2,778)	17,939	66	(22,519)
Income before income taxes	156,532	(4,701)	13,512	362	(1,856)	(100,959)	62,891
Income taxes	(54,877)	19	(6,455)	(226)	(3,156)	-	(64,695)
Income (loss) from continuing operations	101,655	(4,682)	7,057	136	(5,012)	(100,959)	(1,804)
Income (loss) from discontinued operations	-	-	4,390	-	-	(12,110)	(7,720)
Income (loss) for the period	101,655	(4,682)	11,447	136	(5,012)	(113,069)	(9,524)

Sales made between operating segments are made at market values.

3. PROPERTY, PLANT AND EQUIPMENT

The breakdown and changes are as follows.

(in thousands of euro)

	June 30, 2009			December 31, 2008		
	Gross Value	Accumulated depreciation	Net Value	Gross Value	Accumulated depreciation	Net Value
Land	85,290	-	85,290	83,456	-	83,456
Buildings	653,301	(313,105)	340,196	625,712	(296,474)	329,238
Plant and Machinery	2,660,212	(1,645,207)	1,015,005	2,549,392	(1,537,876)	1,011,516
Industrial and Commercial Equipment	573,983	(447,067)	126,916	525,374	(410,590)	114,784
Other property, plant and equipment	224,215	(173,813)	50,402	226,136	(167,084)	59,052
	4,197,001	(2,579,192)	1,617,809	4,010,070	(2,412,024)	1,598,046

(in thousands of euro)

	December 31, 2008	Exchange differences	Increase	Decrease	Reclass.	Other	June 30, 2009
Land	83,456	2,345	24	(535)	-	-	85,290
Buildings	625,712	18,994	4,253	2,703	652	987	653,301
Plant and Machinery	2,549,392	89,142	50,717	(25,594)	(1,570)	(1,875)	2,660,212
Ind. and Comm. Equipment	525,374	34,188	15,352	(3,925)	3,830	(836)	573,983
Other property, plant and equipment	226,136	4,891	2,574	(5,409)	(2,912)	(1,065)	224,215
Gross amount	4,010,070	149,560	72,920	(32,760)	-	(2,789)	4,197,001

(in thousands of euro)

	December 31, 2008	Exchange differences	Reclass.	Decrease	Depreciation	Other	June 30, 2009
Buildings	(296,474)	(9,722)	-	3,672	(10,312)	(269)	(313,105)
Plant and Machinery	(1,537,876)	(58,737)	165	11,351	(61,752)	1,642	(1,645,207)
Ind. and Comm. Equipment	(410,590)	(19,841)	(165)	3,446	(21,221)	1,304	(447,067)
Other property, plant and equipment	(167,084)	(5,939)	-	4,431	(6,138)	917	(173,813)
Accumulated depreciation	(2,412,024)	(94,239)	-	22,900	(99,423)	3,594	(2,579,192)

(in thousands of euro)

	December 31, 2008	Exchange differences	Increase	Decrease	Reclass.	Depreciation	Other	June 30, 2009
Land	83,456	2,345	24	(535)	-	-	-	85,290
Buildings	329,238	9,272	4,253	6,375	652	(10,312)	718	340,196
Plant and Machinery	1,011,516	30,405	50,717	(14,243)	(1,405)	(61,752)	(233)	1,015,005
Ind. and Comm. Equipment	114,784	14,347	15,352	(479)	3,665	(21,221)	468	126,916
Other property, plant and equipment	59,052	(1,048)	2,574	(978)	(2,912)	(6,138)	(148)	50,402
Net amount	1,598,046	55,321	72,920	(9,860)	-	(99,423)	805	1,617,809

Increases in the six months involved mainly the Tyre segment, especially in the operating units in Germany, Romania, China and Brazil.

The investment-depreciation ratio is 0.73.

Assets under construction at June 30, 2009 amounted to Euro 93,697 thousand, of which Euro 89,092 thousand in the Tyre segment (Euro 115,454 thousand at December 31, 2008, of which Euro 95,683 thousand in the Tyre segment).

Impairment losses, which are included in the “decreases” column in the above table, amounted to Euro 300 thousand (Euro 9,770 thousand at December 31, 2008). They are accounted for in the income statement under the item “Amortization, depreciation and impairments” (note 25).

4. INTANGIBLE ASSETS

The breakdown and changes were as follows.

(in thousands of euro)									
	December 31, 2008	Exchange differences	Change in consolidation area	Increase	Decrease	Amortization	Writedowns	Other	June 30, 2009
Patents and intellectual property rights	424	-	-	-	-	(66)	-	-	358
Concessions/licenses/ trademarks	25,070	(97)	-	4	-	(815)	(4,161)	(56)	19,945
Goodwill	1,007,685	-	-	-	(840)	-	-	-	1,006,845
Application software	12,129	13	(243)	781	(21)	(3,240)	-	56	9,475
Other intangible assets	800	8	-	924	-	(194)	-	47	1,585
	1,046,108	(76)	(243)	1,709	(861)	(4,315)	(4,161)	47	1,038,208

The writedown of the item “**concessions/licenses/trademarks**” relates to the Real Estate segment and concerns the concession issued by Milan City Council to the subsidiary Parcheggi Bicocca S.r.l. for the management up to the year 2032 of the P7 and P9 car parks located in the Bicocca area.

The distribution of goodwill by operating segment and the cash generating units (or groups of cash generating units) to which it was allocated are shown in the following table:

(in thousands of euro)

Operating segment	Cash Generating Unit/Groups of CGU	Value
Tyre	Consumer	518,415
Tyre	Industrial	313,668
Eco Technology	Eco Technology	4,860
Real Estate	Real Estate	32,912
Real Estate	Agency	5,719
Real Estate	Credit Servicing	4,226
Real Estate	Property	13,452
Real Estate	Poland	3,257
Real Estate	Fund management	29,042
Real Estate	Germany - DGAG/BIB	81,142
Real Estate	Non Performing Loans	152
		1,006,845

As regards goodwill, as there were no significant impairment indicators with respect to the financial statements for the year ended December 31, 2008, it was not considered necessary to update the impairment test.

5. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The following changes occurred in the period:

(in thousands of euro)

	June 30, 2009	December 31, 2008
Beginning balance	515,300	534,194
Discontinued operations	-	(5,145)
Acquisition/change in share capital and reserves	21,366	171,607
Distribution of dividends	(1,677)	(30,831)
Impairments	(2,700)	(74,421)
Disposals and wind-ups	-	(25,696)
Share of earnings (losses)	(26,861)	(175,964)
Share of other components recognised in equity	(14,304)	(52,525)
Reclassifications and other	21,074	131,916
Changes in provisions for other liabilities and charges	17,365	42,165
	529,563	515,300

The main movements in the six months are attributable to the Real Estate segment, in particular:

- the item “shares of other components recognised in equity” mainly relates to adjustments to negative fair value of interest rate derivatives for which hedge accounting was adopted (Euro 14,403 thousand);
- the item “reclassifications and other” mainly includes the writedown of the financial receivable due from the Sigma RE B.V. Group (joint venture) against the portion of loss made by the said Group (Euro 19,081 thousand);
- the “changes in provisions for other liabilities and charges” are attributable to measurement with the equity method of certain companies in this segment and contains the amount set aside to cover losses exceeding the carrying amount.

As regards the “share of earnings (losses)” and “impairments”, see the comments on the income statement items “share of earnings (losses) of associates and joint ventures” and “losses on equity investments”.

6. OTHER FINANCIAL ASSETS

The following changes occurred in the period:

(in thousands of euro)	June 30, 2009	December 31, 2008
Beginning balance	505,899	958,272
Increases	2,161	31,864
Decreases	(112,599)	(30,696)
Impairments	(19,885)	(200,840)
(Gains)/losses transferred to income statement for disposal or impairment losses, previously recognised in equity	(792)	1,995
Adjustment to fair value	22,050	(138,015)
Reclassification	(307)	(132,171)
Reversal of reserve for reclassification of investments to associates	-	15,419
Other	(159)	71
	396,368	505,899
of which:		
- financial assets carried at fair value through equity	366,288	476,300
- financial assets carried at fair value through profit or loss	30,080	29,599

Decreases mainly relate to the sale of the equity investment in Alcatel-Lucent Submarine Networks, held by the parent company Pirelli & C. S.p.A. (Euro 44,805 thousand), to the sale of 53,190,000 shares of Telecom Italia S.p.A., held by Pirelli Finance (Luxembourg) S.A. (Euro 61,126 thousand), and to the sale of the equity investment in Vittoria Capital N.V. representing 5% of the share capital (Euro 5,677 thousand).

Impairments is related mainly to the equity investment in Telecom Italia S.p.A..

Adjustments to fair value, which were positive by Euro 22,050 thousand (of which Euro 22,139 thousand positive recognised in equity and Euro 89 thousand negative recognised in the income statement), relate mainly to the equity investments in Mediobanca S.p.A. (positive by Euro 18,188 thousand) and in Oclaro Inc.- formerly Avanex (positive by Euro 3,214 thousand).

7. DEFERRED TAX ASSETS AND LIABILITIES

This item can be broken down as follows:

(in thousands of euro)

	June 30, 2009	December 31, 2008
Deferred tax assets	78,374	72,426
Deferred tax liabilities	(42,452)	(38,372)
	35,922	34,054

The tax effect of income and expenses recognised directly in equity was a positive Euro 4,986 thousand (a positive Euro 11,281 thousand at December 31, 2008). The amount is included in the statement of comprehensive income; these movements are mainly due to the tax effects associated with actuarial gains/losses on employee benefits and to the adjustment to fair value of derivatives designated as cash flow hedges.

8. TRADE RECEIVABLES

Trade receivables can be broken down as follows:

(in thousands of euro)

	June 30, 2009			December 31, 2008		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures	74,345	-	74,345	76,237	-	76,237
Third parties	822,697	-	822,697	765,526	-	765,526
Receivables on construction contracts	1,190	-	1,190	6,177	-	6,177
	898,232	-	898,232	847,940	-	847,940
Provisions for impairment of receivables	(69,613)	-	(69,613)	(59,989)	-	(59,989)
	828,619	-	828,619	787,951	-	787,951

9. OTHER RECEIVABLES

Other receivables can be broken down as follows:

(in thousands of euro)

	June 30, 2009			December 31, 2008		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures						
- financial receivables	495,451	482,105	13,346	582,259	564,492	17,767
- other receivables	7,945	730	7,215	6,826	891	5,935
Financial receivables from third parties	97,899	91,775	6,124	98,781	87,987	10,794
Trade and other accrued income and prepaid expenses / third parties	26,728	5,166	21,562	18,018	13	18,005
Financial accrued income and prepaid expenses	1,667	804	863	4,721	1,004	3,717
Receivables from employees	14,283	2,659	11,624	8,240	2,893	5,347
Receivables from social security agencies	7,122	-	7,122	4,391	-	4,391
Receivables from tax authorities unrelated to income taxes	63,645	18,563	45,082	83,897	12,717	71,180
Receivables for junior notes	19,003	19,003	-	21,330	21,330	-
Other receivables	144,882	39,585	105,297	142,576	31,677	110,899
	878,625	660,390	218,235	971,039	723,004	248,035
Provisions for impairment of other receivables	(14,115)	-	(14,115)	(8,079)	-	(8,079)
	864,510	660,390	204,120	962,960	723,004	239,956

Non-current financial receivables from associates and joint ventures, of Euro 482,105 thousand, relate mainly to the Real Estate Group and are classified on the basis of collection times, which are dependent on plans for the disposal of real estate assets held directly or indirectly by associates and joint ventures to be implemented in a time horizon of between two and six years.

These loans are disbursed at rates in line with those charged by the leading market operators with exception of certain companies to which interest-free loans were granted.

The net decrease is due mainly:

- Euro 19,081 thousand to the writedown of the financial receivable due from the Sigma RE B.V. Group against the loss made by the said Group; on June 9, 2009, the Arcandor Group, which is the tenant of the properties in the “Highstreet” portfolio (in which the Group has a 12.1% interest through the joint venture Sigma RE B.V.) filed an application at the Court of Essen, beginning the procedure for a bankruptcy declaration under the terms of German law;
- Euro 88,190 thousand to the repayment of shareholders’ loans.

Non-current financial receivables due from third parties refer primarily to amounts deposited to guarantee tax and legal disputes in relation to the subsidiary Pirelli Pneus S.A. (Brazil), remunerated at market rates.

Receivables for junior notes relate to the Real Estate segment and refer to junior notes in relation to the securitisation of portfolios of non-performing loans.

Other current receivables include Euro 27,059 thousand of receivables for NPL portfolios attributable to acquisitions of receivable portfolios made by the Real Estate Segment. In particular the item includes mortgage and non-secured loans acquired during previous years, mainly from Banca Popolare di Intra and Banca Antonveneta. In relation to these receivables, provisions of Euro 8,356 thousand were set aside for impairment.

10. INVENTORIES

Inventories can be broken down as follows:

(in thousands of euro)

	June 30, 2009	December 31, 2008
Pirelli Tyre	620,725	809,376
Pirelli Real Estate	113,211	93,379
Other	25,745	18,355
	759,681	921,110

(in thousands of euro)

	June 30, 2009	December 31, 2008
Raw and subsidiary materials and consumables	120,777	210,045
Sundry materials	751	771
Trading properties held for sale	61,317	17,775
Buildings under construction/restoration	10,102	34,997
Work in process and semifinished products	53,788	63,385
Finished products	458,608	538,529
Goods purchased for resale	10,492	10,413
Land to be developed	41,785	40,525
Advances to suppliers	2,061	4,670
	759,681	921,110

The decrease in value of the inventories of Pirelli Tyre is essentially due to the reduction in the quantity, as a result of the actions taken to improve operating efficiency, and of the value owing to a reduction in unit costs.

The increase in inventories of trading properties held for sale is attributable mainly to the entry in consolidation area of the company Orione Immobiliare Prima S.p.A. and to properties in relation to which the construction work has been completed.

