



**Interim Management Statements  
at March 31, 2011**

**PIRELLI & C. Società per Azioni**

**Head office in Milan - Viale Piero e Alberto Pirelli, 25**

**Share capital Euro 1,377,878,879.78**

**Milan Companies Register No. 00860340157**

**Administrative Business Register (REA) No. 1055**

## **Pirelli & C. S.p.A. - MILAN**

### **Interim Management Statements at March 31, 2011**

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

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Chairman	Marco Tronchetti Provera § #
Deputy Chairman	Vittorio Malacalza § #
Deputy Chairman	Alberto Pirelli

Directors:	Carlo Acutis *^
	Anna Maria Artoni *^
	Gilberto Benetton
	Alberto Bombassei * ^
	Franco Bruni *°#
	Luigi Campiglio *§
	Enrico Tommaso Cucchiani
	Paolo Ferro Luzzi *°
	Pietro Guindani *^
	Giulia Maria Ligresti
	Elisabetta Magistretti *°
	Massimo Moratti
	Renato Pagliaro #
	Giovanni Perissinotto
	Francesco Profumo * #
	Luigi Roth * °^§
	Carlo Secchi * ° #

\* Independent director

° Member of the Internal Control, Risks and Corporate Governance Committee

^ Member of the Remuneration Committee

§ Member of the Appointments & Successions Committee

# Member of the Strategies Committee

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

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

## General Manager

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Tyre General Management	Francesco Gori
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<b>Independent Auditor <sup>3</sup></b>	Reconta Ernst & Young S.p.A.
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<b>Corporate Financial Reporting Manager <sup>4</sup></b>	Francesco Tanzi
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<sup>1</sup> Appointment: April 21, 2011. Term: Shareholders' meeting called to approve the financial statements at December 31, 2013

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

<sup>3</sup> Post assigned by the Shareholders on April 29, 2008.

<sup>4</sup> Appointment: Meeting of the Board of Directors of April 21, 2011. Term: Shareholders' meeting called to approve the financial statements at December 31, 2013

Mr G. Pecorella has been appointed to represent the holders of savings shares for the period 2009-2011, with such appointment having been made at a meeting of this category of shareholders held on January 28, 2009.

## **GROUP PERFORMANCE**

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

On the whole, the **Group** posted improved financial performance for the first quarter of 2011. More specifically, we achieved **net sales** of euro 1,400.9 million, an increase of 23.4% over the first quarter of 2010, and **operating income** of euro 143.3 million for a ROS of 10.2%, with both of these figures being significant increases over March 2010 when operating income came to euro 87.6 million, for a ROS of 7.7%.

**Total net income** came to euro 81.4 million, more than doubling the euro 38.9 million posted in 2010.

**Net financial (liquidity)/debt position** is negative for euro 712.8 million, as compared to euro 455.6 million as at December 31, 2010 and euro 678.4 million as at March 31, 2010.

**Pirelli Tyre segment**, which accounted for nearly all (98.8%) of the group's net sales, continued growing both in sales and in profitability in a marketplace that also posted growth and thanks to the company's ability to take advantage of its product mix/price advantage, which more than offset the increases in the cost of raw materials.

More specifically, in the first quarter of 2011, **net sales** totalled euro 1,384.5 million for an increase of 24.7% over the same period of 2010. Structural growth (i.e. excluding exchange rate effects) came to 22.0%, with 6% being attributable to volumes and 16% to the product mix/price variable.

Growth was strong in both the Consumer segment, where sales increased by 25.9% (23.6% excluding exchange rate effects), and in the Industrial segment, which grew by 21.9% (18.3% excluding exchange rate effects).

As at March 31, 2011, **operating income** came to euro 152.4 million for a ROS of 11.0%, as compared with euro 95.5 million for the same period of 2010 and a ROS of 8.6%. The increase in production costs, particularly for raw materials, which had a negative impact of roughly euro 82 million, was fully offset by the price/mix component and by gains in industrial efficiency.

Profitability has also risen in both segments, with the **Consumer** segment posting **operating income before restructuring expenses** of euro 119.7 million (12.2% on net sales) as compared with euro 69.5 million (8.9% on net sales) for the first quarter of 2010, and the **Industrial** segment achieving **operating income before restructuring expenses** of euro 35.9 million (8.9% on net sales), as compared to euro 28.6 million (8.7% on net sales) for March 2010.

**Operating cash flows** came to a net use of cash of euro 176.6 million (vs. the net use of euro 33.4 million for the first quarter of 2010) and was affected both by normal seasonal factors in the trend in working capital and by the increase in investments, which nearly doubled compared to the first quarter of 2010 in line with the 2011-2013 Business Plan.

The quarter also featured Pirelli's debut as the single tyre manufacturer for the Formula 1 championships following the agreement signed in June 2010 for the 2011-2013 seasons. In addition, in line with the 2011-2013 Business Plan and so as to increase production capacity particularly in the Nafta area, construction has begun on the new facilities in Mexico, which are to be dedicated entirely to the production of *Premium* tyres. Finally, of particular note in terms of new products was the launch of Cinturato P1, the new high-tech *green* tyre designed for small and mid-sized vehicles, which provides lower fuel consumption, respect for the environment, and high performance on all surfaces.

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

**Net income** for Pirelli & C. S.p.A. as at March 31, 2011 came to euro 4.8 million, as compared to the loss for the first quarter of 2010 of euro 6.2 million. This performance benefitted from a revision of royalties by Pirelli Tyre for trademark use, which went from 0.7% to 1%.

**Equity** as at March 31, 2011 totalled euro 1,594.5 million (of which euro 1,375.7 million was Share capital), as compared to euro 1,584.6 million as at December 31, 2010.

## **SIGNIFICANT EVENTS DURING THE FIRST QUARTER**

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

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

- issuer: Pirelli & C. S.p.A.
- guarantor: Pirelli Tyre S.p.A.
- amount: euro 500 million
- settlement date: February 22, 2011
- maturity: February 22, 2016
- coupon: 5.125%
- issue price: 99.626%
- redemption price: 100%
- minimum individual unit: euro 100,000 and additional whole multiples of euro 1,000.



