Half-yearly Financial Report

At June 30, 2012

PIRELLI & C. Società per Azioni

Head office in Milan

Viale Piero e Alberto Pirelli, 25

Share Capital euro 1,345,380,534.66

Milan Companies Register No. 00860340157

Administrative Business Register (REA) No. 1055

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

Half-yearly Financial Report at June 30, 2012

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Board of Directors [1]

Chairman and Chief Executive Officer	Marco Tronchetti Provera
Deputy Chairman	Vittorio Malacalza
Deputy Chairman	Alberto Pirelli
Independent Director	Carlo Acutis
Independent Director	Anna Maria Artoni
Director	Gilberto Benetton
Independent Director	Alberto Bombassei
Independent Director	Franco Bruni
Independent Director	Luigi Campiglio
Independent Director	Paolo Ferro-Luzzi
Independent Director	Pietro Guindani
Director	Giulia Maria Ligresti
Independent Director	Elisabetta Magistretti
Director	Massimo Moratti
Director	Renato Pagliaro
Independent Director	Luigi Roth
Director	Carlo Salvatori
Lead Independent Director	Carlo Secchi
Independent Director	Manuela Soffientini
Secretary to the Board	Anna Chiara Svelto

Board of Statutory Auditors [2]

Chairman	Francesco Fallacara
Statutory Auditors	Antonella Carù
	Enrico Laghi
Alternate Auditors	Umile Sebastiano Iacovino
	Andrea Lorenzatti

Internal Control, Risks and Corporate Governance Committee

Chairman of the Committee – Lead Independent Director	Carlo Secchi
Independent Director	Franco Bruni
Independent Director	Paolo Ferro-Luzzi
Independent Director	Elisabetta Magistretti
Independent Director	Luigi Roth

Remuneration Committee

Chairman of the Committee – Independent Director	Carlo Acutis
Independent Director	Anna Maria Artoni
Independent Director	Pietro Guindani
Independent Director	Luigi Roth

Appointments and Successions Committee

Chairman of the Committee	Marco Tronchetti Provera
Independent Director	Luigi Campiglio
Deputy Chairman	Vittorio Malacalza
Independent Director	Luigi Roth

Strategies Committee [3]

Chairman of the Committee	Marco Tronchetti Provera
Independent Director	Alberto Bombassei
Independent Director	Franco Bruni
General Counsel and Corporate Affairs	Francesco Chiappetta
Deputy Chairman	Vittorio Malacalza
Director	Renato Pagliaro
Lead Independent Director	Carlo Secchi
Independent Director	Manuela Soffientini

Independent Auditor [4] Reconta Ernst & Young S.p.A.

Corporate Financial Reporting Manager [5] Francesco Tanzi

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1 Appointment: April 21, 2011. Expiry: Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2013. Director Manuela Soffientini was co-opted by the Board of Directors on March 1, 2012, in replacement of Director Profumo, and was confirmed as Director by the Shareholders' Meeting on May 10, 2012. Director Giuseppe Vita, co-opted by the Board of Directors on March 1, 2012 and subsequently confirmed by the Shareholders' Meeting on May 10, 2012, resigned on May 25, 2012. Carlo Salvatori was co-opted on July 26, 2012 to replace him. On July 23, 2012 Giovanni Perissinotto gave notice of his resignation as Director of the Company.

2 Appointment: May 10, 2012. Expiry: Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2014.

3 On July 27, 2012 Directors Alberto Bombassei and Manuela Soffientini were appointed to the Strategies Committee. Prof. Francesco Profumo (who resigned as Director on November 16, 2011) and Mr Francesco Gori are no longer members of the Strategies Committee.

4 Post conferred by the Shareholders' Meeting held on April 29, 2008, for the nine-year term 2008-2016.

5 Appointment: Board of Directors meeting held on April 21, 2011. Expiry: together with the current Board of Directors.

Prof. Giuseppe Niccolini was appointed Joint Representative of the Savings Shareholders for the three-year period 2012-2014 by the general meeting of that body held on January 31, 2012.

DIRECTORS'REPORT ON OPERATIONS

MACROECONOMIC AND MARKET SITUATION

The international economy

International growth continues to be negatively impacted by the European sovereign debt crisis. Investor and producer confidence continued to decline in the first half of the year, with their attention being focused on the uncertain outcome of parliamentary elections in Greece and intensification of the banking crisis in Spain. The pressures on commodity prices during the first few months of the year gave way to fears over the long-term stability of the eurozone and the potential impact that possible withdrawal by Greece from the eurozone might have on global and European growth prospects.

The stagnation of economic activity in Europe during 1Q 2012 worsened in 2Q 2012, and the failings of policies to contain the sovereign debt crisis negatively impacted both consumers and businesses. Some of these concerns were allayed by the decisions taken by the EU Summit at the end of June, albeit in the face of enduring uncertainty.

Lower than forecast employment growth in 2Q 2012 took some wind out of the sails in the United States economy. Confidence remained soft in the face of public debate that was increasingly concentrated on the “fiscal cliff,” i.e. expiry at the end of 2012 of a series of tax incentives, curtailment of public expenditure and their implications for growth prospects in 2013. On a positive note, falling energy prices in 2Q 2012 boosted consumers’ available income, while the Fed extended its monetary policy measures (“Operation Twist”) to ensure that the cost of money would remain low enough to stimulate investment.

Slowing growth in many emerging countries led authorities to adopt tax and monetary policies in support of their economies.

The difficult external situation and falling commodity prices penalised industrial activity in Brazil. In 1H 2012 the Brazilian central bank reacted with a series of interest rate cuts, while the government announced various incentive measures to promote investment and stimulate growth.

Economic growth slowed down in China during 1H 2012, reflecting falling exports to Europe and, to a lesser extent, to the United States. In this case as well, the Chinese central bank reacted by cutting interest rates, while the Chinese government is drafting macroeconomic policies to promote development.

Weakening investor confidence and growing aversion to risk over the course of 1H 2012 steadily increased the appeal of the United States as a safe monetary haven. Although the Euro remained stable at about USD 1.31 throughout 1Q 2012, it steadily lost ground in 2Q 2012, falling to an average of USD 1.25 in June.

Latin American currencies also softened against the U.S. dollar during 1H 2012: the Argentine peso traded at an average 4.39 pesos to the dollar, down from 4.29 pesos in December 2011. In 1H 2012, the Brazilian real weakened significantly, slipping from 1.84 real to the dollar in December 2011 to 2.05 real in June 2012, following repeated cuts in the interest rate by the central bank, growing risk aversion and slowing growth prospects. In June the Brazilian government adopted measures to support the real by eliminating the financial transaction tax.

In 1H 2012, the Chinese renminbi remained stable at RMB 6.32 to the dollar. The same was true for the Japanese yen, which traded at an average JPY 79.7 to the dollar during the same period.

Automotive markets

Cars and light vehicles

Vehicle registrations remained soft in Europe throughout 1H 2012. Sales volumes in southern Europe were especially worrying, where austerity measures adopted to contain high public debt depressed the demand for vehicles. The German and British markets managed to keep sales at about the same level YOY, with a slight improvement being reported in the United Kingdom. Light vehicle sales in France during 1H 2012 fell by 13.4%, although this figure was exacerbated by the basis of comparison, insofar as vehicle sales in 1H 2011 had been supported by incentives. Sales plummeted in Italy, while they contracted less in Spain, where they had already fallen to extremely low levels.

The improved economic prospects in NAFTA were reflected in the strong sales of light vehicles, which rose by more than 10% YOY in 1H 2012.

In South America, light vehicle sales continued growing at rates of over 10% in Argentina and Venezuela, while the Brazilian market, which was soft during the first few months of the year, ended the first half with a contraction of 0.4% from the same period of 2011, after staging a strong recovery in June following the recent introduction of market incentives.

In Asia, the Japanese light vehicle registrations rebounded by 50% YOY in 1H 2012. This growth rate reflects the much smaller basis of comparison in 1H 2011, when sales collapsed following the earthquake that struck Japan in March 2011, as well as state subsidies and reduced taxes on the purchase of more fuel efficient vehicles. The current sales rate is comparable to that reported in 2008. Sales of light vehicles in China grew by 3.5% in the first five months of 2012.

Commercial vehicles

Commercial vehicle sales continued falling in Europe during 1H 2012. On the basis of data available at the end of May, demand in the European Union contracted by 12% YOY, with the smallest decline being reported by Germany (-4%) and the biggest falls being reported by the southern European countries hit worst by the sovereign debt crisis, such as Italy and Spain.

Sales continued growing in NAFTA, where demand was recovering from post-crisis levels. In Brazil the incentives introduced in 2011 to renew the existing commercial vehicle fleet with vehicles having a reduced environmental impact (through implementation of the Euro 5 standard) stimulated sales in 2011. This consequently ate into new vehicle registrations in 1H 2012. In May new incentives were announced that might improve the demand for commercial vehicles in 2H 2012.

Tyre markets

A general slowdown in sales occurred in mature and emerging markets. The sovereign debt crisis in Europe continued to generate uncertainty, and tyre sales in the replacement market were particularly weak in both the consumer and industrial segments.

On the other hand, the NAFTA market remains dynamic: original equipment sales in the consumer segment jumped by 22% in 1H 2012, while replacement equipment sales fell by 4% during the same period. The same trend was reported in the industrial segment: original equipment sales rose by 20%, while contracting by 14% YOY in the replacement market.

In South America, the big consumer replacement market expanded by 2% in 1H 2012, while the original equipment market contracted by 8%. Industrial segment sales in 1H 2012 fell by 29% for original equipment and by 10% for replacement equipment. This reflected the impact of incentives offered in 2011 for the purchase of reduced environmental impact Euro 5 commercial vehicles.

Original equipment sales in the Chinese consumer segment grew by about 7% in 1H 2012, while sales in the replacement market fell. In the Chinese industrial segment, original equipment sales were impacted by the negative business cycle, falling 24%, while replacement equipment sales continued growing at a rate of 3-4%.

Commodities

Natural rubber prices continued falling in 1H 2012. Average prices in 1H 2012 fell 30% YOY, and the average price for June, USD 2.876/ton, is far below the peak of USD 5.580/ton reported in February 2011.

The average price for butadiene rose instead by 17% in 1H 2012 from the same period of 2011, being pushed up by plant closures and maintenance work. The average price of euro 1.850/ton in June 2012 reflects the downward trend of the past two months, which reflects falling demand and international growth fears that are depressing prices.

The high oil prices prevailing at the beginning of 2012 were sustained by curtailed supply from southern Sudan, Syria and Yemen, as well as export embargoes imposed on Iran. However, fears for global growth have gained the upper hand since April, with oil prices falling significantly. Although the average price for the benchmark Brent crude in 1H 2012 was slightly higher than a year earlier, prices have fallen recently, and the average price in June, USD 97/bbl, was down 22% from USD 125/bbl in April 2012, when tensions in Iran had driven up oil prices.

SIGNIFICANT EVENTS IN THE FIRST HALF OF THE YEAR

During "Sustainability Day" on **January 23, 2012,** Pirelli signed the voluntary agreement with the Ministry of Environment and Protection of Territory and the Sea to reduce the climate impact of activities related to production and use of its tyres. The agreement envisages a commitment to reduce specific emissions of CO_2 by 15% and specific water uptake by over 50% by 2015.
The agreement testifies to the commitment made by Pirelli, which uses its own technologies to develop production systems and products that can guarantee quality and safety for consumers and reduced environmental impact. These elements allow Pirelli constantly to improve its efficiency, with major economic benefits, and to exploit an additional competitive advantage on international markets, especially those where these characteristics are imposed by law and appreciated by consumers. The agreement is one of the various actions taken by Pirelli to limit environmental impact. In 2011, these actions led the Group to reduce its energy consumption by 6% from 2010, accompanied by a 20% reduction in specific water uptake. In aggregate, the measures taken by Pirelli since 2009 have allowed it to reduce its water consumption by 2 million cubic metres every year, with 5% less CO_2 emissions than in 2009.

On **January 31, 2012** the Extraordinary General Meeting of Savings Shareholders of Pirelli & C. S.p.A. assembled on the third call and chose Professor Giuseppe Niccolini as their joint representative for the 2012, 2013 and 2014 financial years. Giuseppe Niccolini replaces Mr Giovanni Pecorella, whose term had expired.

On **February 29, 2012** Pirelli & C. S.p.A. and Russian Technologies finalised the transaction for transfer of the Voronezh tyre plant by the Sibur petrochemical group to the joint venture between Pirelli and Russian Technologies.
This transaction follows the transfer by Sibur of the Kirov tyre plant last December.

The Voronezh plant will concentrate its activity on high-end tyres, with annual production capacity of 2 million units in 2012, set to rise to 4 million units in 2014, while production capacity at Kirov, already at 6.5 million units per year, will remain unchanged, with more than 60% of the total output being converted to the Pirelli brand.

On **March 1, 2012** the Pirelli Board of Directors co-opted Giuseppe Vita, in replacement of Enrico Tommaso Cucchiani, who resigned as Director on December 16, 2011, and Manuela Soffientini, who replaced Francesco Profumo, who resigned as Director on November 16, 2011.

On **April 16, 2012** Pirelli signed an agreement with the Faria da Silva family for direct purchase of 60% (with a promise to acquire an additional 20% and a call option on the remaining 20%) of the share capital of Campneus, one of the principal tyre distribution chains in Brazil, for about real 54 million, equal to about euro 21 million, subject to adjustment on the basis of the balance sheet at the closing date.
Consistently with the 2012-2014 Business Plan presented in London last November, Pirelli aims to reinforce its market leadership in Brazil through this transaction, both in the retail and wholesale sectors, by promoting concentration on the higher growth areas of the premium segment and increasing the number of its proprietary sales outlets (Pirelli Pneuac) from the current 48 to 102.
The 54 sales outlets of Campneus that are covered by the agreement are already part of the Pirelli distribution network in Brazil, which has over 600 retail outlets. The Campneus stores, which will continue to use their existing brand name after the acquisition is completed, are located in the Brazilian states of São Paulo, Minas Gerais, Paraná, Mato Grosso do Sul, Santa Catarina and Rio Grande do Sul and sell the complete range of Pirelli tyres.
Final execution of the agreement, subject to approval by CADE, the Brazilian Economic Defence Administrative Council (“Conselho Administrativo de Defesa Econômica”), was completed in June.

On **April 24, 2012** Pirelli initialled an agreement with PT Astra Otoparts, a leading Indonesian firm that produces components for the automotive sector, for the construction of a new factory in Indonesia, that will produce conventional motorcycle tyres.

The agreement calls for the creation of a joint venture with Pirelli holding a majority stake of 60% of the capital and Astra holding the remaining 40%. The total outlay by the joint venture for construction of the new plant will be about USD 120 million between 2012 and 2014.

Construction of the new plant, not far from Jakarta, is scheduled to begin in 4Q 2012. The site will cover 25 hectares and employ 750 workers when it achieves full operating capacity in 2016.

It is expected that the new factory will become operational in 2H 2013, with output forecasted to reach about 2 million conventional motorcycle tyres in 2014, which may reach 7 million units annually once full capacity is achieved in 2016. Of these, 3 million units will be sold under the Astra brands, while the remaining 4 million units – about 25% of total Pirelli motorcycle tyre production worldwide – under Pirelli brands (Pirelli and Metzeler).

On **May 31, 2012** Pirelli opened a new factory at Silao, in the State of Guanajuato, Mexico. The new plant, the first to be opened in Mexico and the twenty-second Pirelli industrial tyre plant in the world, will focus in particular on the Premium segment, producing High Performance and Ultra High-Performance tyres for cars and SUV to be sold on the local market and throughout the NAFTA area.

The production plant will cover 135 thousand square metres, and its capacity will reach about 400 thousand units by the end of 2012. Capacity will be expanded to 3.5 million units in the first phase of the development plan, which will end in 2015. It is forecast that production will reach 5.5 million units once full capacity is achieved in 2017. The investment by Pirelli, which has already been included in the business plan, totals about USD 300 million between 2011 and 2015. Another USD 100 million are expected to be invested by 2017, with the total investment estimated to be about USD 400 million.

The new Pirelli plant, which will boast the most advanced technologies and production processes used by the Group, will create about one thousand new jobs between now and 2013. Of these, 700 will be employed directly by the Group and another 300 by outsourcers. Once it reaches full capacity, the plant will directly employ another 700 workers, plus 100 new employees by outsourcers, for a grand total of 1,800 jobs.

On **June 13, 2012** Pirelli, implementing its strategy to reinforce its position on high-growth markets in the high-end, and thus more profitable segments, acquired 100% of the share capital of Däckia Holding AB, one of the top multibrand tyre distribution chains in Sweden, from the private equity fund Procuritas Capital Investors IV LP and other non-controlling shareholders, for 625 million crowns, approximately euro 70 million. The acquisition of Däckia offers Pirelli a distribution platform allowing it to accelerate its penetration of Nordic countries, which offer a natural market for winter tyres, which contain a large proportion of high performance characteristics. In Sweden, more than 60% of the aggregate sales of 4.4 million tyres in 2011 were winter tyres. This segment grew by nearly 5% last year, while sales on the domestic market as a whole remained stable.
In line with the strategy outlined in the 2012-2014 business plan presented in London last November, the acquisition of Däckia represents another step in securing the commercial position of Pirelli on international markets characterised by growing demand in more profitable product segments.

On **June 18, 2012** Pirelli presented several projects at the United Nations – RIO+20 International Conference on Sustainable Development. These projects will be carried out in Brazil in collaboration with the Ministry of Environment and Protection of Territory and the Sea and the Brazilian State of São Paulo, to analyse and reduce the impact on the climate caused by tyre production at the Campinas plant. The projects are part of the commitments made by the Company during the Sustainability Day held at its Milan headquarters on January 23. Consistently with the sustainability targets set out in the Business Plan 2012-2014 presented at London last November, they testify to the Company’s commitment to realise a sustainable and efficient growth model.

GROUP PERFORMANCE AND RESULTS IN THE FIRST HALF OF THE YEAR

In addition to the financial performance measures established by the International Financial Reporting Standards (IFRSs), this report presents alternative performance indicators that are derived from IFRSs. These performance indicators are used to facilitate the understanding of the Group operating performance. These indicators are: Gross Operating Profit, Non-current assets, Provisions, Net working capital, Other receivables and payables, Net financial (liquidity)/debt position. Please refer to the section "Alternative performance indicators" for a more analytical description of these indicators.

GROUP PERFORMANCE AND RESULTS

Notwithstanding the worsening economic and financial crisis that continues to afflict Europe and, indirectly, the other world economies, Pirelli Group net sales rose by 5.5% and its return on sales (ROS) improved to 13.1% (+2.5 percentage points YOY) in 2Q 2012.
Although net sales volumes fell by 7.6% for the Tyre Business as a whole, net sales continued growing in the Premium segment, where Pirelli aims to become global leader by 2015. More specifically, Premium net sales volumes grew by 12.3% in 2Q 2012, after growing by 15.8% in 1Q 2012.
Consolidated **net sales** at June 30, 2012 totalled euro 3,021.8 million, up 8.3% from euro 2,789.3 million in 1H 2011. Consolidated **operating income** amounted to euro 400.7 million, up 38.1% from euro 290.1 million in 1H 2011. ROS was 13.3% (+2.9 percentage points from 1H 2011). **Total net income** was euro 221.7 million, up 39.6% from euro 158.8 million at June 30, 2011.
The consolidated **net (liquidity)/debt position** was negative euro 1,702.7 million, compared with a negative euro 1,305.0 million at March 31, 2012 and negative euro 737.1 million at December 31, 2011.

The euro 397.7 million increase in 2Q 2012 reflected, among other items, payment of the euro 132.3 million dividend by the parent company and the investment made to acquire the Campneus retail chain in Brazil and the Däckia chain in Sweden for a total euro 106.1 million.

The net cash flow from continuing operations in 2Q 2012 was a negative euro 83.7 million, and was negatively impacted by the euro 238.8 million change in working capital, including payment of euro 77 million during the period against the liability recognised at December 31, 2011 in relation to the long-term incentive plan (LTI 2009-2011) for Group managers.

The improved earnings of the **Tyre Business**, which generates 99% of net sales, reflect the Pirelli strategy to focus on premium products in the consumer segment, which not only offers higher profit margins but also remains the most resilient segment even in those areas that have been hardest hit by the macroeconomic crisis.

This strategic response has effectively offset the softening in aggregate demand associated with the deterioration in macroeconomic conditions, whose effects on net sales volumes are particularly pronounced in the industrial segment, which is more exposed to business cycles.

Total **net tyre sales in 2Q 2012** grew by 5.9% with the positive contribution made by the price/mix component (+11.1%) and revenue generated by the new activities in Russia (+3.5%), which more than offset the 7.6% aggregate contraction in sales volumes (although the volume of premium product sales rose by 12.3%), and a negative foreign exchange effect of 1.1%.

Total net sales by the Tyre Business increased by 8.7% in 1H 2012.

Premium product revenue rose by 22% in 2Q 2012, after jumping +29% in 1Q 2012, reaching a cumulative total of euro 1,086.9 million at June 30, 2012, up 26% from 1H 2011. In the car business alone, premium product revenue accounted for 50.5% of the total in 1H 2012, with growth of about 4.6 percentage points from 45.9% in 1H 2011.

Operating income totalled euro 413.6 million, up 32.4% from euro 312.5 million in 1H 2011, with ROS of 13.8% (+2.5% from the 11.3% posted in 1H 2011).

In 2Q 2012 the Tyre Business had an ROS of 13.6%, compared with 11.6% in 2Q 2011.

When the 2Q 2012 results are broken down by business segment, the consumer segment posted a 12.5% gain in revenue, with ROS rising to 14.2%, while the industrial segment, which was more severely impacted by the negative business cycle and reduced activity in Egypt during June due to an on-going strike, reported a 9.1% contraction in net sales. However, at the same time the ROS of the industrial segment rose to 11.9% from 8.6% in 2Q 2011, due to an improved price/mix component, efficiency gains and falling raw material costs during the period.

At June 30, 2012 the ROS of the consumer segment was 15.0% (+2.6 percentage points) with net sales up by 14.8%, while the industrial segment had an ROS of 10.2% (+1.5 percentage points) with net sales down 5.9%.

The **consolidated financial highlights for the Group** are illustrated as follows:

(in millions of euro)

	06/30/2012	06/30/2011	12/31/2011 *
Net sales	**3,021.8**	**2,789.3**	**5,654.8**
Gross operating profit before restructuring expenses	545.7	410.9	834.6
% of net sales	18.1%	14.7%	14.8%
Operating income before restructuring expenses	415.2	297.8	609.7
% of net sales	13.7%	10.7%	10.8%
Restructuring expenses	(14.5)	(7.7)	(27.8)
Operating income	**400.7**	**290.1**	**581.9**
% of net sales	13.3%	10.4%	10.3%
Net income (loss) from equity investments	(2.7)	0.9	(17.3)
Financial income/(expenses)	(48.8)	(44.7)	(89.5)
Pre-tax income (loss)	**349.2**	**246.3**	**475.1**
Income tax	(127.5)	(87.5)	(162.5)
Tax rate %	36.5%	35.5%	34.2%
Net income (loss) from continuing operations	**221.7**	**158.8**	**312.6**
Prior period deffered tax assets - Italy	-	-	128.1
Total net income (loss)	**221.7**	**158.8**	**440.7**
Net income attributable to owners of Pirelli & C. S.p.A.	219.5	161.7	451.6
Total net earnings per share attributable to owners of Pirelli & C. S.p.A. (in euro)	0.450	0.331	0.926
Non-current assets	**3,813.4**	**3,203.0**	**3,577.5**
Inventories	1,200.4	844.3	1,036.7
Trade receivables	964.3	887.1	745.2
Trade payables	(1,149.0)	(1,140.8)	(1,382.8)
Operating Net working capital	**1,015.7**	**590.6**	**399.1**
% of net sales (°)	16.8%	10.6%	7.1%
Other receivables/other payables	(69.9)	(188.2)	(248.3)
Total net working capital	**945.8**	**402.4**	**150.8**
% of net sales (°)	15.6%	7.2%	2.7%
Net i nvested capital	**4,759.2**	**3,605.4**	**3,728.3**
Equity	**2,246.9**	**2,047.2**	**2,191.6**
Provisions	809.6	779.3	799.6
Net financial (liquidity)/debt position	**1,702.7**	**778.9**	**737.1**
Equity attribuitable to the owners of Pirelli & C. S.p.A.	2,195.3	2,013.6	2,146.1
Equity per share attributable to the owners of Pirelli & C. S.p.A. (in	4.499	4.126	4.398
Capital expenditure	194.9	234.1	626.2
Research and development expenses	91.6	84.9	169.7
% of net sales	3.0%	3.0%	3.0%
Headcount (number at end of period)	36,349	31,643	34,259
Industrial sites (number)	23	20	21

(°) the net sales figure is annualised in interim periods

* The consolidated balance sheet has been restated to include retrospectivly the effects of the final purchase price allocation connected to the business combination "acquisition Russia".
For more details see note 3 "Business Combinations" of the condensed interim financial statement.

To facilitate understanding of Group performance, the income and expense data are presented below, broken down by business segment.

(in millions of euro)

	Total Tyre		Other busisiness (*)		Total	
	1st half 2012	1st half 2011	1st half 2012	1st half 2011	1st half 2012	1st half 2011
Net sales	**3,000.3**	**2,760.9**	**21.5**	**28.4**	**3,021.8**	**2,789.3**
Gross operating profit before restructuring expenses	556.2	427.9	(10.5)	(17.0)	545.7	410.9
Operating income before restructuring expenses	428.1	320.2	(12.9)	(22.4)	415.2	297.8
Restructuring expenses	(14.5)	(7.7)	-	-	(14.5)	(7.7)
Operating income	**413.6**	**312.5**	**(12.9)**	**(22.4)**	**400.7**	**290.1**
% of net sales	*13.8%*	*11.3%*			*13.3%*	*10.4%*
Net income (loss) from equity investments					(2.7)	0.9
Financial income/(expenses)					(48.8)	(44.7)
Pre-tax income (loss)					**349.2**	**246.3**
Income tax					(127.5)	(87.5)
Tax rate %					*36.5%*	*35.5%*
Total net income (loss)					**221.7**	**158.8**
					-	-
Net financial (liquidity)/debt position					**1,702.7**	**778.9**

(*) in 2012 this item includes the Pirelli Ecotechnology Group, the Pirelli Ambiente group, and Pzero while in 2011 this item also included the figures for the holding and services companies (including the Parent Company) which have been consolidated this year in the Total Tyre

The operating performance of the Group as broken down on a quarterly basis is shown below:

(in millions of euro)

	Q1		Q2		1° HALF	
	2012	2011	2012	2011	2012	2011
Net sales	**1,556.5**	1,400.9	**1,465.3**	1,388.4	**3,021.8**	2,789.3
Gross operating profit before restructuring expenses	**275.8**	203.4	**269.9**	207.5	**545.7**	410.9
% of net sales	17.7%	14.5%	18.4%	14.9%	18.1%	14.7%
Operating income before restructuring expenses	**211.4**	146.5	**203.8**	151.3	**415.2**	297.8
% of net sales	13.6%	10.5%	13.9%	10.9%	13.7%	10.7%
Operating income	**209.4**	143.3	**191.3**	146.8	**400.7**	290.1
% of net sales	13.5%	10.2%	13.1%	10.6%	13.3%	10.4%

Net sales

At June 30, 2012 net sales rose to euro 3,021.8 million, up 8.3% from the previous year (euro 2,789.3 million), with 99.3% of sales being generated by the Tyre Business, confirming the focus on the core activity of the Group.

Net sales rose by 5.5% to euro 1,465.3 million in 2Q 2012.

Operating income

Operating income rose by 38.1% to euro 400.7 million, with an ROS of 13.3% (10.4% in 1H 2011).

This result was impacted by **non-recurring expenses** of euro 14.5 million for on-going organisational streamlining measures, mainly at the European sites and central organisation.

In **2Q 2012** operating income totalled euro 191.3 million (+30.3%), with ROS of 13.1% (10.6% in 2Q 2011).

Net income

Total net income at June 30, 2012 rose by 39.6% to euro 221.7 million, compared with euro 158.8 million in 1H 2011.

Net income reflects **income tax** totalling euro 127.5 million, with a tax rate of 36.5% (35.5% in 1H 2011) and **net financial expenses** of euro 48.8 million (compared with euro 44.7 million at June 30, 2011).

The average cost of gross debt for the period was about 5.5%.

The **total net income attributable to owners of Pirelli & C. S.p.A.** was a positive euro 219.5 million (euro 0.450 per share) at June 30, 2012, compared with euro 161.7 million in 1H 2011 (euro 0.331 per share).

Equity

Consolidated equity rose from euro 2,191.6 million at December 31, 2011 to euro 2,246.9 million at June 30, 2012.

Equity attributable to owners of Pirelli & C. S.p.A. at June 30, 2012 was euro 2,195.3 million (euro 4.499 per share), compared with euro 2,146.1 million at December 31, 2011 (euro 4.398 per share).

The total change, which is broken down in detail in the following table, relates mainly to the total net income for the period, euro 221.7 million, the payment of euro 132.3 million in dividends by the parent company, and to adjustments in the value of available-for-sale financial instruments, derivative financial instruments and employee benefits.