The writedown of stocks carried out in the period was Euro 10,005 thousand (Euro 29,382 thousand at December 31, 2008); the reversal of previous writedowns amounted to Euro 5,481 thousand (Euro 2,575 thousand at December 31, 2008).

11. SECURITIES HELD FOR TRADING

These consist mainly of bonds, issued and guaranteed by governments and banks. The positions are deposited at leading banking counterparties.

For listed securities, the fair value corresponds to the stock exchange price at June 30, 2009. For unlisted securities, the fair value was determined making use of estimates on the basis of best information available.

Fair value changes are recognised in the income statement under the item “financial expenses”.

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are concentrated with the Group’s financial companies, holdings and sub-holdings. They are used essentially on the market for short-term maturity deposits with leading banking counterparties at interest rates in line with the predominant market terms.

In the cash flow statement, the balance of cash and cash equivalents is indicated net of bank overdrafts of Euro 16,384 thousand at June 30, 2009 and Euro 24,812 thousand at June 30, 2008.

13. EQUITY

13.1 Attributable to the equity holders of the Company

The **share capital** subscribed and paid up at June 30, 2009 (including treasury shares in the portfolio) is represented by 5,233,142,003 ordinary shares and 134,764,429 savings shares all of a nominal Euro 0.29 each and normal entitlements for a total of Euro 1,556.693 thousand.

The **share capital** at June 30, 2009, net of treasury shares in the portfolio (3,867,500 ordinary shares and 4,491,769 savings shares) as prescribed by IAS 32, amounted to Euro 1,554,269 thousand.

13.2 Attributable to the minority interests

The equity attributable to minority interests fell from Euro 202,558 thousand at December 31, 2008 to Euro 167,511 thousand at June 30, 2009. The change was due mainly to the completion of the acquisition of the minority interests of the subsidiaries in the Tyre segment in Turkey, the net book value of which was Euro 7,366 thousand, to the loss for the period, of Euro 18,691 thousand, as well as to the exchange effect deriving from translation to Euro of the financial statements in foreign currencies, negative by Euro 1,573 thousand.

The main equity interests held by minorities are as follows:

	June 30, 2009	December 31, 2008
Drahtcord Saar Gmbh & Co. K.G. (Germany)	50.00%	50.00%
Pirelli & C. Eco Technology (Italy)	49.00%	49.00%
Pirelli & C. Ambiente S.p.A. (Italy)	49.00%	49.00%
Euro Driver Car S.L. (Spain)	48.88%	48.85%
Pirelli & C. Real Estate S.p.A. (Italy)	41.93%	41.93%
Driver Italia S.p.A. (Italy)	27.63%	26.93%
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%
Turk Pirelli Lastikleri A.S. (Turkey)	0.01%	4.65%

14. STOCK OPTION PLANS

Plans established by Pirelli & C. S.p.A.

During the first half of 2009, the Company launched no stock option plans.

Pirelli & C. S.p.A. has two existing stock option plans destined for managers and employees of Pirelli & C. S.p.A. and other companies of the Group who were granted non-transferable option rights for the subscription/purchase of Pirelli & C. S.p.A. ordinary shares.

IFRS 2 “Share-based Payment” does not apply to these plans, as the option rights were granted prior to November 7, 2002.

More complete information on these Plans – which are entitled *Pirelli to People* and *Group Senior Executives* – is given below.

	Pirelli to People	Group Senior Executives
Plan features	Option rights granted, non-transferable to third parties, for the subscription of future new issues of Pirelli & C. ordinary shares or, as decided by the latter, for the purchase of treasury shares of Pirelli & C..	Option rights granted, non-transferable to third parties, for the subscription of future new issues of Pirelli & C. ordinary shares or, as decided by the latter, for the purchase of treasury shares of Pirelli & C..
Recipients at June 30, 2009	216 employees (senior executives, cadres, key employees) of the companies of the group. Originally 725 persons at the date of approval of the plan.	20 senior executives of the companies of the group. Originally 51 persons at the date of approval of the plan.
Conditions for exercising options	Continuance of employment.	(a) continuance of employment, and (b) the reaching, in the two-year period 2001-2002, of specific targets, assigned to each recipient.
Subscription/purchase price per share	Each option right granted gives the right to subscribe/purchase one Pirelli & C. ordinary share at the price of Euros 0.996 (1).	Each option right granted gives the right to subscribe/purchase one Pirelli & C. ordinary share at the price of Euros 0.996 (1).
Vesting period of options	Up to nine years from the date the options are granted (which took place on November 5, 2001), but not before one year has passed from that date for 50 percent of the options granted, two years for another 25 percent and three years for the remaining 25 percent.	As regards the options granted on November 5, 2001, up to nine years from the date the options are granted, but not before one year has passed from that date for 50 percent of the options, two years for another 25 percent and three years for the remaining 25 percent. For the options granted definitively on May 10, 2002 up to May 31, 2009, but not before June 1, 2002 for 50 percent of the options and not before January 1, 2003 for the remaining 50 percent.
Maximum number of options for which the offer was open at December 31, 2008	15,697,334 options equal to about 0.3 percent of outstanding ordinary shares destined for 222 recipients.	N. 9,789,185 options equal to about 0.2 percent of outstanding ordinary shares destined for 21 recipients.
Maximum number of options for which the offer was open at June 30, 2009	15,330,668 options equal to about 0.29 percent of outstanding ordinary shares destined for 216 recipients.	N. 4,288,001 options equal to about 0.082 percent of outstanding ordinary shares destined for 20 recipients.
Options forfeit during 1st half 2009 as a result of persons leaving the group	366.666	5,501,184
Shares issued during the year	None	None

(1) Following the capital distribution operation for 0.154 euro per share approved by the extraordinary shareholders' meeting of December 12, 2007, from April 3, 2008 the unit subscription price was changed to Euro 0.996 (from Euro 1.15) in accordance with the prescriptions covering share capital operations of the Regulations of the Stock Option Plans in question.

(2) Unexercised options of the Group Senior Executives Plan granted definitively on May 10, 2002 expired for all effects and purposes on May 31, 2009.

Plans established by the subsidiary Pirelli & C. Real Estate S.p.A.

The Shareholders' Meeting of April 14, 2008 approved, among other things, guidelines for a stock option plan, which provides for assignment to the beneficiaries of options for the purchase of shares in Pirelli & C. Real Estate S.p.A. ("Stock Option Plan 2008-2010" or "SOP 2008-2010").

Subsequently, on May 27, 2008, at the proposal of the Remuneration Committee and following a number of changes made to simplify and adjust the organisational structure to the new requirements of growth and development, the Board of Directors approved a number of changes with reference to the options assigned to beneficiaries of the SOP 2008 - 2010, in compliance with the guidelines approved by the Shareholders' Meeting and with the powers granted thereby. The abovementioned date of May 27, 2008 therefore represents a new assignment date for the options related to the SOP 2008-2010 for certain identified beneficiaries.

The general terms of the stock option plan have not changed with respect to December 31, 2008.

15. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

The changes that occurred during the period are shown below:

(in thousands of euro)

Provisions for other liabilities and charges - non-current	
Beginning balance at December 31, 2008	141,191
Exchange differences	12,920
Change in consolidation area	1,854
Increases	6,131
Utilization/releases	(6,590)
Other	58
Ending balance at June 30, 2009	155,564

(in thousands of euro)

Provisions for other liabilities and charges - current	
Beginning balance at December 31, 2008	135,650
Exchange differences	366
Change in consolidation area	15
Increases	74,552
Utilization/releases	(66,257)
Other	(889)
Ending balance at June 30, 2009	143,437

The **non-current portion** relates mainly to provisions set aside for legal and tax disputes concerning the subsidiary Pirelli Pneus S.A. in Brazil, contingent tax liabilities and other contingent liabilities/charges of a commercial nature and employment disputes of the parent company Pirelli & C. S.p.A. and to contractual commitments for extraordinary maintenance work on properties sold and disputes of Pirelli & C. Real Estate S.p.A..

The **increases** in the period derived mainly from adjustments made in the Real Estate segment to provisions for contractual commitments and to the adjustment of contingent commercial liabilities of the Tyre segment.

The **current portion** mainly includes reserves for liabilities on equity investments measured with the equity method of Pirelli & C. Real Estate S.p.A., provisions for contractual warranties and product claims of the Tyre segment and the Broadband Access segment and provisions set aside by the parent company Pirelli & C. S.p.A. for sureties issued to Goldman Sachs Capital Partner for the sale in 2005 of the segment Energy and Telecommunications Cables and Systems.

The **increases** relate mainly to the Real Estate segment and regard the provision to cover the losses of equity investments in associates and joint ventures exceeding their carrying amount (Euro 65,934 thousand); they are offset by **decreases** (Euro 48,670 thousand) for the use of these provisions.

16. EMPLOYEE BENEFIT OBLIGATIONS

The item includes:

(in thousands of euro)	June 30, 2009	December 31, 2008
Pension funds:		
- funded	187,016	157,368
- unfunded	87,762	88,752
Employees' leaving indemnity (Italian companies)	50,508	56,783
Medical care plans	16,841	18,442
Other benefits	48,402	45,190
	390,529	366,535

16.1 Pension funds

The following table shows a breakdown of the pension funds at June 30, 2009:

(in thousands of euro)

	June 30, 2009					
	Germany	Total unfunded pension funds	USA	UK	Other countries	Total funded pension funds
Funded						
Present value of funded obligations			115,592	669,022	2,653	787,267
Fair value of plan assets			(72,892)	(525,216)	(2,143)	(600,251)
Unfunded						
Present value of unfunded obligations	87,763	87,763				
Net liability in the balance sheet	87,763	87,763	42,700	143,806	510	187,016
of which:						
- Tyre	82,055	82,055	42,700	75,836	510	119,046
- Real Estate	5,708	5,708				
- Other				67,970		67,970

The following table shows a breakdown of the pension funds at December 31, 2008:

(in thousands of euro)

	December 31, 2008					
	Germany	Total unfunded pension funds	USA	UK	Other countries	Total funded pension funds
Funded						
Present value of funded obligations			128,035	598,155	2,615	728,805
Fair value of plan assets			(73,780)	(495,549)	(2,108)	(571,437)
Unfunded						
Present value of unfunded obligations	88,752	88,752				
Net liability in the balance sheet	88,752	88,752	54,255	102,606	507	157,368
of which:						
- Tyre	83,310	83,310	54,255	62,157	507	116,919
- Real Estate	5,442	5,442				
- Other				40,449		40,449

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

(in thousands of euro)

	June 30, 2009	December 31, 2008
Beginning balance	817,557	1,113,853
Exchange differences	69,326	(207,553)
Change in consolidation area		3,986
Movements through the income statement:		
- service cost	1,927	4,669
- interest cost	26,209	57,672
Actuarial (gains)/losses recognised in equity	(13,565)	(111,992)
Employee's contributions	638	1,323
Benefits paid	(26,659)	(48,146)
Other	(403)	3,745
Closing balance	875,030	817,557

The changes in the period in the fair value of assets serving pension funds were as follows:

(in thousands of euro)

	June 30, 2009	December 31, 2008
Beginning balance	(571,437)	(907,569)
Exchange differences	(57,949)	187,355
Movements through the income statement:		
- expected return of assets serving the plan	(20,240)	(64,529)
Actuarial (gains)/losses recognised in equity	42,382	195,456
Employer's contributions	(16,395)	(22,453)
Employee's contributions	5,333	(1,323)
Benefits paid	17,630	40,978
Other	425	648
Closing balance	(600,251)	(571,437)

The costs recognised in the income statement in relation to the pension funds were as follows:

<i>(in thousands of euro)</i>	June 30, 2009	June 30, 2008
Service cost	1,927	2,367
Interest cost	26,209	29,345
Expected return on plan asset	(20,240)	(32,821)
	7,896	(1,109)

The amounts recognised in the income statement are included in the item “Personnel Costs” (note 24).

16.2 Employees’ leaving indemnity

Changes in the period in employees’ leaving indemnity are as follows:

<i>(in thousands of euro)</i>	June 30, 2009	December 31, 2008
Beginning balance	56,783	74,559
Assets sold	-	(12,846)
Movements through income statement	2,147	3,565
Actuarial (gains)/losses recognised in equity	1,529	1,959
Payments/advances	(9,912)	(10,798)
Other	(39)	344
Closing balance	50,508	56,783
of which:		
- Tyre	33,048	37,194
- Real Estate	5,215	7,327
- Other	12,245	12,262

16.3 Medical care plans

Medical care plans can be broken down as follows:

(in thousands of euro)	
	USA
Liabilities on balance sheet at June 30, 2009	16,841
Liabilities on balance sheet at December 31, 2008	18,442

The medical care plan in existence in the United States (Tyre segment) covers white- and blue-collar workers, both active and retired.

The plan is divided into two components “pre-medicare” and “post-medicare”; the latter is destined 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 on the balance sheet for medical assistance plans were as follows:

(in thousands of euro)		
	June 30, 2009	December 31, 2008
Beginning balance	18,442	21,839
Exchange differences	(316)	1,333
Movements through the income statement:		
- service cost	5	7
- interest cost	572	1,217
Actuarial (gains)/losses recognised in equity	(1,069)	(1,109)
Benefits paid	(793)	(1,591)
Other		(3,254)
Closing balance	16,841	18,442

The costs recognised in the income statement in relation to medical assistance plans were as follows:

(in thousands of euro)		
	June 30, 2009	June 30, 2008
Service cost	5	4
Interest cost	572	601
	577	605

The amounts recognised in the income statement are included in the item “personnel costs” (note 24).

16.4 Other information

Actuarial net losses accrued in the 1st half of 2009 booked directly to equity amounted to Euro 29,019 thousand (at December 31, 2008 net losses of Euro 85,058 thousand) and also include the share relating to companies measured with the equity method, net gains of Euro 265 thousand.