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

On **March 29, 2011**, Pirelli presented the Cinturato P1, the new high-tech *green* tyre designed for small and mid-sized vehicles, which provides lower fuel consumption, respect for the environment, and high performance on all surfaces. The Cinturato P1, which is to be launched subsequently also in Latin America and Asia, will be available on the European Replacement channel by the end of 2011 (14" and 16" sizes) and has already been chosen by BMW as original equipment. Cinturato P1 extends Pirelli's green range, which was inaugurated three years ago with the Cinturato P4 and P6 for city cars and compacts and was then further enhanced with the P7 for mid-sized vehicles. Pirelli has given the latest addition to the Cinturato family the technology developed for the company's ultra-high performance tyres. Cinturato P1 is an advanced tyre with features that had been designed and tested for the P7, which was awarded recognitions by the leading European certifying bodies and by the most authoritative automotive magazines. Cinturato P1 was developed at Pirelli's research and development centre in Milan, at the very heart of Pirelli technology, which is also where the company designs its Formula 1 tyres. This new tyre is the embodiment of the environmental experience that Pirelli has gained as part of the company's *Green Performance* strategy and through the technology developed researchers in order to provide the utmost in performance. As such, the very DNA of the Cinturato P1 embodies the green features of the Cinturato and of the Scorpion Verde, the *green* tyre designed for SUVs and crossovers, as well as the technology designed for the PZero family of tyres.

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

**GROUP: selected economic and financial data**

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

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

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

The following are the financial highlights for the Group:

(in millions of euro)	03/31/2011	03/31/2010	12/31/2010
<b>Net sales</b>	<b>1,400.9</b>	<b>1,135.0</b>	<b>4,848.4</b>
Gross operating profit before restructuring expenses	203.4	141.9	653.7
% of net sales	14.5%	12.5%	13.5%
Operating income/(loss) before restructuring expenses	146.5	90.2	432.5
% of net sales	10.5%	7.9%	8.9%
Restructuring expenses	(3.2)	(2.6)	(24.7)
<b>Operating income</b>	<b>143.3</b>	<b>87.6</b>	<b>407.8</b>
% of net sales (ROS)	10.2%	7.7%	8.4%
Net income/(loss) from equity investments	0.8	(2.9)	23.4
Financial income/(expenses)	(14.8)	(17.6)	(65.8)
<b>Net income/(loss) before income tax</b>	<b>129.3</b>	<b>67.1</b>	<b>365.4</b>
Income tax	(47.9)	(30.4)	(137.4)
Tax rate (%)	37.0%	45.3%	37.6%
<b>Net income/(loss) from continuing operations</b>	<b>81.4</b>	<b>36.7</b>	<b>228.0</b>
<b>Net income/(loss) from discontinued operations</b>	<b>0.0</b>	<b>2.2</b>	<b>(223.8)</b>
<b>Total net income/(loss)</b>	<b>81.4</b>	<b>38.9</b>	<b>4.2</b>
Total net income/(loss) attributable to owners of Pirelli & C. S.p.A.	82.8	39.2	21.7
Total net earnings per share attributable to the owners of Pirelli & C. S.p.A. (in euro) *	0.170	0.080	0.044
Non-current assets	3,142.4	3,653.4	3,164.1
Net working capital	416.4	424.8	116.7
<b>Net invested capital</b>	<b>3,558.8</b>	<b>4,078.2</b>	<b>3,280.8</b>
<b>Equity</b>	<b>2,072.0</b>	<b>2,596.0</b>	<b>2,028.0</b>
Provisions	774.0	803.8	797.2
<b>Net financial (liquidity)/debt position</b>	<b>712.8</b>	<b>678.4</b>	<b>455.6</b>
Equity attributable to the owners of Pirelli & C. S.p.A.	2,034.7	2,271.8	1,990.8
Equity per share attributable to the owners of Pirelli & C. S.p.A. (in euro) *	4.169	4.655	4.080
Capital expenditure	96.8	49.9	433.1
Employees (number at end of period)	30,344	30,054	29,573
Industrial sites (number)	20	21	20
<b>Pirelli &amp; C. S.p.A. shares</b>			
Ordinary shares (number in millions)	475.7	5,233.1	475.7
of which treasury shares	0.4	3.9	0.4
Savings shares (number in millions)	12.3	134.8	12.3
of which treasury shares	0.4	4.5	0.4
<b>Total shares (number in millions)</b>	<b>488.0</b>	<b>5,367.9</b>	<b>488.0</b>

(\*) The Equity per share attributable to owners of the Company on 03/31/2010 has been restated on a comparable basis after the reverse stock split pursuant to the Shareholders Meeting resolution of July 15, 2010 (at a ratio of 1:11).

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

(in millions of euro)

	Tyre		Other businesses *		Total	
	Q1 2011	Q1 2010	Q1 2011	Q1 2010	Q1 2011	Q1 2010
<b>Net sales</b>	<b>1,384.5</b>	<b>1,110.0</b>	<b>16.4</b>	<b>25.0</b>	<b>1,400.9</b>	<b>1,135.0</b>
Gross operating profit before restructuring expenses	209.5	146.4	(6.1)	(4.5)	203.4	141.9
Operating income/(loss) before restructuring expenses	155.6	98.1	(9.1)	(7.9)	146.5	90.2
Restructuring expenses	(3.2)	(2.6)	-	-	(3.2)	(2.6)
<b>Operating income/(loss)</b>	<b>152.4</b>	<b>95.5</b>	<b>(9.1)</b>	<b>(7.9)</b>	<b>143.3</b>	<b>87.6</b>
Net income/(loss) from equity investments	(0.3)	0.2	1.1	(3.1)	0.8	(2.9)
Financial income/(expenses)	(16.6)	(16.4)	1.8	(1.2)	(14.8)	(17.6)
<b>Net income/(loss) before taxes</b>	<b>135.5</b>	<b>79.3</b>	<b>(6.2)</b>	<b>(12.2)</b>	<b>129.3</b>	<b>67.1</b>
Income tax	(47.0)	(29.2)	(0.9)	(1.2)	(47.9)	(30.4)
<b>Net income/(loss) from continuing operations</b>	<b>88.5</b>	<b>50.1</b>	<b>(7.1)</b>	<b>(13.4)</b>	<b>81.4</b>	<b>36.7</b>
<b>Net income/(loss) from discontinued operations</b>					-	<b>2.2</b>
<b>Net income (loss)</b>					<b>81.4</b>	<b>38.9</b>
Net financial (liquidity)/debt position of continuing operations	<b>1,359.0</b>	<b>1,122.5</b>	<b>(646.2)</b>	<b>(475.8)</b>	<b>712.8</b>	<b>646.7</b>
Net financial (liquidity)/debt position of discontinued operations					-	31.7
<b>Net financial (liquidity)/debt position</b>					<b>712.8</b>	<b>678.4</b>

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

## Net sales

Net sales for the first quarter of 2011 totalled euro 1,400.9 million, which is a 23.4% increase over the euro 1,135.0 million of the first quarter of 2010.