(in millions of euro)

	Group	Non-controlling interests	Total
Equity at 12/31/2011	**2,146.1**	**45.5**	**2,191.6**
Translation differences	1.8	0.7	2.5
net income (loss) for the period	219.5	2.2	221.7
Adjustement to fai value of other financia assets/derivative instruments	(32.5)	-	(32.5)
Other changes to items recognised in equity	9.5	-	9.5
Actuarial gains/(losses) on employee benefits	(23.0)	-	(23.0)
Dividend paid	(132.4)	(3.0)	(135.4)
Venezuela inflation effect	8.5	0.3	8.8
Capital increases	-	5.8	5.8
Other changes	(2.2)	0.1	(2.1)
Total changes	**49.2**	**6.1**	**55.3**
Equity at 6/30/2012	**2,195.3**	**51.6**	**2,246.9**

Net financial (liquidity)/debt position

The Group's net borrowings totalled euro 1,702.7 million at June 30, 2012, compared with net borrowings of euro 1,305.0 million at March 31, 2012 and euro 737.1 million at December 31, 2011.

in millions of euro	06/30/2012	03/31/2012	12/31/2011
Current borrowings from banks and other lenders	556.6	323.1	369.5
Non-Current borrowings from banks and other lenders	1,879.9	1,720.4	1,408.6
Total gross debt	**2,436.5**	**2,043.5**	**1,778.1**
Cash and cash equivalents	(207.7)	(291.9)	(557.0)
Securities held for trading	(171.2)	(126.9)	(160.5)
Current financial receivables	(104.6)	(67.4)	(72.8)
Non-current financial receivables	(250.3)	(252.3)	(250.7)
of which Prelios	*(160.0)*	*(160.0)*	*(160.0)*
Total financial receivables, cash and cash equivalents	**(733.8)**	**(738.5)**	**(1,041.0)**
Net financial (liquidity)/debt position	**1,702.7**	**1,305.0**	**737.1**

In 2Q 2012 the **net cash flow from continuing operations** was a negative euro 83.7 million. This mainly reflected the impact of changes in working capital, which included the payment of euro 77 million to Group managers against the liability recognised at December 31, 2011 for the multi-year incentive plan (LTI 2009-2011). The result was also impacted by capital expenditure which, as envisaged in the strategic plan for expanded production of premium products, totalled euro 114.8 million during the period, equal to 1.7 times amortisation, depreciation and impairment.

The total net cash flow from continuing operations in 1H 2012 was a negative euro 400.8 million.

Total net cash flow in 1H 2012 was a negative euro 965.6 million. This figure includes the net cash flow from continuing operations as well as euro 154.5 million for the second instalment in payment for acquisition of the two production sites in Russia, euro 106.2 million for the acquisition of two distribution chains in Brazil and Sweden, and euro 132.3 million for the payment of dividends by the parent company.

The following table summarises the changes in cash flow during the period:

(in millions of euro)

	Q1		Q2		1° HALF	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Operating income (EBIT) before restructuring expenses	211.4	146.5	203.8	151.3	415.2	297.8
Amortisation and depreciation	64.4	56.9	66.1	56.2	130.5	113.1
Capital expenditures of property, plant and equipment and intangible assets	(80.1)	(96.9)	(114.8)	(137.2)	(194.9)	(234.1)
Change in workin capital/other	(512.8)	(313.5)	(238.8)	18.1	(751.6)	(295.4)
Operating cash flow	**(317.1)**	**(207.0)**	**(83.7)**	**88.4**	**(400.8)**	**(118.6)**
Financial income/(expenses)	(18.7)	(14.8)	(30.1)	(29.9)	(48.8)	(44.7)
Ordinary tax charges	(65.9)	(47.9)	(61.6)	(39.6)	(127.5)	(87.5)
Net operating cash flow	**(401.7)**	**(269.7)**	**(175.4)**	**18.9**	**(577.1)**	**(250.8)**
Financial investments/disinvestments	3.2	24.4	-	-	3.2	24.4
Russia Investment	(154.5)	-	-	-	(154.5)	-
Dackia Investment	-	-	(70.8)	-	(70.8)	-
Campneus Investment	-	-	(35.4)	-	(35.4)	-
Dividend paid by Parent	-	-	(132.3)	(81.1)	(132.3)	(81.1)
Other dividends paid	(2.2)	(0.7)	(0.7)	(1.7)	(2.9)	(2.4)
Cash Out for restructuring operations	(4.2)	(2.8)	(3.3)	(5.7)	(7.5)	(8.5)
Foreign exchange differences/other	(8.5)	(8.4)	20.2	3.5	11.7	(4.9)
Net cash flow	**(567.9)**	**(257.2)**	**(397.7)**	**(66.1)**	**(965.6)**	**(323.3)**

The **structure of gross debt**, totalling euro 2,436.5 million and having an average maturity of about 3 years, of which about 70% falls due beginning in 2015, is shown as follows:

(in millions of euro)

	Financial Statements 6/30/2012	Maturity date				
		2012	**2013**	**2014**	**2015**	**2016 and beyond**
Use of committed credit facilities	815.0	-	-	-	815.0	-
Bond 5,125% - 2011/2016	500.0	-	-	-	-	500.0
EIB loans	287.5	12.5	25.0	-	100.0	150.0
Other financing	834.0	253.1	310.6	137.0	28.3	105.0
Total gross debt	**2,436.5**	**265.6**	**335.6**	**137.0**	**943.3**	**755.0**
		10.9%	13.8%	5.6%	38.7%	31.0%

At June 30, 2012 the Group has euro 385 million as the unused portion of the euro 1.2 billion committed credit facility (euro 525 million at March 31, 2012).

OPERATING PERFORMANCE

TOTAL TYRE BUSINESS

The consolidated results for Q1 2012 as compared with those for Q1 2011 are highlighted in the following table:

(in millions of euro)

	06/30/2012	06/30/2011	12/31/2011
Net sales	**3,000.3**	**2,760.9**	**5,601.6**
Gross operating profit before restructuring expenses	556.2	427.9	875.5
% of net sales	18.5%	15.5%	15.6%
Operating income before restructuring expenses	428.1	320.2	661.7
% of net sales	14.3%	11.6%	11.8%
Restructuring expenses	(14.5)	(7.7)	(17.8)
Operating income	**413.6**	**312.5**	**643.9**
% of net sales	13.8%	11.3%	11.5%

The following table illustrates the quarterly breakdown of operating income:

	Q1		Q2		1° HALF	
(in millions of euro)	2012	2011	2012	2011	2012	2011
Net sales	**1,542.6**	1,384.5	**1,457.7**	1,376.4	**3,000.3**	2,760.9
yoy	11.4%	24.7%	5.9%	*13.3%*	*8.7%*	*18.7%*
Gross operating profit before restructuring expenses	**280.3**	209.5	**275.9**	218.4	**556.2**	427.9
% of net sales	18.2%	15.1%	18.9%	15.9%	*18.5%*	*15.5%*
Operating income before restructuring expenses	**217.2**	155.6	**210.9**	164.6	**428.1**	320.2
% of net sales	14.1%	11.2%	14.5%	12.0%	*14.3%*	*11.6%*
Operating income	**215.2**	152.4	**198.4**	160.1	**413.6**	312.5
% of net sales	*14.0%*	*11.0%*	*13.6%*	*11.6%*	*13.8%*	*11.3%*

Net sales

Net sales in 2Q 2012 totalled euro 1,457.7 million, up 5.9% from the euro 1,376.4 million reported in 2Q 2011.

The increase was 7.0% before the negative 1.1% foreign exchange effect.

The volume component (excluding the new scope of consolidation resulting from the Russia JV) changed by a negative 7.6%, continuing the 1Q 2012 trend and confirming the problems generated by the macroeconomic situation that is impacting both business segments. However, the premium segment of the consumer business continues making a positive contribution, with this segment growing by 12.3% after rising 15.8% in 1Q 2012.

The negative impact of sales volumes in 2Q 2012 was more than offset by the positive 3.5% contribution made by the Russia JV and the positive 11.1% price/mix component, which reflects the focus on the premium segment and the firmness of the price component, due in part to the gradual price increases carried out in 2011.

The premium segment has confirmed itself as the driver for revenue growth, with net sales growing by 22% in 2Q 2012, totalling euro 1,086.9 million in 1H 2012, up 26% from June 30, 2011.

Total net sales in 1H 2012 rose by 9.2% (8.7% including the foreign exchange effect), with the consumer segment growing by 14.8%, while the industrial segment shrank by 5.9%. When broken down by sales channels, 74.8% of net sales were generated by the replacement channel, while original equipment accounted for 25.2%.

As compared with the same period of the previous year, the change can be summarised as follows:

	Q1		Q2		1° HALF	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Volume (excluding Russia JV)	-7.4%	6.1%	-7.6%	1.2%	-7.5%	3.5%
of which Premium volume	*15.8%*	*25.2%*	*12.3%*	*21.7%*	*14.0%*	*23.4%*
Price/mix	16.5%	15.9%	11.1%	15.8%	13.9%	15.9%
Change in scope of Russia JV	2.2%	0.0%	3.5%	0.0%	2.8%	0.0%
Change on a like-for-like basis	**11.3%**	**22.0%**	**7.0%**	**17.0%**	**9.2%**	**19.4%**
Translation effect	0.1%	2.7%	-1.1%	-3.7%	-0.5%	-0.7%
Total change	**11.4%**	**24.7%**	**5.9%**	**13.3%**	**8.7%**	**18.7%**

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

GEOGRAPHICAL AREA	1st half 2012				1st half 2011
	Euro\mln		*yoy*		
Italy	198.3		*-26.0%*	6.6%	9.7%
Rest of Europe	884.6		*2.4%*	29.4%	31.3%
Russia	125.1	*	*504.3%*	4.2%	0.7%
Nafta	371.0		*28.9%*	12.4%	10.4%
Central and South America	968.4		*5.4%*	32.3%	33.3%
Asia\Pacific	204.5		*21.7%*	6.8%	6.1%
Middle East\Africa	248.4		*6.3%*	8.3%	8.5%
TOTAL	**3,000.3**		*8.7%*	**100%**	**100%**

* - of which euro/mln 30,4 from Russia JV

PRODUCT	1st half 2012			1st half 2011
	Euro\mln	*yoy*		
Car tyres	1,991.7	*17.3%*	66.5%	61.4%
Motorcycle tyres	238.4	*-2.6%*	7.9%	8.9%
Consumer	***2,230.1***	*14.8%*	***74.4%***	***70.3%***
Industrial vehicle tyres	715.8	*-5.0%*	23.8%	27.3%
Steelcord	54.4	*-16.8%*	1.8%	2.4%
Industrial	***770.2***	*-5.9%*	***25.6%***	***29.7%***

The percentage of net sales generated by consumer products reached 74.4% of the total at June 30, 2012, compared with 70.3% in 1H 2011.

Operating income

Operating income at June 30, 2012 totalled euro 413.6 million, with growth of 32.4% from 1H 2011. ROS also increased, to 13.8% from 11.3% at June 30, 2011. Euro 14.5 million in **non-recurring expenses** were sustained during the period. These were concentrated in the consumer segment and stemmed mainly from continuous implementation of efficiency and streamlining measures at the European sites and central organisation.

In 2Q 2012 operating income totalled euro 198.4 million (+23.9% from 2Q 2011), with ROS of 13.6% (+2 percentage points from 2Q 2011).

These positive changes reflect:

- improvement in the mix component, associated with the strategy of focusing on premium products

- confirmation of a stable price policy

- implementation of measures to improve the efficiency of industrial activities, which more than offset the impact resulting from:

1. reduced sales volumes in the standard consumer segment and the conventional truck segment
2. the negative impact of unit costs of factors of production and raw materials

The breakdown of changes from the same periods of 2011 is illustrated as follows:

(in millions of euro)	**Q1**	**Q2**	**1° HALF**
2011 Operating income	**152.4**	**160.1**	**312.5**
Foreign exchange effect	(1.3)	(1.7)	(3.0)
Prices/mix	159.2	101.7	260.9
Volumes (excluding change in Russia scope)	(30.2)	(34.7)	(64.9)
Cost of prodution factors (raw materials)	(85.1)	(5.0)	(90.1)
Cost of prodution factors (labour/energy/others)	(22.0)	(32.9)	(54.9)
Efficiency	25.5	24.7	50.2
Ammortisation, depreciation and other *	15.5	(5.8)	9.7
Restructuring expenses	1.2	(8.0)	(6.8)
Change	**62.8**	**38.3**	**101.1**
2012 Operating income	**215.2**	**198.4**	**413.6**

* includes change in Russia scope

Operating cash flow

(in millions of euro)	Q1		Q2		1° HALF	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Operating income (EBIT) before restructuring expenses	217.2	155.6	210.9	164.6	428.1	320.2
Amortisation and depreciation	63.1	53.9	65.0	53.8	128.1	107.7
Capital expenditure of property, plant and equipment and intangible asset	(78.6)	(94.5)	(113.9)	(133.8)	(192.5)	(228.3)
Change in working capital/other	(509.9)	(291.6)	(239.5)	4.5	(749.4)	(287.1)
Operating cash flow	**(308.2)**	**(176.6)**	**(77.5)**	**89.1**	**(385.7)**	**(87.5)**

At June 30, 2012 the **operating cash flow** in the Tyre Business totalled a negative euro 385.7 million. In 2Q 2012 it amounted to a negative euro 77.5 million.

This cash flow was largely accounted for by the use of cash as working capital, which was partly influenced by normal seasonal operating requirements, the euro 77 million paid to managers in 2Q 2012 against the liability arising from the multi-year incentive plan, and capital expenditure (amounting to 1.5 times amortisation, depreciation and impairment), concentrated mainly on expansion of production capacity in the premium segment, especially in Mexico, South America, China and Romania.

CONSUMER BUSINESS

The following table illustrates the results for 1H 2012 as compared with the corresponding period of 2011:

(in millions of euro)	Q1		Q2		1° HALF	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Net sales	1,151.8	983.3	1,078.3	958.9	2,230.1	1,942.2
yoy	*17.1%*	*25.9%*	*12.5%*	*14.7%*	*14.8%*	*20.1%*
Gross operating profit before restructuring expenses	232.1	160.6	213.4	169.7	445.5	330.3
% of net sales	*20.2%*	*16.3%*	*19.8%*	*17.7%*	*20.0%*	*17.0%*
Operating income before restructuring expenses	184.0	119.7	163.1	128.6	347.1	248.3
% of net sales	*16.0%*	*12.2%*	*15.1%*	*13.4%*	*15.6%*	*12.8%*
Operating income	182.1	116.8	153.2	124.3	335.3	241.1
% of net sales	*15.8%*	*11.9%*	*14.2%*	*13.0%*	*15.0%*	*12.4%*

The following table shows the detailed breakdown of **market performance:**

	Q1	**Q2**	**1° HALF**
EUROPE (*)			
Original Equipment	-6%	-8%	-7%
Replacement	-12%	-13%	-13%
NAFTA			
Original Equipment	+16%	+27%	+22%
Replacement	-8%	-1%	-4%
SOUTH AMERICA			
Original Equipment	-7%	-9%	-8%
Replacement	+4%	+0%	+2%
CINA			
Original Equipment	+1%	n.a.	7% (at may 2012)
Replacement	-3%	n.a.	n.a.
(*) excluding Russia			

Net sales in 2Q 2012 totalled euro 1,078.3 million, with an increase of 12.5% from 2Q 2011. Excluding the translation effect, the like-for-like change was a positive 12.7%, with a 5.3% contraction in volumes (excluding the Russia JV, although premium volumes rose by 12.3%), a 13.6% increase in the price/mix component, and a positive 4.4% contribution made by the Russia JV following its consolidation.

In 1H 2012 total net sales grew by 14.8% to euro 2,230.1 million. Of this amount, euro 1,086.9 million was generated by premium products (+26% from June 30, 2011), whose volumes grew by 14%.

In 1H 2012 premium product revenue accounted for 48.7% of total net sales in the consumer segment (45.4% in 1H 2011).

	Q1		Q2		1° HALF	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Volume (excluding Russia JV)	-5.1%	9.0%	-5.3%	2.6%	-5.2%	5.7%
of which Premium volume	*15.8%*	*25.2%*	*12.3%*	*21.7%*	*14.0%*	*23.4%*
Price/mix	18.8%	14.6%	13.6%	16.2%	16.3%	15.4%
Change in scope of Russia JV	2.7%	0.0%	4.4%	0.0%	3.5%	0.0%
Change on a like-for-like basis	**16.4%**	**23.6%**	**12.7%**	**18.8%**	**14.6%**	**21.1%**
Translation effect	0.7%	2.3%	-0.2%	-4.1%	0.2%	-1.0%
Total change	**17.1%**	**25.9%**	**12.5%**	**14.7%**	**14.8%**	**20.1%**

Operating income before restructuring expenses at June 30, 2012 totalled euro 347.1 million (+39.8% from June 30, 2011), equal to 15.6% of net sales. Net of euro 11.8 million in **non-recurring expenses** related to structural streamlining measures implemented in various countries, **operating income** totalled euro 335.3 million (ROS 15.0%), up 39.1% from June 30, 2011 (euro 241.1 million, with ROS 12.4%).

Car Business (89% of net sales in consumer segment)

In 2Q 2012 the market trend for net sales of **original equipment** followed the same trajectory as in the previous quarter, with negative performance in Europe and South America and continued growth in the NAFTA area.

At the end of May local governmental entities in Brazil implemented forms of support for car purchases, which began to have a positive impact on car sales in June.

Instead, the contraction of net sales of **replacement equipment** was concentrated in Europe, particularly in Mediterranean countries, whose negative growth rates remained stuck at double-digit levels. The trend for net sales in South America remained constant at the rate reported in 2Q 2011, while the NAFTA area showed improvement from 1Q 2012.
In 2Q 2012 net sales by Pirelli totalled euro 951.5 million (+15.6% YOY), with an EBIT margin of 13.1% (+1 percentage point), while 74% of net sales were generated by the replacement market and 26% by the original equipment market.
Net sales in 1H 2012 totalled euro 1,948.1 million, up 17.4% from 1H 2011, with an EBIT margin of 14.5% that was almost 3 percentage points higher than a year earlier.
Premium products accounted for 50.5% of aggregate net sales and 80% of operating income.
In spite of the problems on international markets caused by the economic crisis, business results reflect the strategic focus on the premium segment, which continued to out-perform the overall market in 2Q 2012. This segment performed better than the market average, with strong growth in all geographical areas, with the exception of Europe, which was penalised especially in the Mediterranean countries.
Net sales of Pirelli premium products grew strongly in all areas, with aggregate growth of +15.3% in premium volumes.
In 2Q 2012 industrialisation of Pirelli products continued at the two factories that had been acquired in Russia, while the new production site in Mexico was opened.

Motorcycle Business (11% of net sales in consumer segment)

In 2Q 2012 the reference market for **original equipment** was negative both in Europe and in South America, while Pirelli net sales grew by 52% in the Apac area.
The reference markets contracted year-on-year in the **replacement** channel (which accounts for 77% of net sales), with the exception of Apac and Russia, where the markets expanded instead.
Consequently, net sales by Pirelli in 2Q 2012 were negatively impacted by the soft markets, falling to euro 103.0 million (-8.9% from the same period of 2011), with an EBIT margin of 20.4% (+1.7 percentage points from the previous year).
Net sales in 1H 2012 totalled euro 238.4 million, down 2.6% from 1H 2011, with an EBIT margin of 20.6%.
The sportiest-ever Pirelli tyre for road use was introduced on the market in 1H 2012. This is the new Diablo Supercorsa that equips the recent, super-sporty Ducati Panigale and debuted in its racing version for the Stock 1000 championship, which has the exclusive for sales throughout 2012.

Geographical Areas

Europe

The macroeconomic situation in this area was particularly unfavourable, especially in regard to performance of the replacement equipment market in southern Europe, which negatively impacted the performance of the market as a whole.

Nafta

The total volume of the replacement equipment market in the consumer tyre segment contracted sharply, at the same time the premium segment grew, and the original equipment market jumped by +22%.

Pirelli managed to maintain its market share in the premium segment by increasing its volumes by over 40% in this segment through strategic focusing and the positive impact of original equipment approvals.

South America

A growth strategy focused on the premium segment was also implemented in South America, with premium volumes consequently expanding steadily by about 87%. This allowed the Company to maintain its leadership and significantly improve its results year-on-year.

Apac

The concentration of capital expenditure to increase premium segment production capacity in China is beginning to bear fruit, as confirmed by the growth in premium revenues in that region by over 70% year-on-year. The positive performance of the premium segment more than doubled the operating income generated in that area.

INDUSTRIAL BUSINESS

The following table illustrates the results for 1H 2012 as compared with the corresponding period of 2011:

(milioni di euro)	Q1		Q2		1° HALF	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Net sales	390.8	401.2	379.4	417.5	770.2	818.7
yoy	*-2.6%*	*21.9%*	*-9.1%*	*10.0%*	*-5.9%*	*15.5%*
Gross operating profit before restructuring expenses	48.2	48.9	62.5	48.7	110.7	97.6
% of net sales	*12.3%*	*12.2%*	*16.5%*	*11.7%*	*14.4%*	*11.9%*
Operating income before restructuring expenses	33.2	35.9	47.8	36.0	81.0	71.9
% of net sales	*8.5%*	*8.9%*	*12.6%*	*8.6%*	*10.5%*	*8.8%*
Operating income	33.1	35.6	45.2	35.8	78.3	71.4
% of net sales	*8.5%*	*8.9%*	*11.9%*	*8.6%*	*10.2%*	*8.7%*

The following table shows the detailed breakdown of **market performance:**

	Q1	**Q2**	**1° HALF**
EUROPE (*)			
Original Equipment	-6%	-7%	-6%
Replacement	-30%	-26%	-28%
SOUTH AMERICA			
Original Equipment	-30%	-27%	-29%
Replacement	-13%	-7%	-10%
CINA			
Original Equipment	-24%	n.a.	-24% (at may 2012)
Original Equipment	+4%	n.a.	3% (at may 2012)
(*) excluding Russia			

Net sales in 2Q 2012 totalled euro 379.4 million, down 9.1% from the same period of 2011. Excluding the translation effect, the like-for-like change was a negative 6.0%. Volumes contracted by 11.3% and the price/mix component grew by 5.3%, with both figures being lower than in 1Q 2012. The result for 2Q 2012 was also negatively impacted by the reduction in activity at the Egyptian factory due to an on-going industrial action.

In 1H 2012 net sales fell by a total of 5.9% to euro 770.2 million.

	Q1		Q2		1° HALF	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Volume	-12.3%	-0.7%	-11.3%	-1.9%	-11.8%	-1.4%
Price/mix	11.2%	19.0%	5.3%	14.9%	8.2%	16.8%
Change on a like-for-like basis	**-1.1%**	**18.3%**	**-6.0%**	**13.0%**	**-3.6%**	**15.4%**
Translation effect	-1.5%	3.6%	-3.1%	-3.0%	-2.3%	0.1%
Total change	**-2.6%**	**21.9%**	**-9.1%**	**10.0%**	**-5.9%**	**15.5%**

Operating income in 1H 2012 totalled euro 78.3 million, with ROS of 10.2%, compared with operating income of euro 71.4 million in 1H 2011 (ROS of 8.7%).
In 2Q 2012 operating income was euro 45.2 million, with an EBIT margin of 11.9% (+3.3 percentage points higher than in 2Q 2011). The improvement in profitability resulted from the change in the price/mix component and reduction in the cost of raw materials (especially natural rubber), which more than offset the contraction in volumes.

Truck Business (76% of net sales in the industrial segment)

The global market continued contracting in 2Q 2012, which conditioned volumes to the point of forcing a cutback in output to balance stocks.
Nevertheless, the profitability of the truck business improved from 1Q 2012 in consequence of the simultaneous decrease in the cost for raw materials, especially natural rubber.
On the reference markets, turnover in the **original equipment** segment contracted sharply in 1H 2012. In particular, the downturn amounted to -6% in Europe, -24% in China and over -29% in South America, which was impacted by the phasing out of Euro 3 vehicles in favour of Euro 5 vehicles since the end of 2011.
The NAFTA area bucked this negative trend, being driven by the United States with growth of +20%.

In the **replacement** segment, the market contracted sharply almost everywhere from 2011, especially in Europe, which ended 1H 2012 down -28%, South America -10% and NAFTA -14%.

Due to the contracting market, production was cut by 21% in 2Q 2012 as compared with the previous year (after being cut 7% in 1Q 2012), with a more limited cut for All Steel Radial (-19%) and a deeper cut for Conventional tyres (-29%) to control inventory and reduce the negative impact on working capital.

Total output in 1H 2012 was down 15% from 1H 2011, with Radial All Steel -12% and Conventional -26%.

In 2Q 2012 net sales by Pirelli totalled euro 288.3 million (-7.5% from 2Q 2011), with an EBIT margin of 10.2%.

Net sales in 1H 2012 totalled euro 585.8 million, down 5.1% from 1H 2011, with an EBIT margin of 9.1% that was 1.8 percentage points higher than a year earlier.

The new Series 01 products were gradually introduced on the market during 1H 2012. In particular, these included the launch of the Winter product, with a series of demonstrations organised on snow and ice-covered roads to show journalists and customers the performance and safety features of our new products under extreme use conditions.

In addition to the new Series 01 Winter product for Europe, the Regional, Gravel and Semitrailer applications of the Series 01 were introduced in Istanbul for the Africa and Middle East markets, while the new Diamante Nero product was introduced in Egypt, representing the top of the line of Pirelli products offered in that country.

Agricultural Business (12% of net sales in the industrial segment)

Net sales in 2Q 2012 fell by 11.8%, with volumes decreased by 18%, resulting in a total of euro 88 million for 1H 2012, down 10.7% from 1H 2011, and an EBIT margin of 15.5%.

The business continues to be heavily focused on South America, which accounts for 85% of total turnover.

In Brazil the market grew by 2.3% in the replacement segment and 2.9% in the original equipment segment in the 1H 2012.

The reduction of net sales in Argentina also impacted this business, which suffered from the delayed soybean harvest season.

Steel Cord Business (12% of net sales in the industrial segment)

Net sales of steel cord in 2Q 2012 were lower than in the same period of 2011, with the consumer segment contracting by 8%, while the industrial segment (Truck+Agricultural/OTR) contracted by 21%. In spite of the market contraction, the hose wire product business, which is related to the production of high pressure pipes for new vehicles, grew by 10% due to the advantage of offering service from plants located close to customer locations.

The lower aggregate volumes and different sales mix made it necessary to reduce production in order to maintain an adequate level of inventories.

Geographical Areas

Europe

In the face of an extremely negative market situation during the period, Pirelli improved its competitive position by maintaining price levels in line with the last quarter of the previous year and improving its mix from the previous year.

Following introduction of the new Series 01 products started in 2011, the truck business currently offers a product range that satisfies new European regulations governing eco-sustainability and safety, which will go into effect during the year. The new winter segment will allow Pirelli to seize growth opportunities in the second half.

South America

Pirelli confirmed its leadership in the original equipment segment by increasing its market share, even if the Brazilian truck market shrank by about 30%.

The programme to focus on dealers and fleets was launched in the replacement segment, while the Formula brand product supporting Pirelli was introduced on the market.

Mea

The Turkish market performed similarly to the European market, with net sales down -19% in the replacement segment and -22% in the original equipment segment, while Pirelli still managed to improve its own position.

In 2Q 2012 the Egyptian market remained steady at the same level of the previous year, while a strike at the Pirelli plant in June impacted its overall performance.

Refocusing on the mix and repositioning of prices continued in Middle East Africa, benefiting from stable demand.

Apac

The Chinese market continued slowing down in 2Q 2012, especially in the Original Equipment channel. This trend led Pirelli to refocus on fleets and the mix offered to the domestic market and increase sales in other countries of the region.

BUSINESS OUTLOOK IN 2012

In the absence of unforeseeable events, **Pirelli confirms its 2012 earnings target** of at least euro 800 million, with an EBIT margin of more than 12% (compared with euro 580 million in 2011, and EBIT margin of 10.3%), although the macroeconomic situation remains critical. This result will be achieved by pursuing the strategy of value based on a focus on premium products (whose volumes are expected to increase by about 20%), on the forecast improvement in the price/mix component by 11-12%, and on a more intense efficiency improvement plan, whose target has risen by about euro 30 million to approximately euro 150 million (euro 120 million was the previous target).

The greater efficiencies, together with the lower impact of raw material costs (down euro 30 million, from euro 90 million to euro 60 million), will make it possible to absorb the costs connected with the acceleration towards premium products and reduced production of standard, low-profit tyres, which have been more heavily hit by the current economic crisis.

Following the accelerated reduction in exposure to the standard segment, the annual volume target in the consumer business has been revised to -2.5%/-3.5% (from the previous target of target -0.5/-1.5%). In the industrial business, which is more exposed to the business cycle and penalised by non-recurring factors such as the strike that has just ended in Egypt, as well as the delay in obtaining import licenses in Argentina, the volume target has been revised to -5/-6% (from the previous target of -2/-4%). The aggregate volume target has thus fallen to -3/-4% from the previous -1/-2%.

The targets for the joint venture in Russia are confirmed: net sales are expected to reach about euro 250 million, with a mid-single digit EBIT margin. Following acquisition of the Däckia distribution chain in Sweden last June, its net sales of about euro 50 million will be consolidated in the revenue target.

Due to the dynamics illustrated above, the target for net sales in all of 2012 has been revised to about euro 6.4 billion from the previous target of about euro 6.45 billion.

The forecast net financial (liquidity)/debt position is confirmed to be less than euro 1.1 billion after the payment of dividends. Capital expenditure during the year is forecast to be less than euro 500 million (while the previous target was about euro 500 million), and will be allocated mainly to expansion of capacity in the premium segment and improvement of quality and the product mix.

HIGHLIGHTS OF OTHER ACTIVITIES

The other businesses are comprised by Pirelli & C. Eco Technology S.p.A., Pirelli & C. Ambiente S.p.A., PZero S.r.l., while in 2011 they also included the Group holding and service companies, including the parent, Pirelli & C. S.p.A., which are now consolidated in the Tyre Business.