The cumulative amount at June 30, 2009, net losses of Euro 326,260 thousand, of which Euro 326,709 thousand attributable to the Group (at December 31, 2008 net losses of Euro 296,634 thousand, of which Euro 297,339 thousand attributable to the Group), was divided as follows:

(in thousands of euro)						
	cumulative 30/06/2009					
	Italy	Germany	USA	UK	Other countries	Total
Pension funds		(1,984)	(75,451)	(250,413)	(8,489)	(336,337)
Medical care plans			(8,188)			(8,188)
Employees' leaving indemnity	18,265					18,265
Total actuarial gains (losses) recognised in equity	18,265	(1,984)	(83,639)	(250,413)	(8,489)	(326,260)

The figure includes the part of actuarial gains/(losses) determined on transition to the IFRSs.

The division by country at December 31, 2008, which also includes the share determined on transition to the IFRSs, was as follows:

(in thousands of euro)

	cumulative 31/12/2008					Total
	Italy	Germany	USA	UK	Other countries	
Pension funds		(2,330)	(83,974)	(212,439)	(8,325)	(307,068)
Medical care plans			(9,257)			(9,257)
Employees' leaving indemnity	19,691					19,691
Total actuarial gains (losses) recognised in equity	19,691	(2,330)	(93,231)	(212,439)	(8,325)	(296,634)

The main actuarial assumptions used at June 30, 2009, which changed with respect to December 31, 2008, were the following:

	Italy	Germany	Netherlands	UK	USA
Discount rate	5.80%	5.80%	5.80%	6.80%	6.90%
Inflation rate	2.00%	2.00%	2.00%	3.30%	

The main actuarial assumptions used at December 31, 2008, were the following:

	Italy	Germany	Netherlands	UK	USA
Discount rate	5.70%	5.70%	5.70%	6.20%-6.40%	6.25%
Inflation rate	2.00%	2.00%	2.00%	2.70%	
Expected return on plan assets				6.65%	7.75%
Expected remuneration increase rate	3,5% - 4,5% (*)	2.50%	2.00%	3.15%	
Medical care costs trend rates - initial					8.50%
Medical care costs trend rates - final					4.50%

(*) indicators valid only for companies with less than 50 employees

17. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

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

(in thousands of euro)

	June 30, 2009			December 31, 2008		
	Total	Non-current	Current	Total	Non-current	Current
Bonds	-	-	-	150,000	-	150,000
Borrowings from banks	1,884,944	1,195,598	689,346	1,780,681	1,279,470	501,211
Borrowings from other financial institutions	67,917	63,557	4,360	66,401	64,739	1,662
Finance lease payables	38,294	27,147	11,147	41,099	30,340	10,759
Financial accruals and deferrals	13,692	153	13,539	19,268	510	18,758
Other financial payables	4,213	800	3,413	13,859	688	13,171
	2,009,060	1,287,255	721,805	2,071,308	1,375,747	695,561

Adding to the item total Euro 40,901 thousand relating to measurement at negative fair value of exchange rate derivatives hedging financial payables (classified under the item “Derivative financial instruments”), we obtain the gross debt of Euro 2,049,961 thousand, which is shown in the net financial position.

The decrease in bonds with respect to December 31, 2008 is attributable to repayment of the loan issued in 1999 by Pirelli & C. S.p.A. of Euro 150,000 thousand at a fixed rate of 5.125%, which occurred on April 7, 2009.

With reference to financial covenants on credit facilities used (included among amounts due to banks), there are the following lending facilities, all of a revolving type:

Corporate

- Barclays Capital, BNP Paribas, HSBC Bank plc, J.P. Morgan plc, The Royal Bank of Scotland plc (as Mandated Lead Arrangers), for an amount of Euro 800,000 thousand (of which Euro 155,000 thousand with maturity December 2011 and Euro 645,000 thousand with maturity December 2012), utilised at June 30, 2009 for a total amount of Euro 100,000 thousand and for which Pirelli & C. is obliged to maintain a certain level of consolidated indebtedness and a certain

ratio between consolidated net indebtedness and Gross Operating Margin. As of June 30, 2009 these parameters were being observed.

As regards negative pledges the facility provides for a commitment not to grant real guarantees, above a threshold of Euro 75,000 thousand, in relation to the Relevant Debts (bond loans and the like destined for listing) with the exception of real guarantees on the existing debt or debt to replace it, to be granted by law, relating to “exports” and “project finance”, subsidized finance;

Tyre

- Syndicated facility (granted to Pirelli Tyre S.p.A. and Pirelli International Limited), in which 12 banks participate for a total amount Euro 675,000 thousand, of which Euro 675,000 thousand utilised at June 30, 2009, with maturity February 2012, for which no covenants are envisaged. There is a negative pledge clause which provides for a commitment not to grant real 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 Tyre S.p.A.), in relation to the Relevant Debts (bond loans and the like destined for listing) with the exception of real guarantees on the existing debt or debt to replace it, to be granted by law, relating to “exports” and “project finance”, subsidized finance;

Real Estate

There are three lending facilities, all of a revolving type:

- The Royal Bank of Scotland plc, for an amount of Euro 50,000 thousand, used in full and with a maturity of December 2009, for which Pirelli & C. Real Estate S.p.A. is obliged to maintain, with reference to its consolidated financial statements, a specific amount of Net Tangible Assets (defined as the difference between total equity and the value resulting from the sum of intangible fixed assets and any positive balance between deferred tax assets and liabilities);

- West LB AG, for an amount of Euro 50,000 thousand, used in full and with a maturity of May 2011, for which Pirelli & C. Real Estate S.p.A. is obliged to maintain a certain amount of equity at the consolidated level;
- Unicredit Corporate Banking S.p.A., for an amount of Euro 100,000 thousand, used in full and with a maturity of January 2010, renewable if necessary for a further 18 months, for which Pirelli & C. Real Estate S.p.A. is obliged to maintain a certain amount of equity at the consolidated level.

At June 30, 2009 the indicators related to the financial covenants linked with the parameters mentioned above were not complied with, a circumstance which does not however represent an event of default in consideration of the capital increase.

It should be noted that Pirelli RE is not obliged to observe financial covenants on any other credit facilities.

No other existing financial payables contain financial covenants or clauses that might cause early repayment of the loans as a result of events other than bankruptcy. No negative pledge clauses are present.

18. TRADE PAYABLES

Trade payables can be broken down as follows:

(in thousands of euro)

	June 30, 2009			December 31, 2008		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures	16,833	-	16,833	21,704	-	21,704
Third parties	780,912	-	780,912	1,079,800	-	1,079,800
Notes payable	514	-	514	3,043	-	3,043
Payables on construction contracts	4,540	-	4,540	4,026	-	4,026
	802,799	-	802,799	1,108,573	-	1,108,573

19. OTHER PAYABLES

Other payables can be broken down as follows:

(in thousands of euro)

	June 30, 2009			December 31, 2008		
	Total	Non-current	Current	Total	Non-current	Current
Associates and joint ventures	6,558	-	6,558	7,344	-	7,344
Trade and other accruals and deferrals	88,178	4,135	84,043	72,253	3,712	68,541
Tax payables	72,527	9,858	62,669	53,986	8,167	45,819
Payables to employees	133,292	-	133,292	168,244	277	167,967
Payables to social security agencies	31,649	4,013	27,636	38,256	3,052	35,204
Payables for stock options	-	-	-	10	-	10
Dividends payable	1,010	-	1,010	920	-	920
Advances from customers	2,758	9	2,749	2,284	10	2,274
Other payables	152,777	5,328	147,449	187,576	33,254	154,322
	488,749	23,343	465,406	530,873	48,472	482,401

Other current payables (Euro 147,449 thousand) include mainly:

- payables to guarantee claims arising from faulty products sold of Euro 25,165 thousand;
- payables for the purchase of property, plant and equipment of Euro 6,189 thousand, relating almost exclusively to the Tyre segment;
- payables for the purchase of a portfolio of non-performing loans in the Real Estate segment of Euro 18,140 thousand;
- payables for the purchase of equity investments in Polish companies in the Real Estate segment of Euro 11,546 thousand.

The reduction in **other non-current payables** with respect to December 31, 2008 is due to the fact that the payables for the NPL portfolio (Euro 18,140 thousand) and the payables for the purchase of equity investments (Euro 11,546 thousand) described above were reclassified as current because payment is envisaged by June 30, 2010.

20. DERIVATIVE FINANCIAL INSTRUMENTS

The item comprises the measurement at fair value of derivative instruments in being at June 30, 2009.

In particular, the portion included in **current assets** comprises:

- Euro 27,214 thousand (Euro 90,535 thousand at December 31, 2008) relating to the fair value measurements of forward purchases/sales of foreign currencies in being at the interim balance sheet date. These are operations to hedge commercial and financial transactions of the Group for which the hedge accounting option was not taken. The fair value is determined using the forward exchange rate at the balance sheet date;
- Euro 5,162 thousand (Euro 3,507 thousand at December 31, 2008) relating mainly to the fair value measurement of other derivatives. In particular, Euro 830 thousand (Euro 1,934 thousand at December 31, 2008) relates to the fair value measurement of natural rubber futures contracts purchased, on which the Tyre segment implemented hedge accounting under the terms of IAS 39; the amount, which was recognised in equity at June 30, 2009, is a positive Euro 983 thousand (a positive Euro 1,934 thousand at December 31, 2008), while profits of Euro 2,086 thousand (zero at December 31, 2008) previously recognized in equity were transferred to the income statement in the period.

The portion included in **current liabilities** comprises:

- Euro 69,965 thousand (Euro 104,106 thousand at December 31, 2008) relating to the fair value measurement of forward purchases/sales of foreign currencies in being at the interim balance sheet date. These are operations to hedge commercial and financial transactions of the Group for which the hedge accounting option was not taken. The fair value is determined using the forward exchange rate at the balance sheet date;
- Euro 16,403 thousand (Euro 6,367 thousand at December 31, 2008) relating to the fair value measurement of interest rate derivatives, with reference mainly for Euro 991 thousand (Euro 264 thousand at December 31, 2008) to the Real Estate segment and for Euro 11,622 thousand (Euro 4,992 thousand at December 31, 2008) to the Tyre segment.

As regards the Real Estate segment, the item includes the measurement of the “plain vanilla” interest rate collar derivative purchased in 2006 of a notional value of Euro 120 million as protection against increases in interest rates. For accounting purposes, the hedge accounting pursuant to IAS 39 was implemented. This hedge accounting is applied only to the intrinsic value, while the change associated with the time value is recognised in the income statement.

In the first half of 2009 the amount recognised in equity was a negative Euro 805 thousand (a negative Euro 2,038 thousand at December 31, 2008).

As regards the Tyre segment, the item includes the measurement of the “plain vanilla” interest rate swap derivatives purchased in the period and in the previous financial year as protection against rising interest rates on a notional of Euro 675 million. For accounting purposes hedge accounting pursuant to IAS 39 was implemented.

During the first half of 2009 the amount recognised in equity was a negative Euro 6,631 thousand (a negative Euro 4,992 thousand at December 31, 2008).

21. COMMITMENTS AND CONTINGENCIES

Sureties

Sureties of a total amount of Euro 147,115 thousand, relating mainly to contractual commitments, were issued by banks and insurance companies in favour of third parties and in the interest of companies of the Pirelli & C. Real Estate Group.

There were also guarantees and patronage given by the Pirelli & C. Real Estate Group in the interest of associates and joint ventures for a total of Euro 115,915 thousand among which the most noteworthy were:

- insurance co-obligations towards third parties of various kinds for a total amount of Euro 7,630 thousand;
- guarantees against loans granted by credit institutions to associates and joint ventures, for a total amount of Euro 37,556 thousand;
- guarantees issued in favour of Hypo Real Estate, the lending bank for the acquisition of the DGAG Group, to cover any tax liabilities associated with the term of the loan. These guarantees entail an exposure for the Group quantified at Euro 25,000 thousand;

- guarantees issued, as part of securitisation transactions carried out by special purpose vehicles, to cover the correct and punctual fulfillment of payment obligations for a total of Euro 12,896 thousand;
- guarantees issued, as part of the transaction for the sale of junior notes relating to a non-performing loan portfolio originating from Banco di Sicilia, in the interest of joint ventures in favour of third parties. These guarantees, which are counter-guaranteed by the partner in the initiative, entail a net exposure for the Pirelli & C. Real Estate Group of Euro 26,818 thousand;
- guarantees issued mainly for the fulfillment by the company International Credit Recovery 8 S.r.l. of the obligation to pay the purchase price of a non performing loan portfolio for an amount of Euro 6,015 thousand.

It should be noted, finally, that Pirelli & C. Real Estate S.p.A. undertook to guarantee pro-quota any negative difference between revenues deriving from rental income and interest expense owed by Tiglio I S.r.l. to lending banks whose credit facilities expire in 2009. At the moment, on the basis of the information available, the expected revenue flow exceeds the estimated interest expense.

Pledges on securities

Securities of associates and joint ventures of Pirelli & C. Real Estate were lodged as collateral for an amount of Euro 80,611 thousand.

Commitments to purchase real estate

Commitments to purchase real estate relate to the undertaking given by Pirelli & C. Real Estate S.p.A. to purchase a number of properties if they remained unsold by Imser 60 S.r.l., for a maximum amount of Euro 316,820 thousand. The purchase price of these properties was contractually defined as a certain fraction of their market value. This option may be exercised by the counterparty from November 12, 2021 to May 31, 2022.

Commitments to purchase property, plant and equipment

The commitments to purchase property, plant and equipment relate mainly to the Tyre segment and amount to Euro 89,103 thousand, mostly regarding companies in Brazil, China, Romania and Italy.