The following is a breakdown of this item by geographic area:

(in millions of euro)

	Q1 2011		Q1 2010	
Europe:				
- Italy	152.3	10.87%	131.0	11.54%
- Rest of Europe	450.1	32.13%	358.9	31.62%
Nafta	148.7	10.61%	111.6	9.83%
Central and South America	453.6	32.39%	364.0	32.08%
Asia/Pacific	88.2	6.29%	66.5	5.86%
Middle East/Africa	108.0	7.71%	103.0	9.07%
	<b>1,400.9</b>	<b>100.00%</b>	<b>1,135.0</b>	<b>100.00%</b>

**Operating income**

**Operating income before restructuring expenses** as at March 31, 2011 came to euro 146.5 million, a clear improvement over the euro 90.2 million of the same period of 2010.

The **restructuring expenses** (euro 3.2 million compared with euro 2.6 million) concern the Tyre segment for continuation of the efforts to rationalise operations in Europe.

**Operating income** as at March 31, 2011 came to euro 143.3 million, as compared to the euro 87.6 million of the first quarter of 2010 (+63.6%), for a ROS of 10.2%, up from the 7.7% of the same period of 2010.

**Net income/(loss) from equity investments**

**Net income from equity investments** for March 2011, in the amount of euro 0.8 million, refer mainly to the gain on the sale of the entire stake held in Gruppo Banca Leonardo S.p.A. (euro 0.9 million) on income payment of euro 6 million.

**Net income/(loss)**

**Total net income** as at March 31, 2011 is euro 81.4 million, as compared to euro 38.9 million for the first quarter of 2010, and reflects the significant improvement in operating income.

The **total net income attributable to owners of Pirelli & C. S.p.A.** as at March 31, 2011 was euro 82.8 million, compared with euro 39.2 million for the first quarter of 2010.

**Equity**

**Consolidated Equity** went from euro 2,028.0 million at December 31, 2010 to euro 2,072.0 million at March 31, 2011.

**Equity attributable to owners of Pirelli & C. S.p.A.** at March 31, 2010 was euro 2,034.7 million (euro 4.169 per share), compared with euro 1,990.8 million at December 31, 2010 (euro 4.080 per share).

The change is summarised as follows:

(in millions of euro)

	<b>Group</b>	<b>Non-controlling interests</b>	<b>Total</b>
<b>Equity at 12/31/2010</b>	<b>1,990.8</b>	<b>37.2</b>	<b>2,028.0</b>
Translation differences	(54.0)	(2.4)	(56.4)
Net income/(loss) for the period	82.8	(1.4)	81.4
Adjustment to fair value of other financial assets/derivative instruments	8.6	-	8.6
Other changes to items recognised in Equity	2.3	-	2.3
Dividends paid	-	(0.7)	(0.7)
Venezuela inflation effect	5.1	0.2	5.3
Capital increases	-	4.4	4.4
Other changes	(0.9)	-	(0.9)
<b>Total changes</b>	<b>43.9</b>	<b>0.1</b>	<b>44.0</b>
<b>Equity at 03/31/2011</b>	<b>2,034.7</b>	<b>37.3</b>	<b>2,072.0</b>

### **Net financial (liquidity)/debt position**

The Group's net financial position which was negative for euro 455.6 million as at December 31, 2010 went to euro 712.8 million at the end of March 2011, for a net negative cash flow of euro 257.2 million.

The change for the period is shown in the following statement of cash flows:

(in millions of euro)

	<b>Q1 2011</b>	<b>Q1 2010</b>
Operating income/(loss) before restructuring expenses	146.5	90.2
Amortisation and depreciation	56.9	51.7
Purchase of property, plant and equipment and intangible assets	(96.9)	(50.2)
Changes in working capital/other	(313.5)	(143.2)
<b>Operating cash flow</b>	<b>(207.0)</b>	<b>(51.5)</b>
Financial income/(expenses)	(14.8)	(17.6)
Income tax	(47.9)	(30.4)
<b>Net operating cash flow</b>	<b>(269.7)</b>	<b>(99.5)</b>
Financial investments/divestments	24.4	-
Dividends paid	(0.7)	-
Cash out for restructuring expenses	(2.8)	(34.0)
Net cash flow for Pirelli Broadband Solutions	-	(12.1)
Net cash flow for Pirelli RE (now Prelios)	-	(14.0)
Foreign exchange differences/other	(8.4)	10.0
<b>Net cash flow</b>	<b>(257.2)</b>	<b>(149.6)</b>

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

(in millions of euro)

	<b>Tyre</b>		<b>Other businesses</b>		<b>Corporate</b>		<b>Consolidated</b>	
	<b>03/31/2011</b>	12/31/2010	<b>03/31/2011</b>	12/31/2010	<b>03/31/2011</b>	12/31/2010	<b>03/31/2011</b>	12/31/2010
Gross debt	1,786.8	1,613.6	95.4	83.3	620.0	123.0	1,333.8	1,147.0
of which due to Corporate	1,070.5	589.6	87.7	83.3				
Financial receivables	(101.6)	(98.3)	(5.3)	(4.8)	(1,313.9)	(806.7)	(252.4)	(236.9)
of which receivable from Pirelli RE (now Prelios)					(150.1)	(140.4)	(150.1)	(140.4)
Cash, cash equivalents, securities held for trading	(326.2)	(405.4)	(4.6)	(6.6)	(37.8)	(42.5)	(368.6)	(454.5)
<b>Net financial (liquidity)/debt position</b>	<b>1,359.0</b>	1,109.9	<b>85.5</b>	71.9	<b>(731.7)</b>	(726.2)	<b>712.8</b>	<b>455.6</b>

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



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

(in millions of euro)

	Financial Statements 03/31/2011	Maturity date			
		2011	2012	2013	2014 and beyond
Use of committed credit facilities	30.0	-	-	-	30.0
Bond 5.125% - 2011/2016	500.0	-	-	-	500.0
Other financing	803.8	251.9	145.9	126.4	279.6
<b>Total gross debt</b>	<b>1,333.8</b>	<b>251.9</b>	<b>145.9</b>	<b>126.4</b>	<b>809.6</b>
		18.9%	10.9%	9.5%	60.7%

## **RELATED PARTY TRANSACTIONS**

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

The effects of related party transactions on the consolidated Income Statement and Balance Sheet of the Pirelli & C. Group at March 31, 2011 are shown below.