(in millions of euro)

	Pirelli Eco Technology		Pirelli Ambiente		Pzero		Other		Total other activities	
	1st half 2012	1st half 2011	**1st half 2012**	1st half 2011	**1st half 2012**	1st half 2011	**1st half 2012**	1st half 2011	**1st half 2012**	1st half 2011
Net sales	**15.6**	24.1	**0.6**	0.5	**5.3**	4.3	**-**	(0.5)	**21.5**	28.4
Gross operating profit before restructuring expenses	**(3.2)**	(4.0)	**(0.4)**	(4.1)	**(6.9)**	(4.4)	**-**	(4.5)	**(10.5)**	(17.0)
Operating income before restructuring expenses	**(5.0)**	(5.6)	**(0.7)**	(4.2)	**(7.2)**	(4.5)	**-**	(8.1)	**(12.9)**	(22.4)
Restructuring expenses	**-**	-	-	-	-	-	-	-	**-**	-
Operating income	**(5.0)**	(5.6)	**(0.7)**	(4.2)	**(7.2)**	(4.5)	**-**	(8.1)	**(12.9)**	(22.4)

At June 30, 2012 net sales totalled euro 21.5 million, compared with euro 28.4 million a year earlier, with the decrease being attributable entirely to Pirelli & C. Eco Technology.

The **operating loss** was euro 12.9 million, compared with an operating loss of euro 22.4 million in 1H 2011. Of this change, euro 8.1 million resulted from transfer of the financial and service activities to the Tyre Business in 2012, with the remaining part of the change resulting principally from consolidation of efficiency gains in the business organisations related to environmental products.

PARENT HIGHLIGHTS

The following table illustrates highlights of the parent's operating results, earnings and financial position:

(in millions of euro)	**6/30/2012**	6/30/2011	12/31/2011
Operating income (loss)	6.3	(9.5)	(23.8)
Net financial income and net income from equity investments	220.6	147.4	150.8
Net income of continuing operations	242.7	153.6	144.4
Prior period deferred tax assets - Italy	-	-	128.1
Net income	**242.7**	**153.6**	**272.5**
Non current financial assets	1,408.7	1,439.6	1,367.4
Equity	**1,832.4**	**1,657.9**	**1,740.6**
Net financial (liquidity)/debt position	(194.6)	(149.9)	(200.7)

At June 30, 2012 the parent company had total net income of euro 242.7 million, compared with euro 153.6 million at June 30, 2011. In 1H 2012 it received the balance of the euro 210.0 million dividend from its subsidiary Pirelli Tyre resulting from the Annual Report 2011.

The net financial (liquidity)/debt position was a positive euro 194.6 million (of which euro 160 million relate to the financial receivable from Prelios S.p.A.) and almost the same as at December 31, 2011 (when it was a positive euro 200.7 million). It was impacted in 1H 2012 by the collection of dividends from subsidiaries and other equity investments totalling euro 215.2 million, which were offset by payment of the euro 132.4 million dividend and rights issues at Pirelli EcoTechnology, Pirelli Ambiente and PZero totalling euro 77.5 million.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FIRST HALF

On **July 23, 2012** Giovanni Perissinotto gave notice of his resignation as Director of the Company.

ALTERNATIVE PERFORMANCE INDICATORS

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 IFRSs ("*Non-GAAP Measures*"). These performance measures are presented to facilitate understanding of Group operating performance and should not be construed as substitutes for the information required under the IFRSs.

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

- **Gross Operating Profit:** 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" and "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 "Explanatory notes to the condensed interim financial statements" presents a table showing the amounts in the balance sheet used to calculate the measure.

OTHER INFORMATION

Related party transactions

Pursuant to Article 5(8) of Consob Regulation no. 17221 of March 12, 2010, concerning related party transactions, and the subsequent Consob Resolution no. 17389 of June 23, 2010, the following disclosures are made for the period January 1, 2012 – June 30, 2012:

(i) no transactions of major significance were executed, as defined by the combined provisions of Article 3(1)(b) and Article 4(1)(a) of the aforementioned Consob regulation;

(ii) no other related party transactions were executed (as defined in Article 2427(2) Italian Civil Code) that had a material impact on the Group's financial position or earnings.

Moreover, there were no changes and/or developments affecting the related party transactions described in the last annual report that would have had a material impact on the Group's financial position or earnings, and no material related party transactions, including intercompany transactions, classifiable as non-recurring, unusual and/or atypical were executed in 1H 2012.

The information on related party transactions required pursuant to Consob Notice no. DEM/6064293 of July 28, 2006 is presented in the financial statements and in the Explanatory Note "Related party transactions" of the Condensed Interim Financial Statements at June 30, 2012.

In the 2010 financial year, the Board of Directors approved the Procedure for Related Party Transactions in view of, inter alia, implementing the aforementioned Consob regulation.

For more details on the Procedure for Related Party Transactions, please see the section Interests of Directors and Transactions with Related Parties in the Report on Corporate Governance and Structure of Share Ownership 2011.

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

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

At June 30, 2012, the Non-EU Companies that were directly or indirectly controlled by Pirelli & C. S.p.A. and of material interest pursuant to Article 36 of the Market Regulation were Pirelli Pens Ltd. (Brazil); Pirelli Tire LLC (USA); Pirelli Tyre Co. Ltd (China); Turk Pirelli Lastikleri A.S. (Turkey); Pirelli de Venezuela C.A. (Venezuela); Pirelli Neumaticos S.A.I.C. (Argentina).

Also under the terms of the same regulations, the Company has in place specific and appropriate "Group Operating Rules" which ensure immediate, constant and full compliance with the provisions contained in the said Consob Regulations[1]. Under the terms of the said Operating Rules, the competent corporate functions of the parent precisely and periodically identify and disclose all Non-EU Companies of material interest under the Market Regulations, and – with the necessary and timely collaboration of the companies involved – guarantee collection of the data and information and verification of the circumstances as required by Article 36 of the Market Regulations, ensuring that the information and figures provided by the subsidiaries are available in the event of a request by Consob. Furthermore, a regular flow of information is provided for in order to ensure that the Board of Statutory Auditors of the Company can carry out the required and appropriate audits. Finally, in keeping with the regulatory provisions, the above "Operating Rules" prescribe how the financial statements (the balance sheet and income statement) of material Non-EU Companies prepared for use in the half-yearly financial report are to be made available to the public.

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

The Board of Directors
Milan, July 26, 2012

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

HALF-YEARLY CORPORATE GOVERNANCE REPORT

* * *

The Company adopts the traditional administration and control system.

Pirelli's Corporate Governance system is based on: (i) the central role of the Board of Directors that is responsible for the strategic guidance and supervision of the Company's overall business activities, the Board has policy-making powers regarding the overall administration and the power to intervene directly in a series of significant decisions necessary or useful to achieve the company purpose; (ii) the central role of the independent Directors who represent the majority of the members of the Board of Directors (iii) consolidated disclosure practices concerning the choices and the processes to make business decisions and an effective internal control system; (iv) an innovative, pro-active risk management system; (v) a general remuneration and incentive system, in particular, in relation to the Managers associated with medium and long-term economic objectives in order to align the Management's interests with the interests of the Shareholders, by pursuing the priority objective of creating sustainable value in the medium/long term, by establishing a strong link between remuneration, on the one hand, individual performance and Pirelli's performance, on the other hand; (vi) a strict discipline in relation to potential conflicts of interest and solid ethical principles to execute transactions with related parties.

Pirelli has complied with the Self-Regulatory Code applicable to companies listed on the Italian Stock Exchange since the Code was first issued (in October 1999 and then complied with the Code issued in July 2002 and subsequently complied with the Code issued in March 2006).

In the Board of Directors' Meeting held on March 12, 2012, Pirelli declared its compliance with the new version of the Self-Regulatory Code (December 2011), published on the following website: *www.borsaitaliana.it*.

The governance system is formalised in the Ethical Code, in the Company Bylaws, in the Regulations for Shareholders' Meeting and in a series of principles and procedures which are updated periodically in relation to best practices.
In the interim financial report the Company voluntarily highlights the updates and additions made to its corporate governance system compared to the information contained in the annual report.
Pirelli was declared the "Best Corporate Governance in Italy" at the beginning of 2012, and for the second consecutive year, in the context of the World Finance Corporate Governance Award 2012. Moreover, Governance Metrics International (GMI) has confirmed the 10/10 ranking for Pirelli's corporate governance in the home market (the last “Country Ranking” in September 2010 assigned Italy an average rating of 5.25/10) and attributed an 8/10 rating in relation to the Global Market, reflecting the highest rating recorded by Italian companies.

Furthermore, Pirelli was the key sponsor at the ICGN Annual Conference held in Rio de Janeiro in June 2012, confirming the importance that the Corporate Governance themes represent for Pirelli.

* * *

The Board of Statutory Auditors' mandate expired with the approval of the financial statements at December 31, 2011. The Shareholders' Meeting held on May 10, 2012 therefore renewed the Board.

The list vote system was adopted and the so-called minority shareholders were able to appoint the Chairman of the Board of Statutory Auditors (Mr. Francesco Fallacara) and an Alternate Auditor (Mr. Andrea Lorenzatti). In particular, 2 lists were submitted to the Shareholders' Meeting: one list was presented by the shareholders participating in the Pirelli & C. Share Block Syndicate[1] (that obtained approximately 77.83% of the votes of voting capital represented in the Meeting[2]) and one list was presented by a group of asset management companies and financial intermediaries[3] (that obtained approximately 22.07% of the votes of voting capital represented in the Meeting). Those proposing the lists made the candidates' profiles available to the shareholders in order to enable the shareholders to become familiar with the candidates personal and professional characteristics, in advance, and that the candidates possessed the requirements to be qualified as independent, also considering the independence requirements established by the Self-Regulatory Code of the Italian Stock Exchange which are applicable to Directors.

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

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

[3] The minority list was presented by: Anima SGR S.p.A. (manager of the Prima Geo Italia and Anima Italia funds); APG Algemene Pesioen Groep N.V. (manager of the Stichting Depositary APG Developed Markets Equity Pool fund); Arca SGR S.p.A. (manager of the Arca Azioni Italia and Arca BB funds); AZ Fund Management S.A. (manager of the AZ Fund 1 Italian Trend fund); Credit Suisse Fund Management SA (manager of the Credit Suisse Porfolio Fund (LUX) Reddito (Euro) and CS Equity Fund (LUX) Italy funds); Eurizon Capital SGR (manager of the Eurizon Azioni Italia fund); Eurizon Capital SA (manager of the following Funds: Eurizon Stars Fund European Small Cap Equity, Eurizon Stars Fund – Italian Equity, Eurizon Easy Fund Equity Consumer Discretionary LTE and Eurizon Easy Fund Equity Small Cap Europe); Fideuram Investimenti SGR S.p.A. (manager of the Fideuram Italia fund); Fideuram Gestions SA (manager of the following funds: Fonditalia Equity Italy, Fonditalia Euro Cyclical, Fideuram Fund Equity Italy, Fideuram Fund Equtiy Europe Growth and Fideuram Fund Equity Europe); Interfund Sicav (manager of the Interfund Equity Italy fund); JP Morgan Asset Management (UK) Limited (manager of the following funds: JP Morgan Funds, Commingled Pension Trust Fund (International Equity Index) of JP Morgan Chase Bank N.A., Commingled Pension Trust Fund (Intrepid International) of JP Morgan Chase Bank N.A., JP Morgan European Investment Trust Plc., JP Morgan Fund Icvc – JPM Europe Dynamic (ex UK) Fund, JPM Fund Icvc – JPM Europe Fund, JP Morgan International Equity Index Fund, JP Morgan Intrepid European Fund and JP Morgan Intrepid International Fund); Mediolanum International Funds Limited – Challenge Funds, Mediolanum Gestione Fondi SGR S.p.A. (manager of the Mediolanum Flessibile Italia fund); Pioneer Investment Management SGR S.p.A. (manager of the Pioneer Italia Azionario crescita fund) and Pioneer Asset Management SA.

The curricula vitae of each elected Auditor were presented at the same time the lists were registered and were published on the Company's internet website, where they are constantly available.
The composition of the Board of Statutory Auditors at the date of this report is detailed below:

- Francesco Fallacara (Chairman);
- Enrico Laghi (Statutory Auditor);
- Antonella Carù (Statutory Auditor);
- Umile Sebastiano Iacovino (Alternate Auditor);
- Andrea Lorenzatti (Alternate Auditor).

After its renewal the Board of Statutory Auditors was immediately in line with the requirements envisaged by Law No. 120 dated July 12, 2011; Law No. 120 amended the Articles of the Unified Finance Law (TUF) concerning the composition of the administration (Article 147-ter) and control bodies (Article 148), establishing the requirement that the corporate bodies (on first application) shall include at least one fifth of the minority members. The new provisions will become applicable from the date of the first renewal of the administration and control bodies one year after the date the Law comes into force, therefore, in the case of Pirelli's Board of Statutory Auditors the Law becomes effective from the renewal of the Board foreseen with the Shareholders' Meeting to approve the financial statements at December 31, 2014.
The Shareholders' Meeting established that the fee payable to the Chairman of the Board of Statutory Auditors amounted to euro 75 thousand and the fee payable to each of the Statutory Auditors amounted to euro 50 thousand.

* * *

The Shareholders' Meeting also appointed the following persons as Company Directors: Ms. Manuela Soffientini (already co-opted in the Meeting held on March 1, 2012 to substitute Prof. Francesco Profumo) and Mr. Giuseppe Vita (already co-opted also in the Meeting held on March 1, 2012 to substitute Mr. Enrico Tommaso Cucchiani). Mr. Vita resigned as a Board Member on May 25, 2012 after having accepted the position as Chairman of Unicredit.

In the Board Meeting held on July 26, 2012, the Board appointed Mr. Carlo Salvatori as a Director to substitute Mr. Vita and took note of the resignations of Mr. Giovanni Perissinotto communicated on July 23, 2012.

The majority of the Board Members continues to be comprised of independent Directors at the date of this report (Board Members: Carlo Acutis, Anna Maria Artoni, Alberto Bombassei, Franco Bruni, Luigi Campiglio, Pietro Guindani, Paolo Ferro-Luzzi, Elisabetta Magistretti, Luigi Roth, Carlo Secchi, Manuela Soffientini). Furthermore, after the appointment of Ms. Soffientini, the female presence on the Board of Directors corresponds to 20% and is immediately in line with the requirements envisaged by Law No. 120 dated July 12, 2011, the provisions of this Law will become applicable to Pirelli's Board of Directors from the Board's renewal envisage with the Shareholders' Meeting to approve the financial statements at December 31, 2013.

It is important to note that in the Meeting held on July 26, 2012 the Board of Directors:

- appointed the following Board Members Alberto Bombassei and Manuela Soffientini as members of the Strategies Committee.

  Therefore, also taking into account the resignation of prof. Profumo and Mr. Gori, the Strategies Committee is comprised of the Chairman, Marco Tronchetti Provera (Committee Chairman); the Deputy Chairman Vittorio Malacalza and the Board Members Alberto Bombassei; Franco Bruni; Renato Pagliaro; Carlo Secchi; Manuela Soffientini and the General Counsel, Francesco Chiappetta;

- appointed the Statutory Auditor Antonella Carù as a member of the Supervisory Body to substitute prof. Paolo Domenico Sfameni, who terminated the position as a member of the Supervisory Body after terminating the office as a Statutory Auditor of the Company.

  Accordingly, the Supervisory Body comprises the Board Member, Carlo Secchi (Chairman of the Supervisory Body); the Statutory Auditor Antonella Carù and the Internal Audit Director Maurizio Bonzi.

During 2012, at the date of this report:

- the Board of Directors met 4 times;
- the Internal Control, Risks and Corporate Governance Committee met 4 times;
- the Remuneration Committee met 3 times;
- the Appointments and Successions Committee met once;
- the Strategies Committee met 2 times.

It is also confirmed that 2 meetings have already been held of only the independent directors.

* * *

It is also confirmed that the Shareholders' Meeting was called to express its opinion concerning Pirelli's “Remuneration Policy”, in addition to approving the annual financial statements and appointing the Board of Statutory Auditors.

Pirelli has defined a Remuneration Policy and has submitted this Policy to the Shareholders' consultation vote already starting from the 2011 financial year, one year before the mandatory requirement.

The Policy's definition is the result of a clear and transparent process in which the Company's Remuneration Committee and the Board of Directors have a central role.
The Shareholders' Meeting expressed its consent to the consultation with a percentage that exceeded 83% of the capital represented in the Meeting.
In the same Meeting, and with more than 98% of favourable votes, the Shareholders' approved the new 2012/2014 three-year monetary incentive Plan for the Pirelli Group's Management (“**LTI Plan”)** - related to the new challenging objectives of the 2012/2014 three-year period set out in the Industrial Plan presented to the financial community last November 9, 2011. The LTI Plan was submitted to the approval of the Shareholders' Meeting, since the Plan envisages, inter alia, that a part of the incentive is to be determined on the basis of a Total Shareholder Return objective calculated as Pirelli's performance compared to the FTSE/MIB Index Total Return – calculated periodically by FTSE and included in the Italian Stock Exchange database – as well as in relation to an index comprising the selected “peers” of the Tyres sector.

* * *

The Board of Directors assessed favourably the Company's new organisational structure in the Meeting held on March 12, 2012. In particular, Pirelli has decided to enhance its technological and commercial position associated with the different business areas in a market that is increasingly competitive and selective in relation to the product and is expanding continuously from the geographic point of view, by completing the redefinition of the organisational model initiated in October 2011 and by adopting a further shortening of the decision-making chain, in order to speed up the implementation of the action plans which originate from the Premium strategy.

The new structure envisages bypassing the Executive Office and the General Management and the simultaneous creation of two new roles which report directly to the Chairman and Chief Executive Officer, Marco Tronchetti Provera: the Chief Technical Officer (Cto) and the Chief Commercial Officer (Cco), the responsibility of which is entrusted to Maurizio Boiocchi and Andrea Pirondini, respectively.
The Planning and Controlling, the Operations and the Supply Chain functions also report directly to the Chairman, in addition to the staff functions, with the duty of providing support across all the businesses. Lastly, the Moto, Industrial (this segment incorporates truck, agro and steelcord), "Prodotti e Servizi per l'Ambiente" and the "PZero Moda" businesses report to the Chairman and CEO.
In particular, from the point of view of the geographical scenario, the new model foresees the redefinition of the various markets by identifying eight Regions corresponding to the various business macro-areas, in particular: Central Europe, South Europe, North-West Europe, Russia & Nordics, Africa, Me and India, Apac, Latam and Nafta, which will avail of the support of the functions listed previously.
The Regions will report to the Cco concerning all the sales and marketing business activities.

PIRELLI & C.

CONDENSED INTERIM FINANCIAL STATEMENTS

AT JUNE 30, 2012

CONSOLIDATED BALANCE SHEET (in thousands of euro)

		6/30/2012		12/31/2011 (*)	
			of which related parties		of which related parties
5	Property, plant and equipment	2,566,571	-	2,400,727	-
6	Intangible assets	1,001,701	-	909,614	-
7	Investments in associates	137,106	-	140,114	-
8	Other financial assets	108,019	-	127,037	-
9	Deferred tax assets	172,415	-	198,748	-
11	Other receivables	348,922	*160,462*	347,870	*161,013*
12	Tax receivables	9,856	-	10,156	-
	Non-current assets	**4,344,590**	**-**	**4,134,266**	**-**
13	Inventories	1,200,413	-	1,036,675	-
10	Trade receivables	964,250	*8,479*	745,238	*7,915*
11	Other receivables	379,109	*41,462*	281,737	*28,484*
14	Securities held for trading	171,228	-	160,503	-
15	Cash and cash equivalents	207,720	-	556,983	-
12	Tax receivables	35,618	-	29,484	-
23	Derivative financial instruments	66,259	-	70,346	-
	Current assets	**3,024,597**	**-**	**2,880,966**	**-**
	Total Assets	**7,369,187**	**-**	**7,015,232**	**-**
16.1	Equity attibutable to owners of the Parent:	2,195,276	-	2,146,099	-
	- Share capital	1,343,285	-	1,343,285	-
	- Reserves	632,529	-	351,206	-
	- Net income (loss)	219,462	-	451,608	-
16.2	Equity attributable to non-controlling interests:	51,599	-	45,479	-
	- Reserves	49,406	-	56,436	-
	- Net income (loss)	2,193	-	(10,957)	-
16	**Equity**	**2,246,875**	**-**	**2,191,578**	**-**
19	Borrowing from bank and other financial institutions	1,858,965	*2,925*	1,402,497	-
21	Other payables	65,885	-	53,980	-
17	Provisions for liabilities and charges	150,610	-	156,898	-
9	Provisions for deferred tax liabilities	41,714	-	36,298	-
18	Employee benefit obligations	502,393	-	481,736	-
22	Tax payable	4,419	-	4,817	-
	Non-current liabilities	**2,623,986**	**-**	**2,136,226**	**-**
19	Borrowing from bank and other financial institutions	556,624	*905*	369,451	*286*
20	Trade payable	1,148,962	*5,447*	1,382,772	*6,432*
21	Other payables	502,916	*2,547*	631,237	*42,521*
17	Provisions for liabilities and charges	114,869	-	124,671	-
22	Tax payables	57,236	-	75,385	-
23	Derivative financial instruments	117,719	-	103,912	-
	Current liabilities	**2,498,326**	**-**	**2,687,428**	**-**
	Total liabilities and equity	**7,369,187**	**-**	**7,015,232**	**-**

* The consolidated balance sheet has been restated to include retrospectivly the effects of the final purchase price allocation connected to the business combination "acquisition Russia". For more details see note 3 "Business Combinations".

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

CONSOLIDATED INCOME STATEMENT (in thousands of euro)

		1st HALF 2012		1st HALF 2011	
			of which related parties		of which related parties
25	Revenues from sales and services	3,021,771	*1,223*	2,789,252	*5,730*
26	Other income	72,385	*617*	73,938	*1,769*
	Change in inventories of work in progress, semi-finished and finished products	46,377	-	52,597	-
	Raw materials and consumables (net of change in inventories)	(1,119,746)	-	(1,124,039)	-
27	Personal expenses	(607,258)	*(8,175)*	(559,044)	*(1,593)*
	- of which non-recurring events	*(14,501)*	-	*(7,654)*	-
28	Amortisation,depreciation and impairment	(130,482)	-	(113,147)	-
29	Other costs	(884,222)	*(19,197)*	(830,875)	*(11,725)*
	Additions to property ,plant and equipment for internal work	1,875		1,393	
	Operating income	**400,700**		**290,075**	
30	Net income (loss) from equity investments	(2,692)		916	
	- share of net income (loss) of asscoiates and jv	*(2,376)*	*(2,376)*	*(286)*	*(286)*
	- gains on equity investments	*304*	-	*1,325*	-
	- losses on equity investments	*(1,221)*	-	*(556)*	-
	- dividends	*601*	-	*433*	-
31	Financial income	33,180	*7,781*	33,485	*3,806*
32	Financial expenses	(81,948)	-	(78,236)	-
	Net income (loss) before income tax	**349,240**		**246,240**	
33	Income tax	(127,585)		(87,473)	
	Net income (loss)	**221,655**		**158,767**	
	Attributable to:				
	Owners of the parent	219,462		161,741	
	Non-controlling interests	2,193		(2,974)	
35	**Earnings (losses) per share (euro per shares) basic earnings per share**	**0.45**		**0.33**	

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in thousands of euro)

		1st Half 2012		
		Gross	**Tax effect**	**Net**
A	**Net income (loss) for the period**			**221,655**
	Other components recognised in Equity:			
	(Gains) losses on other financial assets transferred to income statement, previously recognised in Equity	(239)	-	(239)
	(Gains) losses on cash flow hedges transferred to income statement, previously recognised in Equity	8,515	(912)	7,603
B	**(Gains) losses transferred to income statement previously recognised directly in Equity**	**8,276**	**(912)**	**7,364**
	Exchange differences from translation of foreign financial statements	2,527	-	2,527
	Fair value adjustment of other financial assets	(18,189)	-	(18,189)
	Net actuarial gains (losses) on employee benefits	(22,954)	2,632	(20,322)
	Fair value adjustment of derivatives designated as cash flow hedges	(14,278)	(212)	(14,490)
	Share of other components recognised in Equity related to associates and joint ventures	(257)	-	(257)
C	**Income (loss) recognised directly in Equity in the period**	**(53,151)**	**2,420**	**(50,731)**
B+C	**Total other components recognised in Equity**	**(44,875)**	**1,508**	**(43,367)**
A+B+C	**Total comprehensive income (loss)**			**178,288**
	Attributable to:			
	- Owners of the Parent			175,393
	- Non-controlling interests			2,895

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in thousands of euro)

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

	Attributable to:	
	- Owners of the Parent	94,936
	- Non-controlling interests	(5,950)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT JUNE 30, 2012

(in thousands of euro)

	Attributable to owners of the Parent						
	Share Capital	Translation reserve	Total IAS Reserves *	Other reserves/retained earnings	**Total attributable to owners of the Parent**	**Non controlling interests**	**TOTAL**
Total at 12/31/2011	**1,343,285**	**64,446**	**(513,494)**	**1,251,862**	**2,146,099**	**45,479**	**2,191,578**
Totale other components recognised in Equity	-	1,826	(45,894)	-	(44,068)	701	(43,367)
Net income (loss)	-	-	-	219,462	219,462	2,193	221,655
Total gains (losses)	-	**1,826**	**(45,894)**	**219,462**	**175,394**	**2,894**	**178,288**
Capital increases (decreases)	-	-	-	-	-	5,833	5,833
Dividends paid	-	-	-	(132,382)	(132,382)	(3,006)	(135,388)
Venezuela inflation effect	-	-	-	8,477	8,477	333	8,810
Other	-	-	335	(2,647)	(2,312)	66	(2,246)
Total at 6/30/2012	**1,343,285**	**66,272**	**(559,053)**	**1,344,772**	**2,195,276**	**51,599**	**2,246,875**

(in thousands of euro)

	Breakdown of IAS reserves *				
	Reserve for fair value adjustment of avaible-for-sale financial assets	Reserve for cash flow hedge	Reserve for actuarial gains/losses	Reserve for deferred taxes	**Total IAS reserve**
Balance at 12/31/2011	**(19,216)**	**(55,304)**	**(486,562)**	**47,588**	**(513,494)**
Total other components recognised in Equity	(18,428)	(6,020)	(22,954)	1,508	(45,894)
Other changes	-	-	335	-	335
Balance at 6/30/2012	**(37,644)**	**(61,324)**	**(509,181)**	**49,096**	**(559,053)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT JUNE 30, 2011

(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**		
Total at 12/31/2010	**1,375,733**	**127,427**	**(378,909)**	**866,580**	**1,990,831**	**37,152**	**2,027,983**
Totale other components recognised in Equity	-	(63,409)	(3,396)	-	(66,805)	(2,976)	(69,781)
Net income (loss)	-	-	-	161,741	161,741	(2,974)	158,767
Total gains (losses)	-	**(63,409)**	**(3,396)**	**161,741**	**94,936**	**(5,950)**	**88,986**
Capital increases (decreases)	(32,448)	-	-	32,448	-	4,401	4,401
Dividends paid	-	-	-	(81,113)	(81,113)	(2,393)	(83,506)
Venezuela inflation effect	-	-	-	9,233	9,233	363	9,596
Other	-	-	-	(268)	(268)	25	(243)
Total at 6/30/2011	**1,343,285**	**64,018**	**(382,305)**	**988,621**	**2,013,619**	**33,598**	**2,047,217**

(in thousands of euro)

	Breakdown of IAS reserves *				
	Reserve for fair value adjustment of avaible-for-sale financial assets	Reserve for cash flow hedge	Reserve for actuarial gains/losses	Reserve for deferred taxes	**Total IAS reserve**
Balance at 12/31/2010	**16,131**	**(27,509)**	**(405,889)**	**38,358**	**(378,909)**
Total other components recognised in Equity	775	8,327	(9,733)	(2,764)	(3,396)
Balance at 6/30/2011	**16,906**	**(19,183)**	**(415,622)**	**35,594**	**(382,305)**

CONSOLIDATED STATEMENT OF CASH FLOW (in thousands of euro)

		1st HALF 2012	of which related parties	1st HALF 2011	of which related parties
	Net income (loss) from continuing operations before taxes	349,240		246,240	
	Amortisation, depreciation, impairment losses and reversals of impaired property, plant and equipment and intangible assets	130,482		113,147	
	Reversal of financial expenses	81,948		78,236	
	Reversal of financial income	(33,180)		(33,485)	
	Reversal of dividends	(601)		(433)	
	Reversal of gains/(losses) on equity investments	917		(769)	
	Reversal of share of net income from associates and joint ventures	2,376		286	
	Income taxes	(127,585)		(87,473)	
	Change in inventories	(127,716)		(176,982)	
	Change in trade receivables	(207,928)		(156,864)	
	Change in trade payables	(260,530)		21,005	
	Change in other receivables/payables	(187,231)		(8,997)	
	Change in provisions for employee benefits and other provisions	7,867		1,338	
	Other changes	25,745		17,753	
A	**Net cash flows provided by (used in) operating activities**	**(346,196)**		**13,002**	
	Purchase of property, plant and equipment	(186,993)		(232,746)	
	Disposal of property, plant and equipment	2,050		11,004	
	Purchase of intangible assets	(7,912)		(1,386)	
	Acquisitions of equity investments in subsidiaries - Russia	(154,531)		-	
	Acquisitions of equity investments in subsidiaries - Brazil (Campneus)	(21,220)		-	
	Acquisitions of equity investments in subsidiaries - Sweden (Dackia) net of cash acquired	(69,717)		-	
	Disposals (Acquisition) of equity investments in associates and joint ventures	-		17,535	
	Disposals (Acquisition) of other financial assets	1,912	*(818)*	6,103	*(638)*
	Dividends received	601		433	
B	**Net cash flows provided by (used in) investing activities**	**(435,810)**		**(199,057)**	
	Increase (reduction) in Equity	5,833		4,401	
	Change in financial payables	644,290		253,419	
	Change in financial receivables	(42,097)		(39,059)	
	Financial income (expenses)	(48,768)		(44,751)	
	Dividends paid	(135,286)		(83,506)	
C	**Net cash flows provided by (used in) financing activities**	**423,972**		**90,504**	
D	**Total cash flows provided (used) during the period (A+B+C)**	**(358,034)**		**(95,551)**	
E	**Cash and cash equivalents at beginning of year**	**542,443**		**226,770**	
F	Exchange differences on translation of cash and cash equivalents	1,644		(9,168)	
G	**Cash and cash equivalents at end of the period (D+E+F) (°)**	**186,053**		**122,051**	
(°)	**of which:**				
	cash and cash equivalents	207,720		135,835	
	bank overdrafts	(21,667)		(13,784)	

The Statement of Cash Flows shows related party transactions only if they cannot be directly inferred from the other financial statements. They are detailed in note 36 of the Explanatory Notes, to which the reader is referred.