Commitments to purchase equity interests/fund units

These relate to call options and concern undertakings given:

- by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. to subscribe units of the Abitare Sociale 1 Fund – a Closed-end Real Estate Ethical Investment Trust Reserved for Qualified Investors, for a total countervalue of Euro 1,913 thousand;
- by Pirelli & C. Real Estate S.p.A. to subscribe, through the investee company Alimede Luxembourg S.à r.l., units of the Social & Public Initiatives Fund – a Closed-end Speculative Real Estate Investment Trust, up to a maximum amount of Euro 7,000 thousand;
- by Pirelli & C. Real Estate S.p.A. to subscribe, through the investee companies Afrodite S.à.r.l. and Artemide S.à.r.l., units of the Diomira Residential Fund – an unlisted closed-end speculative real estate investment trust, up to a maximum amount of Euro 3,164 thousand;

- by Pirelli & C. Real Estate S.p.A. to subscribe initial units of the B, C and D sub-funds of the Hospitality & Leisure 2 Fund – a closed-end speculative real estate investment trust, for a total amount of Euro 4,500 thousand;
- by Pirelli RE Netherlands B.V. to subscribe units of the Vivaldi Fund – a Closed-end Speculative Real Estate Investment Trust, up to a maximum amount of Euro 3,000 thousand;
- by Pirelli & C. Real Estate S.p.A. to subscribe further securities (Senior Notes) originating from the securitisation of the vehicle International Credit Recovery 8 S.r.l. for an amount of Euro 3,022 thousand;
- by Pirelli Finance (Luxembourg) S.A. to subscribe shares of the company Equinox Two S.c.a., a private equity company specialized in investments in listed and unlisted companies with high growth potential, for a maximum countervalue of Euro 7,355 thousand.

Guarantees given on the sale of Olimpia S.p.A.

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

The current dispute can be summarised in the following terms.

On December 27, 2006 the Tax Authority served Olimpia S.p.A. with an assessment notice for 2001 regarding the IRAP Regional Business Tax.

In brief, for this financial year, alleged financial revenues had been ascertained on the Bell Bond Loan redeemable with Olivetti shares, with a consequent IRAP tax of Euro 26.5 million, plus a fine of the same amount.

Against this payment order, the company had appealed in administrative and judicial proceedings owing to the manifest groundlessness of the tax claim.

With a decision on November 25, 2007, the 1st level Tax Commission accepted the Company's appeal, cancelling the above assessment completely.

Subsequently, the Tax Authority appealed this decision.

The Company's arguments against the appeal were filed with the Regional Tax Commission. In the 2nd level judgement on May 29 of this year, these arguments were also accepted.

Although we are not yet sure, it seems likely that the Tax Authority will appeal to the Court of Cassation.

With regard also to the assessment on financial year 2002, served at the end of 2007, in which Olimpia was referred to as a "dummy company", the appeal was heard at the first level on November 18, 2008, with a favourable outcome.

It should be noted that the corporation tax (IRPEG) claimed amounts to Euro 29.3 million, plus fines of the same amount.

The Tax Authority has not yet lodged an appeal against this decision, but the deadline does not expire until the beginning of next year.

On December 9, 2008, finally, a further notice of assessment was served, in relation to financial year 2003, with which Olimpia was again defined as a "dummy company".

The relevant corporation tax (IRPEG) amounts to Euro 28.5 million, plus fines of the same amount.

Against this order, which like the previous one is considered completely groundless, the Company has appealed to the 1st level Tax Commission.

The decision can reasonably be expected before the end of 2009.

For this second dispute too, as it is of the same kind as the previous one, we are confident about the outcome of the case, taking into account the solidity of the arguments put forward by the Company, which is assisted by the same expert advisers to whom the entire dispute has been entrusted. Further confirming the favourable prospects, it can also be noted that suspension has been obtained of payment of the provisional registration of the tax, following the judgement of the Tax Commission which accepted in a preliminary manner the possible existence right from the start of the premises for a favourable outcome of the case itself.

Proceedings for administrative offence under the terms of Lgs. Dec. 231/2001

For developments in the criminal proceedings before the Court of Milan which involved two former employers of the Security Unit of the Parent Company, see the Interim Report on Corporate Governance, included in the dossier of the interim financial report, in which the matter is examined in detail.

With reference to the assessment of the possible impact of the case, while it is possible for the Parent Company to opt for the alternative procedure of application of the fine on request, it must be said that the risk connected with confirmation, by the competent Legal Authority, of the existence of evidence of liability under the terms of Lgs. Dec. 231/2001, consists of the payment of a fine of a limited amount. It is believed that in the case in question the risk of application of interdiction measures is low.

Against the Parent Company, the juristic person charged under the terms of Lgs. Dec. 231/2001, only an application by the Attorney General's Office to join proceedings as a civil party has been accepted. This application is in the interest of the Prime Minister's Office and the Ministries of origin of the public officials involved in the proceedings for corruption. The Parent Company is also aware of the claim, by the parties damaged by the conduct of its former employees, that it has civil liability.

On this last point, it should be recalled that this action for compensation originated from the clause of the Civil Code which states that the employer is financially liable for illegal actions committed by its employees. In these circumstances Pirelli would therefore be liable owing to a kind of objective responsibility for the actions committed by its employees.

With reference to these last questions the Parent Company considers this liability currently non-quantifiable.

It should be noted, finally, that the Parent Company is pursuing civil actions initiated against the providers of security services involved in the investigations, for the return of amounts paid for services recognized as not performed or illegal.

22. REVENUES FROM SALES AND SERVICES

Revenues from sales and services can be broken down as follows

<i>(in thousands of euro)</i>	1st Half 2009	1st Half 2008
Revenues for sales of goods	1,991,448	2,298,799
Revenues from services	129,808	152,897
Revenues on construction contracts	16,336	3,067
	2,137,592	2,454,763

The item “revenues on construction contracts” amounted to Euro 16,336 thousand, compared with Euro 3,067 thousand of the previous equivalent period and consists mainly of revenues obtained by the company Iniziative Immobiliari 3 S.r.l. (Euro 15,810 thousand) for work on the construction of the HQ2 building commissioned by Cloe Fondo Uffici and destined to be rented among others also to Pirelli & C. Real Estate S.p.A..

23. OTHER INCOME

The items amounted to Euro 88,739 thousand compared with Euro 87,619 thousand at June 30, 2008 and includes, besides revenues for rents, commissions, royalties, compensation, and insurance refunds, Euro 7,855 thousand relating to the sale of the Central Tyre Controlled Distribution business in the UK.

The amount for the first half of 2008 included non-recurrent events for Euro 17,000 thousand relating to the price received by Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. for the sale to another asset management company of the management of the Berenice Fund, which in practice represented an advance on the amounts that would accrue as fees in subsequent years. The proportion of the total for the item was 19.4%.

24. PERSONNEL COSTS

These can be broken down as follows:

(in thousands of euro)	1st Half 2009	1st Half 2008
Wages and salaries	350,427	420,493
Social security contributions	79,826	89,146
Leaving indemnity and similar costs (*)	13,868	14,260
Defined contribution pension funds costs	8,775	9,237
Defined benefit pension funds costs	7,896	(1,109)
Defined benefit medical care plans costs	577	605
Jubilee costs	754	450
Defined contribution medical care plans costs	12,149	11,340
Other cost	8,039	4,068
	482,312	548,490

* Includes Italian and foreign companies

In the first half of 2009 personnel costs included Euro 9,726 thousand relating to the restoration project in progress, which are classified as non-recurrent events (equivalent to 2% of the item). The same item in the first half of 2008 was Euro 20,171 thousand (accounting for 3.7% of the item).

25. AMORTIZATION, DEPRECIATION AND IMPAIRMENTS

Amortization, depreciation and impairment losses on fixed assets can be broken down as follows:

(in thousands of euro)	1st Half 2009	1st Half 2008
Amortization of intangible assets	4,315	4,694
Depreciation of properties, plant and equipment	99,423	98,914
Impairment loss on intangible assets	4,161	30
Impairment loss on properties, plant and equipment	300	-
	108,199	103,638

The **impairment loss on intangible assets** is related to the Real Estate segment and concerns the concession issued by Milan City Council to the subsidiary Parcheggi Bicocca S.r.l. for the management up to the year 2032 of the P7 and P9 car parks located in the Bicocca area.

26. OTHER EXPENSES

The breakdown of this item is as follows:

(in thousands of euro)	1st Half 2009	1st Half 2008
Selling costs	124,501	150,092
Purchases of goods destined for resale	146,027	83,652
Utilities and power	84,462	91,535
Advertizing	77,510	75,541
Consulting fees	29,204	47,679
Maintenance	23,649	41,058
Rental and hire	32,148	40,549
Work contracted out	24,269	33,252
Travelling expenses	16,437	21,142
Software and information services expenses	14,091	16,654
Remuneration of key managers	14,013	4,246
Other provisions	11,323	10,024
Duty stamps, duties and local taxes	12,622	13,274
Impairment of receivables	15,321	9,846
Insurance	15,257	13,251
Contract work expenses	9,419	7,439
Leasing instalments	9,511	6,966
Cleaning expenses	5,344	5,831
Security expenses	4,420	8,521
Telephone expenses	5,431	6,158
Other	126,235	92,998
	801,194	779,708

The item includes Euro 11,497 thousand relating mainly to the restructuring plans implemented by certain companies in the Real Estate Group (Euro 10,032 thousand included in fees to directors) which are classified as non-recurrent events (proportion of the total 1.4%).

In the first half of 2008 the item included Euro 1,018 thousand relating to the Real Estate segment for an onerous contract for the Hamburg office, also classified as a non-recurrent event (proportion of total 0.1%).

27. EARNINGS (LOSSES) FROM INVESTMENTS

27.1 Share of earnings (losses) of associates and joint ventures

The share of earnings (losses) of associates and joint ventures measured with the equity method is a negative Euro 26,861 thousand compared with a positive amount of Euro 11,495 thousand in the first half of 2008; both amounts relate mainly to the Real Estate segment and include, among other things, changes in the value of the property portfolios held.

In this regard it is important to note that the consolidated net profit for the first half of 2009 includes a pro-quota net negative effect attributable to the Pirelli & C. Real Estate Group of Euro 0.6 million deriving from real estate property writedowns/revaluations.

In particular the Pirelli & C. Real Estate Group benefits from a pro-quota positive effect of Euro 45.5 million deriving from the adjustment to fair value of the “investment properties” held by associates and joint ventures, as a result of the formalization of the strategy already announced for most of the residential properties in Germany and for selected high-quality assets in Italy, which are expected to be kept in the portfolio in the medium term (hold strategy). The amount for revaluations is however more than offset by writedowns of other portfolios of Euro 46.1 million.

27.2 Gains on equity investments

The breakdown of this item is as follows:

(in thousands of euro)	1st Half 2009	1st Half 2008
Gains on disposal of available-for-sale financial assets	12,019	6,858
Gains on sale of equity investments in subsidiaries	1,949	21,391
Gains on business combinations	4,340	-
	18,308	28,249

Gains on disposal of available-for-sale financial assets relates mainly, in the first half of 2009, to the sale of the interests held in Alcatel-Lucent Submarine Networks (Euro 11,195 thousand). The first half of 2008 included mainly Euro 5,584 thousand relating to the sale of the units of Berenice Fondo Uffici – a closed-end Real Estate Fund held by the subsidiary Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A. and Euro 1,151 thousand relating to the sale of the shares in Intek S.p.A. by the parent company Pirelli & C. S.p.A..

Gains on sale of equity investments in subsidiaries in the first half of 2009 refers to the sale of 20% of Pirelli Real Estate Credit Servicing S.p.A, while in the first half of 2008 the amount of Euro 21,391 thousand was for the release of provisions created on the sale of a stake in Pirelli Tyre S.p.A. following the purchase of all the minority interests in the previous year.

Gains on business combinations relates mainly to the Tyre segment for the capital gain of Euro 3,366 thousand realised as the difference between the purchase price of the minority interests in Turkey and the corresponding equity determined in accordance with the Group's accounting policies.

27.3 Losses on equity investments

The breakdown of this item is as follows:

<i>(in thousands of euro)</i>	1st Half 2009	1st Half 2008
Losses on disposal of available-for-sale financial assets	4,468	-
Impairment of associates and joint ventures	2,700	-
Impairment of available-for-sale financial assets	19,885	155,343
Measurement of financial assets at fair value through profit or loss	90	1,603
	27,143	156,946

Losses on disposal of available-for-sale financial assets relates to the sale of 53,190,000 Telecom Italia S.p.A. shares held by Pirelli Finance (Luxembourg) S.A..

Impairment of associates and joint ventures relates exclusively to the interest held in CyOptics Inc. by the parent company Pirelli & C. S.p.A..

Impairment of available-for-sale financial assets includes in both the first half of 2009 and the first half of 2008, the writedown booked to the equity interest in Telecom Italia S.p.A..

Measurement of financial assets at fair value through profit or loss includes the measurement of the units held in Cloe Fondo Uffici – a reserved unlisted closed-end real estate investment trust– relating to the Real Estate segment.

27.4 Dividends

The amount of Euro 7,133 thousand for the first half of 2009 relates mainly for Euro 6,196 thousand to Telecom Italia S.p.A., for Euro 202 thousand to Gruppo Banca Leonardo S.p.A. and for Euro 252 thousand to Vittoria Capital N.V..

In the first half of 2008 the amount of Euro 21,746 thousand related mainly for Euro 14,569 thousand to Telecom Italia S.p.A., for Euro 4,300 thousand to RCS MediaGroup S.p.A., for Euro 278 thousand to Gruppo Banca Leonardo S.p.A. and for Euro 154 thousand to Intek S.p.A..

28. FINANCIAL INCOME

Financial income can be broken down as follows:

(in thousands of euro)	1st Half 2009	1st Half 2008
Interest	26,774	44,136
Other financial income	8,946	3,336
Gains on exchange rates	190,743	118,965
Measurement of other derivative instruments	103	813
	226,566	167,250

Gains on exchange rates include the adjustment to the end-of-period exchange rates of items expressed in currencies other than the functional currency still in being at the balance sheet date and gains made on items closed during the period.