### **Transactions with associates**

(in millions of euro)

Revenue from sales and service	2.4	This amount mainly concerns services rendered by: Pirelli Tyre S.p.A. to Sino Italian Wire Technology Co. Ltd (Euro 2.1 million); Pirelli & C. Ambiente S.p.A. to Idea Granda Società Consortile r.l. (Euro 0.2 million); Pirelli & C. S.p.A. to CyOptics Inc. (Euro 0.1 million).
Other costs	0.2	
Current trade receivables	4.1	This amount mainly concerns to receivables for services provided by: Pirelli & C. Ambiente S.p.A. to Idea Granda Società Consortile r.l. (Euro 0.6 million); Pirelli Tyre S.p.A. to Sino Italian Wire Technology Co. Ltd (Euro 2.1 million) and to Cyoptics Inc. (Euro 0.1 million); Pirelli & C. S.p.A. to Cyoptic Inc. (Euro 0.5 million); Pirelli Labs S.p.A. to CyOptics Inc. (Euro 0.4 million); Pirelli Sistemi Informativi S.r.l. to CyOptics Inc. (Euro 0.3 million).
Other current receivables	1.8	This amount mainly concerns the receivables of Solar Utility S.p.A. from G.P. Energia S.r.l. (Euro 1.2 million) and of Pirelli & C. Ambiente S.p.A. from Serenergy S.r.l. (Euro 0.6 million).
Current financial receivables	5.0	This amount concerns the receivables of: Solar Utility S.p.A. (Euro 4.0 million) from Solar Prometheus S.r.l. and Solar Utility Salento S.r.l. (Euro 0.3 million); Pirelli & C. Ambiente S.p.A. from Serenergy S.r.l. (Euro 0.5 million) and from Green&Co2 S.r.l. (Euro 0.2 million).
Current trade payables	1.4	This amount mainly concerns payables of Pirelli Labs S.p.A. (Euro 1.3 million) to CyOptics Inc..
Other current payables	1.3	This amount mainly concerns payables of Solar Utility S.p.A. (Euro 1.3 million) to G.P. Energia S.r.l.
Current borrowings from banks and other financial institutions	0.2	

### Pirelli related party transactions through its directors

(in millions of euro)

Current trade receivables	5.1	This amount refers to receivables related to the services mentioned above to the Camfin Group (Euro 1.3 million) and to the Prelios Group (Euro 3.8 million) as follows: Pirelli Sistemi Informativi (Euro 1.9 million); Pirelli & C. S.p.A. (Euro 1.4 million); Pirelli & C. Ambiente Site Remediation S.p.A. (Euro 0.4 million).
Other non-current receivables	150.0	This amount refers to the financing to Prelios S.p.A. as part of the spin-off transaction.
Other receivables	0.2	
Current trade payables	3.5	This amount refers mainly to payables to FC Internazionale Milano S.p.A. (Euro 2.9 million) and to payables to Gruppo Prelios (Euro 0.5 million).
Other income	1.0	This amount refers mainly to services rendered by Pirelli Sistemi Informativi S.p.A. to the Prelios Group (Euro 0.7 million) and to the Camfin Group (Euro 0.06 million), as well as to lease and related management costs for Pirelli & C. S.p.A. from Prelios S.p.A. (Euro 0.2 million).
Other costs	2.9	This amount refers mainly to advertising costs paid to FC Internazionale Milano S.p.A. (Euro 2.8 million).
Financial income	1.8	This amount refers to accrued interest (Euro 1.4 million) and fees paid (Euro 0.4 million) on the financing in effect with Prelios S.p.A..

In addition, there were up-front commission payments to other related parties (Mediobanca S.p.A. and Banca Imi S.p.A./Intesa group) by Pirelli & C. S.p.A. in the amount of euro 1.1 million for the placement of the bond.

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

The extraordinary Shareholder's Meeting on April 21, 2011 approved a voluntary reduction in Share capital in the amount of euro 32,498,345.12, pursuant to Article 2445 Italian Civil Code. This reduction, which was recognised in Equity, will complete the assignment of Prelios S.p.A. (formerly Pirelli RE S.p.A.) shares executed in 2010. It does not entail a decrease in Equity, insofar as it eliminates the negative reserve accrued upon conclusion of that assignment. The reduction is expected to be completed by August, in accordance with applicable statutory deadlines.

Confirming the central importance of the Tyre segment, and so as to support the investments called for by the 2011-2013 business plan, in April the Parent, Pirelli & C. S.p.A., executed an increase in Share capital in favour of the subsidiary Pirelli Tyre S.p.A. in the amount of euro 500 million.

## **OUTLOOK FOR THE CURRENT YEAR**

On the basis of the strategic guidelines set out in the 2011-2013 Business Plan, and in response to continued growth in demand, the Company will be focusing more and more in 2011 on the development of *Premium* products and on the expansion of its production capacity, particularly in rapidly developing economies. In the absence of currently unforeseeable events and considering that raw material prices are rising faster than assumed in the Business Plan presented last November, price increases are expected in order to recoup this increase in costs.

Consequently, the 2011 target for Group net sales, 99% of which are accounted for by Pirelli Tyre, is now being increased from “over euro 5.55 billion” to “over euro 5.85 billion”. This reflects expected growth in the volume component of 6% and about 15% in the price/mix component.

The target ROS is expected to grow from 2010 as forecast in the Business Plan (8.5%-9.5% for the Group and 9%-10% for Pirelli Tyre), due to the improvement in the production mix and continuation of the cost-efficiency recovery programme.

Plans call for over euro 500 million in capital expenditure in 2011. Net financial position is expected to rise to about a negative euro 700 million.