The reconciliation between cash and cash equivalents as shown on the balance sheet and cash and cash equivalents as shown on the statement of cash flows is illustrated in note 15.

EXPLANATORY NOTES

The Condensed Interim Financial Statements at June 30, 2012 of Pirelli & C S.p.A. were approved by the Board of Directors of Pirelli & C. S.p.A. on July 26, 2012.

1 . BASIS OF PRESENTATION

Pursuant to Art. 154 ter of Legislative Decree 158/1998, the Pirelli & C. Group has prepared the interim financial statements in a condensed form in accordance with IAS 34, which regulates interim financial reporting.

The Group has also applied the provisions of Consob Resolution No. 15519 of July 27, 2006 in regard to the formats of financial statements and Consob Notice No. 6064293 of July 28, 2006 in regard to corporate disclosure.

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

Financial Statements Formats

The condensed interim financial statements at June 30, 2012 consist of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Explanatory Notes, and are accompanied by the Management Report.

The format adopted for the Balance Sheet classifies assets and liabilities as current and non-current.

The Income Statement classifies costs by nature.

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

The Group has decided to present the tax effects and reclassifications to the Income Statement of gains/losses recognised 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 changes in the reserves that occurred during the period.

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

Scope of Consolidation

The scope of consolidation includes the subsidiaries, associates and investments in joint ventures.

All companies and entities whose financial and operating policies are subject to control by the Group are considered subsidiaries. This condition is normally satisfied when the Group owns more than half of the voting rights, unless it is clearly demonstrated that such ownership does not confer control. Subsidiaries are also considered to be those companies in which the Group has the power to control their financial and operating policies through agreements with other shareholders, even if it owns less than or up to one-half of the voting rights.

The financial statements of subsidiaries are included in the consolidated financial statements beginning on the date when control is acquired until the time when control is lost. Non-controlling interests in equity and net income (loss) are separately indicated on the consolidated Balance Sheet and Income Statement.

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

Companies in which two or more parties operate a business under joint control on the basis of a contractual or statutory agreement are considered joint ventures.

The principal changes in the scope of consolidation that occurred in 1H 2012 refer to the acquisitions of CJSC Voronezh Tyre Plant (Russia), Campneus Lider de Pneumaticos Ltda (Brazil) and Däckia Holding AB (Sweden). For more information, see the note below on "Business Combinations."

Consolidation Policies

The financial statements used for consolidation purposes are those of the companies included in the scope of consolidation, prepared at the reporting date of the parent and adjusted, as necessary, in accordance with the IAS/IFRSs applied by the Group.

The financial statements expressed in foreign currencies have been translated into euros at the year-end rates for the Balance Sheet and at the average exchange rates of the year for the Income Statement, with the exception of financial statements of companies operating in high-inflation countries, whose income statements are translated at the year-end exchange rates.

The differences arising from the translation of opening equity at year-end exchange rates have been recognised in the reserve for translation differences, together with the difference between the result for the year translated at the year-end rate and at the average rate for the year. The reserve for translation differences is recognised in the Income Statement upon disposal of the company that generated the reserve.

The consolidation policies may be summarised as follows:

- subsidiaries are consolidated on a line-by-line basis, according to which:
  - the assets, liabilities, revenue, and costs on the financial statements of subsidiaries are recognised in their full amounts, regardless of the percentage of ownership;
  - the carrying amount of investments is eliminated against the underlying share of equity;
  - the financial and operating transactions between companies consolidated on a line-by-line basis, including dividends distributed within the Group, are eliminated;
  - the non-controlling interest in equity and in income (loss) is presented separately on the Balance Sheet and Income Statement;

- investments in associates and joint ventures are accounted for by the equity method, on the basis of which the carrying amount of the investments is adjusted by:
  - the investor's share of the post-acquisition results of the associate or joint venture;
  - the allocable amount of profits and losses recognised directly in the equity of the associate or joint venture, in accordance with the reference accounting standards;
  - dividends paid by the associate or joint venture;
  - when the Group's share of the associate's/joint venture's losses exceeds the carrying amount of the investment in the financial statements, the carrying amount of the investment is eliminated and the share of any further losses is recognised in the "Provisions for liabilities and charges," to the extent that the Group has a contractual or implicit obligation to cover the losses;
  - the gains resulting from sales made by subsidiaries to joint ventures or associates are eliminated in an amount corresponding to the percentage of ownership in the acquiring company when the sale of the equity-accounted investment causes the Company to loses control over it. The corresponding residual amount of goodwill is counted when determining the gain or loss upon sale.

In the case of equity interests acquired after acquisition of a controlling interest, any difference between the purchase cost and the corresponding fraction of acquired equity is recognised in equity. Likewise, the effects of disposing of non-controlling interests without loss of control are also recognised in equity.

2. ADOPTED ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the historic cost method, with the exception of:

- derivative financial instruments, financial instruments held for trading, and available-for-sale financial assets, which are measured at fair value;
- financial statements of companies operating in hyperinflationary economies, which are prepared according to the current cost method.

Business combinations

Corporate acquisitions are accounted for by using the acquisition method.

When a controlling interest in a company is acquired, goodwill is calculated as the difference between:

- the price paid plus any non-controlling interests in the acquired entity. These latter interests are measured at fair value (if this option is chosen for the acquisition in question) or in proportion to the share of the non-controlling interest in the net assets of the acquired entity;
- the fair value of the acquired assets and liabilities.

If this difference is negative, that difference is immediately recognised as income in the Income Statement.

In the case of acquisition of control of an entity in which a non-controlling interest is already held (step acquisition), the investment held previously must be recognised at fair value through profit or loss.

The costs for the business combination are recognised in the Income Statement.

Contingent consideration, i.e. 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 recognised and measured at fair value at the acquisition date as a portion of the consideration transferred in exchange for the acquisition itself. Subsequent changes in the fair value of these agreements are normally recognised in the Income Statement.

Intangible assets

Intangible assets having finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation begins when the asset is available for use or operable in the opinion of management and ceases on the date when the asset is classified as held for sale or is derecognised.

Gains and losses resulting from the sale or disposal of an intangible asset are determined as the difference between the net sale proceeds and the carrying amount of the asset.

Goodwill

Since this is an intangible asset with an indefinite useful life, goodwill is not amortised.

Goodwill is tested for impairment in order to identify any impairment losses at least annually or whenever there are indications of an impairment loss, and is allocated to cash generating units for this purpose.

Trademarks and licenses

Trademarks and licenses are measured at cost less accumulated amortisation and accumulated impairment losses. The cost is amortised over the contract period or the useful lives of the assets, whichever is shorter.

Software

Software license costs, including direct incidental costs, are capitalised and recognised net of accumulated amortisation and accumulated impairment losses. Software is amortised over its useful life on a straight-line basis.

Research and development

Research costs for new products and/or processes are expensed when incurred.

There are no development costs that satisfy the conditions for capitalisation under IAS 38.

The useful lives of intangible assets are illustrated as follows:

Trademarks and licenses	5 years
Software	from 2 to 3 years

Property, plant and equipment

Property, plant and equipment are recognised at the cost of acquisition or production, including directly attributable incidental expenses.

Subsequent expenditure and the cost of replacing certain parts of property, plant and equipment are capitalised only if they increase the future economic benefits inherent in the affected asset. All other costs are expensed as incurred. When the cost of replacing certain parts is capitalised, the carrying amount of the replaced part is recognised in the Income Statement.

Property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses, except for land, which is not depreciated and is recognised at cost less accumulated impairment losses.

Depreciation is recognised starting from the month in which the asset is available for use, or is potentially capable of providing the economic benefits associated with it.

Depreciation is charged monthly on a straight-line basis at rates that allow depreciating the assets until the end of their useful life or, in the case of disposal, until the last month of use.

The applied depreciation rates are illustrated as follows:

Buildings	3% - 10%
Plant	7% - 20%
Machinery	5% - 20%
Equipment	10% - 33%
Furniture	10% - 33%
Motor vehicles	10% - 25%

Government grants related to assets referring to property, plant and equipment are recognised as deferred income and credited to the income statement over the period of depreciation of the relevant assets.

Borrowing costs directly attributable to the purchase, construction or production of a qualifying asset are capitalised as part of the cost of the asset. A qualifying asset is one that requires substantial time in order to be prepared for use. The capitalisation of borrowing costs ceases when substantially all the activities necessary to render the qualifying asset available for use have been completed.

Leasehold improvements are classified as property, plant and equipment, consistently with the nature of the cost incurred. The depreciation period corresponds to the remaining useful life of the asset or the residual period of the lease agreement, whichever is shorter.

Spare parts of significant value are capitalised and depreciated over the estimated useful life of the assets to which they refer.

Any dismantling costs are estimated and added to the cost of property, plant and equipment with a corresponding accrual to provisions for liabilities and charges if the prerequisites for establishing such provisions are satisfied. They are then depreciated over the remaining useful life of the assets to which they refer.

Assets acquired under finance lease agreements, in which substantially all the risks and rewards of ownership are transferred to the Group, are recognised as property, plant and equipment at their fair value or, if lower, at the present value of the minimum lease payments, with a corresponding entry for the relevant financial payable. The lease instalment payments are allocated between interest expense, which is recognised in the Income Statement, and principal repayment, which is recorded as a reduction of the financial payable.

Leases in which the lessor maintains substantially all the risks and rewards associated with ownership are classified as operating leases. The costs referring to an operating lease are recognised as an expense in the Income Statement over the lease term on a straight-line basis.

Property, plant and equipment are derecognised at the time of disposal or retirement from use and, consequently, when no future economic benefits are expected to derive from their sale or use.

Gains and losses resulting from the sale or disposal of property, plant and equipment are determined as the difference between the net sale proceeds and the carrying amount of the asset.

Impairment of assets

Property, plant and equipment and intangible assets

Whenever there are specific indicators of impairment, and at least annually for intangible assets with indefinite life, including goodwill, property, plant and equipment and intangible assets are tested for impairment.

The test consists of an estimate of the recoverable amount of the asset and a comparison with its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use, where the latter is the present value of the expected future cash flows arising from the use of the asset and those deriving from its disposal at the end of its useful life, excluding income taxes and applying a discount rate, which should be the pre-tax rate which reflects the current market assessments of the time value of the money and the risks specific to the asset.

If the recoverable amount is lower than the asset carrying amount, the latter is reduced to the recoverable amount. This reduction constitutes an impairment loss, which is recognised in the Income Statement.

In order to assess impairment, assets are allocated to the lowest level at which independent cash flows are separately identifiable (cash generating units). Specifically, goodwill must be allocated to the cash generating unit or group of cash generating units, complying with the maximum level of aggregation allowed, which must never be greater than the operating segment.

When there is evidence that an impairment loss recognised in previous years and relating to property, plant and equipment or intangible assets other than goodwill may no longer exist or can be reduced, the recoverable amount is estimated again. If it is higher than the net carrying amount, then the net carrying amount should be increased to the revised estimate of its recoverable amount. The reversal of an impairment loss may not exceed the carrying amount that would have been recognised (net of impairment and depreciation or amortisation) had no impairment loss been recognised in previous years.

The reversal of an impairment loss other than goodwill is recognised in the Income Statement.

An impairment loss recognised for goodwill may not be reversed in subsequent years.

An impairment loss recognised for goodwill in the interim (half-yearly) financial statements may not be reversed in the income statement for the subsequent annual period.

Investments in associates and joint ventures

When there are indicators of impairment, the value of investments in associates and joint ventures accounted for using the equity method must be compared with the recoverable amount ("impairment test"). The recoverable amount corresponds to the higher of the fair value, less selling costs, and the value in use. There is no need to estimate both amounts because it is sufficient to verify that one of the two amounts is higher than the carrying amount in order to establish that no impairment has occurred.

For the purposes of impairment testing, the fair value of an investment in an associate or joint venture with shares listed on an active market is always equal to its market value, irrespective of the percentage of ownership.

For the purpose of determining the value in use of an associate or joint venture, the following estimates should be made alternatively:

a) the share of the present value of estimated future cash flows that are expected to be generated by the associate or joint venture, including cash flows deriving from the operating activities of the associate or joint venture and the consideration that will be received upon final disposal of the investment (known as the Discounted Cash Flow – asset side method);
b) the present value of estimated future cash flows that are expected to arise from dividends to be received and from final disposal of the investment (known as the Dividend Discount model – equity side).

If there is evidence that an impairment loss recognised in previous years may no longer exist or can be reduced, the recoverable amount of the investment is estimated again, and if it is higher than the amount of the investment, then the latter amount should be increased up to the recoverable amount.

The reversal of an impairment loss may not exceed the amount of the investment that would have been recognised (net of impairment) had no impairment loss been recognised in previous years.

The reversal of an impairment loss on investments in associates and joint ventures is recognised in the Income Statement.

Available-for-sale financial assets

The category of available-for-sale financial assets includes investments in entities other than subsidiaries, associates and joint ventures and other financial instruments not held for trading. They are recognised on the Balance Sheet at the item "Other financial assets."

They are measured at fair value, if this can be reliably determined.

Gains and losses deriving from changes in fair value are recognised in a specific equity reserve.

When a reduction in fair value has been recognised directly in equity and there is objective evidence that the asset was impaired, the losses recognised up to that time in equity are recognised in the Income Statement. A prolonged (i.e. for more than 12 months) or material (i.e. more than 50% for financial instruments issued by the banking sector and more than one third for financial instruments issued by entities in other sectors) reduction in the fair value of equity instruments as compared with their cost represents objective evidence of impairment. Beginning with these interim financial statements, the quantitative threshold has been raised from 1/3 to 50% for financial instruments issued by the banking sector due to the exceptional increase in volatility in that sector. The threshold was revised on the basis of an updated historic analysis carried out in 2008 and merely reflects the adjustments made in response to the new conditions that now prevail. The significant increase in financial market volatility, especially in the banking sector, has generated exceptional circumstances that prompted a revision in the quantitative threshold for definition of impairment of financial instruments issued by that sector. Instead, the criterion used to define the minimum length of time qualifying a loss as "permanent" (12 months) has not been altered. The accounting effects of this change are illustrated below in note 8 ("Other financial assets").

In the event of disposal, the gains and losses recognised up to that time in equity are recognised in the Income Statement.

Any impairment losses of an available-for-sale financial asset recognised in the Income Statement may be reversed through the Income Statement, with the exception of those recognised for stocks classified as available for sale, which may not be reversed through the Income Statement.

Available-for-sale financial assets, whether debt or equity instruments for which fair value is not available, are accounted for at cost, reduced by any impairment losses based on the best market information available at the Balance Sheet date.

Purchases and sales of available-for-sale financial assets are accounted for at the settlement date.

Inventories

Inventories are measured at the lower of cost, determined according to the FIFO method, and their estimated realisable value.

The measurement of inventories includes direct costs of materials and labour and indirect costs. Provisions are calculated for obsolete and slow-moving inventories, taking into account their expected future use and estimated realisable value. The realisable value is the estimated selling price, net of all costs estimated to complete the asset and selling and distribution costs that will be incurred.

Cost includes incremental expenses and borrowing costs qualifying for capitalisation, similarly to what has been described for property, plant and equipment.

Construction contracts

A construction contract is a contract specifically negotiated for the construction of an asset, based on the instructions of a principal who, as a preliminary step, designs the plans and the technical characteristics.

Contract revenues include the consideration initially agreed with the customer, as well as changes in the construction work and price variations envisaged by the contract that can be determined reliably.

When the outcome of a contract can be estimated reliably, the contract revenues and costs are measured using the percentage of completion method. The stage of completion is determined with reference to the costs incurred up to the Balance Sheet date as a percentage of the total estimated costs for each contract.

Costs incurred in connection with future activities on the contract are excluded from contract costs when determining the stage of completion and are recognised as inventories.

When total contract costs are expected to exceed total contract revenues, the expected loss is immediately recognised as an expense.

The gross amount due from customers for contract work for all the contracts in progress and for which the costs incurred plus recognised profit (or net of recognised losses) exceed progress billings is recognised as a receivable, under the item "trade receivables."

The gross amount due to customers for contract work for all the contracts in progress and for which the progress billings exceed the costs incurred plus recognised profit (or net of recognised losses) is recognised as a payable, under the item "trade payables."

Receivables

Receivables are initially recognised at their fair value, which normally corresponds to the consideration agreed or to the present value of the amount that will be collected.

They are subsequently measured at amortised cost, less provisions for impairment losses.

The amortised cost is calculated by using the effective interest rate method, which is equivalent to the discount rate that, when applied to future cash flow, renders the present value of that flow equal to its initial fair value.

Impairment losses on receivables are calculated according to counterparty default risk, which is determined by considering available information on the solvency of the counterparty and historic data.

The carrying amount of receivables is reduced indirectly by accruing provisions. Individual material positions that are objectively found to be partially or entirely uncollectable are impaired individually. The amount of the impairment loss reflects the estimate of future recoverable flows and the applicable date of collection, recovery costs and expenses, and the fair value of guarantees, if any.

The positions that are not written down individually are included in groups with similar characteristics in terms of credit risk, and they are impaired as a group on a rising percentage basis as the period during which they are overdue lengthens. The group impairment procedure also applies to receivables not yet due.

The impairment percentages are determined on the basis of historic experience and statistical data.

When the conditions that led to impairment of the receivables no longer exist, the impairment losses recognised in previous periods are reversed by crediting the Income Statement up to the amortised cost that would have been recognised had no impairment loss been recognised.

Receivables in currencies other than the functional currency of the individual companies are adjusted to the year-end exchange rates, with a balancing entry in the Income Statement.

Receivables are derecognised when the right to receive cash flows is extinguished, when substantially all the risks and rewards connected with holding the receivable have been transferred, or when the receivable is considered definitely irrecoverable after all necessary credit recovery procedures have been completed. When the receivable is eliminated, the relative provision is also reversed, if the receivable had previously been impaired.

Payables

Payables are initially recognised at their fair value, which normally corresponds to the consideration agreed or to the present value of the amount that will be paid. They are subsequently measured at amortised cost.

The amortised cost is calculated by using the effective interest rate method, which is equivalent to the discount rate that, when applied to future cash flow, renders the present value of that flow equal to its initial fair value.

Payables in currencies other than the functional currency of the individual companies are adjusted to the year-end exchange rates, with a balancing entry in the Income Statement.

Payables are derecognised when the specific contractual obligation is extinguished.

Financial assets carried at fair value through profit or loss

This category includes financial instruments that are purchased mainly for resale in the short term and classified under current assets as "securities held for trading," financial assets that are initially designated at fair value through profit or loss, classified as "other financial assets," and derivatives (except those designated as effective hedging instruments), classified as "derivative financial instruments."

They are measured at fair value with a balancing entry in the Income Statement. Transaction costs are expensed to the Income Statement.

Purchases and sales of these financial assets are accounted for at the settlement date.

Cash and cash equivalents

Cash and cash equivalents consist of bank and postal account deposits, cash and cash equivalents on hand, and other forms of short-term investment whose original maturity is three months or less. Bank overdrafts are classified amongst financial payables under current liabilities. The items included in cash and cash equivalents are recognised at fair value, and any changes are recognised in the Income Statement.

Provisions for other liabilities and charges

Provisions for other liabilities and charges include accruals for current obligations (legal or constructive) deriving from a past event, for the fulfilment of which an outflow of resources will probably be necessary and whose amount can be reliably estimated.

Changes in estimates are recognised in the Income Statement of the period when the change occurs.

If the effect of discounting is material, provisions are presented at their present value.

Employee benefit obligations

Employee benefits paid after termination of the employment relationship under defined benefit plans and other long-term benefits are subject to actuarial measurements. The liability recognised in the financial statements is the present value of the Group’s obligation, net of the fair value of any plan assets.

With regard to defined benefit plans, the Pirelli Group has elected the option allowed by IAS 19, under which actuarial gains and losses are fully recognised in equity in the financial year when they arise.

For other long-term benefits, actuarial gains and losses are recognised immediately in the Income Statement.

The interest expense and expected return on plan assets are recognised under personnel costs.

The costs relating to defined contribution plans are recognised in the Income Statement when incurred.

Until December 31, 2006, the provision for employees' leaving indemnities (TFR) of Italian companies was considered a defined benefit plan. The rules governing this provision were amended by Law 296 of December 27, 2006 ("2007 Italian Budget Act") and subsequent decrees and regulations issued in the early months of 2007. In light of these changes, and specifically in reference to Group companies with more than 50 employees, the provision is now considered a defined benefit plan for the portion accrued prior to January 1, 2007 (and not yet paid out at the reporting date), whereas subsequent to that date, it is considered a defined contribution plan.

Derivative financial instruments designated as hedging instruments

In accordance with IAS 39, hedging instruments are subject to hedge accounting only when:

- formal designation and documentation of the hedging relationship between the hedging derivative and the hedged item exist at the beginning of the hedge;
- it is expected that the hedge be highly effective;
- its effectiveness can be measured reliably;
- the hedge is highly effective during the various accounting periods for which it is designated.

These derivative instruments are recognised at fair value.

The following accounting treatment is applied according to the type of hedge:

- *Fair value hedge* – if a derivative financial instrument is designated as a hedge against exposure to changes in the fair value of an asset or liability attributable to a specific risk, the gain or loss resulting from subsequent changes in fair value of the hedging instrument is recognised in the Income Statement. For the portion attributable to the hedged risk, the gain or loss on the hedged item modifies the carrying value of that item (basis adjustment), and it is also recognised in the Income Statement;

- *Cash flow hedge* – if a derivative instrument is designated as a hedge against exposure to the variable cash flow of an asset or liability carried on the Balance Sheet or a highly likely future transaction, the effective portion of the change in fair value of the hedging instrument is recognised directly in equity, while the ineffective portion is immediately recognised in the Income Statement. The amounts recognised directly in equity are reversed to the Income Statement in the year when the hedged item produces an effect in the Income Statement.

  When a hedging instrument expires or is sold, terminated, exercised or no longer meets the criteria to be designated as a hedge, or whenever the designation is voluntarily revoked, hedge accounting is interrupted. The fair value adjustments accumulated in equity remain in equity until the hedged item produces an effect in the Income Statement. Subsequently they are reclassified to the Income Statement over the periods in which the acquired asset or assumed liability impact the Income Statement.

  When the hedged item is no longer expected to impact the Income Statement, the fair value adjustments accumulated in equity are immediately recognised in the Income Statement.

For the derivative instruments that do not satisfy the prerequisites established by IAS 39 for adoption of hedge accounting, please see the section “Financial assets carried at fair value in the Income Statement.”

Purchases and sales of these derivative financial instruments are accounted for at the settlement date.

Determination of the fair value of financial instruments

The fair value of financial instruments traded on an active market is based on listed market prices at the reporting date. The listed market price used for financial assets is the bid price, while for financial liabilities it is the ask price. The fair value of instruments that are not traded on an active market is determined by using measurement techniques with a variety of methods and assumptions that are based on market conditions at the balance sheet date.

The fair value of interest rate swaps is calculated as the present value of expected future cash flows.

The fair value of forward exchange contracts is determined by using the forward rate at the reporting date.

Income taxes

Current taxes are determined on the basis of a realistic forecast of the taxes payable under the current tax law of the country.

Deferred taxes are calculated according to the temporary differences existing between the asset and the liability amounts in the balance sheet and their tax basis (full liability method), and are classified under non-current assets and liabilities.

Deferred tax assets on tax loss carry-forwards, as well as on temporary differences, are only recognised when there is a likelihood of future recovery within the time horizon covered by the forecasts made in corporate business plans.

Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and when there is a legally enforceable right to offset. Deferred tax assets and liabilities are determined according to enacted tax rates that are expected to be applicable to taxable income in the years when those temporary differences are expected to be recovered or settled, with reference to the jurisdictions where the Group operates.

The deferred tax liabilities related to equity investments in subsidiaries, associates and joint ventures are not recognised if the participating entity can control the turnover of temporary differences and they are unlikely to arise in the foreseeable future.

Deferred taxes are not discounted.

Deferred tax assets and liabilities are credited or debited to equity if they refer to items that have been credited or debited directly in equity during the period or during previous periods.

Equity

Treasury shares

Treasury shares are recognised as a reduction in equity.

If they are sold, reissued or cancelled, the resulting gains or losses are recognised in equity.

Costs of equity transactions

Costs that are directly attributable to equity transactions of the parent are recognised as a reduction in equity.

Recognition of revenue

Revenue is measured at the fair value of the consideration received for the sale of products or provision of services.

Sales of products

Revenue from the sale of products is recognised when all the following conditions are met:

- the material risks and rewards of ownership of the goods are transferred to the buyer;
- effective control over the goods and the normal continuing level of activities associated with ownership have ceased;
- the amount of revenue is reliably determined;
- it is likely that the economic benefits deriving from the sale will be enjoyed by the enterprise;
- the costs incurred or to be incurred are determined reliably.

If the nature and extent of involvement of the seller are such as to cause that the risks and rewards of ownership are not in fact transferred, then the recognition date of the revenues is deferred until the date on which this transfer can be considered to have taken place.

Provision of services

Revenue from the provision of services is recognised only when the results of the transaction can be measured reliably, by reference to the state of completion of the transaction at the balance sheet date.

The results of a transaction can be measured reliably only when all the following conditions are met:

- the amount of revenue can be determined reliably;
- it is likely that that company will enjoy the economic benefits of the transaction;
- the stage of completion of the transaction at the reporting date can be reliably measured;
- the costs incurred for the transaction and the costs to be incurred to complete it can be determined reliably.

Interest income

Interest income is recognised on a time proportion basis that considers the effective return of the asset.

Royalty income

Royalty income is recognised on an accrual basis, according to the substance of the relevant agreement.

Dividends

Dividend income is recognised when the right to receive payment is established, which normally corresponds to the resolution passed by the Shareholders’ Meeting for the distribution of dividends.

Earnings (losses) per share

Earnings (losses) per share are calculated by dividing the income (loss) attributable to the equity holders of the company by the weighted average number of outstanding shares during the year. To calculate diluted earnings per share, the weighted average number of outstanding shares is adjusted by assuming the conversion of all shares having a potentially dilutive effect.

Operating segments

The operating segment is a part of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by top management in view of making decisions about resources to be allocated to the segment and assessing its performance, and for which discrete financial information is available.

Accounting policies for hyperinflationary countries

Group companies operating in high-inflation countries recalculate the amounts of their non-monetary assets and liabilities in their individual financial statements to eliminate the distorting effects caused by the loss of purchasing power of the currency. The inflation rate used for implementation of inflation accounting corresponds to the consumer price index.

Companies operating in countries where the cumulative inflation rate over a three-year period approximates or exceeds 100% adopt inflation accounting and discontinue it in the event that the cumulative inflation rate over a three-year period falls below 100%.

Gains or losses on the net monetary position are recognised in the Income Statement.

Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying value is recovered mainly through sale rather than through continuous use. This occurs if the non-current asset or disposal group are available for sale under current conditions and the sale is highly probable, that is a binding programme for sale has already begun, activities to find a buyer have already commenced and it is expected that the sale will be completed within one year after the classification date.

On the consolidated Balance Sheet, the non-current assets held for sale and the current and non-current assets/liabilities of the disposal group are presented as a separate item from other assets and liabilities, and their totals are reflected in current assets and liabilities, respectively.

Non-current assets classified as held for sale and disposal groups are measured at the lesser of their respective carrying value and fair value net of the costs of sale.

The property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Discontinued operations

A discontinued operation is a component that has been disposed of or classified as held for sale and that represents an important business unit or geographical area of activity, and pertains to a single, coordinated disposal programme.

On the consolidated income statement for the period, the net result of the discontinued operations, as well as the gain or loss resulting from fair value measurement net of the costs of sale or from disposal of the assets or disposal groups constituting the discontinued operation are combined in a single item at the end of the Income Statement separately from the result for continuing operations.

The cash flows for discontinued operations are shown separately in the statement of cash flows.

The foregoing information is also presented for the comparative period.

2.1 Accounting standards and interpretations endorsed and in force from January 1, 2012

- Amendments to IFRS 7 – Financial Instruments: Disclosures – Transfers of Financial Assets.
  These amendments seek to improve financial statement disclosure and consequently improve the transparency and comparability of transactions involving the transfer of financial assets (e.g. securitisations), including the possible effects of risks for which the transferor remains liable. Application of these amendments has no impact on the Group financial statements.

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

Pursuant to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, the new standards and/or interpretations that have been issued but are not yet in force or not yet endorsed by the European Union, and which are therefore not applicable, are mentioned and described briefly as follows.

None of these standards and interpretations has been adopted early by the Group.

- Amendments to IAS 1 – Presentation of Financial Statements – presentation of other components recognised in equity
  The main amendments to IAS 1 concern the new way to present other components recognised in equity on the Comprehensive Statement of Income: the other components recognised in equity will have to be grouped between those that may be recycled in future on the income statement and those for which this possibility is not envisaged.

  The following are examples of reclassification on the Income Statement: translation exchange differences, fair value adjustment of cash flow hedge derivatives, fair value adjustment of available-for-sale equity investments. The actuarial gains / losses for defined benefit pension plans are an example of items not subject to reclassification in the Income Statement.

These amendments were endorsed by the European Union in June 2012 (EC Regulation 475/2012) and are applicable from January 1, 2013. Future application of these amendments will have no impact on the Group consolidated financial statements.