29. FINANCIAL EXPENSES

These can be broken down as follows:

(in thousands of euro)	1st Half 2009	1st Half 2008
Bank interest	40,559	44,791
Other financial expenses	16,686	13,951
Losses on exchange rates	177,857	106,170
Measurement of securities held for trading at fair value	852	4,848
Measurement of currency derivatives at fair value	30,030	20,009
	265,984	189,769

Losses on exchange rates include the adjustment to the end-of-period exchange rates of items expressed in currencies other than the functional currency still in being at the balance sheet date and losses made on items closed during the period.

The item **measurement of currency derivatives instruments at fair value** relates to transactions for the purchase/sale of forward currencies. For transactions open at June 30, 2009, the fair value is determined using the forward exchange rate at that date.

Measurement at fair value is made up of two elements: the interest component linked to the interest rate spread between the two currencies subject to the individual hedges, a net hedging cost of Euro 16,960 thousand, and the exchange rate component, a net loss of Euro 13,070 thousand.

Comparing the latter with the exchange differences on items in foreign currencies, a net gain of Euro 12,866 thousand (exchange losses of Euro 177,857 thousand, included in financial expenses and exchange gains of Euro 190,743 thousand, included in financial income), it can be seen that the management of exchange rate risk is in substantial equilibrium.

30. INCOME TAXES

Taxes for the period consisted of the following:

<small>(in thousands of euro)</small>	1st Half 2009	1st Half 2008
Current taxes	47,979	64,006
Deferred taxes	(2,456)	689
	45,523	64,695

31. INCOME/(LOSS) FROM DISCONTINUED OPERATIONS

The loss on discontinued operations in the first half of 2008 relates to the photonics business (Euro 12,110 thousand) following the agreement signed with CyOptics Inc. which provided for the integration of PGT Photonics S.p.A. into CyOptics, offset in part by the gain of Euro 4,390 thousand deriving from the sale during 2008 of the INTEGRA FM B.V. Group (formerly Pirelli RE Integrated Facility Management B.V.).

32. EARNINGS/(LOSSES) PER SHARE

Basic earnings/(losses) per share are given by the ratio between profit/(loss) attributable to the Parent Company (adjusted to take into account the minimum dividend destined for saving shares) and the weighted average of the number of ordinary shares outstanding during the period, with the exclusion of treasury shares.

(in millions of euro)

	1st Half 2009	1st Half 2008
Income (loss) from continuing operations for the period attributable to the equity-holders of the company	6,335	(26,564)
Income (loss) attributable to savings shares considering the 2% supplement *	(158)	693
Income (loss) from adjusted continuing operations for the period attributable to the equity-holders of the company	6,177	(25,871)
Weighted average number of ordinary shares outstanding (in thousands)	5,229,275	5,230,525
Basic earnings per ordinary share from continuing operations (in Euro per thousand of shares)	1.18	(4.95)
Income (loss) from discontinued operations for the period attributable to the equity-holders of the company	-	(9,679)
Income (loss) attributable to savings shares considering the 2% supplement *	-	253
Income (loss) from adjusted discontinued operations for the period attributable to the equity-holders of the company	-	(9,426)
Weighted average number of ordinary shares outstanding (in thousands)	5,229,275	5,230,525
Basic earnings per ordinary share from discontinued operations (in Euro per thousand of shares)	-	(1.80)

Diluted earnings/(losses) per share coincides with the earnings/(losses) per share, as the Company, both at June 30, 2009 and at June 30, 2008, has only one category of potential ordinary shares with a dilutive effect: those deriving from stock option plans but which, taking into account that the strike price is higher than the market value, were not considered exercisable.

33. DIVIDENDS PER SHARE

Pirelli & C. S.p.A. did not distribute dividends to its shareholders.

34. RELATED PARTY TRANSACTIONS

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

On April 2, 2009 the shareholders of Orione Immobiliare Prima S.p.A. – a company in which Pirelli & C. Real Estate S.p.A has a 40.1% interest and the related party Gruppo Partecipazioni Industriali S.p.A. a 29.3% interest – signed an agreement for the assignment to the shareholders themselves, other than Pirelli & C. Real Estate S.p.A., of the real estate property assets held by the company in proportion to their respective equity interests. Again on the basis of this agreement the shareholders also proceeded to transfer their respective stakes in Orione Immobiliare Prima S.p.A. to Pirelli & C. Real Estate S.p.A. which therefore, after the above transaction, holds 100% of the capital of this company.

Furthermore on June 26, 2009 Pirelli RE Netherlands B.V. acquired from the related party Roev Italia S.p.A. 10.5% of the share capital of the company S.I.G. RE B.V.; after this transaction the interest in the company is 47.20%.

As of June 30, 2009 no asset, liability, income or expense items are recognised in the consolidated financial statements in relation to the above transactions.

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

(in millions of euro)

	Total in financial statements June 30, 2009	of which related parties	% proportion	Total in financial statements December 31, 2008	of which related parties	% proportion
Balance sheet						
Non-current assets						
Other receivables	660.4	482.6	73.1%	723.0	565.2	78.2%
Current assets						
Trade receivables	828.6	75.2	9.1%	788.0	77.1	9.8%
Other receivables	204.1	20.8	10.2%	240.0	23.9	10.0%
Current liabilities						
Borrowings from banks and other financial institutions	721.8	2.9	0.4%	695.6	5.2	0.7%
Trade payables	802.8	19.7	2.4%	1,108.6	23.8	2.2%
Other payables	465.4	6.5	1.4%	482.4	7.7	1.6%
Provisions for other liabilities and charges	143.4	65.9	46.0%	135.7	48.7	35.9%
Tax payables	40.3	1.1	2.6%	44.0	1.1	2.4%
	Total in financial statements June 30, 2009	of which related parties	% proportion	Total in financial statements June 30, 2008	of which related parties	% proportion
Income statement						
Revenues from services rendered	2137.6	55.4	2.6%	2454.8	89.1	3.6%
Personnel costs	(482.3)	(2.0)	0.4%	(548.5)	(1.5)	0.3%
Other expenses	(801.2)	(24.6)	3.1%	(779.7)	(31.9)	4.1%
Financial income	226.6	17.0	7.5%	167.3	13.5	8.1%
Financial expenses	(266.0)	-	0.0%	(189.8)	(0.1)	0.0%

The effects of related party transactions on the consolidated income statement and balance sheet of the Pirelli & C. Group as of June 30, 2009 are shown below.

Transactions with associates and joint ventures

(in millions of euro)

Revenues from sales and services	54.7	These refer essentially to mandates signed with the associates and joint ventures of the Real Estate group relating to fund and asset management and technical and commercial services.
Other expenses	6.1	These mainly refer to various types of amounts recharged to Pirelli & C. Real Estate, connected, among other things, also to consortium expenses.
Financial income	17.0	This mainly includes interest income relating to financial receivables from associates and joint ventures of Pirelli & C. Real Estate.
Current trade receivables	74.4	These are mainly receivables for services rendered to associates and joint ventures of Pirelli & C. Real Estate.
Other non-current receivables	0.7	
Non-current financial receivables	481.9	These mainly refer to loans made for real estate initiatives managed by the individual companies of the Pirelli & C. Real Estate Group.
Other current receivables	7.4	These refer to Pirelli & C. Real Estate and mainly include a receivable to be collected for dividends approved.
Current financial receivables	13.3	These are attributable essentially to current accounts held by the new businesses which possess real estate assets in Germany.
Current trade payables	16.8	These payable relate mainly to various types of amounts recharged to Pirelli & C. Real Estate.
Other current payables	6.5	These are mainly various types of amounts recharged to Pirelli & C. Real Estate companies.
Current borrowings from banks and other financial institutions	2.9	These mainly include negative balances on intercompany current accounts of Pirelli & C. Real Estate companies.
Provisions for other liabilities and charges	65.9	These include provisions to cover losses of associates and joint ventures exceeding their carrying amounts.
Current tax payables	1.1	These refer to the payable of Pirelli & C. Real Estate S.p.A. to Trixia S.r.l. for expenses arising from this latter company's participation in the fiscal transparency regime pursuant to Art. 115 of the Consolidated Income Tax Act (TUIR), by virtue of which shareholders are responsible for the taxable income or loss of the company.

Transactions with parties related to Pirelli through directors

(in millions of euro)

Revenues from sales and services	0.7	These refer to services rendered by Pirelli & C. Real Estate S.p.A. and Pirelli & C. S.p.A. to the Camfin group.
Other expenses	4.5	These refer to costs for the sponsorship of F.C. Internazionale Milano S.p.A..
Current trade receivables	0.8	These refer to receivables connected with the aforementioned services rendered to Camfin.
Current trade payables	2.8	These are payables connected with the aforementioned expenses relating to F.C. Internazionale Milano S.p.A..

Benefits for key management personnel

At June 30, 2009, fees payable to key management personnel, that is to those who have the power and responsibility, directly or indirectly, for planning, management and control of the business of Pirelli & C. S.p.A., including directors (executive or non-executive) amounted to Euro 15,978 thousand (Euro 5,716 thousand at June 30, 2008). The portion relating to employee benefits was booked to the income statement item "personnel costs" for Euro 1,965 thousand (Euro 1,470 thousand at June 30, 2008), of which the portion relating to leaving indemnities amounted to Euro 234 thousand (Euro 228 thousand at June 30, 2008), and the portion relating to directors' fees was booked to the income statement item "other expenses" for Euro 14,013 thousand (Euro 4,246 thousand at June 30, 2008), of which Euro 9,400 thousand for compensation for advance termination of the mandate held by Carlo Alessandro Puri Negri from the Board of Directors of Pirelli & C. Real Estate S.p.A. on April 8, 2009, and Euro 499 thousand as the proportion attributable of the costs of the assumption of a non-compete and "non-solicitation" agreement for employees of the Pirelli Real Estate Group and for a consultancy contract.

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

On 2 July 2009, during a press conference held at the Brazilian factory at Santo André, the Pirelli Group announced its intention of continuing to reinforce its investment in Brazil, where this year the Group celebrates its 80th anniversary of industrial and business presence.

Consistently with the 2009-2011 industrial plan, the Group will invest about 200 million dollars in the three-year period, in addition to last year's investment of 100 million dollars. The reinforcement strategy for the area will consolidate the Pirelli Group's leadership on South American markets.

The new investments will allow for a 20% increase in the production of car and motorcycle tyres. One third of the total investment of 300 million dollars for the period 2008-2011 will be for research and development, while the remaining amount will be used to increase production capacity.

Pirelli Tyre's growth target in Brazil for the three year term 2009-2011 is an overall 10% increase on 2008 sales, despite the negative impact of the strong crisis in 2009 in demand at world level.

In 2008, South America accounted for 33% of total Pirelli Tyre sales. It has a position of absolute leadership in South America for both the Original Equipment market, and for all main Replacement markets. About 90% of Pirelli Tyre production in South America is concentrated in Brazil, of which more than 35% is destined for export also to the markets of the NAFTA area (United States, Canada, Mexico) for products with high technological content.

The option offer term relative to the capital increase of Pirelli & C. Real Estate, which opened on 15 June 2009, closed on 3 July 2009. 41,142,801 option rights were exercised and 793,468,305 newly issued ordinary Pirelli RE shares were underwritten, equal to approximately 99.361% of the total shares offered on option, for a total counter value of about Euro 396.7 million.

Pursuant to the commitments undertaken, the majority shareholder Pirelli & C. S.p.A. exercised all its option rights, underwriting 463,752,540 newly issued ordinary Pirelli RE shares, equal to approximately 58.07% of the total, for a counter value of about Euro 231.9 million. Pirelli & C. S.p.A. underwrote the stake due to the same, converting part of the financial credit with Pirelli RE into capital.

Pirelli RE, acknowledging the commitment of Pirelli & C. S.p.A. to exercise its entire option rights and the former's willingness to underwrite any of the newly issued shares which on conclusion of the offer term, pursuant to art. 2441, clause 3, of the civil code, had not been underwritten, decided that it was not necessary to constitute a guarantee consortium.

On closure of the option term, therefore, 264,768 option rights had not been exercised, giving the right to underwrite a total of 5,106,240 newly issued ordinary Pirelli RE shares, for a total counter value of approximately Euro 2.6 million. Pursuant to art. 2441, clause 3, of the civil code, the remaining available options rights were offered on the Stock Exchange in the sessions on 13, 14, 15, 16 and 17 July 2009.

Subsequent to this offer, all the remaining rights were placed on the market. The capital increase procedure therefore concluded with the remaining 5,106,240 ordinary shares underwritten at Euro 0.50 per share, for a total counter value of Euro 2,553,120.

The capital increase therefore concluded with the entire issue of 798,574,545 ordinary shares underwritten, for a counter value of Euro 399,287,272.50 before charges.

The new share capital of Pirelli RE, which will be underwritten for certification with the Companies Register, is therefore now equal to Euro 420,585,888.50, represented by 841,171,777 ordinary shares with a nominal unit value of Euro 0.50.

Pirelli & C. S.p.A. is now the holder of a stake of 487,798,972 shares, representing 57.99% of the new share capital of Pirelli RE.

The part of the capital increase underwritten by the market, worth approximately Euro 168 million, will be used to further reduce the financial debt.

On 29 July 2009, within the activities aimed at reshaping the financing structure of the Company, the Board of Directors of Pirelli Real Estate approved the terms of the agreement reached with a pool of banks for a credit line amounting to a maximum of Euro 320 million, expiring in July 2012. Subsequent to the conclusion of this operation, the availability for Pirelli RE of committed bank credit lines has risen from Euro 380 million to Euro 470 million, and the average maturity will extend from 9 to 29 months.

In July 2009, the Group sold 84,767,885 ordinary Telecom Italia S.p.A. shares on the market for approximately Euro 87.4 million.