## **PIRELLI TYRE**

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

(in millions of euro)

	<b>03/31/2011</b>	03/31/2010	12/31/2010
<b>Net sales</b>	<b>1.384,5</b>	<b>1.110,0</b>	<b>4.772,0</b>
Gross operating profit before restructuring expenses	209,5	146,4	684,3
% of net sales	15,1%	13,2%	14,3%
Operating income before restructuring expenses	155,6	98,1	476,3
% of net sales	11,2%	8,8%	10,0%
Restructuring expenses	(3,2)	(2,6)	(23,2)
<b>Operating income</b>	<b>152,4</b>	<b>95,5</b>	<b>453,1</b>
% of net sales (ROS)	11,0%	8,6%	9,5%
Net income/(loss) from equity investments	(0,3)	0,2	0,3
Financial income/(expenses)	(16,6)	(16,4)	(66,4)
<b>Net income/(loss) before taxes</b>	<b>135,5</b>	<b>79,3</b>	<b>387,0</b>
Income tax	(47,0)	(29,2)	(134,4)
Tax rate (%)	34,7%	36,8%	34,7%
<b>Net income/(loss)</b>	<b>88,5</b>	<b>50,1</b>	<b>252,6</b>
% of net sales	6,4%	4,5%	5,3%
<b>Net financial (liquidity)/debt position</b>	<b>1.359,0</b>	<b>1.122,5</b>	<b>1.109,9</b>
Net operating cash flow	(240,2)	(79,0)	168,0
Capital expenditure	94,4	47,3	402,1
Employees (number at end of period)	29.651	28.078	28.865
Industrial sites (number)	19	20	19

**Net sales** totalled euro 1,384.5 million, up 24.7% from the same period of the previous year.

The like-for-like change, excluding the effect of exchange rates fluctuations, was an increase of 22.0%. It includes a significant contribution of the price/mix component (15.9%) as well as growth related to sales volumes (6.1%). The exchange rate effect was a positive 2.7%.

The following is a summary of this change compared with the same period of the previous year:

	Q1	
	2011	2010
Volumes	6.1%	17.4%
Prices/Mix	15.9%	1.4%
<b>Change on a like-for-like basis</b>	<b>22.0%</b>	<b>18.8%</b>
Foreign exchange effect	2.7%	1.0%
<b>Total change</b>	<b>24.7%</b>	<b>19.8%</b>

The tables below show breakdowns of sales for the first quarter by geographic area and by product category.

#### Geographical area

		2011		2010
		euro/mln	% yoy	
Italy	10%	135.9	28%	10%
Rest of Europe	32%	450.1	25%	32%
Nafta	11%	148.7	33%	10%
Central and South America	33%	453.6	25%	33%
Asia/Pacific	6%	88.2	33%	6%
Middle East/Africa	8%	108.0	5%	9%
<b>TOTAL</b>	<b>100%</b>	<b>1,384.5</b>	<b>25%</b>	<b>100%</b>

#### Product category

		2011		2010
		euro/mln	% yoy	
Car tyres	62%	851.6	27%	60%
Motovelocycle tyres	10%	131.7	20%	10%
<b>Consumer</b>	<b>72%</b>	<b>983.3</b>	<b>26%</b>	<b>70%</b>
Industrial vehicle tyres	26%	368.8	21%	27%
Steelcord	2%	32.4	33%	3%
<b>Industrial</b>	<b>28%</b>	<b>401.2</b>	<b>22%</b>	<b>30%</b>

Sales increased in all geographic areas, although at a lower rate in the Middle East and Africa, due to the political crises in North Africa.

**Gross operating profit before restructuring expenses** was euro 209.5 million (15.1% of net sales), up from the euro 146.4 million (13.2% of net sales) for the same period of 2010.

**Operating income before restructuring expenses** came to euro 155.6 million (11.2% of net sales), up from the euro 98.1 million (8.8% of net sales) of the first quarter of 2010.

This change is summarised in the following table:

(in millions of euro)

	Q1	
	2011	2010
<b>Operating income before restructuring expenses</b>	<b>98.1</b>	<b>61.0</b>
Foreign exchange effect	2.5	(5.2)
Prices/Mix	128.1	6.1
Volumes	28.7	50.8
Cost of production factors (raw materials)	(81.8)	(6.7)
Cost of production factors (labour/energy/other)	(13.4)	(7.4)
Efficiency gains	15.6	7.6
Depreciation, amortisation and other	(22.2)	(8.1)
<b>Change</b>	<b>57.5</b>	<b>37.1</b>
<b>Operating income before restructuring expenses</b>	<b>155.6</b>	<b>98.1</b>



**Operating income** for the first quarter of 2011 came to euro 152.4 million (up 60% from the first quarter of 2010) for a ROS of 11.0%, as compared to the 8.6% of March 2010. The main factors contributing to this performance were the following:

- growth in sales volumes, concentrated in the Consumer segment;
- significantly positive impact of the price/mix component in both business segments, which more than offset the increase in variable production costs;
- increase in the cost of raw materials, and natural rubber in particular, which had an impact on the quarter of roughly euro 82 million;
- industrial efficiency gains.

**Net income** came to euro 88.5 million (after net finance costs of euro 16.9 million and income tax of euro 47.0 million, for a tax rate of 34.7%), as compared to euro 50.1 million for the same period of last year (after net finance costs of euro 16.2 million and income tax of euro 29.2 million, for a tax rate of 36.8%).

**Net financial position** is negative and totalled euro 1,359.0 million, in comparison with a negative net financial position of euro 1,109.9 million as at December 31, 2010, for an overall increase of euro 249.1 million.

This change is summarised as follows:

	Q1	
	2011	2010
Operating income before restructuring expenses	155.6	98.1
Amortisation and depreciation	53.9	48.3
Purchase of property, plant and equipment and intangible assets	(94.5)	(47.6)
Changes in working capital/other	(291.6)	(132.2)
<b>Operating cash flow</b>	<b>(176.6)</b>	<b>(33.4)</b>
Financial expenses/tax charges	(63.6)	(45.6)
<b>Net operating cash flow</b>	<b>(240.2)</b>	<b>(79.0)</b>
Dividends paid to non-controlling interests	(0.7)	-
Cash out for restructuring expenses	(1.8)	(22.2)
Foreign exchange differences/other	(6.4)	6.0
<b>Net cash flow</b>	<b>(249.1)</b>	<b>(95.2)</b>

**Operating cash flow** is negative for euro 176.6 million, compared to euro 33.4 million as at 31 March 2010.

This figure reflects both the normal seasonal effects of working capital and the increase in capital expenditures, which practically doubled compared to the first quarter of 2010 in line with the 2011-2013 Business Plan.

Confirming the central importance of the Tyre segment, and so as to support the investments called for by the 2011-2013 Business Plan, in April the Parent, Pirelli & C. S.p.A., executed an increase in Share capital in favour of the subsidiary Pirelli Tyre S.p.A. in the amount of euro 500 million. Of course, this transaction had no impact on the overall net financial (liquidity)/debt position of the group.