- IAS 19 – Employee Benefits

  The amendment of IAS 19 is focused on the procedures used to account for defined benefit plans and termination benefits. The principal changes from the current standard concern:

  - defined benefit plans: actuarial gains/losses (renamed "remeasurements") must be immediately and fully recognised in the Comprehensive Statement of Income. The option that allowed not recognising actuarial gains/losses if they fell within a certain "corridor" ("corridor approach") will no longer be allowed;.
  - elimination of the "expected return on plan assets" and "interest expense," which will be replaced by a new quantity called "net interest," calculated by applying the discount rate now used only for the gross liability to the net liability (i.e. the gross liability net of the assets servicing the plan);
  - request for supplemental information to be included in the explanatory notes to the financial statements for improved illustration of the risks stemming from defined benefit plans;
  - termination benefits: according to the new standard, the factor that determines the timing for recognition in the financial statements is the fact that the entity may not withdraw the offered benefit, i.e. it is irrevocable. Accordingly, termination benefits can essentially be of two types:
    - benefits connected with a broader restructuring plan, where the entity may not withdraw the offer and the employee has no alternative to accepting it; in this case, the offer is considered irrevocable when the layoff plan is notified to the affected persons;
    - individual benefits that the business may theoretically withdraw at its discretion until acceptance by the employee: in this case, the offer becomes irrevocable when the employee accepts it.

These amendments were endorsed by the European Union in June 2012 (EC Regulation 475/2012) and are applicable from January 1, 2013. In regard to the foreseeable impact on the consolidated financial statements, it should be noted that elimination of the corridor approach will have no impact since the Group does not use this option. The other impacts are being analysed.

- IFRS 9 – Financial Instruments (issued in November 2009 and October 2010) and subsequent amendments (issued in December 2011)

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

  The IASB is studying the possibility of making limited changes to the system of recognition and measurement of financial instruments defined in IFRS 9 to account for interaction with other projects, including convergence with US GAAP. It is expected that a new Exposure Draft will be issued in 4Q 2012.

  The second phase of the project, concerning the impairment of financial instruments, and the third phase, concerning hedge accounting, led to the issuance of two Exposure Drafts in November 2009 and December 2010, respectively. A new Exposure Draft on the impairment of financial instruments is to be issued in 4Q 2012, while the new standard for hedge accounting is expected to be issued in 2H 2012.

The principal changes introduced by IFRS 9 in regard to financial assets can be summarised as follows:

- financial assets may be classified in only two categories – at fair value or at amortised cost. The categories of loans and receivables, available-for-sale financial assets and financial assets held to maturity are therefore eliminated. Classification within the two categories is made on the basis of the entity's business model and on the basis of the features of the cash flows generated by the assets themselves. Financial assets are measured at amortised cost if both the following requisites are met: the entity's business model envisages that financial assets are held to collect their cash flows (thus, substantially, not to make trading profits) and the characteristics of the cash flows of the assets correspond only to payment of principal and interest. Otherwise, financial assets must be measured at fair value;
- the accounting rules for embedded derivatives have been simplified: separate accounting for the embedded derivative and the "host" financial asset is no longer required;
- all equity instruments – both listed and unlisted – must be measured at fair value. IAS 39 stated instead that if fair value could not be determined reliably, unlisted equity instruments had to be measured at cost;
- the entity has the option of presenting in equity any change in the fair value of equity instruments not held for trading, while this option is forbidden for those held for trading. This designation is permitted at the time of initial recognition, may be adopted for a single financial instrument and is irrevocable. If this option is taken, the fair value changes of such instruments can never be reclassified from equity to the Income Statement (either in the event of impairment or in the event of sale). Dividends instead continue to be recognised in the Income Statement;
- reclassifications between the two categories of financial assets are not allowed, except in rare cases where there is a change in the entity's business model. In this case, the effects of the reclassification are applied prospectively;
- the disclosure required in the notes has been adapted to the classification and measurement rules introduced by IFRS 9.

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

This standard, which will come into force on January 1, 2015, has not been endorsed yet by the European Union. It is currently impossible to quantify the impact resulting from future application of this standard to the classification and measurement of financial assets. The changes affecting financial liabilities are not applicable to the Group.

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

  IAS 12 requires measurement of deferred taxes related to an asset or liability according to whether the book value of the asset is recovered through use or through sale. In the case of assets carried at fair value pursuant to IAS 40 – Investment Property, determining whether recovery is realised through use or sale might be difficult and subjective. These changes offer a practical solution to the problem, by allowing one to assume that investment property will be recovered entirely through sale. Consequently, SIC 21 – Income Taxes - Recovery of Revalued Non-Depreciable Assets is no longer applicable to investment property carried at fair value. The guidelines of SIC 21 that are still applicable have been incorporated in the amended version of IAS 12, and SIC 21 will consequently be abrogated.

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

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

  The amendments that have been introduced concern:

  - guidelines for preparing the financial statements in accordance with IFRSs after a period when application of IFRSs was suspended due to hyperinflation;
  - elimination of fixed dates upon first-time adoption of IFRSs. The entities that adopt IFRSs apply the requirements applicable to derecognition of financial assets and liabilities prospectively, i.e. they are no longer obligated to reconstruct transactions that occurred before first-time adoption of IFRSs and that led to derecognition of financial assets and liabilities.

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

- IFRS 10 – Consolidated Financial Statements

  The new standard replaces IAS 27 – Consolidated and Separate Financial Statements – for the portion relating to the consolidated financial statements – and SIC 12 – Consolidation – Special Purpose Entities. IAS 27 – renamed "Separate Financial Statements" – only contains the principles and guidelines to be used in preparing the separate financial statements.

  The new version of IFRS 10 defines just one control model that applies to all entities and represents the key factor in determining whether an entity has to be consolidated. Instead, the accounting treatment and consolidation procedures have not changed from what is currently envisaged in IAS 27.

The new control model introduces a greater degree of subjectivity and will demand that management exercise a higher standard of judgement to determine whether an entity is controlled and thus has to be consolidated. This new standard also explicitly envisages the possibility of controlling an entity even in the absence of a majority of votes (*de facto* control), a concept that was not explicitly stated in IAS 27.

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

- IAS 27 – Separate Financial Statements

  Following the introduction of the new IFRS 10 and 12, what remains of IAS 27 is limited to the accounting of subsidiaries, joint ventures and associates in the separate financial statements. These amendments, which will come into force on January 1, 2013, have not yet been endorsed by the European Union. Future application of these amendments will not impact the separate financial statements.

- IAS 28 – Investments in Associates and Joint Ventures

  Following the introduction of the new IFRS 10 and 12, IAS 28 has been renamed “Investments in Associates and Joint Ventures” and describes application of the equity method for equity investments in joint ventures, in addition to associates. These amendments, which will come into force on January 1, 2013, have not yet been endorsed by the European Union. Future application of these amendments will not impact the consolidated financial statements.

- IFRS 11 – Joint Arrangements

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

  – *joint operations:* these are agreements that give the parties of the agreement, which have joint control of the initiative, rights to the individual activity and obligations for the individual liabilities related to the agreement. In the case of joint operations, the assets, liabilities, costs and revenue of the agreement must be recognised on the basis of the applicable accounting standards;
  – *joint ventures:* a joint venture exists when the parties, which have joint control of the venture, do not have rights or obligations in relation to the individual assets or liabilities covered by the agreement, but only in relation to the net assets or net income (loss) of the venture. Joint ventures must be consolidated with the equity method, while IAS 31 allowed the option of choosing between proportional consolidation and consolidation according to the equity method.

  This standard, which will come into force on January 1, 2013, has not been endorsed yet by the European Union. No impact on the consolidated financial statements is expected.

- IFRS 12 – Disclosure of Interests in Other Entities

  IFRS 12 includes – and expands on – all the requirements governing the supplemental information that must be given in regard to subsidiaries, associates, joint arrangements and other equity investments ("structured entities"). Many of the disclosures required under IFRS 12 were previously included in IAS 27 – Consolidated and Separate Financial Statements, IAS 28 – Investments in Associates, and IAS 31 – Interests in Joint Ventures, while others are new.

  This standard, which will come into force on January 1, 2013, has not been endorsed yet by the European Union. The impact of disclosure on the consolidated financial statements following future application of this standard is being analysed.

IFRS 13 – Fair Value Measurement

IFRS 13 includes guidelines for determining fair value and required disclosures. The standard does not extend the use of fair value, but it provides rules for its determination and application when other principles allow or require it to be used.

This standard, which will come into force on January 1, 2013, has not been endorsed yet by the European Union. No impact on the consolidated financial statements is expected.

- Amendments to IFRS 7 – Financial Instruments: Disclosures – Offsetting of Financial Assets and Liabilities
  These amendments introduce the obligation of providing full disclosure in the notes of financial assets and liabilities offset on the basis of a statutory right to offsetting (e.g. net and gross amounts, guarantees granted and held). These amendments, which will come into force on January 1, 2013, have not yet been endorsed by the European Union. It is not expected that future application of this interpretation will have any impact on the Group financial statements.

- Amendments to IFRS 7 – Financial Instruments: Disclosures – First-time Application of IFRS 9
  These amendments introduce the obligation of providing additional quantitative information upon transition to IFRS 9 in order to clarify the effects of first-time adoption of IFRS 9 on the classification and measurement of financial instruments.

  These amendments, which will come into force on January 1, 2015, have not yet been endorsed by the European Union. The impact of future application of these amendments cannot be quantified at this time.

- Amendments to IAS 32 – Financial Instruments: Presentation – offsetting of financial assets and liabilities

  These amendments better clarify the significance of the requirements for offsetting financial assets and liabilities, already present in this standard, i.e.:

  - the significance of currently enjoying the statutory right to offsetting financial assets and liabilities;
  - the fact that in certain cases, realisation of the asset at the same time as extinguishment of the liability may be considered de facto extinguishment of a net amount.

  These amendments, which will come into force on January 1, 2014, have not yet been endorsed by the European Union. It is not expected that future application of this interpretation will have any impact on the Group financial statements.

- Amendments to IFRS 1 – Government Loans

  These amendments concern government loans received at below-market rates and allow a partial retrospective application of IFRSs during transition.

  These amendments, which are expected to come into force on January 1, 2013, have not yet been endorsed by the European Union. They will have no impact on the Group financial statements.

- “Improvements” to IFRSs (issued by the IASB in May 2012)
  As part of the project begun in 2009, the IASB has issued a series of amendments to five current standards. The following table summarises the standards and issues addressed by these amendments:

IFRS	**Subject of the amendment**
IFRS 1 – First-time Adoption of International Financial Reporting Standards	• IFRS 1 applies both when IFRSs are actually adopted for the first time and after a period of suspended application of IFRSs; • Treatment of financial expenses capitalised on the basis of different standards during transition to IFRSs
IAS 1 – Presentation of Financial Statements	Clarifications in regard to the comparative data that must be presented
IAS 16 – Property, Plant and Equipment	Classification of servicing equipment
IAS 32 – Financial Instruments: Presentation	Recognition of the tax effect of dividends paid to shareholders
IAS 34 – Interim Financial Reporting	Disclosure of all assets and liabilities of operating segments

These amendments, which are expected to come into force on January 1, 2013, have not yet been endorsed by the European Union. It is not expected that they will have any impact on the Group financial statements.

- Amendments to IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements and IFRS 12 – Disclosure of Interests in Other Entities – Transition Guide

  These amendments clarify the transitory rules for application of IFRS 10, which have been found too burdensome. They also limit the obligation to provide restated comparative data to only the comparative period preceding first-time application of IFRS 10, 11 and 12. In regard to the disclosures required by IFRS 12 in regard to interests held in other entities, these amendments eliminate the obligation of providing comparative information for periods prior to application of IFRS 12.

  These amendments, which are expected to come into force on January 1, 2013, have not yet been endorsed by the European Union. The impacts of these amendments on the Group financial statements are currently being studied.

Seasonal factors

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

Estimates and assumptions

The preparation of the condensed interim financial statements entails that management make estimates and assumptions which, under certain circumstances, are based on difficult and subjective assessments and estimates that are based on historical experience, and assumptions that are periodically considered reasonable and realistic in light of the circumstances. The results that actually emerge could therefore differ from such estimates. Estimates and assumptions are reviewed regularly and the effects of each change made to them are recognised in the Income Statement for the year when the estimate is revised if the revision itself only affects that period, or also in subsequent periods if the revision affects both the current period and future ones.

The estimates and assumptions relate mainly to assessments of the recoverability of intangible assets, to the definition of the useful lives of property, plant and equipment, to the recoverability of receivables, to the measurements of financial assets, to the recognition/measurement of provisions and pension schemes and to the definition of the thresholds used for impairment of available-for-sale financial assets (these thresholds were modified in 1H 2012, as illustrated above, with the effects described at note 8 below). The estimates and assumptions are based on data that reflect the current state of available knowledge.

3. BUSINESS COMBINATIONS

Kirov and Voronezh (Russia) acquisition

The acquisition of the factories at Kirov and Voronezh was completed in 1H 2012. In execution of the agreement signed on July 25, 2011 by Pirelli Tyre S.p.A. and Russian Technologies, on one side, and Sibur Holding, on the other side, the company E-Volution Tyre LLC (now renamed Pirelli Tyre Russia LLC), a Russian holding company that is 100% owned by E-Volution Tyre B.V., a joint venture formed on July 25, 2011 by Pirelli Tyre S.p.A., Russian Technologies and Fleming Family & Partners Asset Management Holdings Limited, acquired the second production site covered by the agreement (at Voronezh) on February 29, 2012, through the acquisition by Sibur Holding of 100% of the company CJSC Voronezh Tyre Plant.

The Voronezh plant will concentrate on making high-end tyres, with production capacity of 2 million units in 2012.

This transaction follows the transfer by Sibur Holding of the Kirov tyre plant on December 14, 2011.

The acquisitions of the Kirov and Voronezh production plants constitute a single business combination principally because the parties signed an agreement stipulating a single price for the entire transaction (with this consideration being “allocated” between the two acquired production sites only at a later time), and also because the existing put and call options granted to the buyer and seller, respectively, would have blocked closing on the purchase of the Kirov plant if purchase of the Voronezh plant had not been subsequently closed as well.

The fair value of the acquired identifiable assets and liabilities at the acquisition date is illustrated in the following table:

(in thousands of euro)

	Fair value recognised on acquisition
Property,plant and equipment	150,453
- Customer relationship	12,200
- Tradmarkes	13,000
- Other intangible assets	155
Intangible assets	25,355
Property, plant and equipment under construction	474
Deferred tax assets	238
Inventories	20,708
Trade receivables	13,754
Other recevibales	17,690
Cash and cash equivalents	2,418
	231,090
Trade payables	(6,464)
Other payables	(4,094)
Provision for liabilities and charges	(15,159)
Borrowings from bank and other financial institutions	(45,754)
	(71,471)
Fair value of total net identifiable assets acquired	**159,619**
Goodwill	36,116
Total consideration	**195,735**

The acquired assets and liabilities are broken down by production site as follows:

(in thousands of euro)

	Kirov 14/12/2011 provisional amounts	Adjustment	Voronezh 29/02/2012 provisional amounts	Total	Purchase Price Allocation	Total Russia acquisiton
Property,plant and equipment	18,090	-	88,252	106,342	44,111	150,453
- Customer relationship	-	-	-	-	12,200	12,200
- Tradmarkes	-	-	-	-	13,000	13,000
- Other intangible assets	155	-	-	155	-	155
Intangible assets	155	-	-	155	25,200	25,355
Property, plant and equipment under construction	474	-	-	474	-	474
Deferred tax assets	86	-	152	238	-	238
Inventories	14,264	-	6,444	20,708	-	20,708
Trade receivables	5,930	-	7,824	13,754	-	13,754
Other recevibales	1,687	-	16,003	17,690	-	17,690
Cash and cash equivalents	1,766	-	652	2,418	-	2,418
	42,452	-	*119,327*	*161,779*	*69,311*	*231,090*
Trade payables	(2,535)	-	(3,929)	(6,464)	-	(6,464)
Other payables	(713)	(1,205)	(2,176)	(4,094)	-	(4,094)
Provision for liabilities and charges	(56)	-	(103)	(159)	(15,000)	(15,159)
Borrowings from bank and other financial institutions	(29,772)	-	(15,982)	(45,754)	-	(45,754)
	(33,076)	*(1,205)*	*(22,190)*	*(56,471)*	*(15,000)*	*(71,471)*
Fair value of total net identifiable assets acquired	**9,376**	**(1,205)**	**97,137**	**105,308**	**54,311**	**159,619**
Goodwill	**86,127**	**4,426**	**(126)**	**90,427**	**(54,311)**	**36,116**
Contractual price	122,000	-	100,000	222,000		222,000
Financial receivable towards the acquired companies OJSC Kirov and CJSC Voronezh	(27,357)	-	(13,259)	(40,616)		(40,616)
Price adjustment	(9,140)	3,175	10,270	4,305		4,305
Contingent consideration ("*earn out*")	10,000	46	-	10,046		10,046
Total consideration	**95,503**	**3,221**	**97,011**	**195,735**		**195,735**

The agreement with the seller envisaged that Pirelli would take over from the seller financial receivables owed to the seller by the acquired entities OJCS Kirov and CJSC Voronezh for an aggregate total of euro 40,616 thousand. The consideration paid for the acquisition, including the consideration for taking over the aforementioned receivables, totalled euro 226,305 thousand, including euro 4,305 thousand as a price adjustment. The acquired cash and cash equivalents totalled euro 2,418 thousand, and thus the net cash flow associated to the acquisition is equal to euro 223,887 thousand (euro 154,531 thousand related to the 1H 2012).

The provisional goodwill recognised on December 14, 2011 (the closing date for transfer of ownership of the Kirov site) was euro 86,127 thousand. The closing for transfer of ownership of the Voronezh site took place in 1H 2012. The process of allocating the price paid to the fair value of the assets and liabilities acquired for the entire business combination (purchase price allocation – "PPA") was also completed in accordance with IFRS 3 – Business Combinations. The consequent calculation of the goodwill resulting from acquisition of the two production sites must be considered final.

The difference between the total consideration paid (euro 195,735 thousand) and the net acquired assets (euro 105,308 thousand) was added to the aggregate value of property, plant and equipment in the amount of euro 44,111 thousand and to the aggregate value of intangible assets in the amount of euro 25,200 thousand (of which euro 13,000 thousand for brands and trademarks and euro 12,200 thousand for customer relationships). Considering the related deferred tax effects of euro 15,000 thousand, the residual goodwill is thus euro 36,116 thousand.

The contract also envisages an earn out related to acquisition of the Kirov plant for a maximum of euro 15 million to be paid to the seller within 30 days after the date on which the annual financial report of the acquired company at December 31, 2012 will be made available. More in detail, the value of the earn out will be the greater of:

- 20% of the excess value of the 2012 contribution margin of the acquired company OJSC Kirov Tyre Plant over USD 70 million;
- 40% of the excess value of the 2012 operating income of the OJSC Kirov Tyre Plant over USD 22 million.

On the basis of the various market scenarios that have been elaborated, the best estimated value of the earn out at June 30, 2012 is euro 10,046 million. This amount has consequently been considered in the overall consideration paid for the acquisition.

The costs related to the transaction total euro 6,502 thousand. These costs mainly refer to various types of consultancy services that were necessary for best appraisal of the acquired site, and to determine the financial sustainability and appropriate price of the investment.

In consequence of the aforementioned final calculation of the fair value of the acquired assets and liabilities, the consolidated financial statement figures at December 31, 2011 have been restated, as illustrated below:

(in thousands of euro)

		12/31/2011	Adjustments and PPA Russia	12/31/2011 *restated*
5	Property, plant and equipment	2,356,616	44,111	2,400,727
6	Intangible assets	934,299	(24,685)	909,614
7	Investments in associates	140,114	-	140,114
8	Other financial assets	127,037	-	127,037
9	Deferred tax assets	198,748	-	198,748
11	Other receivables	347,870	-	347,870
12	Tax receivables	10,156	-	10,156
	Non-current assets	**4,114,840**	**19,426**	**4,134,266**
13	Inventories	1,036,675	-	1,036,675
10	Trade receivables	745,238	-	745,238
11	Other receivables	281,737	-	281,737
14	Securities held for trading	160,503	-	160,503
15	Cash and cash equivalents	556,983	-	556,983
12	Tax receivables	29,484	-	29,484
23	Derivative financial instruments	70,346	-	70,346
	Current assets	**2,880,966**	**-**	**2,880,966**
	Total Assets	**6,995,806**	**19,426**	**7,015,232**
16.1	Equity attibutable to owners of the Parent:	2,146,099		2,146,099
	- Share capital	1,343,285	-	1,343,285
	- Reserves	351,206	-	351,206
	- Net income (loss)	451,608	-	451,608
16.2	Equiti attributable to non-controlling interests:	45,479	-	45,479
	- Reserves	56,436	-	56,436
	- Net income (loss)	(10,957)	-	(10,957)
16	**Equity**	**2,191,578**	**-**	**2,191,578**
19	Borrowing from bank and other financial institutions	1,402,497	-	1,402,497
21	Other payables	53,980	-	53,980
17	Provisions for liabilities and charges	156,898	-	156,898
9	Provisions for deferred tax liabilities	21,298	15,000	36,298
18	Employee benefit obligations	481,736	-	481,736
22	Tax payable	4,817	-	4,817
23	Strumenti finanziari derivati	-	-	-
	Non-current liabilities	**2,121,226**	**15,000**	**2,136,226**
19	Borrowing from bank and other financial institutions	369,451	-	369,451
20	Trade payable	1,382,772	-	1,382,772
21	Other payables	626,811	4,426	631,237
17	Provisions for liabilities and charges	124,671	-	124,671
22	Tax payables	75,385	-	75,385
23	Derivative financial instruments	103,912	-	103,912
	Current liabilities	**2,683,002**	**4,426**	**2,687,428**
	Total liabilities and equity	**6,995,806**	**19,426**	**7,015,232**

Campneus (Brazil) Acquisition

On June 1, 2012 Pirelli Pneus Ltda, a Brazilian subsidiary of Pirelli Tyre S.p.A., through its subsidiary Comercial e Importadora de Pneus Ltda, acquired 60% of Campneus Lider de Pneumaticos Ltda from the Faria da Silva family. The acquired company is one of the principal tyre distribution chains in Brazil. Its purchase price, about real 54 million, or approximately euro 21.2 million, is subject to adjustment on the basis of the balance sheet at the closing date.

Through this acquisition, Pirelli aims to reinforce its market leadership in Brazil in both the retail and wholesale distribution sectors, promoting focus on the premium segment in the fastest growing areas and increasing the number of company-owned retail outlets from the present 48 to 102. The 54 acquired retail outlets already belong to the Pirelli distribution network in Brazil, which consists of over 600 stores. The Campneus stores will keep their own brand for sale of the full range of Pirelli tyres used on cars, light-trucks, trucks, bus, agricultural and earth-moving equipment and off-road vehicles.

The agreement contains a clause mandating acquisition of another 20% within two years for real 18 million or the lower amount resulting from a multiplier of average net sales during the last six months prior to the purchase date, if lower than real 18 million. The financial debt has been recognised in these condensed interim financial statements for the amount of real 18 million (about euro 7.1 million).

Moreover, another clause envisages that five years after the acquisition, Pirelli will have a call option on the remaining 20% for one year, and the seller will have a put option if Pirelli does not exercise its own call option, for the amount of real 18 million or the lower amount resulting from a multiplier of the average net sales during the twelve months prior to the option exercise date, if lower than real 18 million. Pursuant to IAS 32, the seller’s put option is qualified as a financial liability and has been recognised at its fair value, which is estimated to be real 18 million (about euro 7.1 million), as a balancing entry for the increased value of the investment in the subsidiary, insofar as the terms and conditions for determining the exercise price of the option substantially grant Pirelli immediate enjoyment of the benefits associated with ownership of the shareholding. The liability will be adjusted to fair value with a balancing entry in the income statement until exercise of the option.

The acquisition has led to the recognition of goodwill for euro 32,552 thousand, calculated on a provisional basis. The acquired assets and liabilities are broken down as follows:

(in thousands of euro)	
Property, plant and equipment	1,016
Intangible assets	173
Other assets	345
Inventories	12,780
Other receivables	5,130
	19,444
Trade payables	(12,899)
Other payables	(3,706)
Borrowing from banks and other financial institutions	(25)
	(16,630)
Total net identifiable assets acquired	**2,814**
Goodwill	**32,552**
Purchase of 60% shareholding	21,220
Purchase obligation of further 20% shareholding	7,073
Seller's put option on the residual 20% shareholding	7,073
Total consideration	**35,366**

The consideration paid for the acquisition totalled euro 21,220 thousand (for the 60% shareholding).

Since the acquisition took place on June 1, 2012, and thus shortly before approval of these condensed interim financial statements, the value of the acquired net assets indicated above, euro 2,813 thousand, must be considered provisional. The purchase price allocation to the fair value of the acquired assets and liabilities and the consequent determination of the final value of the goodwill resulting from the acquisition will be completed as soon as all information necessary to complete it will be available, in any case no later than 12 months after the acquisition (June 1, 2013).

The costs related to the transaction in 1H 2012 total euro 541 thousand. These costs have been recognised in the income statement under “other costs” and mainly refer to various advisory services provided in support of the acquisition process.

Däckia (Sweden) Acquisition

On June 13, 2012 Pirelli Tyre S.p.A., implementing its strategy to reinforce its position on high-growth markets in the high-end, and thus more profitable segments, acquired 100% of the share capital of Däckia Holding AB, one of the top multi-brand tyre distribution chains in Sweden, from the private equity fund Procuritas Capital Investors IV LP and other non-controlling shareholders.

This acquisition offers Pirelli a distribution platform allowing it to accelerate its penetration of Nordic countries. These offer a natural market for winter tyres, which contain a large proportion of high performance characteristics. The aggregate demand for tyres will be satisfied by tyres made at the factories recently acquired in Russia, and particularly the one at Voronezh, which is specialised in the high-end segment. Pirelli aims to become the principal supplier to Däckia which, with a retail market share of 13%, is one of the biggest tyre chains in Sweden.

The acquisition of Däckia represents another step in securing the commercial position of Pirelli on international markets characterised by growing demand in more profitable product segments.

The acquisition has led to the recognition of goodwill for euro 60,906 thousand, calculated on a provisional basis. The acquired assets and liabilities are broken down as follows:

(in thousands of euro)	
Property, plant and equipment	3,045
Finance leases	595
Intangible assets	856
Inventories	18,004
Trade receivables	5,875
Other receivables	2,601
Cash and cash equivalents	1,048
	32,024
Trade payables	(12,311)
Other poayables	(5,581)
Borrowing from banks and other financial institutions	(599)
Employee benefit obligations	(3,554)
Provision for liabilities anche charges	(120)
	(22,165)
Total net identifiable assets acquired	**9,859**
Goodwill	**60,906**
Total consideration	**70,765**

The consideration paid for the acquisition totalled euro 70,765 thousand, and the acquired cash and cash equivalents totalled euro 1,048 thousand, and thus the net cash flow associated to the acquisition is equal to euro 69,717 thousand.

Since the acquisition took place on June 13, 2012, and thus shortly before approval of these condensed interim financial statements, the value of the acquired net assets indicated above, euro 9,859 thousand, must be considered provisional. The purchase price allocation to the fair value of the acquired assets and liabilities and the consequent determination of the final value of the goodwill resulting from the acquisition will be completed as soon as all information necessary to complete it will be available, in any case no later than 12 months after the acquisition (June 13, 2013).

The costs related to the transaction in 1H 2012 total euro 631 thousand. These costs have been recognised in the income statement under "other costs" and mainly refer to various advisory services provided in support of the acquisition process.

4. OPERATING SEGMENTS

Following completion of a process of reorganisation as a "pure tyre company," the Tyre operating segment, which issued its own separate financial statements at December 31, 2011, was renamed "Total Tyre" at June 30, 2012. It includes not only the Tyre activities but also the data of the holding and service companies (including the parent company), which were reported under "Other activities" at December 31, 2011.

Consequently, the "Other activities" at June 30, 2012 include Pirelli Ecotechnology Group, Pirelli Ambiente Group and Pzero Group.

The comparative data at June 30, 2011 have consequently been restated.

The segment results for 1H 2012 are as follows:

(in thousands of euro)

	Total Tyre	Other activities	Eliminations and adjustments	TOTAL 1st Half 2012
Total net sales	**3,000,302**	**21,469**	**-**	**3,021,771**
Gross operating profit	**541,920**	**(10,547)**	(192)	**531,181**
Depreciation and amortisation	(128,079)	(2,402)	-	(130,481)
Operating income (loss)	**413,841**	**(12,949)**	(192)	**400,700**
Net income (loss) from equity investments	(775)	66	(1,983)	(2,692)
Financial income (expenses)	(47,334)	(1,434)	-	(48,768)
Net income (loss) before income taxes	**365,732**	**(14,317)**	**(2,175)**	**349,240**
Income taxes	(127,566)	(19)	-	(127,585)
Net income (loss)	**238,166**	**(14,336)**	**(2,175)**	**221,655**

The segment results for 1H 2011 were as follows:

(in thousands of euro)

	Total Tyre	Other activities	Eliminations and adjustments	TOTAL 1st Half 2011
Total net sales	**2,760,302**	**28,950**	**-**	**2,789,252**
Gross operating profit	**415,723**	**(12,501)**	-	**403,222**
Depreciation and amortisation	(111,325)	(1,822)	-	(113,147)
Operating income (loss)	**304,398**	**(14,323)**	-	**290,075**
Net income (loss) from equity investments	136,950	198	(136,232)	916
Financial income (expenses)	(43,143)	(1,608)	-	(44,751)
Net income (loss) before income taxes	**398,205**	**(15,733)**	**(136,232)**	**246,240**
Income taxes	(87,473)	-	-	(87,473)
Net income (loss)	**310,732**	**(15,733)**	**(136,232)**	**158,767**

Sales executed between the business segments are made on an arm’s length basis.