The Pirelli Group now holds 39,155,300 ordinary Telecom Italia S.p.A. shares, equal to 0.29% of the voting capital.

36. 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
	06/30/2009	12/31/2008	%	2009	2008	%
British pound	0.8521	0.9525	(10.54%)	0.8941	0.7577	18.00%
Swiss franc	1.5265	1.4850	2.79%	1.5060	1.6001	(5.88%)
Slovakian koruna	30.1260	30.1260	0.00%	30.1260	33.0600	(8.87%)
American dollar	1.4134	1.3917	1.56%	1.3328	1.4990	(11.09%)
Canadian dollar	1.6275	1.6998	(4.25%)	1.6056	1.5047	6.71%
Brazilian real	2.7584	3.2524	(15.19%)	2.9216	2.6051	12.15%
Venezuela bolivar	3.0388	2.9922	1.56%	2.8655	3.2230	(11.09%)
Argentinean peso	5.3667	4.8055	11.68%	4.8453	4.7266	2.51%
Australian dollar	1.7359	2.0274	(14.38%)	1.8781	1.6550	13.48%
Chinese renminbi	9.6562	9.4991	1.65%	9.1066	10.7317	(15.14%)
Singapore dollar	2.0441	2.0040	2.00%	1.9881	2.1117	(5.85%)
Egyptian pound	7.9052	7.6544	3.28%	7.4570	8.2155	(9.23%)
Turkish lira	2.1573	2.1511	0.29%	2.1503	1.8021	19.32%

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

(in thousands of euro)

	June 30, 2009		December 31, 2008	
		of which related parties		of which related parties
Current borrowings from banks and other financial institutions	708,265	2,949	676,803	5,209
Current financial accrued liabilities and deferred income	54,440		59,017	
Non current borrowings from banks and other financial institutions	1,287,255		1,377,886	
Total gross debt	2,049,960		2,113,706	
Cash and cash equivalents	(237,758)		(253,905)	
Securities held for trading	(104,744)		(115,800)	
Current financial receivables	(19,470)	(11,110)	(28,562)	(16,948)
Current financial accrued income and prepaid expenses	(5,720)		(31,085)	
Net financial debt (*)	1,682,268		1,684,354	
Non-current financial receivables	(573,880)	(481,890)	(652,478)	(564,261)
Non-current financial accrued income and prepaid expenses	(804)		(4,165)	
Total net financial (liquidity)/debt position	1,107,584		1,027,711	

(*) Pursuant to Consob Communication of 28 July 2006 and in accordance with the CESR recommendation of 10 February 2005 "Recommendation on alternative performance measures".

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

(in millions of euro)

	Financial statements	Year of maturity			
		June 30, 2009	2009	2010	2011
Utilization of committed lines	1,155	120	210	69	756
Other loans	895	433	115	98	249
Total gross financial debt	2,050	553	325	167	1,005
		27.0%	15.9%	8.1%	49.0%

Companies consolidated line-by-line

Company	Business	Headquarters	Share Capital	% holding	Held by
Europe					
Austria					
Pirelli Gmbh	Tyre	Vienna	Euro	726.728	100,00% Pirelli Tyre (Europe) S.A.
Belgium					
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700.000	100,00% Pirelli Tyre (Europe) S.A.
Bulgaria					
Pirelli RE Bulgaria AD	Real Estate	Sofia	Bgn	1.090.000	75,00% Pirelli RE Netherlands B.V.
France					
Gecam France S.a.S	Sustainable mobility	Villepinte	Euro	750.000	70,00% Pirelli & C. Eco Technology S.p.A.
Pirelli Broadband Solutions France S.a.r.l.	Telecommunications	Villepinte	Euro	10.000	99,00% Pirelli Broadband Solutions S.p.A. 1,00% Maristel S.p.A.
Pneus Pirelli S.a.S	Tyre	Villepinte	Euro	1.515.858	100,00% Pirelli Tyre (Europe) S.A.
Germany					
BauBeCon Treuhand Gmbh	Real Estate	Hannover Breuberg / Odenwald	Euro	530.000	100,00% Pirelli RE Property Management Deutschland Gmbh
Deutsche Pirelli Reifen Holding Gmbh	Financial		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. K.G.	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 & C. Real Estate Deutschland Gmbh	Real Estate	Hamburg	Euro	5.000.000	100,00% Pirelli & C. Real Estate S.p.A. 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	Odenwald	Euro	25.000	100,00% Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Agency Deutschland Gmbh	Real Estate	Hamburg	Euro	25.000	100,00% Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Asset Management Deutschland Gmbh	Real Estate	Frankfurt	Euro	25.000	80,00% Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Development Deutschland Gmbh	Real Estate	Hamburg	Euro	153.400	100,00% Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Facility Management Deutschland Gmbh	Real Estate	Hamburg	Euro	25.600	100,00% Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Hausmeister Service Deutschland Gmbh	Real Estate	Kiel	Euro	25.000	100,00% Pirelli RE Facility Management Deutschland Gmbh
Pirelli RE Management Services Deutschland Gmbh	Real Estate	Hamburg	Euro	25.000	100,00% Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Property Management Deutschland Gmbh	Real Estate	Hamburg	Euro	25.000	100,00% Pirelli & C. Real Estate Deutschland Gmbh
Pirelli RE Residential Investments Gmbh	Real Estate	Hamburg	Euro	570.000	100,00% Pirelli & C. Real Estate S.p.A. 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	Euro	259.225	100,00% Deutsche Pirelli Reifen Holding Gmbh
Projekt Bahnhof Hamburg-Altona Verwaltungs Gmbh	Real Estate	Hamburg	Euro	25.000	100,00% Projektentwicklung Bahnhof Hamburg-Altona Gmbh & Co. KG
Projektentwicklung Bahnhof Hamburg- Altona Gmbh & Co. KG	Real Estate	Hamburg	Euro	8.000.000	74,90% Pirelli & C. Real Estate Deutschland Gmbh

Company	Business	Headquarters	Share Capital		% holding	Held by
Greece						
Elastika Pirelli S.A.	Tyre	Athens	Euro	1.192.000	99,90%	Pirelli Tyre (Europe) S.A.
					0,10%	Pirelli Tyre S.p.A
Pirelli Hellas S.A. (in liquidation)	Sundry	Athens	US \$	22.050.000	79,86%	Pirelli Holding N.V.
The Expert in Wheels - Driver Hellas S.A.	Tyre	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 (Europe) S.A.
Ireland						
Pirelli Reinsurance Company Ltd	Reinsurance	Dublin	US \$	7.150.000	100,00%	Pirelli Finance (Luxembourg) S.A.
Italy						
Acquario S.r.l. (in liquidation)	Real Estate	Genoa	Euro	255.000	100,00%	Pirelli & C. Real Estate S.p.A.
Alfa S.r.l.	Real Estate	Milan	Euro	2.600.000	100,00%	Pirelli & C. Real Estate S.p.A.
Beta S.r.l.	Real Estate	Milan	Euro	26.000	100,00%	Pirelli & C. Real Estate S.p.A.
Casaclick S.p.A.	Real Estate	Milan	Euro	299.000	100,00%	Pirelli & C. Real Estate Agency S.p.A.
Centrale Immobiliare S.p.A.	Real Estate	Milan	Euro	5.200.000	100,00%	Pirelli & C. Real Estate S.p.A.
Centro Servizi Amministrativi Pirelli S.r.l.	Services	Milan	Euro	51.000	34,00%	Pirelli & C. S.p.A.
					33,00%	Pirelli Tyre S.p.A
					33,00%	Pirelli & C. Real Estate S.p.A.
CFT Finanziaria S.p.A.	Real Estate	Milan	Euro	20.110.324	100,00%	Pirelli & C. Real Estate S.p.A.
Driver Italia S.p.A.	Commercial	Milan	Euro	350.000	72,37%	Pirelli Tyre S.p.A
Edilnord Gestioni S.r.l. (in liquidation)	Real Estate	Milan	Euro	100.000	100,00%	Pirelli & C. Real Estate S.p.A.
Elle Uno Società Consortile a r.l. (in liquidation)	Real Estate	Milan	Euro	100.000	100,00%	Edilnord Gestioni S.r.l. (in liquidation)
Geolidro S.p.A.	Real Estate	Naples	Euro	3.099.096	100,00%	Centrale Immobiliare S.p.A.
Iniziative Immobiliari 3 S.r.l.	Real Estate	Milan	Euro	10.000	100,00%	Iniziative Immobiliari 3 B.V.
Kappa S.r.l.	Real Estate	Milan	Euro	10.400	100,00%	Pirelli & C. Real Estate S.p.A.
Lambda S.r.l.	Real Estate	Milan	Euro	578.760	100,00%	Pirelli & C. Real Estate S.p.A.
Maristel S.p.A.	Telecommunications	Milan	Euro	1.020.000	100,00%	Pirelli Broadband Solutions S.p.A.
NewCo RE 1 S.r.l.	Real Estate	Milan	Euro	30.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 4 S.r.l.	Real Estate	Milan	Euro	10.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 5 S.r.l.	Real Estate	Milan	Euro	40.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 6 S.r.l.	Real Estate	Milan	Euro	40.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 8 S.r.l.	Real Estate	Milan	Euro	40.000	100,00%	Pirelli & C. Real Estate S.p.A.
NewCo RE 9 S.r.l.	Real Estate	Milan	Euro	40.000	100,00%	Pirelli & C. Real Estate S.p.A.
Orione Immobiliare Prima S.p.A.	Real Estate	Milan	Euro	104.000	100,00%	Pirelli & C. Real Estate S.p.A.
Parceggi Bicocca S.r.l.	Real Estate	Milan	Euro	1.500.000	75,00%	Pirelli & C. Real Estate S.p.A.
P.A. Società di Gestione del Risparmio S.p.A.	Financial	Milan	Euro	1.000.000	100,00%	Pirelli & C. Ambiente S.p.A.
PBS S.C a r.l.	Real Estate	Milan	Euro	100.000	60,00%	Pirelli & C. Real Estate Property Management 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.	Environment	Milan	Euro	6.120.000	51,00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente Site Remediation S.p.A.	Environment	Milan	Euro	155.700	100,00%	Pirelli & C. Ambiente S.p.A.

Company	Business	Headquarters	Share Capital	% holding	Held by	
Pirelli & C. Eco Technology S.p.A.	Sustainable mobility	Milan	Euro	33.120.000	51,00%	Pirelli & C. S.p.A.
Pirelli & C. Opere Generali S.p.A.	Real Estate	Milan	Euro	104.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Agency S.p.A.	Real Estate	Milan	Euro	1.000.000	100,00%	Pirelli & C. Real Estate S.p.A. Pirelli & C. Real Estate Agency S.p.A.
Pirelli & C. Real Estate Finance S.p.A.	Real Estate	Milan	Euro	120.000	100,00%	
Pirelli & C. Real Estate Property Management S.p.A.	Real Estate	Milan	Euro	114.400	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate S.p.A.	Real Estate	Milan	Euro	21.298.616	56,45% 2,79%	Pirelli & C. S.p.A. Pirelli & C. Real Estate S.p.A.
Pirelli & C. Real Estate Società di Gestione del Risparmio S.p.A.	Real Estate	Milan	Euro	24.458.763	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli Broadband Solutions S.p.A.	Telecommunications	Milan	Euro	9.120.000	100,00%	Pirelli & C. S.p.A.
Pirelli Cultura S.p.A.	Sundry	Milan	Euro	1.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Industrie Pneumatici S.r.l.	Tyre Research and Development	Settimo Torinese (To)	Euro	21.000.000	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 RE Credit Servicing S.p.A.	Real Estate	Milan	Euro	7.500.000	80,00%	Pirelli & C. Real Estate 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	256.820.000	100,00%	Pirelli & C. S.p.A.
Progetto Bicocca Università S.r.l.	Real Estate	Milan	Euro	50.360	50,50%	Pirelli & C. Real Estate S.p.A.
Progetto Perugia S.r.l.	Real Estate	Perugia	Euro	100.000	100,00%	Pirelli & C. Real Estate S.p.A.
Progetto Vallata S.r.l.	Real Estate	Milan	Euro	1.500.000	80,00%	Pirelli & C. Real Estate S.p.A.
Pzero S.r.l.	Sundry	Milan	Euro	10.000	100,00%	Pirelli & C. S.p.A.
Sarca 222 S.r.l.	Travel Agency	Milan	Euro	46.800	100,00%	Pirelli & C. S.p.A.
Servizi Amministrativi Real Estate S.p.A.	Real Estate	Milan	Euro	520.000	100,00%	Pirelli & C. Real Estate S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104.000	89,30% 2,00% 2,00% 1,00% 0,95% 0,95% 0,95% 0,95% 0,95% 0,95%	Pirelli & C. S.p.A. Pirelli Tyre S.p.A. Pirelli & C. Real Estate S.p.A. Pirelli & C. Ambiente S.p.A. Centro Servizi Amministrativi Pirelli S.r.l. Pirelli Broadband Solution S.p.A. Pirelli Labs S.p.A. Pirelli Sistemi Informativi S.r.l. Pzero S.r.l. Pirelli & C. Eco Technology S.p.A.
SIB S.r.l.	Real Estate	Milan	Euro	10.100	80,00%	Pirelli RE Credit Servicing S.p.A.
Tau S.r.l.	Real Estate	Milan	Euro	93.600	100,00%	Orione Immobiliare Prima S.p.A.
Luxembourg						
Pirelli Finance (Luxembourg) S.A.	Financial	Luxembourg	Euro	13.594.910	100,00%	Pirelli & C. S.p.A.
Mistral RE S.à.r.l.	Real Estate	Luxembourg	Euro	12.500	100,00%	Pirelli & C. Real Estate S.p.A.
Sigma RE S.à.r.l.	Real Estate	Luxembourg	Euro	12.500	100,00%	Pirelli RE Netherlands B.V.
Poland						
Driver Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	100.000	66,00%	Pirelli Polska Sp.ZO.O.
Pirelli Pekao Real Estate Sp.ZO.O.	Real Estate	Warsaw	Pol. Zloty	35.430.000	75,00%	Pirelli & C. Real Estate S.p.A.
Pirelli Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	625.771	100,00%	Pirelli Tyre (Europe) S.A.