## Consumer segment

The table below show the performance for the first quarter of 2011 compared with the same period of the previous year:

(in millions of euro)

	Q1	
	2011	2010
<b>Net sales</b>	983.3	780.9
<i>Δ YoY</i>	25.9%	16.5%
<b>Gross operating profit before restructuring expenses</b>	160.6	106.0
<i>% of net sales</i>	16.3%	13.6%
<b>Operating income before restructuring expenses</b>	119.7	69.5
<i>% of net sales</i>	12.2%	8.9%
<b>Operating income</b>	116.8	67.0
<i>% of net sales (ROS)</i>	11.9%	8.6%

**Net sales** for the Consumer segment totalled euro 983.3 million, for an increase of 23.6% (excluding exchange rates effect) compared to the first quarter of 2010, with 9.0% being attributable to the change in volumes and 14.6% to the change in the price/mix variable. The positive change of 2.3% related to exchange rates resulted in an overall increase of 25.9%.

With regard to the various markets, the **Original Equipment channel** posted growth of 7% in Europe, 16% in the Nafta area, and 8% in the Mercosur, while the **Replacement channel** in Europe and the Nafta area posted growth of 8% and 7%, respectively, with the Mercosur area posting a slight decline of 2%, which was concentrated in the first part of the quarter.

**Operating income before restructuring expenses** reached euro 119.7 million, (12.2% of net sales), up from the euro 69.5 million (8.9% of net sales) posted in the same period of 2010.

During the quarter, restructuring expenses in the amount of euro 2.9 million were recognised, which took **operating income** to euro 116.8 million (ROS of 11.9%), as compared with euro 67.0 million (ROS of 8.6%) for the first quarter of 2010 including restructuring expenses of euro 2.5 million.

### Industrial segment

The table below show the performance for the first quarter of 2011 compared with the same period of the previous year:

(in millions of euro)

	Q1	
	2011	2010
<b>Net sales</b>	401.2	329.1
<i>Δ YoY</i>	21.9%	28.4%
<b>Gross operating profit before restructuring expenses</b>	48.9	40.4
<i>% of net sales</i>	12.2%	12.3%
<b>Operating income before restructuring expenses</b>	35.9	28.6
<i>% of net sales</i>	8.9%	8.7%
<b>Operating income</b>	35.6	28.5
<i>% of net sales (ROS)</i>	8.9%	8.7%

**Net sales** for the Industrial segment totalled euro 401.2 million for an increase of 18.3% (excluding exchange rates effect) compared to the first quarter of 2010 thanks to the 19.0% contribution of the price/mix variable, whereas sales volumes brought down sales by 0.7% due, above all, to the slowing of business in Egypt and in North Africa generally in response to the geopolitical crisis in the region. The positive change of 3.6% due to exchange rate effects brought the overall increase to 21.9%.

In terms of the various markets, the **Original Equipment channel** posted 77% growth in Europe and 1% in the Mercosur area, which posted a decline in the last month of the quarter, while in the **Replacement channel**, growth was seen in both Europe (+ 16%), and in the Mercosur area (+ 12%).

**Operating income before restructuring expenses** reached euro 35.9 million (8.9% of net sales), up from the euro 28.6 million (8.7% of net sales) posted in the same period of 2010.

During the quarter, restructuring expenses in the amount of euro 0.3 million were recognised, which took **operating income** to euro 35.6 million (ROS of 8.9%), as compared with euro 28.5 million (ROS of 8.7%) for the first quarter of 2010 including restructuring expenses of euro 0.1 million.

## **OTHER BUSINESSES**

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

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

(in millions of euro)

	Pirelli Eco Technology		Pirelli Ambiente		Pzero		Other		Total other businesses	
	Q1 2011	Q1 2010	Q1 2011	Q1 2010	Q1 2011	Q1 2010	Q1 2011	Q1 2010	Q1 2011	Q1 2010
Net sales	13.2	19.6	0.4	1.9	2.9	3.1	(0.1)	0.4	16.4	25.0
Operating income/(loss)	(3.2)	(0.8)	(1.6)	(1.8)	(1.7)	-	(2.6)	(5.3)	(9.1)	(7.9)
Net income/(loss)	(3.6)	(1.4)	(1.6)	(2.2)	(1.8)	-	(0.1)	(9.8)	(7.1)	(13.4)
Net financial (liquidity)/debt position	46.5	42.0	28.6	46.1	10.5	3.6	(731.8)	(567.5)	(646.2)	(475.8)

On the whole, these businesses posted an **operating loss** of euro 9.1 million for the first quarter of 2011, as compared with the operating loss of euro 7.9 million for the first quarter of 2010.

The Board of Directors

Milan, 4 May 2011

## **FINANCIAL STATEMENTS**

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

	<b>03/31/2011</b>	<b>12/31/2010</b>
Property, plant and equipment	1,973,301	1,977,106
Intangible assets	847,444	848,761
Investments in associates and joint ventures	137,166	152,927
Other financial assets	184,533	185,267
Deferred tax assets	65,607	69,642
Other receivables	323,138	315,531
Taxes receivable	10,463	10,755
<b>Non-current assets</b>	<b>3,541,652</b>	<b>3,559,989</b>
Inventories	746,951	692,259
Trade receivables	953,575	676,681
Other receivables	214,916	174,982
Securities held for trading	205,333	209,770
Cash and cash equivalents	163,256	244,725
Tax receivables	25,983	25,235
Derivative financial instruments	58,005	35,159
<b>Current assets</b>	<b>2,368,019</b>	<b>2,058,811</b>
<b>Total Assets</b>	<b>5,909,671</b>	<b>5,618,800</b>
Equity attributable to owners of the Parent	2,034,665	1,990,831
- <i>Share capital</i>	1,375,733	1,375,733
- <i>Reserves</i>	576,114	593,346
- <i>Net income for the period</i>	82,818	21,752
Equity attributable to non-controlling interests	37,299	37,152
- <i>Reserves</i>	38,737	54,675
- <i>Net income for the period</i>	(1,438)	(17,523)
<b>Total Equity</b>	<b>2,071,964</b>	<b>2,027,983</b>
Borrowings from banks and other financial institutions	977,875	894,711
Other payables	47,495	41,664
Provisions for liabilities and charges	162,074	165,732
Provisions for deferred tax liabilities	25,846	33,733
Employee benefit obligations	471,024	481,724
Tax payables	5,020	5,547
<b>Non-current liabilities</b>	<b>1,689,334</b>	<b>1,623,111</b>
Borrowings from banks and other financial institutions	348,484	247,515
Trade payables	1,087,366	1,066,361
Other payables	425,547	403,373
Provisions for liabilities and charges	115,061	115,984
Tax payables	98,059	64,559
Derivative financial instruments	73,856	69,914
<b>Current liabilities</b>	<b>2,148,373</b>	<b>1,967,706</b>
<b>Total liabilities and Equity</b>	<b>5,909,671</b>	<b>5,618,800</b>