5. PROPERTY, PLANT AND EQUIPMENT

The breakdown and changes for tangible assets are shown as follows:

(in thousands of euro)

	6/30/2012			12/31/2011 *		
	Gross Amount	Accumulated Depreciation	Net Amount	Gross Amount	Accumulated Depreciation	Net Amount
Land	107,803	-	107,803	92,947	-	92,947
Buildings	1,077,420	(407,845)	669,575	1,008,432	(391,114)	617,318
Plant and machinery	3,495,899	(1,978,786)	1,517,113	3,337,527	(1,891,612)	1,445,915
Industrial and commercial equipment	694,648	(526,320)	168,328	650,694	(499,602)	151,092
Other assets	277,260	(173,508)	103,752	264,825	(171,370)	93,455
	5,653,030	**(3,086,459)**	**2,566,571**	**5,354,425**	**(2,953,698)**	**2,400,727**

* The amounts at 12/31/2011 has been restated to include the effects of the acquisition in Russia as described in note 3 "Business Combination"

GROSS AMOUNT (in thousands of euro)

	12/31/2011	Restated *	12/31/2011 restated	Hyperinflation Effect	Business combination effect	Transaltion differ.	Increases	Decreases	Reclassif.	Other	6/30/2012
Land	93,647	(700)	92,947	287	-	808	1,611	(20)	712	11,458	107,803
Buildings	970,824	37,608	1,008,432	3,151	29,585	765	18,483	(45)	13,144	3,905	1,077,420
Plant and machinery	3,322,727	14,800	3,337,527	3,554	50,994	(6,527)	133,620	(5,814)	(21,188)	3,733	3,495,899
Industrial and commercial equipment	650,694	-	650,694	1,020	10,954	(1,941)	17,730	(5,616)	19,059	2,748	694,648
Other assets	272,422	(7,597)	264,825	4,594	11,199	2,577	15,549	(9,427)	(11,727)	(330)	277,260
	5,310,314	**44,111**	**5,354,425**	**12,607**	**102,732**	**(4,318)**	**186,993**	**(20,922)**	**-**	**21,513**	**5,653,030**

ACCUMULATED DEPRECIATION (in thousands of euro)

	12/31/2011	Restated *	12/31/2011 restated	Hyperinflation Effect	Business combination effect	Transaltion differ.	Reclassif.	Decreases	Deprec.	Other	6/30/2012
Buildings	(391,114)	-	(391,114)	(2,774)	(249)	1,465	-	4	(15,228)	51	(407,845)
Plant and machinery	(1,891,612)	-	(1,891,612)	(2,786)	(1,149)	1,497	248	5,196	(80,874)	(9,306)	(1,978,786)
Industrial and commercial equipment	(499,602)	-	(499,602)	(919)	(8,033)	1,900	(187)	4,972	(23,811)	(640)	(526,320)
Other assets	(171,370)	-	(171,370)	(588)	(1,409)	(676)	(61)	8,700	(6,778)	(1,326)	(173,508)
	(2,953,698)	**-**	**(2,953,698)**	**(7,067)**	**(10,840)**	**4,186**	**-**	**18,872**	**(126,691)**	**(11,221)**	**(3,086,459)**

NET AMOUNT (in thousands of euro)

	12/31/2011	Restated *	12/31/2011 restated	Hyperinflation Effect	Business combination effect	Transaltion differ.	Increases	Decreases	Reclassif.	Depreciation	Other	6/30/2012
Land	93,647	(700)	92,947	287	-	808	1,611	(20)	712	-	11,458	107,803
Buildings	579,710	37,608	617,318	378	29,336	2,230	18,483	(41)	13,144	(15,228)	3,955	669,575
Plant and machinery	1,431,115	14,800	1,445,915	767	49,845	(5,030)	133,620	(618)	(20,940)	(80,874)	(5,572)	1,517,113
Industrial and commercial equipment	151,092	-	151,092	101	2,921	(41)	17,730	(644)	18,872	(23,811)	2,108	168,328
Other assets	101,052	(7,597)	93,455	4,007	9,790	1,901	15,549	(727)	(11,788)	(6,778)	(1,657)	103,752
	2,356,616	**44,111**	**2,400,727**	**5,540**	**91,892**	**(132)**	**186,993**	**(2,050)**	**-**	**(126,691)**	**10,291**	**2,566,571**

* The amounts at 12/31/2011 has been restated to include the effects of the acquisition in Russia as described in note 3 "Business Combination"

The **increases** in 1H 2012 were mainly concentrated in the Total Tyre segment, and are essentially related to continuation of the growth projects in South America, Romania and China, as well as the investments made for the new industrial plant in Mexico.

The ratio of capital expenditure in 1H 2012 to depreciation is 1.48 (2.80 at December 31, 2011).

The **change in the scope of consolidation** refers principally to the new acquisitions of Campneus in Brazil and Däckia in Sweden, as well as completion of acquisition of the plant at Voronezh in Russia (see note 3 “Business Combinations” for more details).

Construction in progress at June 30, 2012, included in the individual categories of property, plant and equipment, totalled euro 286,072 thousand (euro 373,611 thousand at December 31, 2011).

6. INTANGIBLE ASSETS

The breakdown and changes for intangible assets are shown as follows:

(in thousands of euro)

	12/31/2011	Adjustement *	12/31/2011 restated *	Translation differences	Effect of business combination	Increase	Decrease	Amortisation	Other	30/06/2012
Patents and intellectual property rights	31	-	31	-	-	-	-	(6)	-	25
Concessions/licenses/trademarks	7,898	13,000	20,898	(500)	-	161	(19)	(1,232)	(6,065)	13,243
Goodwill	915,321	(49,885)	865,436	266	-	93,458	-	-	-	959,160
Application software	8,376	-	8,376	15	843	4,249	(2)	(1,637)	147	11,991
Other intangible asstes	2,672	12,200	14,872	(665)	173	3,502	-	(915)	315	17,282
	934,298	**(24,685)**	**909,613**	**(884)**	**1,016**	**101,370**	**(21)**	**(3,790)**	**(5,603)**	**1,001,701**

* The amounts at 12/31/2011 have been restated to include the effects of the acquisition in Russia as described in note 3 "Business combinations"

Concessions, license and trademarks mainly refer to the fair value measurement of the Amtel trademark related to the acquisition in Russia (euro 13,000 thousand).

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

(in thousands of euro)

Operating segments	Cash generating unit	12/31/2011	Business combination effect	31/12/2011 restated	6/30/2012	Recoverable amount
Total Tyre	Consumer	517,165	32,962	550,127	550,393	Value in use
Total Tyre	Industrial	312,420	2,889	315,309	315,309	Value in use
Total Tyre	Unallocated goodwill - Russia acquisition	85,736	(85,736)			
Total Tyre	Unallocated goodwill - Campneus acquisition				32,552	
Total Tyre	Unallocated goodwill - Dackia acquisition				60,906	
		915,321	**(49,885)**	**865,436**	**959,160**	

The euro 93,458 thousand increase from December 31, 2011 is related to the acquisitions of Campneus (euro 32,552 thousand) and Däckia (euro 60,906 thousand); such goodwill are provisional and therefore at June 30, 2012 have not yet been allocated the cash generating units.

Please refer to note 3 “Business Combinations” for more information.

In the absence of any indication of impairment for goodwill since the Annual Financial Report at December 31, 2011, it was decided that the impairment test did not need to be updated.

The increase in the item **software application** refers principally to the completion of the new Digital Innovation system, for which two macro-initiatives have been undertaken in the knowledge management area: the Group intranet that gives access not only to corporate information but also useful work tools (e.g. applications, KPI, alerts, etc.) and the enterprise search engine.

The **other intangible assets** are largely comprised by the fair value measurement of customer relationships resulting from the acquisition in Russia (euro 12,220 thousand); the increase in the 1H 2012 mainly refers to the acquisition of the eight retail outlets in Brazil.

7. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The principal equity investments owned by the Group and changes in them during the period are illustrated as follows:

(in thousands of euro)

	12/31/2011	Distrib. of dividend	Share of net income	Components recognised in equity	6/30/2012
Eurostazioni S.p.A.	**60,892**	-	-	-	**60,892**
RCS MediaGroup S.p.A.	**39,870**	-	(1,271)	(257)	**38,342**
Sino Italian Wire Tech. Co Ltd	**10,944**	-	(1,297)	-	**9,647**
GWM Renewable Energy II S.p.A.	**26,681**	-	-	-	**26,681**
Others	**1,727**	(375)	192	-	**1,544**
Associates	**140,114**	(375)	(2,376)	(257)	**137,106**

For information about the **share of net income (loss),** reference is made to the comments on the income statement item “Share of net income (loss) of associates and joint ventures.”

8. OTHER FINANCIAL ASSETS

At June 30, 2012, these consisted exclusively of financial assets that fell in the category "available-for-sale financial assets" envisaged in IAS 39, and measured at fair value with a balancing entry in equity.

The following changes occurred during the period:

(in thousands of euro)

	6/30/2012
Opening balance	**127,037**
Increases	1,296
Decreases	(843)
Impairment	(1,218)
(Gains) losses trasferred to income statement for disposal or impairment losses, previously recosigned in Equity	(239)
Adjustement to fair value in Equity	(18,189)
Adjustement to fair value in Income Statement	172
Other	3
Closing balance	**108,019**

The **increases** refer to the capital increase related to the equity investment in F.C. Internazionale S.p.A. (euro 638 thousand) and in Equinox Two SCA (euro 658 thousand).

The **decreases** mainly refer to the equity investment in Advanced Digital Broadcast Holding S.A. (euro 665 thousand).

Impairment refers to the equity investment in Alitalia S.p.A. (euro 1,218 thousand).

The **adjustment to fair value in Equity,** totalling a negative euro 18,189 thousand, mainly refers to Mediobanca S.p.A. (euro 14,769 thousand), Fin. Priv. S.r.l. (euro 1,922 thousand), and Istituto Europeo di Oncologia S.r.l. (euro 1,121 thousand).

The **adjustment to fair value in the Income Statement** refers to the positive value of the equity investment in Advanced Digital Broadcast Holdings S.A. recognised in the income statement, insofar as Pirelli holds a put option on that equity investment, for which fair value hedge accounting was adopted. This gain was offset by the negative fair value measurement of this put option for euro 172 thousand (see note 23 "Derivative Financial Instruments" and note 30.2 "Gains from equity investments"), and thus with a net impact of zero in the Income Statement.

As illustrated in the section dedicated to accounting policies, the quantitative limit used to qualify a reduction in fair value below the cost of equity instruments as material has been raised from 1/3 to 50% for financial instruments issued by the banking and financial sector, in consequence of the exceptional growth in volatility of yields in that sector. If that limit had not been changed, the income statement in these condensed interim financial statements would have shown impairment of euro 42,172 thousand for available-for-sale financial instruments.

The breakdown of the item by individual investments is illustrated as follows:

(in thousands of euro)	6/30/2012					12/31/2011
	Historical cost	**Cumulated FV adjustments through equity**	**FV adjustments through P&L**		**Fair value**	**Fair value**
			Previous periods	**1st half 2012**		
Listed stock	**A**	**B**	**C**	**D**	**A+B+C+D**	
Mediobanca S.p.A.	90,247	(35,520)	-	-	54,727	69,496
Prelios S.p.A. (già Pirelli & C. Real Estate S.p.A.)	246	(175)	-	-	71	47
Advanced Digital Broadcast Holdings SA	2,046	196	(1,564)	172	850	1,560
Other companies	30	126	-	-	156	156
	92,569	**(35,373)**	**(1,564)**	**172**	**55,804**	**71,259**
Unlisted stock						
Alitalia S.p.A.	20,000	-	(10,300)	(1,218)	8,482	9,700
Fin. Priv. S.r.l.	14,458	(6,651)	-	-	7,807	9,728
Fondo Anastasia	13,250	(907)	-	-	12,343	12,343
Istituto Europeo di Oncologia S.r.l.	4,039	1,493	-	-	5,532	6,653
F.C. Internazionale Milano S.p.A.	6,655	-	-	-	6,655	6,017
Euroqube	373	274	-	-	647	1,028
Tlcom I LP	1,319	-	-	-	1,319	1,399
Emittenti Titoli	117	1,138	-	-	1,255	1,215
Equinox Two SCA	5,011	-	-	-	5,011	4,353
Other companies	3,324	(160)	-	-	3,164	3,342
	68,546	**(4,813)**	**(10,300)**	**(1,218)**	**52,215**	**55,778**
	161,115	**(40,186)**	**(11,864)**	**(1,046)**	**108,019**	**127,037**

9. DEFERRED TAX ASSETS AND PROVISION FOR DEFERRED TAX LIABILITIES

This item is broken down as follows:

(in thousands of euro)

	6/30/2012	12/31/2011
Deferred tax assets	172,415	198,748
Provision for deferred tax liabilities	(41,714)	(36,298) *
	130,701	**162,450**

* The amount of the provision for deferred tax liabilities at 12/31/2011 has been restated to include the effects of the acquisition in Russia as described in the note 3 "Business combinations".

The reduction in deferred tax assets is mainly related to the reduction in value of deferred tax assets for residual prior-period tax losses resulting from tax consolidation by Pirelli & C S.p.A. (euro 24,726 thousand) allocable to the period.

10. TRADE RECEIVABLES

Trade receivables may be broken down as follows:

(in thousands of euro)

	6/30/2012			12/31/2011		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Customers	1,024,868	-	1,024,868	813,173	-	813,173
Receivable for contract work	-	-	-	207	-	207
	1,024,868	**-**	**1,024,868**	**813,380**	-	**813,380**
Provision for bad debts	(60,618)	-	(60,618)	(68,142)	-	(68,142)
	964,250	**-**	**964,250**	**745,238**	-	**745,238**

The increase from December 31, 2011 is due to the growing value of business and seasonal changes.

11. OTHER RECEIVABLES

Other receivables may be broken down as follows:

(in thousands of euro)

	6/30/2012			12/31/2011		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Financial receivables	323,526	250,281	73,245	303,271	250,734	52,537
Trade and other accrued income and prepaid expenses	32,042	325	31,717	12,575	333	12,242
Receivables from employees	21,842	1,887	19,955	10,257	2,096	8,161
Receivables from social security and welfare institutions	5,213	-	5,213	2,575	-	2,575
Receivables from tax authorities non related to income taxes	153,221	7,732	145,489	129,868	8,527	121,341
Other receivables	192,286	88,697	103,589	171,135	86,180	84,955
	728,130	**348,922**	**379,208**	**629,681**	**347,870**	**281,811**
Provision for bad debts	(99)	-	(99)	(74)	-	(74)
	728,031	**348,922**	**379,109**	**629,607**	**347,870**	**281,737**

Non-current financial receivables (euro 250,281 thousand) refer primarily:

- to the euro 160 million loan made to Prelios S.p.A. and due in July 2017 (unchanged with respect to December 31, 2011). Full repayment must be made on the due date. The loan is subject to a variable rate (6-month Euribor + 7%);
- to euro 80,351 thousand (euro 81,332 thousand at December 31, 2011) deposited to guarantee tax and legal disputes in relation to the subsidiary Pirelli Pneus Ltda (Brazil), remunerated at market rates.

Current financial receivables (euro 73,245 thousand) refer primarily:

- to euro 29,409 thousand in receivables from associates (euro 24,763 thousand at December 31, 2011);
- to euro 26,242 thousand in deposits for margin calls on natural rubber future contracts (euro 17,444 thousand at December 31, 2011);
- euro 7,024 thousand for interest on the loan made to Prelios S.p.A. for euro 160 million, included in non-current financial receivables. This interest, which was originally scheduled to be received on June 30, 2012, has been deferred until June 30, 2013 following a comprehensive agreement signed by the company, the lending banks and Pirelli;
- euro 5,833 thousand for the receivable from the Indonesian partner PT Astra Otoparts for the construction of a new factory in Indonesia that will make conventional motorcycle tyres.

The **current other receivables** (euro 103,589 thousand) mainly consist of advances of euro 57,689 thousand (euro 50,399 thousand at December 31, 2011).

12. TAX RECEIVABLES

Tax receivables refer to income taxes and amount to euro 45,474 thousand (including euro 9,856 thousand in non-current assets), compared with euro 39,640 thousand at December 31, 2011 (including 10,156 thousand for non-current assets). They mainly refer to receivables for income taxes of the various associates (mainly referable to tax prepayments for the year), corporate income tax (IRPEG) for previous years paid by Pirelli & C. S.p.A, and receivables for taxes paid in previous years by the Brazilian and German units.

13. INVENTORIES

Inventories can be broken down as follows:

(in thousands of euro)

	6/30/2012	12/31/2011
Total Tyre	1,182,534	1,019,034
Other activities	17,879	17,641
	1,200,413	**1,036,675**

(in thousands of euro)

	6/30/2012	12/31/2011
Raw and auxiliary materials and consumables	317,870	305,540
Sundry materials	5,866	1,746
Work in progress and semi-finished products	102,381	96,048
Finished products	759,862	614,441
Goods for resale	10,745	9,997
Advances to suppliers	3,689	8,903
	1,200,413	**1,036,675**

The change in the value of inventories since December 31, 2011 largely reflects increased volumes concentrated in the consumer business, leading up to winter sales in the second half of the year and, to a lesser extent, the contraction in sale volumes and higher unit cost of materials.

Impairment losses on inventories recognised in 1H 2012 totalled euro 5,743 thousand (euro 5,097 thousand at December 31, 2011). The reversal of previous impairment totals euro 734 thousand (euro 7,268 thousand at December 31, 2011).

14. SECURITIES HELD FOR TRADING

Securities held for trading amount to euro 171,228 thousand, compared with euro 160,503 thousand at December 31, 2011.

They mainly consist of bonds issued and guaranteed by governments and banks. These investments are kept with major bank counterparties.

The fair value of listed financial instruments corresponds to their stock market price at June 30, 2012. The fair value of unlisted financial instruments was estimated by using the best information available.

The changes in fair value are recognised in the income statement in the item "Financial Income."

15. CASH AND CASH EQUIVALENTS

These amount to euro 207,720 thousand, compared with euro 556,983 thousand at December 31, 2011.

Cash and cash equivalents are concentrated in the Group's holding companies and at companies that generate cash and invest it locally. They are used essentially on the market for short-term maturity deposits with major banking counterparties at interest rates in line with the prevailing market terms.

In the statement of cash flows, the balance of cash and cash equivalents was indicated net of bank overdrafts, totalling Euro 21,667 thousand at June 30, 2012 (euro 13,784 thousand at June 30, 2011).

16. EQUITY

16.1 Equity attributable to owners of the Parent

The **equity attributable to owners of the Parent** rose from euro 2,146,099 thousand at December 31, 2011 to euro 2,195,276 thousand at June 30, 2012.

The net increase from December 31, 2011 was mainly due to the net income for the first half (positive euro 219,462 thousand) and the positive effect of inflation accounting in Venezuela (positive euro 8,477 thousand), offset by the negative changes stemming from payment of dividends (euro 132,382 thousand), the fair value adjustment of derivative financial instruments in cash flow hedges (euro 5,763 thousand) and available-for-sale investments (euro 18,189 thousand) and actuarial losses on pension funds (euro 22,954 thousand).

The subscribed and paid-up **share capital** at June 30, 2012 (including treasury shares) is represented by 475,740,182 ordinary shares and 12,251,311 savings shares, without par value and having normal entitlements, for a total of euro 1,345,381 thousand. The share capital is presented net of the value of treasury shares (351,590 ordinary shares and 408,342 savings shares), and thus totals euro 1,343,285 thousand. The total of treasury shares represents 0.16% of share capital.

The **equity per share** was euro 4.499, compared with euro 4.398 at December 31, 2011.

16.2 Equity attributable to non-controlling interests

The equity attributable to owners of non-controlling interests rose from euro 45,479 thousand at December 31, 2011 to euro 51,599 thousand at June 30, 2012. The net increase of euro 6,120 thousand is mainly due to the net income for the period (positive euro 2,193 thousand) and capital increases of euro 5,833 thousand, offset by a euro 3,006 thousand reduction due to payment of dividends.

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

	6/30/2012	**12/31/2011**
Drahtcord Saar Gmbh & Co. K.G. (Germany)	50.00%	50.00%
Euro Driver Car S.L. (Spain)	47.14%	46.58%
Yanzhou Hixih Ecotech Environment CO. Ltd (China)	40.00%	40.00%
PT EVOLUZIONE TYRES (Indonesia)	40.00%	-
Driver Italia S.p.A. (Italy)	27.55%	27.55%
E-VOLUTION Tyre B.V. (Netherlands)	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 Tyre Co. Ltd (China)	10.00%	10.00%
Pirelli de Venezuela C.A. (Venezuela)	3.78%	3.78%

17. PROVISIONS FOR LIABILITIES AND CHARGES

The changes that occurred during the period are shown below:

PROVISION FOR LIABILITIES AND CHARGES : NON-CURRENT PORTION (in thousands of euro)	
Opening balance at 12/31/2011	**156,898**
Translation differences	(4,657)
Increaseas	1,097
Utilisation/releases	(3,433)
Other	705
Closing balance at 06/30/2012	**150,610**

PROVISION FOR LIABILITIES AND CHARGES : CURRENT PORTION (in thousands of euro)	
Opening balance at 12/31/2011	**124,671**
Translation differences	756
Increaseas	5,026
Utilisation/releases	(15,328)
Other	(256)
Closing balance at 06/30/2012	**114,869**

The **non-current portion** mainly refers to accruals made by the Brazilian subsidiary Pirelli Pneus Ltda against legal and tax litigation (euro 56,693 thousand) and labour disputes (euro 39,083 thousand), and by the parent company Pirelli & C. S.p.A. against tax litigation and for commercial liabilities, site clean-up and labour disputes (euro 51,841 thousand).

Utilisation of the provisions was mainly for settlement of labour disputes at the Brazilian subsidiary Pirelli Pneus Ltda.

The **current portion** mainly includes amounts set aside for claims and product warranties (euro 47,228 thousand), site clean-up work related to disused tracts of land (euro 10,438 thousand), reorganisation and closure of business units (euro 9,182 thousand), litigation for occupational diseases (euro 6,648 thousand) and labour lawsuits (euro 6,016 thousand).

The **increases** mainly refer to accruals for product warranties and labour lawsuits.

Utilisation was mainly related to settlement of pending lawsuits over occupational diseases and product warranties at the Italian based units, and to product warranties and disputes in Germany and Brazil.

18. EMPLOYEE BENEFIT OBLIGATIONS

This item includes:

(in thousands of euro)

	6/30/2012	12/31/2011
Pension funds:		
- funded	268,201	266,404
- unfunded	92,197	85,014
Employees'leaving indemnity (Italian companies)	45,097	40,484
Healthcare plans	21,180	21,270
Other benefits	75,718	68,564
	502,393	**481,736**

- Pension funds

The following table shows a breakdown of pension funds at June 30, 2012:

(in thousands of euro)

	6/30/2012					
	Germany	**Total unfunded pension funds**	**USA**	**UK**	**Other countries**	**Total funded pension funds**
Funded funds						
Present value of funded liabilities			155,623	961,410	4,238	1,121,271
Fair value of plan assets			(92,520)	(757,016)	(3,534)	(853,070)
Unfunded funds						
Present value of unfunded liabilities	92,197	92,197				
Net liabilities recognised	**92,197**	**92,197**	**63,103**	**204,394**	**704**	**268,201**

The following table shows a breakdown of pension funds at December 31, 2011:

(in thousands of euro)

	12/31/2011					
	Germany	Total unfunded pension funds	USA	UK	Other countries	Total funded pension funds
Funded funds						
Present value of funded liabilities			146,441	925,581	3,586	1,075,608
Fair value of plan assets			(85,788)	(720,465)	(2,951)	(809,204)
Unfunded funds						
Present value of unfunded liabilities	85,014	85,014				
Net liabilities recognised	**85,014**	**85,014**	**60,653**	**205,116**	**635**	**266,404**

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

(in thousands of euro)

	6/30/2012
Opening balance	1,160,622
Translation differences	36,966
Movements through Income Statement:	
- current service cost	403
- interest cost	27,287
Actuarial (gains) losses recognised in Equity	17,756
Employer contributions	14
Benefits paid	(29,438)
Other	(142)
Closing balance	**1,213,468**

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

(in thousands of euro)

	6/30/2012
Opening balance	(809,204)
Translation differences	(28,165)
Movements through Income Statement:	
- expect return on plan assets	(24,092)
Actuarial (gains) losses recognised in Equity	3,451
Employer contributions	(21,630)
Employee contributions	(14)
Benefits paid	26,441
Other	143
Closing balance	**(853,070)**

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

(in thousands of euro)

	6/30/2012	6/30/2011
Current service cost	403	502
Interest cost	27,287	28,062
Expected return on plan assets	(24,092)	(25,693)
	3,598	**2,871**

The amounts expensed to the income statement are included in the item “Personnel Expense” (note 27).

- Employees' leaving indemnities (TFR)

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

(in thousands of euro)

	6/30/2012
Opening balance	40,484
Movements through Income Statement	990
Actuarial (gains) losses recognised in Equity	4,925
Payments/advances	(598)
Other	(537)
Closing balance	**45,264**
of which:	
- Total Tyre	44,520
- Other activities	744

- Healthcare plans

Healthcare plans are broken down as follows:

(in thousands of euro)

	USA
Liabilities recognised at 6/30/2012	21,180
Liabilities recognised at 12/31/2011	21,270

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

(in thousands of euro)

	6/30/2012
Opening balance	21,270
Translation differences	571
Movements through Income Statement:	
- current service cost	2
- interest cost	436
Actuarial (gains) losses recognised in Equity	(299)
Benefits paid	(800)
Closing balance	**21,180**

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

(in thousands of euro)

	6/30/2012	6/30/2011
Current service cost	2	1
Interest cost	436	459
	438	**460**

The amounts expensed to the income statement are included in the item "Personnel Expense" (note 27).

Additional information regarding post-employment benefits

Net actuarial losses accrued in 1H 2012 and recognised directly in equity totalled euro 22,954 thousand (at December 31, 2011 net actuarial losses totalled euro 80,647 thousand).

The cumulative amount of net losses at June 30, 2012, euro 509,209 thousand, including euro 509,181 thousand attributable to the owners of the parent (at December 31, 2011 net losses totalled euro 486,590 thousand, including euro 486,562 thousand attributable to the owners of the parent), is broken down as follows:

(in thousands of euro)

	Cumulative at 6/30/2012					
	Italy	Germany	USA	UK	Other countries	Total
Pension funds	-	(18,343)	(110,754)	(373,360)	(7,385)	(509,842)
Healthcare plans	-	-	(10,409)	-	-	(10,409)
Employees'leaving indemnity	11,042	-	-	-	-	11,042
Total actuarial gains (losses) recognised in Equity	**11,042**	**(18,343)**	**(121,163)**	**(373,360)**	**(7,385)**	**(509,209)**

The figure includes the portion of actuarial gains (losses) determined upon transition to IFRS.

The breakdown by country at December 31, 2011 was as follows:

(in thousands of euro)

	Cumulative at 12/31/2011					
	Italy	Germany	USA	UK	her countries	Total
Pension funds	-	(10,267)	(102,845)	(368,267)	(10,471)	(491,850)
Healthcare plans	-	-	(10,708)	-	-	(10,708)
Employees'leaving indemnity	15,968	-	-	-	-	15,968
Total actuarial gains (losses) recognised in equity	**15,968**	**(10,267)**	**(113,553)**	**(368,267)**	**(10,471)**	**(486,590)**

The principal actuarial assumptions used at June 30, 2012, which changed from December 31, 2011, are as follows:

	Italy	Germany	Netherlands	UK	USA
Discount rate	3.60%	3.60%	3.60%	4.75%	4.00%
Inflation rate	2.00%	2.00%	2.00%	2.90%	-

The principal actuarial assumptions used at December 31, 2011 were as follows:

	Italy	Germany	Netherlands	UK	USA
Discount rate	4.60%	4.60%	4.60%	4.80%	4.60%
Inflation rate	2.00%	2.00%	2.00%	3.00%	-
Expected return on plan asset	-	-	4.60%	5.77%	7.10%
Expected rate of wage and salary increases	-	2.50%	2.00%	3.00-4.00%	-
Healthcare cost trend rates - initial	-	-	-	-	7.50%
Healthcare cost trend rates - final	-	-	-	-	4.50%

Other benefits

Other benefits are broken down as follows:

(in thousands of euro)

	6/30/2012	12/31/2011
Long-term incentive plans	7,002	7,659
Jubilee awards	15,658	14,633
Benefits similar to employees'leaving indemnity - non-Italian companies	28,044	25,374
Other long-term benefits	25,014	20,898
	75,718	**68,564**

The **long-term incentive plans**, totalling euro 7,002 thousand (euro 7,659 thousand at December 31, 2011), reflect the best estimate of the portion accrued for 2012 for the three-year cash Long Term Incentive 2012-2014 plan reserved for Pirelli Group management, as approved by the Board of Directors of Pirelli & C. at its meeting on March 12, 2012 and subsequently approved, pursuant to Article 114-bis TUF (Consolidated Finance Law) by the Shareholders' Meeting on May 10, 2012. The balance at December 31, 2011 (euro 7,659 thousand) referred to the long-term incentive plan approved by the Board of Directors of Pirelli & C S.p.A. on November 3, 2010 for the period 2011-2013, and which was closed in 2012 upon payment of the accrued portion to plan participants.

19. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Amounts owed to banks and other financial institutions can be broken down as follows:

(in thousands of euro)

	6/30/2012			12/31/2011		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Bonds	500,538	500,538	-	499,662	499,662	-
Borrowings from banks	1,845,787	1,326,606	519,181	1,209,064	875,080	333,984
Borrowings from other financial institutions	8,293	6,132	2,161	7,959	7,216	743
Finance lease payabls	22,795	7,563	15,232	23,102	19,950	3,152
Financial accrued expenses and deferred income	22,779	3,194	19,585	31,671	589	31,082
Other financial payables	15,397	14,932	465	490	-	490
	2,415,589	**1,858,965**	**556,624**	**1,771,948**	**1,402,497**	**369,451**

The item **bonds** refers to the unrated bond placed by Pirelli & C. S.p.A. on the Eurobond market for an aggregate nominal amount of euro 500 million. The bond has the following characteristics:

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

The carrying value of the bond at June 30, 2012 was determined as follows:

(in thousands of euro)

	6/30/2012	12/31/2011
Nominal value	500,000	500,000
Transaction costs	(5,296)	(5,296)
Amortisation of effective interest rate	1,307	816
Adjustment for fair value hedge accounting	4,527	4,142
	500,538	**499,662**

Bank borrowings refer mainly to:

- loans granted by the European Investment Bank (EIB) in favour of Pirelli Tyre S.p.A. for research and development projects and in favour of S.C. Pirelli Tyres Romania S.r.l. for local industrial investments. These loans total euro 287,500 thousand (euro 400,000 thousand at December 31, 2011), fully used, of which euro 25,000 thousand (euro 125,000 thousand at December 31, 2011) classified as current bank borrowings and euro 262,500 thousand (euro 265,000 thousand at December 31, 2011) classified as non-current bank borrowings;
- euro 815,000 thousand for utilisation of the syndicated facility (euro 360,000 thousand at December 31, 2011), granted to Pirelli & C. S.p.A., Pirelli Tyre S.p.A. and Pirelli International Limited for a total amount of euro 1,200,000 thousand, subscribed on November 30, 2010 and having a maturity of five years. These utilisations were classified as non-current bank borrowings due in 2015 (between 2 and 5 years);
- use of local uncommitted credit facilities, mainly in China, Brazil and Turkey.

At June 30, 2012 the Group had, besides cash and securities held for sale of euro 378,948 thousand, unused committed credit facilities totalling euro 385,000 thousand (euro 840,000 thousand at December 31, 2011).

Financial accrued expenses and deferred income, totalling euro 22,779 thousand, mainly include the interest accrued but not yet paid on the bond (euro 9,182 thousand; euro 21,974 thousand at December 31, 2011).

The **other non-current financial payables** include the debt for euro 14,146 thousand incurred to acquire 40% of Campneus Lider de Pneumaticos Ltda from the Faria da Silva family, as described in detail at note 3 "Business Combinations."

The average cost of the debt in 1H 2012 was about 5.5% (steady at the 2011 level).

In regard to the financial covenants and negative pledge clauses on utilised credit facilities (including bank borrowings), the previously mentioned revolving credit line granted to Pirelli & C. S.p.A., Pirelli Tyre S.p.A. and Pirelli International Limited for a total of euro 1,200,000 thousand, used for euro 815,000 thousand, envisages just one financial covenant: the undertaking to maintain a certain ratio between consolidated net indebtedness and gross operating profit. This parameter was fully satisfied at June 30, 2012. In regard to the negative pledges, the credit facility provides for a commitment not to grant secured guarantees, above a threshold defined as the greater of euro 100,000 thousand and 3% of Total Assets (as defined in the consolidated financial statements of Pirelli & C. S.p.A.), with the exception of secured guarantees on the existing debt or debt to replace it, to be granted pursuant to law, relating to export finance, project finance and subsidised finance.

The other outstanding financial payables do not contain financial covenants.

20. TRADE PAYABLES

Trade payables are broken down as follows:

(in thousands of euro)

	6/30/2012			12/31/2011		
	Total	Nun-current	Current	Total	Nun-current	Current
Suppliers	1,137,416	-	1,137,416	1,365,402	-	1,365,402
Notes payable	11,546	-	11,546	17,370	-	17,370
	1,148,962	**-**	**1,148,962**	**1,382,772**	**-**	**1,382,772**

21. OTHER PAYABLES

Other payables are broken down as follows:

(in thousands of euro)

	6/30/2012			12/31/2011			
	Total	Non-current	Current	Total	Non-current	Current	
Trade and other accrued liabilities and deferred income	99,128	23,890	75,238	87,554	16,829	70,725	
Tax payables	97,702	14,815	82,887	66,434	13,972	52,462	
Payables to employees	126,069	358	125,711	210,060	101	209,959	
Payables to social security and welfare intitutions	63,267	19,208	44,059	69,273	16,588	52,685	
Dividends payable	1,146	-	1,146	408	-	408	
Other payables	181,489	7,614	173,875	251,488	6,490	244,998	*
	568,801	**65,885**	**502,916**	**685,217**	**53,980**	**631,237**	

* the amount of other payables at 12/31/2011 has ben restated to include the effect of the acquisition occured in Russia described in the note 3 "Business Combination"

The reduction in **current payables to employees** from December 31, 2011, amounting to euro 84,248 thousand, is mainly due to the payment of euro 77,136 thousand for the long-term incentive plan 2009-2011.

Other current payables (euro 173,875 thousand) mainly include:

- payables of euro 80,744 thousand for the purchase of property, plant and equipment (euro 121,197 at December 31, 2011);
- the payable to Sibur Holding for euro 14,925 thousand (euro 57,860 thousand at December 31, 2011) for the remainder of the price paid for the Russian company CJSC Voronezh Tyre Plant in February 2012;
- payable for the contingent consideration (“earn out”) to be paid to Sibur Holding for acquisition of the companies in Russia, estimated to be euro 10,046 thousand;
- payables for withholding income tax in the Total Tyre segment for euro 11,131 thousand (euro 8,266 thousand at December 31, 2011);
- customer advances for euro 12,813 thousand (euro 5,918 thousand at December 31, 2011);
- payables of euro 6,278 thousand to agents, professionals and consultants (euro 4,427 thousand at December 31, 2011);
- euro 1,678 thousand in advances paid by the European Union to the Total Tyre segment for research projects, unchanged from December 31, 2011.

22. TAX PAYABLES

Tax payables mainly refer to national and regional income taxes in various countries and total euro 61,655 thousand (including euro 4,419 thousand in non-current liabilities), compared with euro 80,202 thousand at December 31, 2011 (including euro 4,817 thousand for non-current liabilities).

23. DERIVATIVE FINANCIAL INSTRUMENTS

This item includes the fair value of derivative instruments outstanding at June 30, 2012.

The breakdown is shown as follows:

(in thousands of euro)

	6/30/2012		12/31/2011	
	Current Assets	**Current Liabilities**	**Current Assets**	**Current Liabilities**
Hedge accounting not adopted				
Foreign currency derivatives - commercial transactions	29,577	(33,456)	46,161	(45,036)
Foreign currency derivatives - included in net financial position	26,850	(20,114)	16,120	(6,138)
Interest rate derivatives				(621)
Other derivatives - included in net financial position		(818)		
Hedge accounting adopted				
- cash flow hedge:				
Foreign currency derivatives - commercial transactions	3,829	(403)		
Interest rate derivatives		(46,016)		(42,288)
Otehr derivatives		(16,912)		(9,829)
- fair value hedge				
Intererate derivatives - includede in net financial position	4,527		4,142	
Other derivativs	1,476		3,923	
	66,259	**(117,719)**	**70,346**	**(103,912)**
- TOTAL derivatives included in net financial position	31,377	(20,932)	20,262	(6,138)

Derivative financial instruments for which hedge accounting has not been adopted

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

Derivative financial instruments for which hedge accounting was adopted

- Cash flow hedge

The value of **foreign currency derivatives,** recognised under current assets in the amount of euro 3,829 thousand, mainly correspond to the fair value of forward currency purchases by the Total Tyre segment. By establishing this hedge in January 2012, the Total Tyre segment aimed to limit its exposure to the financial effects resulting from a change in the U.S. dollar / Euro exchange rate on future purchases of natural rubber forecast for 2012. The amount recognised in equity during the period was a positive euro 2,854 thousand, and is broken down as follows:

- euro 1,740 thousand for gains recognised in equity during 1H 2012;
- euro 1,114 thousand for reclassification to the income statement, as adjustment of natural rubber purchases, of losses previous recognised in equity and related to purchases made during the period.

The value of **interest rate derivatives,** recognised under current liabilities for euro 46,016 thousand (euro 42,288 thousand at December 31, 2011), consists mainly of:

- euro 1,799 thousand (euro 613 thousand at December 31, 2011) for the fair value of four “plain vanilla” interest rate swaps on a total notional amount of euro 100 million, which envisage the payment of an average fixed interest rate of 1.338% on a quarterly basis and collection of a variable 3-month Euribor interest rate on a quarterly basis with the same frequency of payment of the coupon on the financing. These derivatives were made to hedge against a change in interest rates on a euro 100 million loan at a variable 3-month Euribor rate with a spread of 0.328%, granted by the European Investment Bank (EIB) in favour of Pirelli Tyre S.p.A. for research and development projects. Negative euro 1,311 thousand was recognised in equity for the period;

– euro 44, 109 thousand (euro 41,567 thousand at December 31, 2011) for the fair value of 12 "plain vanilla" interest rate swaps forward start negotiated in 2009 and 2010 beginning February 2012 and maturing February 2015 on a notional amount of euro 575 million. Such derivatives envisage the payment of an average fixed interest rate of 3.384% per annum and the collection of a variable 1-month Euribor interest rate on a monthly basis. These derivatives had initially been made to hedge against the change in interest rates associated with the variable rate revolving syndicated credit facility of euro 675 million subscribed in February 2007 by Pirelli Tyre S.p.A. and Pirelli International Limited or in anticipation of new variable rate financing with similar characteristics replacing the syndicated credit facility on maturity, for which hedge accounting had been used. Following issuance of the fixed rate bond for euro 500 million in February 2011 and simultaneous reimbursement of the utilised portion of the aforementioned syndicated credit facility for euro 380 million, on February 28, 2011, hedge accounting was interrupted for all existing derivatives insofar as the conditions envisaged in IAS 39 no longer existed.

  On July 1, 2011 hedge accounting was resumed for these derivatives on the basis of new variable rate payables forecast included in the 2011-2014 three-year plan.

  The negative euro 2,341 thousand change in fair value between the dates of interruption and redesignation of hedge accounting was recognised in the income statement for 2011. The cash flow hedge reserve accumulated at the date of interruption in hedge accounting, totalling a negative euro 14,291 thousand, was suspended and has been allocated to the income statement beginning February 2012 and ending February 2015, which is the period during which the interest outflows associated with the hedged debt is recognised in the income statement. Negative euro 867 thousand was recognised in equity for the effective part during the period, and is broken down as follows:

- euro 2,543 thousand for losses recognised in equity during 1H 2012;
- euro 1,676 thousand for reclassification in the income statement of losses previously accumulated in equity until the date hedge accounting was interrupted (see note 32, "Financial Expenses").

The value of **other derivatives** (current liabilities of euro 16,911 thousand, compared with euro 9,829 thousand at December 31, 2011) reflects the fair value of natural rubber futures contracts that were purchased. The purpose of this hedge is to limit exposure to the economic effects resulting from a change in natural rubber prices, and consequently stabilise the cost of future supplies on a limited portion of the total requirements forecast for 2012. The net amount that was recognised in equity during the period was a negative euro 7,519 thousand, of which euro 12,736 thousand for losses recognised in equity during the period and euro 5,217 thousand for reclassification in the income statement, as an adjustment to natural rubber purchases, of losses previously recognised in equity and related to purchases made during the year.

- *Fair value hedge*

The value of **interest rate derivatives** (current assets for euro 4,527 thousand) corresponds to the fair value of five interest rate swaps on a total notional amount of euro 125 million, made to hedge the risk of changes in the fair value of a portion of the fixed rate bond issued by Pirelli & C. S.p.A. in February 2011 for euro 500 million (see note 19 "Borrowings from Banks and Other Financial Institutions"). These derivatives envisage the collection of a fixed rate of 5.125% per annum with the same frequency of payment as the coupon on the bond, which also pays interest at a rate of 5.125%, and payment of a variable 6-month Euribor rate with an average spread of 2.38%.

Fair value hedge accounting was adopted for these derivative financial instruments, according to which the positive change in fair value of the derivative instrument (euro 385 thousand at June 30, 2012) is recognised in the income statement and is offset by a loss on the bond attributable to the risk hedged for the same amount, recognised in the income statement under financial expenses and that adjusted the carrying amount of the bond ("basis adjustment").

The value of **other derivatives** (current assets for euro 1,476 thousand, compared with euro 3,923 thousand at December 31, 2011) reflects the fair value of the put option held by Pirelli & C. S.p.A. on the shares of Advanced Digital Broadcast Holdings S.A., classified as available-for-sale financial assets, to hedge against the risk of a fall in the market value of the shares held. Fair value hedge accounting was adopted for this derivative, whereby the negative change in the fair value of the derivative instrument (euro 172 thousand) is recognised in the income statement and offsets the positive fair value of the available-for-sale financial assets (euro 172 thousand) recognised in the income statement for the portion attributable to the hedged risk. Also see note 30.2 “Losses from equity investments.”

24. COMMITMENTS AND CONTINGENCIES

Commitments for purchase of property, plant and equipment

The commitments to purchase property, plant and equipment relate mainly to the Total Tyre segment and amount to euro 163.7 million (euro 154.8 million at December 31, 2011), mostly regarding companies in Russia, Romania, Brazil, China, Germany, Italy and Mexico.

Commitments for purchase of equity interests/fund units

These refer to commitments by Pirelli Finance (Luxembourg) S.A. to subscribe units of the company Equinox Two S.c.a., a private equity company specialised in investments in listed and unlisted companies with high growth potential, for a maximum countervalue of euro 4,442 thousand.

Guarantees given on the sale of Olimpia

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

The current tax litigation can be summarised as follows.

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

More precisely, on the basis of an assumption which is entirely groundless both legally and economically, the Agenzia delle Entrate had found that non-existent financial income had been realised on the Bell Bond Loan redeemable with Olivetti shares, with a consequent IRAP tax of Euro 26.5 million (with euro 21.2 million being the portion attributable to the owners of Pirelli & C. S.p.A.), plus penalties for the same amount. The Company appealed against this tax assessment, claiming that the ascertained taxable income was manifestly non-existent.

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

The Agenzia delle Entrate subsequently appealed this decision.

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

Notwithstanding the double judgements against it, the Agenzia delle Entrate filed an appeal with the Court of Cassation, against which the Company has filed a cross-appeal. It is awaiting scheduling of the hearing before the Court of Cassation. As mentioned above, there are grounds to believe that the final judgement will be favourable.

In the assessment for the **2002** tax year, served at the end of 2007, Olimpia was characterised as a "shell company," on the basis of perfectly arbitrary reclassification of items on its financial statements and arbitrary statutory interpretations. The Company's appeal was not only accepted by the trial court, but the Ministry of Finance was also ordered to pay all legal costs. The IRPEG (corporate income tax) claim amounted to Euro 29.3 million (with euro 22.8 million being the portion attributable to the owners of Pirelli & C. S.p.A.), plus penalties for the same amount.

Despite such a clear judgement, the Agenzia delle Entrate lodged its own appeal, which was heard before the Regional Tax Court. This court too ruled in favour of the Company.

Once again, the Agenzia delle Entrate appealed to the Court of Cassation, against which the Company submitted its own counterarguments.

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

The IRPEG (corporate income tax) claim amounted to euro 28.5 million (with euro 22.8 million being the portion attributable to the owners of Pirelli & C. S.p.A.), plus penalties for the same amount.

The Company appealed to the Tax Court of first instance against this tax assessment, which was, like the other ones, absolutely unfounded. The Tax Court ruled in favour of the Company. The Agenzia delle Entrate lodged an appeal against the Trial Tax Court decision. The Company has filed its own counterarguments against that appeal.

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

The IRES (corporate income tax) claim amounted to euro 29.6 million (with euro 23.7 million being the portion attributable to the owners of Pirelli & C. S.p.A.), plus penalties for the same amount.

This assessment, just like the ones that preceded it, is absolutely unfounded. Therefore, the Company lodged an appeal against it too before the Tax Court of first instance, which ruled in favour of the Company just as it had done before. The Agenzia delle Entrate lodged an appeal against the Trial Tax Court decision. The Company has filed its own counter-arguments against that appeal. The hearing was held on May 30, 2012. The favourable decision confirmed the trial court judgement.

Other contingencies

As part of the investigation by the European Commission on the underground and submarine electric cable market, Pirelli received notice on July 5, 2011 of charges against it in regard and limited to its status as controlling shareholder of Prysmian Cavi e Sistemi Energia S.r.l. until July 2005.

The notice contains the Commission’s analysis on the allegedly anti-competitive practices of Prysmian Cavi e Sistemi Energia S.r.l. The Commission has not made any charge of direct participation by Pirelli in the alleged cartel.

Pirelli has submitted its own defence against the charges made in the aforementioned notice and will continue maintaining that it had absolutely nothing to do with the conduct criticised by the Commission in the subsequent phases of the proceeding before the Commission.

In June 2012 a hearing was held with the parties in the proceeding undertaken by the European Commission. No material changes to the previously known situation were revealed during the hearing.

25. REVENUE FROM SALES AND SERVICES

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

(in thousands of euro)

	1st HALF 2012	1st HALF 2011
Total Tyre	2,969,792	2,707,994
Other activities	19,538	24,019
Revenue from sales of goods	**2,989,330**	**2,732,013**
Total Tyre	30,510	52,308
Other activities	1,931	4,931
Revenue from services	**32,441**	**57,239**
	3,021,771	**2,789,252**

26. OTHER INCOME

The item amounts to euro 72,385 thousand, compared with euro 73,938 thousand in 1H 2011, and mainly consists of income from sports activities largely generated by participation in Formula 1, royalties, compensation, insurance indemnities and other minor items.

27. PERSONNEL EXPENSE

This is broken down as follows:

(in thousands of euro)

	1st HALF 2012	1st HALF 2011
Wages and salaries	450,290	412,157
Social security and welfare contributions	101,648	91,223
Expenses for employees' leaving indemnity and similar costs (*)	15,904	19,347
Expenses for defined contribution pension funds	9,155	8,386
Expenses for defined benefit pension funds	3,598	2,871
Expenses for defined benefit healthcare plans	438	460
Expenses for jubilee awards	726	659
Expenses for defined contribution healthcare plans	20,116	17,038
Other costs	5,383	6,903
	607,258	**559,044**

* Includes Italian and foreign companies

Wages and salaries include euro 7,002 thousand for the portion accrued for 2012 for the three-year cash Long Term Incentive 2012-2014 plan reserved for Pirelli Group management, as approved by the Board of Directors of Pirelli & C. S.p.A. at its meeting on March 12, 2012 and subsequently approved, pursuant to Article 114-bis TUF (Consolidated Finance Law), by the Shareholders' Meeting held on May 10, 2012 – see note 18 "Employee Benefit Obligations."

Personnel expenses in 1H 2012 include euro 14,501 thousand in restructuring costs that are qualified as **non-recurring events** (2.4% of the total), compared with euro 7,654 thousand at June 30, 2011 (1.4% of the total).

28. AMORTISATION, DEPRECIATION AND IMPAIRMENT

Amortisation and depreciation of non-current assets are broken down as follows:

(in thousands of euro)

	1st HALF 2012	1st HALF 2011
Amortisation	3,790	1,827
Depreciation	126,692	111,320
	130,482	**113,147**

29. OTHER COSTS

This item is broken down as follows:

(in thousands of euro)

	1st HALF 2012	1st HALF 2011
Selling costs	138,979	133,077
Purchases of goods for resale	159,808	136,109
Fluids and power	121,410	100,885
Advertising	82,952	89,631
Professional advice	25,358	17,662
Maintenance	31,392	24,396
Warehouse operating costs	22,431	21,910
Leases and rentals	36,317	32,241
Outsourcing	11,000	10,534
Travel expenses	20,582	17,776
IT expenses	11,934	12,284
Compensation of key managers	3,237	3,137
Other provisions	4,378	6,292
Duty stamps, duties and local taxes	19,274	18,772
Canteen	9,504	9,412
Bad debts	177	9,194
Insurance	13,373	12,590
Lease instalments	7,373	5,684
Cleaning expenses	8,011	7,156
Waste disposal	11,638	5,541
Security expenses	5,741	4,442
Telephone expenses	3,922	4,608
Other	135,431	147,542
	884,222	**830,875**

Selling costs mainly include contractual expenses for the signing of sales contracts, shipments and transport on domestic and foreign markets, commissions to agents and sales staff, customs duties and the operating costs of external warehouses.

30. NET INCOME (LOSS) FROM EQUITY INVESTMENTS

30.1 Share of net income of associates and joint ventures

The Group's interest in the income (loss) of associates accounted for using the equity method was a negative euro 2,376 thousand, compared with a negative euro 286 thousand in 1H 2011.

It is mainly comprised by the value of the investment in RCS Mediagroup S.p.A. (negative euro 1,271 thousand in 1H 2012, compared with negative euro 769 thousand in 1H 2011) and in Sino Italian Wire Technology Co. Ltd (negative euro 1,297 thousand in 1H 2012, compared with negative euro 900 thousand in 1H 2011).

30.2 Gains from equity investments

This item is broken down as follows:

(in thousands of euro)

	1st HALF 2012	1st HALF 2011
Gains on disposal of available-for-sale financial assets	304	1,259
Gains on disposal of equity investments in Group companies	-	66
	304	**1,325**

The item also includes a gain of euro 172 thousand (loss of euro 2,531 thousand at June 30, 2011) on the equity investment in Advanced Digital Broadcast Holdings S.A., classified as an available-for-sale financial asset, and recognised in the income statement insofar as the equity investment is hedged against the risk of change in its fair value due to the put option on the investment. Since fair value hedge accounting was adopted for the option, the equity investment was offset by the negative fair value measurement of the put option for 172 thousand (positive euro 2,531 thousand at June 30, 2011 – see note 23 "Derivative Financial Instruments"), and its impact on the income statement was consequently zero.

In 1H 2011 the amount of euro 1,259 thousand referred to the gain tied to sale of the investment in the Gruppo Banca Leonardo S.p.A.

30.3 Losses on equity investments

This item is broken down as follows:

(in thousands of euro)

	1st HALF 2012	1st HALF 2011
Losses on disposal of available-for-sale financial assets	3	-
Impairment of available-for-sale financial assets	1,218	556
	1,221	**556**

The **impairment of available-for-sale financial assets** refers to the equity investment in Alitalia S.p.A., while in the previous half it referred to the investment in Tiglio I S.r.l.

30.4 Dividends

Dividends in 1H 2012 totalled euro 601 thousand (euro 433 thousand in 1H 2011) and mainly referred to income from mutual funds.

31. FINANCIAL INCOME

Financial income is broken down as follows:

(in thousands of euro)

	1st HALF 2012	1st HALF 2011
Interest	16,886	15,062
Other financial income	5,011	6,368
Net gains on exchange rates	-	12,055
Fair value measurement of securities held for trading	367	-
Fair value measurement of currency derivatives	10,916	-
	33,180	**33,485**

The item **fair value measurement of currency derivatives** relates to forward purchases/sales of foreign currencies to hedge commercial and financial transactions, in accordance with the Group foreign exchange risk management policy. For transactions open at the end of the year, the fair value is determined using the forward exchange rate at the reporting 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, for a net hedging cost of euro 19,097 thousand, and the exchange rate component, for a net gain of euro 30,013 thousand.

32. FINANCIAL EXPENSES

These are broken down as follows:

(in thousands of euro)

	1st HALF 2012	1st HALF 2011
Interest to banks	48,716	32,469
Other financial expenses	14,494	18,630
Net losses on exchange rates	16,868	-
Fair value measurement of securities held for trading	-	1,106
Fair value measurement of currency derivatives	-	24,903
Fair value measurement of other derivatives	1,870	1,128
	81,948	**78,236**

Interest to banks includes euro 13,324 thousand for the bond issued by Pirelli & C. S.p.A. (euro 9,393 thousand in 1H 2011).

Other financial expenses are mainly comprised of the Euro 2,880 thousand effect of adopting inflation accounting by Pirelli de Venezuela C.A.

The **net losses on exchange rates** of euro 16,868 thousand (exchange rate losses of euro 514,435 thousand and exchange rate gains of euro 497,567 thousand) refer to adjustment to year-end exchange rates of items expressed in currencies other than the functional currency outstanding at the reporting date and the net losses realised on items closed during the financial year.

The **fair value measurement of other derivative instruments** (also see note 23 “Derivative Financial Instruments”) mainly consists of negative euro 1,676 thousand for reclassification in the income statement, due to interruption of hedge accounting, of the allocable portion for the period of losses previously accumulated in equity and related to interest rate derivatives.

33. INCOME TAXES

Income taxes in 1H 2012 are as follows:

(in thousands of euro)

	1st HALF 2012	1st HALF 2011
Current taxes	(90,003)	(87,480)
Deferred taxes	(37,582)	7
	(127,585)	**(87,473)**

The negative balance of deferred taxes recognised in the income statement during 1H 2012 (euro 37,582 thousand) is mainly due to the reduction in deferred tax assets for residual prior-period tax losses resulting from tax consolidation by Pirelli & C. S.p.A. (euro 24,726 thousand) allocable to the period.

34. EARNINGS/(LOSS) PER SHARE

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

(in thousands of euro)

	1st half 2012	1st half 2011
Net income (loss) attributable to owners of the Parent	219,462	161,741
Net income (loss) attributable to savings shares reflecting 2% minimun dividend	(5,438)	(4,008)
Adjusted net income (loss) attributable to owners of the Parent	214,024	157,733
Basic earning (loss) per ordinary share (in euro per share)	**0.450**	**0.332**
Weighted average of outstanding ordinary shares (in thousands)	475,389	475,389

The **diluted earnings (losses)** per share at June 30, 2012 have not been calculated because, following expiration of the stock option plans, the prerequisites for such calculation are not met.

35. DIVIDENDS PER SHARE

Pirelli & C. S.p.A. paid dividends based on 2011 earnings to its shareholders equal to euro 0.27 per each of the 475,388,592 ordinary shares (excluding treasury shares) and euro 0.34 for each of the 11,842,969 savings shares (excluding treasury shares), for a total of euro 132,382 thousand.

In 2011, Pirelli & C. S.p.A. paid to its shareholders dividends based on 2010 earnings equal to euro 0.165 per ordinary share (excluding treasury shares) and euro 0.229 per savings share (excluding treasury shares). The total dividends paid out amounted to euro 81,151 thousand.

36. RELATED PARTY TRANSACTIONS

Related party transactions, including intercompany transactions, are neither unusual nor exceptional, but are part of the ordinary course of business of Group companies. Such transactions, when not carried out at standard conditions or dictated by specific laws, are in any case settled on an arm's length basis and executed in accordance with the provisions of the Company procedure for related party 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 reported at 6/30/2012	of which related parties	% share	Total reported at 12/31/2011	of which related parties	% share
BALANCE SHEET						
Non-current assets						
Other receivables	348.9	160.5	45.99%	347.9	161.0	46.28%
Current assets						
Trade receivables	964.3	8.5	0.88%	745.2	7.9	1.06%
Other receivables	379.1	41.5	10.94%	281.7	28.5	10.12%
Non-current liabilities						
Borrowings from banks and other financial institutions	1,859.0	2.9	0.16%	1,402.5	-	0.00%
Current liabilities						
Borrowings from banks and other financial institutions	556.6	0.9	0.16%	369.5	0.3	0.08%
Trade payables	1,149.0	5.4	0.47%	1,382.8	6.4	0.46%
Other payables	502.9	2.5	0.51%	631.2	42.5	6.73%

	Total reported at 6/30/2012	of which related parties	% share	Total reported at 6/30/2011	of which related parties	% share
INCOME STATEMENT						
Revenue from sales and services	3,021.8	1.2	0.04%	2,789.3	5.7	0.20%
Other income	72.4	0.6	0.85%	73.9	1.8	2.44%
Personnel expense	(607.3)	(8.2)	1.35%	(559.0)	(1.6)	0.29%
Other costs	(884.2)	(19.2)	2.17%	(830.9)	(11.7)	1.41%
Financial income	33.2	7.8	23.45%	33.5	3.8	11.35%

The effects of related party transactions on the consolidated income statement and balance sheet of the Pirelli & C. Group at June 30, 2012 are shown below.

Transactions with associated companies

(in millions of euro)

Revenue from sales and services	1.2	The amount mainly concerns services provided by: Pirelli Tyre S.p.A. to Sino Italian Wire Technology Co. Ltd (euro 0.8 million); Pirelli & C. Ambiente S.p.A. to Idea Granda Società Consortile r.l. (euro 0.3 million).
Other costs	7.7	The amount mainly concerns: costs for purchase of products of Pirelli Tyre Co. Ltd (euro 6.8 million) and Pirelli Tyre S.p.A. (euro 0.7 million) om Sino Italian Wire Technology Co. Ltd; costs of Pirelli & C. S.p.A. from CORIMAV (euro 0.1 million).
Financial income	0.4	The amount relates to interest income on the loan granted by Pirelli International Ltd to Sino Italian Wire Technology Co. Ltd..
Current trade receivables	6.0	The amount mainly concerns receivables for provision of services by: Pirelli Tyre S.p.A. to Sino Italian Wire Technology Co. Ltd (euro 5.5 million); Pirelli & C. Ambiente S.p.A. to Idea Granda Società Consortile r.l. (euro 0.4 million).
Current other receivables	4.6	The amount consists of receivables of: Solar Utility S.p.A. from G.P. Energia S.r.l. (euro 2.0 million); Pirelli Tyre Co. Ltd (euro 2.6 million) from Sino Italian Wire Technology Co. Ltd..
Current financial receivables	29.4	The amount consists mainly of receivables of: Pirelli International Ltd. from Sino Italian Wire Technology Co. Ltd (euro 24.0 million); Solar Utility S.p.A. from GWM Renewable Energy II S.p.A. (euro 5.0 million); Pirelli & C. Ambiente S.p.A. from Green&Co2 S.r.l. (euro 0.4 million).
Current trade payables	1.4	The amount consists of payables for provision of services by: Sino Italian Wire Technology Co. Ltd to Pirelli Tyre Co. Ltd (euro 0.9 million) and to Pirelli Tyre S.p.A. (euro 0.3 million); Corimav to Pirelli & C. S.p.A. (euro 0.1 million).
Current other payables	2.1	The amount concerns payables of Solar Utility S.p.A. (euro 2.1 million) to G.P. Energia S.r.l..
Current borrowing from banks and other financial institutions	0.2	The amount mainly concerns the current account between Pirelli Servizi Amministrativi e Tesoreria S.p.A. and Corimav (euro 0.1 million).