Company	Business	Headquarters	Share Capital	% holding	Held by	
Romania						
S.C. Pirelli & C. Eco Technology RO S.R.L.	Sustainable mobility	Oras Bumbesti-Jiu	Rom. Leu	75.000.000	100,00%	Pirelli & C. Eco Technology S.p.A.
Pirelli RE Romania S.A.	Real Estate	Bucarest	Rom. Leu	100.000	80,00%	Pirelli RE Netherlands B.V.
S.C. Cord Romania S.R.L.	Tyre	Slatina	Rom. Leu	36.492.150	80,00%	Pirelli Tyre Holland N.V.
S.C. Pirelli Tyres Romania S.R.L.	Tyre	Slatina	Rom. Leu	442.169.800	95,00% 5,00%	Pirelli Tyre Holland N.V. Pirelli Tyre S.p.A.
Russia						
OOO Pirelli Tyre Russia	Commercial	Moscow	Russian Rouble	50.485.259	95,00% 5,00%	Pirelli Tyre (Europe) S.A. Pirelli Tyre Holland N.V.
Slovakia						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Euro	6.638,78	100,00%	Pirelli Tyre (Europe) S.A.
Spain						
Euro Driver Car S.L.	Tyre	Barcelona	Euro	804.000	25,00% 26,12%	Pirelli Neumaticos S.A. 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 Holland N.V.
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 (Europe) S.A.
Switzerland						
Agom S.A.	Tyre	Conthey	Swiss Franc	50.000	80,00%	Pirelli Tyre (Europe) S.A.
Agom S.A. Bioggio	Tyre	Bioggio	Swiss Franc	590.000	100,00%	Pirelli Tyre (Europe) S.A.
Pirelli Société Générale S.A.	Financial	Basel	Swiss Franc	28.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Tyre (Europe) S.A.	Tyre	Basel	Swiss Franc	1.000.000	100,00%	Pirelli Tyre Holland N.V.
The Netherlands						
Iniziative immobiliari 3 B.V.	Real Estate	Amsterdam	Euro	4.500.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli China Tyre N.V.	Tyre	Heinenoord	Euro	38.045.000	100,00%	Pirelli Tyre Holland N.V.
Pirelli Holding N.V.	Holding Company	Heinenoord	Euro	60.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli RE Agency Netherlands B.V.	Real Estate	Amsterdam	Euro	18.000	100,00%	Pirelli RE Netherlands B.V.
Pirelli RE Netherlands B.V.	Real Estate	Amsterdam	Euro	21.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli RE Property Management Netherlands B.V.	Real Estate	Amsterdam	Euro	18.000	100,00%	Pirelli & C. Real Estate S.p.A.
Pirelli Tyre Holland N.V.	Tyre	Heinenoord	Euro	3.045.000	100,00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Heinenoord	Euro	18.152	100,00%	Pirelli Tyre (Europe) S.A.
Sjpir Finance N.V.	Financial	Heinenoord	Euro	13.021.222	100,00%	Pirelli & C. S.p.A.
Turkey						
Celikord A.S.	Tyre	Istanbul	YTL	29.000.000	98,733% 0,632% 0,367% 0,267%	Pirelli Tyre Holland N.V. Pirelli UK Tyre Holding Ltd Pirelli UK Tyre Ltd Pirelli Tyre S.p.A.
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	YTL	140.000.000	99,84% 0,15% 0,00%	Pirelli Tyre Holland N.V. Pirelli Tyre S.p.A. Pirelli Tyre (Europe) S.A.

Company	Business	Headquarters	Share Capital	% holding	Held by	
United Kingdom						
CPK Auto Products Ltd	Tyre	London	British Pound	10.000	100,00%	Pirelli UK Tyres Ltd
CTC 1994 Ltd	Tyre	London	British Pound	984	100,00%	CTC 2008 Ltd (ex-Central Tyre Ltd)
CTC 2008 Ltd (ex-Central Tyre Ltd)	Tyre	London	British Pound	100.000	100,00%	Pirelli UK Tyres Ltd
Pirelli International Ltd	Financial	London	Euro	250.000.000	75,00%	Pirelli UK Tyre Holding Ltd
					25,00%	Pirelli Tyre S.p.A
Pirelli Tyres Ltd	Tyre	London	British Pound	16.000.000	100,00%	Pirelli UK Tyres Ltd
	Finance Holding Company					
Pirelli UK Ltd	Company	London	British Pound	97.161.278	100,00%	Pirelli & C. S.p.A.
Pirelli UK Tyre Holding Ltd	Holding Company	London	British Pound	96.331.000	100,00%	Pirelli Tyre Holland N.V.
Pirelli UK Tyres Ltd	Tyre	London	British Pound	85.000.000	75,00%	Pirelli UK Tyre Holding Ltd
					25,00%	Pirelli Tyre S.p.A
North America						
Canada						
Pirelli Tire Inc.	Tyre	Fredericton (New Brunswick)	Can. \$	6.000.000	100,00%	Pirelli Tyre (Europe) S.A.
U.S.A.						
Pirelli North America Inc.	Tyre	Atlanta Wilmington	US \$	10	100,00%	Pirelli Tyre Holland N.V.
Pirelli Tire LLC	Tyre	(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 Holland N.V.
					5,00%	Pirelli Tyre S.p.A
Pirelli Soluciones Tecnologicas S.A.	Telecommunications	Buenos Aires	Arg. Peso	1.283.070	95,00%	Pirelli Broadband Solution S.p.A.
					5,00%	Pirelli & C. S.p.A.
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 André	Bra. Real	84.784.342	100,00%	Pirelli Pneus Ltda
Pirelli Broadband Solutions Soluções em Telecomunicações Ltda (ex- Pirelli & C. Real Estate Ltda)	Telecommunications	Santo André	Bra. Real	2.000.000	100,00%	Pirelli Broadband Solutions S.p.A.
Pirelli Ltda	Financial	Sao Paulo	Bra. Real	49.189.271	100,00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda	Tyre	Santo André	Bra. Real	341.145.811	100,00%	Pirelli Tyre S.p.A
TLM - Total Logistic Management Serviços de Logística Ltda	Holding Company	Santo André	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

Company	Business	Headquarters	Share Capital	% holding	Held by	
Colombia						
Pirelli de Colombia S.A.	Tyre	Santa Fe De Bogota	Col. Peso/000	3.315.069	92,91% 2,28% 1,60% 1,60% 1,60%	Pirelli Pneus Ltda Pirelli de Venezuela C.A. Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda TLM - Total Logistic Management Serviços de Logistica Ltda 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% 0,02%	Pirelli Pneus Ltda Comercial e Importadora de Pneus Ltda
Servicios Pirelli Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	50.000	99,00% 1,00%	Pirelli Pneus Ltda Comercial e Importadora de Pneus Ltda
Venezuela						
Pirelli de Venezuela C.A.	Tyre	Valencia	Ven. Bolivar/000	20.062.679	96,22%	Pirelli Tyre Holland N.V.
Africa						
Egypt						
Alexandria Tire Company S.A.E.	Tyre	Alexandria	Egy. Pound	393.000.000	89,08% 0,03%	Pirelli Tyre S.p.A Pirelli Tyre (Europe) S.A.
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	Sandton	S.A. Rand	1	100,00%	Pirelli Tyre (Europe) S.A.
Oceania						
Australia						
Pirelli Tyres Australia Pty Ltd	Tyre	Sydney	Aus. \$	150.000	100,00%	Pirelli Tyre (Europe) S.A.
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 (Shanghai) Co. Ltd	Tyre	Shangai	US \$	200.000	100,00%	Pirelli China Tyre N.V.
Pirelli Tyre Co. Ltd	Tyre	Yanzhou	China Renmimbi	1.041.150.000	75,00%	Pirelli China Tyre N.V.
Japan						
Pirelli Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2.700.000.000	100,00%	Pirelli Tyre Holland N.V.
Singapore						
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. \$	2	100,00%	Pirelli Tyre (Europe) S.A.

Investments accounted for by the equity method

Company	Business	Headquarters	Share Capital	% holding	Held by	
Europe						
Germany						
Beteiligungsgesellschaft Einkaufszentrum Mülheim Gmbh	Real Estate	Hamburg	Deut. Mark	60.000	41,17%	Pirelli & C. Real Estate Deutschland Gmbh
City Center Mülheim Grundstücksgesellschaft mbh & Co. KG	Real Estate	Hamburg	Euro	47.805.791	41,17%	Pirelli & C. Real Estate Deutschland Gmbh
Einkaufszentrum Mülheim Gmbh & Co. KG	Real Estate	Hamburg	Euro	26.075.856	41,18%	Pirelli & C. Real Estate Deutschland Gmbh
Gatus 372. Gmbh	Real Estate	Berlin	Euro	25.000	40,00%	Pirelli RE Residential Investment Gmbh
Grundstücksgesellschaft Merkur Hansaallee mbh & Co. KG	Real Estate	Hamburg	Euro	22.905.876	33,75%	Pirelli & C. Real Estate Deutschland Gmbh
Industriekraftwerk Breuberg Gmbh	Cogeneration	Hoechst / Odenwald	Euro	1.533.876	26,00%	Pirelli Deutschland Gmbh
Kurpromenade 12 Timmendorfer Strand Grundstücksgesellschaft mbh & Co. KG	Real Estate	Hamburg	Euro	6.237.761	50,00%	Pirelli & C. Real Estate Deutschland Gmbh
Resident Berlin 1 P&K Gmbh	Real Estate	Berlin	Euro	125.000	40,00%	Pirelli RE Residential Investments Gmbh
Tizian Wohnen 1 Gmbh	Real Estate	Berlin	Euro	1.114.400	40,00%	Pirelli RE Residential Investments Gmbh
Tizian Wohnen 2 Gmbh	Real Estate	Berlin	Euro	347.450	40,00%	Pirelli RE Residential Investments Gmbh
Verwaltung Büro - und Lichtspielhaus Hansaallee Gmbh	Real Estate	Hamburg	Euro	50.000	27,00%	Pirelli & C. Real Estate Deutschland Gmbh
Verwaltung City Center Mülheim Grundstücksgesellschaft mbh	Real Estate	Hamburg	Deut. Mark	60.000	41,17%	Pirelli & C. Real Estate Deutschland Gmbh
Verwaltung Einkaufszentrum Münzstraße GmbH	Real Estate	Hamburg	Deut. Mark	12.600	25,20%	Pirelli & C. Real Estate Deutschland Gmbh
Verwaltung Einkaufszentrum Münzstraße GmbH & Co KG	Real Estate	Hamburg	Deut. Mark	2.520.000	25,20%	Pirelli & C. Real Estate Deutschland Gmbh
Verwaltung Kurpromenade 12 Timmendorfer Strand Grundstücksgesellschaft mbh & Co. KG	Real Estate	Hamburg	Deut. Mark	50.000	50,00%	Pirelli & C. Real Estate Deutschland Gmbh
Verwaltung Mercado Ottensen Grundstuecksgesellschaft mbh	Real Estate	Hamburg	Deut. Mark	50.000	44,00%	Pirelli RE Netherlands B.V.
					50,00%	Mistral Real Estate B.V.
Italy						
A.P.I.C.E. - società per azioni	Enviroment	Rome	Euro	200.000	50,00%	Pirelli & C. Ambiente S.p.A.
Aree Urbane S.r.l.	Real Estate	Milan	Euro	100.000	34,60%	Pirelli & C. Real Estate S.p.A.
					0,28%	Pirelli & C. S.p.A.
Cairolì Finance S.r.l.	Real Estate	Milan	Euro	10.000	35,00%	Pirelli & C. Real Estate S.p.A.
Capitol Immobiliare S.r.l.	Real Estate	Milan	Euro	10.000	33,00%	Pirelli & C. Real Estate S.p.A.
Castello S.r.l. (in liquidation)	Real Estate	Milan	Euro	1.170.000	49,10%	Pirelli & C. Real Estate S.p.A.
Consorzio G6 Advisor	Real Estate	Milan	Euro	50.000	42,30%	Pirelli & C. Real Estate Agency S.p.A.
Continuum S.r.l.	Real Estate	Milan	Euro	500.000	40,00%	Pirelli & C. Real Estate S.p.A.
Dixia S.r.l.	Real Estate	Milan	Euro	2.500.000	30,00%	Pirelli & C. Real Estate S.p.A.
Dolcetto sei S.r.l.	Real Estate	Milan	Euro	10.000	50,00%	Pirelli & C. Real Estate S.p.A.
Erice S.r.l.	Real Estate	Milan	Euro	10.000	40,00%	Pirelli & C. Real Estate S.p.A.
Eurostazioni S.p.A.	Holding	Rome	Euro	160.000.000	32,71%	Pirelli & C. S.p.A.
Finprema S.p.A.	Real Estate	Milan	Euro	120.000	35,00%	Pirelli & C. Real Estate S.p.A.