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

	<b>Q1 2011</b>	<b>Q1 2010</b>
Revenue from sales and services	1,400,873	1,135,040
Other income	25,298	37,157
Change in inventories of work in progress, semi-finished and finished products	(2,522)	(12,899)
Raw materials and consumables (net of changes in inventory)	(534,669)	(438,583)
Personnel expense	(273,958)	(241,665)
Amortisation, depreciation and impairments	(56,862)	(51,585)
Other costs	(415,628)	(340,372)
Additions to property, plant and equipment for internal work	775	543
<b>Operating income</b>	<b>143,307</b>	<b>87,636</b>
Net income/(loss) from equity investments	815	(2,962)
- <i>Share of net income of associates and joint ventures</i>	37	(2,962)
- <i>Gains on equity investments</i>	1,143	-
- <i>Losses on equity investments</i>	(708)	-
- <i>Dividends</i>	343	-
Financial income	131,082	59,552
Financial expenses	(145,915)	(77,180)
<b>Net income/(loss) before tax</b>	<b>129,289</b>	<b>67,046</b>
Income tax	(47,908)	(30,404)
<b>Net income/(loss) from continuing operations</b>	<b>81,381</b>	<b>36,642</b>
Net income/(loss) from discontinued operations	-	2,217
<b>Net income (loss)</b>	<b>81,381</b>	<b>38,859</b>
<b>Attributable to:</b>		
Owners of the Parent	82,819	39,242
Non-controlling interests	(1,438)	(383)

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME** (in thousands of euro)

		Q1 2011		
		Gross	Income tax	Net
<b>A</b>	<b>Net income (loss) for the period</b>			<b>81,381</b>
	Other items recognised in Equity:			
	(Gains)/losses on other financial assets transferred to Income Statement, previously recognised in Equity	(80)	-	(80)
	(Gains)/losses on cash flow hedges transferred to Income Statement, previously recognised directly in Equity	39	(94)	(55)
<b>B</b>	<b>(Gains)/losses transferred to Income Statement previously recognised directly in Equity</b>	<b>(41)</b>	<b>(94)</b>	<b>(135)</b>
	Exchange differences from translation of foreign financial statements	(56,351)	-	(56,351)
	Fair value adjustment of other financial assets	5,194	-	5,194
	Net actuarial gains/(losses) on employee benefits	90	(189)	(99)
	Fair value adjustment of derivatives designated as a cash flow hedges	8,614	(2,784)	5,830
	Share of other components recognised in Equity related to associates and joint ventures	101	-	101
<b>C</b>	<b>Income/(losses) recognised directly in Equity for the period</b>	<b>(42,352)</b>	<b>(2,973)</b>	<b>(45,325)</b>
<b>B+C</b>	<b>Total other components recognised in Equity</b>	<b>(42,394)</b>	<b>(3,066)</b>	<b>(45,460)</b>
<b>A+B+C</b>	<b>Total comprehensive income/(loss) for the period</b>			<b>35,921</b>
	<b>Attributable to:</b>			
	Owners of the Parent			39,712
	Non-controlling interests			(3,792)
		<b>Q1 2010</b>		
		Gross	Income tax	Net
<b>A</b>	<b>Net income (loss) for the period</b>			<b>38,859</b>
	Other items recognised in Equity:			
	(Gains)/losses on associates and joint ventures transferred to Income Statement previously recognised in Equity	856	-	856
	(Gains)/losses on cash flow hedges transferred to Income Statement, previously recognised directly in Equity	(619)	-	(619)
<b>B</b>	<b>(Gains)/losses transferred to income statement previously recognised directly in Equity</b>	<b>237</b>	<b>-</b>	<b>237</b>
	Exchange differences from translation of foreign financial statements	65,813	-	65,813
	Fair value adjustment of other financial assets	5,128	(41)	5,087
	Fair value adjustment of derivatives designated as a cash flow hedges	(13,624)	4,322	(9,302)
	Share of other components recognised in Equity related to associates and joint ventures	(2,462)	(10)	(2,472)
<b>C</b>	<b>Income/(losses) recognised directly in Equity for the period</b>	<b>54,855</b>	<b>4,271</b>	<b>59,126</b>
<b>B+C</b>	<b>Total other components recognised in Equity</b>	<b>55,092</b>	<b>4,271</b>	<b>59,363</b>
<b>A+B+C</b>	<b>Total comprehensive income/(loss) for the period</b>			<b>98,222</b>
	<b>Attributable to:</b>			
	Owners of the Parent			94,776
	Non-controlling interests			3,446

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in thousands of euro)

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

(in thousands of euro)

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

(in thousands of euro)

	Attributable to owners of the Parent					Non-controlling interests	Total
	Share capital	Translation reserve	Total IAS reserves *	Other reserves/retained earnings	Total attributable to owners of the Parent		
<b>Total at 12/31/2009</b>	<b>1,554,269</b>	<b>25,234</b>	<b>(346,227)</b>	<b>941,747</b>	<b>2,175,023</b>	<b>319,648</b>	<b>2,494,671</b>
Total other components recognised in Equity	-	61,526	(5,991)	-	55,535	3,829	59,364
Net income/(loss) for the period				39,242	39,242	(383)	38,859
<b>Total gains/(losses)</b>	<b>-</b>	<b>61,526</b>	<b>(5,991)</b>	<b>39,242</b>	<b>94,777</b>	<b>3,446</b>	<b>98,223</b>
Dividends paid					-	(171)	(171)
Venezuela inflation effect			-	1,739	1,739	246	1,985
Other			717	(423)	294	990	1,284
<b>Total at 03/31/2010</b>	<b>1,554,269</b>	<b>86,760</b>	<b>(351,501)</b>	<b>982,305</b>	<b>2,271,833</b>	<b>324,159</b>	<b>2,595,992</b>

(in thousands of euro)

	Breakdown of IAS reserves *					
	Reserve for adjustment to fair value of available-for-sale financial assets	Reserve for cash flow hedges	Reserve for actuarial gains/losses	Reserve for Equity-settled stock option	Reserve for deferred taxes	Total IAS reserves
<b>Balance at 12/31/2009</b>	<b>57,755</b>	<b>(60,778)</b>	<b>(383,893)</b>	<b>3,500</b>	<b>37,189</b>	<b>(346,227)</b>
Total other components recognised in Equity	4,937	(15,266)	-	-	4,338	(5,991)
Other changes	-	620	97	-	-	717
<b>Balance at 03/31/2010</b>	<b>62,693</b>	<b>(75,425)</b>	<b>(383,796)</b>	<b>3,500</b>	<b>41,527</b>	<b>(351,501)</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(in thousands of euro)