Transactions with parties related to Pirelli through directors

(in millions of euro)

Other income	0.5	The amount mainly refers to services provided by Pirelli Sistemi Informativi S.p.A. to Prelios Group and Camfin Group (euro 0.1 million) and to rental income and associated operating expenses of Pirelli & C. S.p.A. from Prelios S.p.A. And from Camfin Group.
Other costs	6.8	The amount is mainly refers advertising costs owed to FC Internazionale Milano S.p.A. (euro 6.5 million) and to costs for leases of Poliambulatorio Bicocca S.r.l. (euro 0.1 milioni) to the Prelios Group.
Financial income	7.4	The amount refers to accrued interest (euro 7.0 million) and up-front fees (euro 0.3 million) on the outstanding loan granted to Prelios S.p.A. by Pirelli & C. S.p.A..
Non current other financial receivables	160.0	The amount refers only to the loan granted to Prelios S.p.A. as part of the spin-off
Current trade receivables	2.5	The amount refers to receivables connected to the services provided to Prelios Group (euro 2.3 million) by Pirelli Sistemi Informativi (euro 1.4 million), Pirelli & C. S.p.A. (euro 0.2 million), Pirelli & C. Ambiente Site Remendation S.p.A. (euro 0.4 million) and Poliambulatorio Bicocca S.r.l. (euro 0.2 million); to Camfin Group (euro 0.1 million) and to Partecipazioni Industriali S.p.A. Group (euro 0.1 million).
Current other financial receivables	7.1	The amount refers to accrued interest to be received by Pirelli & C. S.p.A. from Prelios S.p.A..
Non current borrowings from banks and other financial institutions	2.9	The amount refers to the deferral of up-front fees on the outstanding loan granted to Prelios S.p.A. by Pirelli & C. S.p.A.
Current borrowings from banks and other financial institutions	0.7	The amount refers to the deferral of up-front fees on the outstanding loan granted to Prelios S.p.A. by Pirelli & C. S.p.A.
Current trade payables	3.8	The amount mainly refers to to payables to FC Internazionale Milano S.p.A. (euro 3.2 million) and to Prelios Group (euro 0.6 million).
Investments in other financial assets (cash outflow)	0.8	This refers to the capital increase of F.C. Internazionale Milano S.p.A. and of S. Int. S.p.A.

Related party transactions

(in milllions of euro)

Other income	0.1	The amount refers mainly to income of Pirelli Deutschland Gmbh from Allianz S.p.A. (euro 0.1 million).
Other costs	1.5	The amount mainly refers to insurance costs of Pirelli Tyre S.p.A. (euro 0.4 million) and of Pirelli Industrie Pneumatici S.r.l. (euro 0.1 million) owed to Allianz S.p.A., Assicurazioni Generali S.p.A. and Fonsai S.p.A..
Non current other receivables	0.5	The amount refers mainly to receivables of Pirelli & C. S.p.A. from Allianz S.p.A..
Current other receivables	0.4	The amount refers to insurance costs shown above of Pirelli Tyre S.p.A. (euro 0.2 million) and of Pirelli Industrie Pneumatici S.r.l. (euro 0.2 million) owed to Allianz S.p.A., Assicurazioni Generali S.p.A. and Fonsai S.p.A..
Current trade payables	0.2	The amount mainly refers to payables of Pirelli Deutschland Gmbh towards Allianz S.p.A. (euro 0.2 million).
Current other payables	0.4	The amount refers to payables for insurance costs shown above of Pirelli Tyre S.p.A. (euro 0.1 million) and of Pirelli Industrie Pneumatici S.r.l. (euro 0.3 million) towards Assicurazioni Generali S.p.A. and Allianz S.p.A..

Benefits for key managers

The fees payable to key managers totalled euro 11,412 thousand at June 30, 2012 (euro 4,730 thousand at June 30, 2011). The portion relating to employee benefits was recognised in the income statement item “personnel expense” for euro 8,175 thousand, of which euro 506 thousand relating to employees’ leaving indemnity (euro 1,593 thousand at June 30, 2011, of which euro 277 thousand relating to employees’ leaving indemnity) and euro 3,237 thousand in the income statement item “other costs” (euro 3,137 thousand at June 30, 2011).

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

There are no significant events occurred subsequently to the end of the 1H 2012 to be reported on.

38. OTHER INFORMATION

Exchange rates

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

(local currency against euro)

	Period-end		Change in %	Average		Change in %
	06/30/2012	06/30/2011		2012	2011	
Venezuela Bolivar Fuerte	5.4137	6.2148	(12.89%)	5.4137	6.2148	(12.89%)
Swedish Krona	8.7728	9.1739	(4.37%)	8.8816	8.9383	(0.63%)
Australian Dollar	1.2339	1.3485	(8.50%)	1.2562	1.3582	(7.51%)
Canadian Dollar	1.2871	1.3951	(7.74%)	1.3040	1.3708	(4.87%)
Singapore Dollar	1.5974	1.7761	(10.06%)	1.6392	1.7659	(7.17%)
U.S. Dollar	1.2590	1.4453	(12.89%)	1.2968	1.4041	(7.64%)
Taiwan Dollar	37.6063	41.4946	(9.37%)	38.4446	40.7963	(5.76%)
Swiss Franc	1.2030	1.2071	(0.34%)	1.2048	1.2697	(5.11%)
Egyptian Pound	7.6363	8.6277	(11.49%)	7.8348	8.3047	(5.66%)
Turkey Lira (new)	2.2852	2.3605	(3.19%)	2.3380	2.2054	6.01%
New Romanian Leu	4.4513	4.2435	4.90%	4.3903	4.1784	5.07%
Argentinean Peso	5.6995	5.9402	(4.05%)	5.6987	5.6892	0.17%
Mexican Peso	16.8862	16.9245	(0.23%)	17.2110	16.6929	3.10%
South African Rand	10.3669	9.8569	5.17%	10.2934	9.6880	6.25%
Brazilian Real	2.5448	2.2563	12.79%	2.4203	2.2912	5.63%
Chinese Renminbi	7.9631	9.3534	(14.86%)	8.1796	9.1844	(10.94%)
Russian Ruble	41.1963	40.3870	2.00%	39.6198	40.1400	(1.30%)
British Pound	0.8068	0.9026	(10.61%)	0.8225	0.8684	(5.29%)
Japanese Yen	100.1300	116.2500	(13.87%)	103.3875	115.0405	(10.13%)

Transactions resulting from unusual and/or exceptional operations

Pursuant to Consob Notice of July 28, 2006, the Group certifies that it did not carry out any atypical and/or unusual transactions in 1H 2012, as defined in the Notice itself.

Net financial (liquidity)/debt position

(alternative performance measure not envisaged by the accounting standards)

(in thousands of euro)

	Note	06/30/2012		12/31/2011	
			of which related parties		of which related parties
Current borrowing from bank and other financial institutions	19	556,624	*905*	369,451	*286*
Current derivative financial instruments (liabilities)	23	20,932	-	6,138	-
Non-current borrowing from bank and other financial institutions	19	1,858,965	2,925	1,402,497	-
Total gross debt		**2,436,521**	**-**	**1,778,086**	**-**
Cash and cash equivalents	15	(207,720)	-	(556,983)	-
Securities held for trading	14	(171,228)	-	(160,503)	-
Current financial receivables	11	(73,245)	*(36,476)*	(52,536)	*(24,763)*
Current derivative financial instruments (assets)	23	(31,377)	-	(20,262)	-
Net financial debt *		**1,952,951**	**-**	**987,802**	**-**
Non-current financial receivables	11	(250,281)	*160,000*	(250,733)	*(161,013)*
Total net financial (liquidity) debt position		**1,702,670**		**737,069**	

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

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Companies consolidated line-by-line

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Europe						
Austria						
Pirelli GmbH	Tyre	Vienna	Euro	726,728	100.00%	Pirelli Tyre (Suisse) SA
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Brussels	Euro	700,000	100.00%	Pirelli Tyre (Suisse) SA
France						
Gecam France S.a.S.	Sustainable mobility	Villepinte	Euro	130,205	70.00%	Pirelli & C. Eco Technology S.p.A.
Pneus Pirelli S.a.S	Tyre	Villepinte	Euro	1,515,858	100.00%	Pirelli Tyre (Suisse) SA
Germany						
Deutsche Pirelli Reifen Holding GmbH	Financial	Breuberg / Odenwald	Euro	7,694,943	100.00%	Pirelli Tyre S.p.A.
Drahtcord Saar Geschaeftsfuehrungs GmbH	Tyre	Merzig	Deut. Mark	60,000	50.00%	Pirelli Deutschland GmbH
Drahtcord Saar GmbH & Co. KG	Tyre	Merzig	Deut. Mark	30,000,000	50.00%	Pirelli Deutschland GmbH
Driver Handelssysteme GmbH	Tyre	Breuberg / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Deutschland GmbH	Tyre	Breuberg / Odenwald	Euro	26,334,100	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Personal Service GmbH	Tyre	Breuberg / Odenwald	Euro	25,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
PK Grundstuecksverwaltungs GmbH	Tyre	Hoechst / Odenwald	Euro	26,000	100.00%	Deutsche Pirelli Reifen Holding GmbH
Pneumobil GmbH	Tyre	Breuberg / Odenwald	Euro	259,225	100.00%	Deutsche Pirelli Reifen Holding GmbH
Greece						
Elastika Pirelli C.S.A.	Tyre	Kallithea (Athens)	Euro	11,192,000	99.90%	Pirelli Tyre (Suisse) SA
					0.10%	Pirelli Tyre S.p.A.
Pirelli Hellas S.A. (in liquidation)	Sundry	Athens	US $	22,050,000	79.86%	Pirelli Tyre S.p.A.
The Experts in Wheels – Driver Hellas S.A.	Tyre	Kallithea (Athens)	Euro	100,000	72.00%	Elastika Pirelli S.A.
Ireland						
Pirelli Reinsurance Company Ltd	Reinsurance	Dublin	US $	7,150,000	100.00%	Pirelli Finance (Luxembourg) S.A.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Italy						
Driver Italia S.p.A.	Commercial	Milan	Euro	350,000	72.45%	Pirelli Tyre S.p.A.
Driver Servizi Retail S.p.A.	Commercial	Milan	Euro	120,000	100.00%	Pirelli Tyre S.p.A.
EPRE S.r.l.	Enviroment	Milan	Euro	10,000	100.00%	Solar Utility S.p.A.
IN & OUT S.r.l.	Commercial	Milan	Euro	20,000	100.00%	PZero S.r.l.
Maristel S.p.A.	Telecommunications	Milan	Euro	1,020,000	100.00%	Pirelli & C. S.p.A.
P.A. S.p.a (ex - P.A. Società di Gestione del Risparmio S.p.A.)	Financial	Milan	Euro	2,000,000	100.00%	Pirelli & C. Ambiente S.p.A.
Pirelli & C. Ambiente S.p.A.	Enviroment	Milan	Euro	2,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente Site Remediation S.p.A.	Enviroment	Milan	Euro	155,700	100.00%	Pirelli & C. Ambiente S.p.A.
Pirelli & C. Eco Technology S.p.A.	Sustainable mobility	Milan	Euro	5,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Industrie Pneumatici S.r.l.	Tyre	Settimo Torinese (To)	Euro	40,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Labs S.p.A.	Research and Development	Milan	Euro	5,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Nastri Tecnici S.p.A. (in liquidation)	Sundry	Milan	Euro	384,642	100.00%	Pirelli & C. S.p.A.
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	Services	Milan	Euro	2,047,000	100.00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Information Systems	Milan	Euro	1,010,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	756,820,000	100.00%	Pirelli & C. S.p.A.
Poliambulatorio Bicocca S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli Tyre S.p.A.
PZero S.r.l.	Sundry	Milan	Euro	4,000,000	100.00%	Pirelli & C. S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104,000	92.25%	Pirelli & C. S.p.A.
					2.00%	Pirelli Tyre S.p.A.
					1.00%	Pirelli & C. Ambiente S.p.A.
					0.95%	Pirelli Servizi Amministrazione e Tesoreria S.p.A.(ex-Centro Servizi Amministrativi Pirelli S.r.l.)
					0.95%	Pirelli Labs S.p.A.
					0.95%	Pirelli Sistemi Informativi S.r.l.
					0.95%	PZero S.r.l.
					0.95%	Pirelli & C. Eco Technology S.p.A.
Solar Utility Pachino S.r.l. (ex-IESS Pachino S.r.l.)	Enviroment	Milan	Euro	10,000	100.00%	Solar Utility S.p.A.
Solar Utility S.p.A.	Enviroment	Milan	Euro	5,338,352	100.00%	Pirelli & C. Ambiente S.p.A.
Solar Utility Sicilia S.r.l.	Enviroment	Milan	Euro	10,000	100.00%	Solar Utility S.p.A.
Luxembourg						
Pirelli Finance (Luxembourg) S.A.	Financial	Luxembourg	Euro	13,594,910	100.00%	Pirelli & C. S.p.A.
The Netherlands						
E-VOLUTION Tyre B.V.	Tyre	Heinenoord	Euro	100,000	50.00%	Pirelli Tyre S.p.A.
Pirelli China Tyre N.V.	Tyre	Heinenoord	Euro	38,045,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Heinenoord	Euro	18,152	100.00%	Pirelli Tyre (Suisse) SA
Poland						
Driver Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	100,000	63.00%	Pirelli Polska Sp.ZO.O.
Pirelli Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	625,771	100.00%	Pirelli Tyre (Suisse) SA

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
United Kingdom						
CPC 2010 Ltd	Tyre	Burton on Trent	British Pound	10,000	100.00%	Pirelli UK Tyres Ltd
CTC 1994 Ltd	Tyre	Burton on Trent	British Pound	984	100.00%	CTC 2008 Ltd
CTC 2008 Ltd	Tyre	Burton on Trent	British Pound	100,000	100.00%	Pirelli UK Tyres Ltd
Pirelli International Ltd	Financial	Burton on Trent	Euro	250,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Motorsport Services Ltd	Tyre	Burton on Trent	British Pound	1	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Ltd	Tyre	Burton on Trent	British Pound	16,000,000	100.00%	Pirelli UK Tyres Ltd
Pirelli UK Ltd	Finance Holding Company	Burton on Trent	British Pound	143,991,278	100.00%	Pirelli & C. S.p.A.
Pirelli UK Tyres Ltd	Tyre	Burton on Trent	British Pound	85,000,000	100.00%	Pirelli Tyre S.p.A.
Slovakia						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Euro	6,638.78	100.00%	Pirelli Tyre (Suisse) SA
Romania						
S.C. Cord Romania S.r.l.	Tyre	Slatina	Rom. Leu	36,492,150	80.00%	Pirelli Tyre S.p.A.
S.C. Pirelli & C. Eco Technology RO S.r.l.	Sustainable mobility	Oras Bumbesti-Jiu	Rom. Leu	55,000,000	100.00%	Pirelli & C. Eco Technology S.p.A.
S.C. Pirelli Tyres Romania S.r.l.	Tyre	Slatina	Rom. Leu	742,169,800	100.00%	Pirelli Tyre S.p.A.
Syro Consumer S.r.l.	Sustainable mobility	Bumbesti-Jiu	Rom. Leu	200	95.00%	Pirelli & C. Eco Technology S.p.A.
Russia						
Closed Joint Stock Company "Voronezh Tyre Plant"	Commercial	Voronezh	Russian Rouble	1,520,000,000	100.00%	Limited Liability Company Pirelli Tyre Russia (ex-Limited Liability Company E-Volution Tyre)
OOO Pirelli Tyre Services (ex-OOO Pirelli Tyre Russia)	Commercial	Moscow	Russian Rouble	54,685,259	95.00%	Pirelli Tyre (Suisse) SA
					5.00%	Pirelli Tyre S.p.A.
Limited Liability Company Amtel-Russian Tyres	Commercial	Moscow	Russian Rouble	10,000	100.00%	Limited Liability Company Pirelli Tyre Russia (ex-Limited Liability Company E-Volution Tyre)
Limited Liability Company Pirelli Tyre Russia (ex-Limited Liability Company E-Volution Tyre)	Holding Company	Moscow	Russian Rouble	3,500,000	99.90%	E-VOLUTION Tyre B.V.
					0.10%	OOO Pirelli Tyre Services (ex-OOO Pirelli Tyre Russia)
Limited Liability Company Vyatskaya Shina	Commercial	Kirov	Russian Rouble	4,912,000	100.00%	Open Joint Stock Company Kirov Tyre Plant
Open Joint Stock Company "Kirov Tyre Plant"	Commercial	Kirov	Russian Rouble	354,088,639	100.00%	Limited Liability Company Pirelli Tyre Russia (ex-Limited Liability Company E-Volution Tyre)
Spain						
Euro Driver Car S.L.	Tyre	Barcelona	Euro	891,000	24.92%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
					27.61%	Proneus S.L. - Sociedad Unipersonal
					0.34%	Omnia Motor S.A. - Sociedad Unipersonal
Omnia Motor S.A. - Sociedad Unipersonal	Tyre	Barcelona	Euro	1,502,530	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Pirelli Iniciativas Tecnologicas S.L. - Sociedad Unipersonal	Tyre	Barcelona	Euro	10,000	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Pirelli Neumaticos S.A. - Sociedad Unipersonal	Tyre	Barcelona	Euro	25,075,907	100.00%	Pirelli Tyre S.p.A.
Proneus S.L. - Sociedad Unipersonal	Tyre	Barcelona	Euro	3,005	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Tyre & Fleet S.L. - Sociedad Unipersonal	Tyre	Barcelona	Euro	20,000	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal

Sweden						
Dackia AB	Tyre	Taby	Swed. Krona	31,000,000	100.00%	Dackia Holding A.B.
Dackia Holding AB	Tyre	Taby	Swed. Krona	23,752,778	100.00%	Pirelli Tyre S.p.A.
Heby Vulk AB	Tyre	Heby	Swed. Krona	100,000	100.00%	Dackia Aktiebolag
Inter Wheel Sweden Antiebolag	Tyre	Karlstad	Swed. Krona	1,000,000	100.00%	Dackia Aktiebolag
Pirelli Tyre Nordic AB	Tyre	Bromma	Swed. Krona	950,000	100.00%	Pirelli Tyre (Suisse) SA
Skane-Dack i Malmo AB	Tyre	Vellinge	Swed. Krona	100,000	100.00%	Dackia Aktiebolag
Switzerland						
Pirelli Group Reinsurance Company SA	Reinsurance	Lugano	Swiss Franc	8,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre (Suisse) SA	Tyre	Basel	Swiss Franc	1,000,000	100.00%	Pirelli Tyre S.p.A.
Turkey						
Celikord A.S.	Tyre	Istanbul	Turkey Lira	29,000,000	98.733%	Pirelli Tyre S.p.A.
					0.632%	Pirelli International Ltd
					0.367%	Pirelli UK Tyres Ltd
					0.267%	Pirelli Industrie Pneumatici S.r.l.
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	Turkey Lira	140,000,000	99.84%	Pirelli Tyre S.p.A.
					0.15%	Pirelli Industrie Pneumatici S.r.l.
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3,000,000	100.00%	Pirelli Tyre (Suisse) SA

North America

Canada						
Pirelli Tire Inc.	Tyre	St-Laurent (Quebec)	Can. $	6,000,000	100.00%	Pirelli Tyre (Suisse) SA
U.S.A.						
Pirelli North America Inc.	Tyre	New York (New York)	US $	10	100.00%	Pirelli Tyre S.p.A.
Pirelli Tire LLC	Tyre	Rome (Georgia)	US $	1	100.00%	Pirelli North America Inc.

Central/South America

Argentina						
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	101,325,176	95.00%	Pirelli Tyre S.p.A.
					5.00%	Pirelli Pneus Ltda
Brazil						
Campneus Lider de Pneumaticos Ltda	Tyre	Campinas (Sao Paulo)	Bra. Real	27,732,700	60.00%	Comercial e Importadora de Pneus Ltda
Comercial e Importadora de Pneus Ltda	Tyre	Sao Paulo	Bra. Real	82,913,526	100.00%	Pirelli Pneus Ltda
Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda	Tyre	Santo Andrè	Bra. Real	84,784,342	100.00%	Pirelli Pneus Ltda
Ecosil - Industria Quimica do Brasil Ltda	Tyre	Meleiro	Bra. Real	5,070,400	95.95%	Pirelli Pneus Ltda
Pirelli Ltda	Financial	Sao Paulo	Bra. Real	14,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda	Tyre	Santo Andrè	Bra. Real	341,145,811	100.00%	Pirelli Tyre S.p.A.
RF Centro de Testes de Produtos Automotivos Ltda	Tyre	Elias Fausto (Sao Paulo)	Bra. Real	10,000	49.00%	Pirelli Pneus Ltda
TLM - Total Logistic Management Serviços de Logistica Ltda	Holding Company	Santo Andrè	Bra. Real	1,006,000	99.98%	Pirelli Pneus Ltda
					0.02%	Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda

Company	Business	Location	Currency	Share capital	% held	Held by
Chile						
Pirelli Neumaticos Chile Limitada	Tyre	Santiago	Chile Peso/000	1,918,451	99.98%	Pirelli Pneus Ltda
					0.02%	Comercial e Importadora de Pneus Ltda
Colombia						
Pirelli de Colombia S.A.	Tyre	Santa Fe De Bogota	Col. Peso/000	3,315,069	92.91%	Pirelli Pneus Ltda
					2.28%	Pirelli de Venezuela C.A.
					1.60%	Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda
					1.60%	TLM - Total Logistic Management Serviços de Logistica Ltda
					1.60%	Comercial e Importadora de Pneus Ltda
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	35,098,400	99.98%	Pirelli Pneus Ltda
					0.02%	Comercial e Importadora de Pneus Ltda
Pirelli Neumaticos S.A. de C.V.	Tyre	Silao	Mex. Peso	1,041,654,000	99.00%	Pirelli Tyre S.p.A.
					1.00%	Pirelli Pneus Ltda
Pirelli Servicios S.A. de C.V.	Tyre	Silao	Mex. Peso	50,000	99.00%	Pirelli Tyre S.p.A.
					1.00%	Servicios Pirelli Mexico S.A. de C.V.
Servicios Pirelli Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	50,000	99.00%	Pirelli Pneus Ltda
					1.00%	Comercial e Importadora de Pneus Ltda
Venezuela						
Pirelli de Venezuela C.A.	Tyre	Valencia	Ven. Bolivar/000	20,062,679	96.22%	Pirelli Tyre S.p.A.

Africa

Company	Business	Location	Currency	Share capital	% held	Held by
Egypt						
Alexandria Tire Company S.A.E.	Tyre	Alexandria	Egy. Pound	393,000,000	89.08%	Pirelli Tyre S.p.A.
					0.03%	Pirelli Tyre (Suisse) SA
International Tire Company Ltd	Tyre	Alexandria	Egy. Pound	50,000	99.80%	Alexandria Tire Company S.A.E.
South Africa						
Pirelli Tyre (Pty) Ltd	Tyre	Centurion	S.A. Rand	1	100.00%	Pirelli Tyre (Suisse) SA

Oceania

Company	Business	Location	Currency	Share capital	% held	Held by
Australia						
Pirelli Tyres Australia Pty Ltd	Tyre	Sydney	Aus. $	150,000	100.00%	Pirelli Tyre (Suisse) SA
New Zealand						
Pirelli Tyres (NZ) Ltd	Tyre	Auckland	N.Z. $	100	100.00%	Pirelli Tyres Australia Pty Ltd

China						
Pirelli Tyre Co. Ltd	Tyre	Yanzhou	Ch. Renminbi	1,721,150,000	90.00%	Pirelli China Tyre N.V.
Pirelli Tyre Trading (Shangai) Co. Ltd	Tyre	Shangai	US $	700,000	100.00%	Pirelli China Tyre N.V.
Yanzhou Hixih Ecotech Environment CO. Ltd	Sustainable mobility	Yanzhou	Ch. Renminbi	130,000,000	60.00%	Pirelli & C. Eco Technology S.p.A.
Japan						
Pirelli Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2,700,000,000	100.00%	Pirelli Tyre S.p.A.
Indonesia						
PT Evoluzione Tyres	Tyre	Kamojing (West Indonesia)	US $	18,360	60.00%	Pirelli Tyre S.p.A.
Singapore						
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. $	2	100.00%	Pirelli Tyre (Suisse) SA
Taiwan						
Pirelli Taiwan Co. Ltd	Tyre	New Taipei City	N.T. $	10,000,000	100.00%	Pirelli Tyre (Suisse) SA

Investments accounted for by the equity method

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Europe						
Germany						
Industriekraftwerk Breuberg GmbH	Cogeneration	Hoechst / Odenwald	Euro	1,533,876	26.00%	Pirelli Deutschland GmbH
Greece						
Eco Elastika S.A.	Tyre	Athens	Euro	60,000	20.00%	Elastika Pirelli S.A.
Italy						
A.P.I.C.E. - società per azioni	Enviroment	Rome	Euro	200,000	50.00%	Pirelli & C. Ambiente S.p.A.
Consorzio Bonifiche Ambientali S.c.a.r.l.	Enviroment	Fiumicino (Roma)	Euro	20,000	25.00%	Pirelli & C. Ambiente S.p.A.
					25.00%	Pirelli & C. Ambiente site Remendation S.p.A.
Eurostazioni S.p.A.	Holding	Rome	Euro	160,000,000	32.71%	Pirelli & C. S.p.A.
Green&Co2 S.r.l.	Enviroment	Milan	Euro	10,000	49.00%	Pirelli & C. Ambiente S.p.A.
GWM Renewable Energy II S.p.A.	Enviroment	Rome	Euro	15,063,016	16.87%	Solar Utility S.p.A.
Idea Granda Società Consortile r.l.	Enviroment	Cuneo	Euro	1,292,500	49.00%	Pirelli & C. Ambiente S.p.A.
RCS MediaGroup S.p.A.	Finance Holding Company	Milan	Euro	762,019,050	5.33%	Pirelli & C. S.p.A.
Serenergy S.r.l.	Enviroment	Milan	Euro	25,500	50.00%	Pirelli & C. Ambiente S.p.A.
Romania						
S.C. Eco Anvelope S.A.	Tyre	Bucarest	Rom. Leu	160,000	20.00%	S.C. Pirelli Tyres Romania S.r.l.
Spain						
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200,000	20.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Asia						
China						
Sino Italian Wire Technology Co. Ltd	Tyre	Yanzhou	Renminbi	227,500,000	49.00%	Pirelli Tyre S.p.A.

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

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Belgium						
Euroqube S.A. (in liquidation)	Services	Brussels	Euro	84,861,116	17.79%	Pirelli & C. S.p.A.
France						
Aliapur S.A.	Tyre	Lion	Euro	262,500	14.29%	Pirelli Tyre S.p.A.
Italy						
Fin. Priv. S.r.l.	Financial	Milan	Euro	20,000	14.29%	Pirelli & C. S.p.A.
Poland						
Centrum Utylizacji Opon Organizacja Odzysku S.A.	Tyre	Warsaw	Pol. Zloty	1,008,000	14.29%	Pirelli Polska Sp. ZO.O.
United Kingdom						
Tlcom I Ltd Partnership	Financial	London	Euro	1,204	10.39%	Pirelli Finance (Luxembourg) S.A.
Tunisia						
Société Tunisienne des Industries de Pnéumatiques S.A.	Tyre	Tunis	Tun. Dinar	12,623,472	15.83%	Pirelli Tyre S.p.A.
Hungary						
HUREC Tyre Recycling Public Benefit Company	Tyre	Budapest	Hun. Forint	50,000,000	17.00%	Pirelli Hungary Tyre Trading and Services Ltd

Certification of the Condensed Interim Financial Statements pursuant to Article 154-bis of Legislative Decree no. 58 of February 24, 1998 and Article 81-ter of Consob Regulation no. 11971 of May 14, 1999, as amended

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

- the adequacy in relation to the characteristics of the company and
- the effective application of the administrative and accounting procedures for preparation of the condensed interim financial statements, during the period January 1, 2012 – June 30, 2012.

2 In this regard it should be noted that the adequacy of the administrative and accounting procedures for preparation of the condensed interim financial statements at June 30, 2012 was determined on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the "*Internal Control – Integrated Framework*" guidelines issued by the "Committee of Sponsoring Organizations of the Treadway Commission" (COSO), which is a reference framework generally accepted at the international level.

3 We also certify that:

3.1 the condensed interim financial statements:

a) were prepared in accordance with the applicable international accounting standards recognised in the European Union under the terms of Regulation (EC) 1606/2002 of the European Parliament and Council, of July 19, 2002;
b) correspond to the information in the account ledgers and books;
c) give a true and fair view of the assets, liabilities, income, expenses and financial position of the reporting entity and of the group of companies included in the scope of consolidation.

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

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

July 26, 2012

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

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

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

1. We have reviewed the condensed consolidated interim financial statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes, of Pirelli & C. S.p.A. and its subsidiaries (the "Pirelli Group") as of June 30, 2012. Pirelli & C. S.p.A.'s Directors are responsible for the preparation of the condensed consolidated interim financial statements in conformity with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to issue this review report based on our review.

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

   The consolidated financial statements and the condensed consolidated interim financial statements of the prior year are presented for comparative purposes. As described in the explanatory note n. 3 *"Business combination"*, the Directors have restated certain comparative data related to the consolidated financial statements of the prior year with respect to the data previously presented, on which we issued our auditor's report dated March 29, 2012, in order to include the effects of the final accounting for the Kirov and Voronezh production plants business combination, according to IFRS 3. We have examined the method used to restate the comparative financial data and the information presented in the explanatory notes in this respect, while performing our limited review on the condensed consolidated interim financial statements as of June 30, 2012. For the opinion on the condensed consolidated interim financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated August 4, 2011.

3. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of Pirelli Group as of June 30, 2012 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 2, 2012

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

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

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