Company	Business	Headquarters	Share Capital	% holding	Held by
Golfo Aranci S.p.A. - Società di Trasformazione Urbana	Real Estate	Golfo Aranci (Ot)	Euro 1.000.000	43,80% 5,00%	Pirelli & C. Real Estate S.p.A. Centrale Immobiliare S.p.A.
Idea Granda Società Consortile r.l.	Enviroment	Cuneo	Euro 1.292.500	49,00%	Pirelli & C. Ambiente S.p.A.
Induxia S.r.l.	Real Estate	Milan	Euro 40.000	18,00%	Pirelli & C. Real Estate S.p.A.
Iniziative Immobiliari S.r.l.	Real Estate	Milan	Euro 5.000.000	49,46%	Pirelli & C. Real Estate S.p.A.
Le Case di Capalbio S.r.l.	Real Estate	Milan	Euro 10.000	20,00%	Pirelli & C. Real Estate S.p.A.
Localto ReoCo S.r.l. (in liquidation)	Real Estate	Milan	Euro 10.000	35,00%	Pirelli & C. Real Estate S.p.A.
Manifatture Milano S.p.A.	Real Estate	Rome	Euro 11.230.000	50,00%	Pirelli & C. Real Estate S.p.A.
Maro S.r.l. (in liquidation)	Real Estate	Milan	Euro 20.000	25,00%	Pirelli & C. Real Estate S.p.A.
Progetto Bicocca la Piazza S.r.l. (in liquidation)	Real Estate	Milan	Euro 3.151.800	26,00%	Pirelli & C. Real Estate S.p.A.
Progetto Corsico S.r.l.	Real Estate	Milan	Euro 100.000	49,00%	Pirelli & C. Real Estate S.p.A.
Progetto Fontana S.r.l. (in liquidation)	Real Estate	Milan	Euro 10.000	23,00%	Pirelli & C. Real Estate S.p.A.
Progetto Gioberti S.r.l. (in liquidation)	Real Estate	Milan	Euro 100.000	50,00%	Pirelli & C. Real Estate S.p.A.
RCS MediaGroup S.p.A.	Finance Holding Company	Milan	Euro ?	5,33%	Pirelli & C. S.p.A.
Resi S.r.l. (in liquidation)	Real Estate	Milan	Euro 10.000	25,00%	Pirelli & C. Real Estate S.p.A.
Rinascente/Upim S.r.l.	Real Estate	Rozzano (Milan)	Euro 10.000	20,00%	Pirelli & C. Real Estate S.p.A.
Riva dei Ronchi S.r.l.	Real Estate	Milan	Euro 100.000	50,00%	Pirelli & C. Real Estate S.p.A.
Roca S.r.l. (in liquidation)	Real Estate	Milan	Euro 20.000	25,00%	Pirelli & C. Real Estate S.p.A.
Serenergy S.r.l.	Enviroment	Milan	Euro 25.500	50,00%	Pirelli & C. Ambiente S.p.A.
Solaris S.r.l.	Real Estate	Milan	Euro 20.000	40,00%	Pirelli & C. Real Estate S.p.A.
Solar Utility S.p.A.	Enviroment	Milan	Euro 14.000.000	50,00%	Pirelli & C. Ambiente S.p.A.
Tamerice Immobiliare S.r.l.	Real Estate	Milan	Euro 500.000	20,00%	Pirelli & C. Real Estate S.p.A.
Trixia S.r.l.	Real Estate	Milan	Euro 1.209.700	36,00%	Pirelli & C. Real Estate S.p.A.
Turismo e Immobiliare S.p.A.	Real Estate	Milan	Euro 120.000	33,30%	Pirelli & C. Real Estate S.p.A.
Vesta Finance S.r.l.	Real Estate	Milan	Euro 10.000	35,00%	Pirelli & C. Real Estate S.p.A.
Luxembourg					
Afrodite S.à r.l.	Real Estate	Luxembourg	Euro 4.129.475	40,00%	Pirelli & C. Real Estate S.p.A.
Alimede Luxembourg S.à r.l.	Real Estate	Luxembourg	Euro 12.945	35,00%	Pirelli & C. Real Estate S.p.A.
Alnitak S.à r.l.	Real Estate	Luxembourg	Euro 4.452.500	35,00%	Pirelli & C. Real Estate S.p.A.
Artemide S.à r.l.	Real Estate	Luxembourg	Euro 2.857.050	35,00%	Pirelli & C. Real Estate S.p.A.
Austin S.à r.l.	Real Estate	Luxembourg	Euro 125.000	28,46%	Pirelli & C. Real Estate S.p.A.
Bicocca S.à r.l.	Real Estate	Luxembourg	Euro 12.500	35,00%	Pirelli & C. Real Estate S.p.A.
Colombo S.à r.l.	Real Estate	Luxembourg	Euro 960.150	35,00%	Pirelli & C. Real Estate S.p.A.
Dallas S.à r.l.	Real Estate	Luxembourg	Euro 125.000	28,46%	Pirelli & C. Real Estate S.p.A.
Delamain S.à r.l.	Real Estate	Luxembourg	Euro 12.500	49,00%	Pirelli & C. Real Estate S.p.A.
Doria S.à r.l.	Real Estate	Luxembourg	Euro 992.850	35,00%	Pirelli & C. Real Estate S.p.A.
European NPL S.A.	Real Estate	Luxembourg	Euro 2.538.953	33,00%	Pirelli & C. Real Estate S.p.A.
IN Holdings I S.à r.l.	Real Estate	Luxembourg	Euro 2.595.725	20,50%	Pirelli & C. Real Estate S.p.A.
Inimm Due S.à r.l.	Real Estate	Luxembourg	Euro 240.950	25,00%	Pirelli & C. Real Estate S.p.A.
Nashville S.à r.l.	Real Estate	Luxembourg	Euro 125.000	28,46%	Pirelli & C. Real Estate S.p.A.
Sicily Investments S.à r.l.	Real Estate	Luxembourg	Euro 12.500	40,00%	Pirelli & C. Real Estate S.p.A.
Solaia RE S.à r.l.	Real Estate	Luxembourg	Euro 13.000	40,00%	Pirelli & C. Real Estate S.p.A.
Trinacria Capital S.à r.l.	Real Estate	Luxembourg	Euro 12.500	40,00%	Pirelli & C. Real Estate S.p.A.
Vespucci S.à r.l.	Real Estate	Luxembourg	Euro 960.150	35,00%	Pirelli & C. Real Estate S.p.A.

Company	Business	Headquarters	Share Capital	% holding	Held by
Portugal					
Espelha - Serviços de Consultadoria Lda	Real Estate	Madeira	Euro	5.000	49,00% Pirelli & C. Real Estate S.p.A.
Romania					
SC Eco Anvelope S.A.	Tyre	Bucarest	Ron	160.000	20,00% S.C. Pirelli Tyres Romania S.R.L.
Spain					
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200.000	20,00% Pireli Neumaticos S.A.
The Netherlands					
Aida RE B.V.	Real Estate	Amsterdam	Euro	18.000	40,00% Pirelli RE Netherlands B.V.
Alceo B.V.	Real Estate	Amsterdam	Euro	18.000	33,00% Pirelli & C. Real Estate S.p.A.
Gamma RE B.V.	Real Estate	Amsterdam	Euro	18.000	49,00% Pirelli RE Netherlands B.V.
M.S.M.C. Italy Holding B.V.	RE Holding	Amsterdam	Euro	20.050	25,00% Pirelli & C. Real Estate S.p.A.
Masseto 1 B.V.	Real Estate	Amsterdam	Euro	19.000	33,00% Pirelli & C. Real Estate S.p.A.
Mistral Real Estate B.V.	Real Estate	Amsterdam	Euro	18.000	35,01% Pirelli & C. Real Estate S.p.A.
Polish Investments Real Estate B.V.	Real Estate	Amsterdam	Euro	20.000	40,00% Pirelli & C. Real Estate S.p.A.
Polish Investments Real Estate Holding B.V.	RE Holding	Amsterdam	Euro	20.000	40,00% Pirelli & C. Real Estate S.p.A.
Polish Investments Real Estate Holding II B.V.	RE Holding	Amsterdam	Euro	18.000	40,00% Pirelli & C. Real Estate S.p.A.
Popoy Holding B.V.	RE Holding	Amsterdam	Euro	26.550	25,00% Pirelli & C. Real Estate S.p.A.
S.I.G. RE B.V.	Real Estate	Amsterdam	Euro	18.000	47,20% Pirelli RE Netherlands B.V.
Sigma RE B.V.	Real Estate	Amsterdam	Euro	18.000	24,66% Pirelli RE Netherlands B.V.
SI Real Estate Holding B.V.	RE Holding	Amsterdam	Euro	763.077	25,00% Pirelli & C. Real Estate S.p.A.
Theta RE B.V.	Real Estate	Amsterdam	Euro	18.005	40,00% Pirelli RE Netherlands B.V.
North America					
U.S.A.					
Sci Roev Texas Partners L.P.	Real Estate	Dallas	US \$	12.000.000	10,00% Pirelli & C. Real Estate S.p.A.
CyOptics Inc	Fotonica	Wilmington	US \$	629.392.744	34,52% Pirelli & C. S.p.A.
Central/South America					
Argentina					
Lineas de Transmision de Buenos Aires S.A. (in liquidation)	Services	Buenos Aires	Arg. Peso	12.000	20,00% Pirelli Soluciones Tecnologicas S.A.

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

Company	Business	Headquarters	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.
Germany					
WoWiMedia Gmbh & Co. KG	Real Estate	Hamburg	Euro	2.500.000	18,85% Pirelli RE Netherlands B.V.
AVW Assekuranzvermittlung der Wohnungswirtschaft GmbH & Co. KG.	Real Estate	Hamburg	Euro	260.000	10,50% 0,20% Pirelli RE Netherlands B.V. Pirelli & C. Real Estate Deutschland GmbH
Hungary					
HUREC Tyre Recycling Non-Profit 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.
Tecnocittà S.r.l. (in liquidation)	Real Estate	Milan	Euro	547.612	12,00% Pirelli & C. Real Estate S.p.A.
Poland					
Centrum Utylizacji Opon Olganizacja Odzysku S.A.	Tyre	Warsaw	Pol. Zloty	1.008.000	14,29% Pirelli Polska Sp. ZO.O.
The Netherlands					
Spazio Investment N.V.	Real Estate	Amsterdam	Euro	6.096.020	18,42% Pirelli RE Netherlands B.V.
Tunisia					
Société Tunisienne des Industries de Pneumatiques S.A.	Tyre	Tunis	Tun. Dinar	42.078.240	15,83% Pirelli Tyre S.p.A.
United Kingdom					
Tlcom I Ltd Partnership	Financial	London	Euro	1.204	12,98% Pirelli Finance (Luxembourg) S.A.
U.S.A.					
Oclaro Inc	Telecommunication	Delaware	US \$	1.860.209	5,50% Pirelli Finance (Luxembourg) S.A.

DECLARATION PURSUANT TO ARTICLE 154-Bis of TUF

Here below is the declaration rendered pursuant to Article 154-bis of the Consolidated Financial Act (Legislative Decree no. 58/1998) according to the model provided by Consob.

In this regard it is recalled that Article 11 of the By-laws provides that the Board of Directors of the Company shall appoint, after consulting the Statutory Auditors, the Manager responsible for the Preparation of the financial Reports of the Company manager responsible for drafting corporate accounting documents (“Manager in charge”), who must be experienced on the subject of administration, finance and control and possess the integrity requirements established for the directors.

The Manager in charge of the Company is Dr. Claudio De Conto, General Manager and Chief Operating Officer of the Company to whom also refer all the structures of administration, supervision and taxation of the Group.

Attestation of the Half-yearly Condensed Consolidated Financial Statements pursuant to art. 154-bis of Legislative Decree 58 dated February 24, 1998

1. We, the undersigned, Marco Tronchetti Provera, chairman of the board of directors and Claudio De Conto, manager responsible for the preparation of Pirelli & C. S.p.A.’s financial reports, attest to, having also considered the provisions of art. 154-bis, paragraphs 3 and 4, of Legislative Decree 58 dated February 24, 1998:
 - the adequacy in relation to the characteristics of the company and
 - the effective application,of the administrative and accounting procedures used in the preparation of the Half-yearly condensed consolidated financial statements during the period January 1, 2009 – June 30, 2009

2. To this end:

- there have been no situations of particular interest in terms of operations or strategies to report nor have there been any problems and/or anomalies noted also with regard to the effective application of the procedures;
- the evaluation of the adequacy of the administrative and accounting procedures used in the preparation of the Half-yearly condensed consolidated financial statements at June 30, 2008 is based upon an assessment of the system of internal control. This assessment is based upon a specific process defined by Pirelli & C. S.p.A. consistently with the “Internal Control – Integrated Framework” model issued by the “Committee of Sponsoring Organizations of the Treadway Commission” (COSO), an internationally-accepted reference framework.

3. We also certify that:

3.1. the condensed Half-yearly consolidated financial statements:

- a. have been prepared in accordance with the applicable international accounting standards as endorsed by the European Union under EC regulation 1606/2002 of the European Parliament and Council of July 19, 2002
- b. agree with the results of the accounting records and entries;
- c. are suitable for providing a true and fair representation of the financial condition, results of operations and cash flows of the company and the aggregate of the companies included in consolidation.

3.2 the interim management report contains a reliable analysis of references to important events which took place during the first six months of the year

2008 and their impact on the Half-yearly condensed consolidated financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the year. The interim management report also contains a reliable analysis of information on significant transactions with related parties.

July 29 , 2009

Chairman of the Board of Directors

Manager responsible for the
Preparation of the financial
Reports of the company

(Marco Tronchetti Provera)

(Claudio De Conto)

Auditors' review report on the interim condensed consolidated financial statements

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

1. We have reviewed the interim condensed consolidated financial statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flows statement and the related explanatory notes of Pirelli & C. S.p.A. and its subsidiaries (the "Pirelli & C. Group") as of June 30, 2009. Management of Pirelli & C. S.p.A. is responsible for the preparation of the interim condensed consolidated 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 interim condensed consolidated 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. A review does 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, we do not express an audit opinion on the interim condensed consolidated financial statements as we expressed on the annual consolidated financial statements.

With respect to the consolidated financial statements of the prior year and the interim condensed consolidated financial statements of the corresponding period of the prior year, presented for comparative purposes, which have been restated in accordance with IAS 1 (2007), reference should be made to our reports issued on April 2, 2009 and on August 8, 2008, respectively.

3. Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Pirelli & C. Group as of June 30, 2009 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 5, 2009

Reconta Ernst & Young S.p.A.
Signed by: Pellegrino Libroia, Partner

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