	<b>Q1 2011</b>	<b>Q1 2010</b>
Net income (loss) from continuing operations before taxes	129.289	67.046
Amortisation, depreciation, impairment and reversals of property, plant and equipment and intangible assets	56.862	51.585
Reversal of financial expense	145.915	77.180
Reversal of financial income	(131.082)	(59.552)
Reversal of dividends	(343)	-
Gains/(losses) on equity investments	(435)	-
Share of net income from associates and joint ventures	(37)	2.962
Income taxes	(47.908)	(30.404)
Changes in inventories	(54.692)	(31.770)
Changes in trade receivables/payables	(255.889)	(148.086)
Changes in other receivables/payables	(37.805)	(31.237)
Changes in provisions for employee benefit and other provisions	(19.133)	3.698
Other changes	(5.334)	9.371
<b>A Net cash flows provided by/(used in) operating activities</b>	<b>(220.592)</b>	<b>(89.207)</b>
Purchase of property, plant and equipment	(96.760)	(50.103)
Disposal of property, plant and equipment	1.598	4.649
Purchase of intangible assets	(101)	(421)
Disposal of investments in associations and joint ventures	17.534	1.804
Acquisition of other financial assets	-	(1.586)
Disposal of other financial assets	5.921	112
Dividends received	343	-
<b>B Net cash flows provided by/(used in) investing activities</b>	<b>(71.464)</b>	<b>(45.545)</b>
Increase/(reduction) in Equity	4.413	-
Changes in financial payables	240.497	(56.427)
Changes in financial receivables	(10.983)	10.701
Financial income/(expenses)	(14.833)	(15.256)
Dividends paid	(704)	(199)
<b>C Net cash flows provided by/(used in) financing activities</b>	<b>218.390</b>	<b>(61.181)</b>
<b>Total cash flows provided/(used) during the period</b>		
<b>D (A+B+C)</b>	<b>(73.666)</b>	<b>(195.933)</b>
<b>E Cash and cash equivalents at beginning of year</b>	<b>226.770</b>	<b>610.779</b>
Ex change differences on translation of cash and cash equivalents	(6.866)	515
<b>F</b>		
<b>G Cash and cash equivalents and period end (D+E+F) (°)</b>	<b>146.238</b>	<b>415.361</b>
<b>(°) of which:</b>		
cash and cash equivalents	163.256	436.793
bank overdrafts	(17.018)	(21.432)

## **FORM AND CONTENT**

This interim report on operations as at March 31, 2011 has been prepared in accordance with Article 154-*ter* of Italian Legislative Decree no. 58/1998 and with related CONSOB instructions.

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

The accounting standards and policies are the same as those used in preparing the annual report as at December 31, 2010, with the exception of the following standards and interpretations in effect as of January 1, 2011 and endorsed by the European Union, the application of which has not had a significant impact on the Group's accounts:

- Amendments to IAS 32 – Financial Instruments: Presentation – Classification of Rights Issues
- Amendments to revised IFRS 1 – First-time Adoption of International Financial Reporting Standards – limited exemptions from comparative IFRS disclosures required under IFRS 7 upon first-time adoption
- Revised IAS 24 – Related Party Disclosures
- Amendments to IFRIC 14 – Prepaid contributions of minimum funding requirements
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments
- Improvements to the IFRSs (issued by the IASB in May 2010).

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

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

(in thousands of euro)

	03/31/2011	12/31/2010
Current borrowings from banks and other financial institutions	348,484	247,515
Current derivative financial instruments (liabilities)	7,419	4,810
Non-current borrowings from banks and other financial institutions	977,875	894,711
<b>Total gross debt</b>	<b>1,333,778</b>	<b>1,147,036</b>
Cash and cash equivalents	(163,256)	(244,725)
Securities held for trading	(205,333)	(209,770)
Current financial receivables	(16,169)	(13,266)
Current derivative financial instruments (assets)	(4,915)	(915)
<b>Net financial debt *</b>	<b>944,105</b>	<b>678,360</b>
Non-current financial receivables	(231,276)	(222,757)
<b>Total net financial (liquidity)/debt position</b>	<b>712,829</b>	<b>455,603</b>

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

**Exchange rates**

(local currency against euro)

	Period-end		Change in %	Average		Change in %
	03/31/2011	12/31/2010		2011	2010	
British pound	0.8837	0.8898	(0.69%)	0.8539	0.8876	(3.80%)
Swiss franc	1.3005	1.4276	(8.90%)	1.2871	1.4635	(12.06%)
Slovakian koruna	30.1260	30.1260	0.00%	30.1260	30.1260	0.00%
American dollar	1.4207	1.3479	5.40%	1.3680	1.3838	(1.14%)
Canadian dollar	1.3785	1.3687	0.72%	1.3484	1.4395	(6.33%)
Brazilian real	2.3139	2.4006	(3.61%)	2.2809	2.4913	(8.44%)
Venezuela bolivar	6.1090	5.7960	5.40%	6.1090	5.7960	5.40%
Argentinean peso	5.7595	5.2272	10.18%	5.5002	5.3188	3.41%
Australian dollar	1.3736	1.4741	(6.82%)	1.3614	1.5304	(11.04%)
Chinese renminbi	9.3147	9.2012	1.23%	9.0060	9.4471	(4.67%)
Singapore dollar	1.7902	1.8862	(5.09%)	1.7467	1.9408	(10.00%)
Egyptian pound	8.4681	7.4195	14.13%	8.0382	7.5722	6.15%
Turkish lira	2.1921	2.0622	6.30%	2.1570	2.0898	3.22%

**Certification pursuant to Article 154-bis(2) of Legislative Decree no. 58 of February 24, 1998 (“Consolidated Finance Law”)**

I, Francesco Tanzi, the appointed Corporate Financial Reporting Manager for Pirelli & C. S.p.A., registered office at Viale Piero e Alberto Pirelli 25, Milan, Italy, with share capital of Euro 1,337,878,879.78, taxpayer identification number, VAT number and registration number with the Milan Company Register 00860340157, hereby

certify

in accordance with Article 154-bis(2) of the Consolidated Finance Law, that the accounting information contained in the interim report on operations as at March 31, 2011 corresponds with the company’s accounting records.

Milan, May 4, 2011

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Francesco Tanzi  
Corporate Financial Reporting Manager