



**Half-yearly Financial Report
at June 30, 2013**

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

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Board of Directors¹

Chairman and Chief Executive Officer	Marco Tronchetti Provera
Deputy Chairman	Alberto Pirelli
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	Jean Paul Fitoussi
Independent Director	Pietro Guindani
Independent Director	Elisabetta Magistretti
Director	Massimo Moratti
Director	Renato Pagliaro
Independent Director	Luigi Roth
Director	Luca Rovati
Director	Carlo Salvatori
Lead Independent Director	Carlo Secchi
Independent Director	Manuela Soffientini

Secretary to the Board	Anna Chiara Svelto
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Board of Statutory Auditors²

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	Elisabetta Magistretti
Independent Director	Luigi Roth

Remuneration Committee

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

Nominations and Successions Committee

Chairman of the Committee
 Independent Director
 Independent Director

Marco Tronchetti Provera
 Luigi Campiglio
 Luigi Roth

Strategies Committee

Chairman of the Committee
 Independent Director
 Independent Director
 General Counsel and Corporate Affairs
 Director
 Lead Independent Director
 Independent Director

Marco Tronchetti Provera
 Alberto Bombassei
 Franco Bruni
 Francesco Chiappetta
 Renato Pagliaro
 Carlo Secchi
 Manuela Soffientini

Independent Auditor³

Reconta Ernst & Young S.p.A.

Corporate Financial Reporting Manager⁴

Francesco Tanzi

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.

- 1 Appointment: April 21, 2011. Expiry: Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2013.
 Manuela Soffientini, co-opted on March 1, 2012, was confirmed as Director by the Shareholders' Meeting on May 10, 2012. Carlo Salvatori, co-opted on July 26, 2012, was confirmed as Director by the Shareholders' Meeting on May 10, 2012. Jean Paul Fitoussi and Luca Rovati were appointed by the Shareholders' Meeting on May 10, 2012.
 Two seats are vacant following the resignations of Vittorio Malacalza (on May 10, 2013) and Giulia Maria Ligresti (on July 24, 2013).
- 2 Appointment: May 10, 2012. Expiry: Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2014.
- 3 Post conferred by the Shareholders' Meeting held on April 29, 2008, for the nine-year term 2008-2016.
- 4 Appointment: Board of Directors meeting held on April 21, 2011. Expiry: together with the current Board of Directors.

MACROECONOMIC AND MARKET SITUATION

The international economy

The global economy grew at a modest rate in the first half of 2013. The Chinese economy slowed down and the European economy remained sluggish due to problems in the lending sector and fiscal austerity. In contrast, the United States enjoyed positive developments, notwithstanding indiscriminate public spending cuts, where investments spending in the real estate sector continue to rise, and consumer confidence is recovering. The Japanese economy also grew robustly, reflecting the first positive results of fiscal and monetary policy introduced by the new Prime Minister, Shinzo Abe.

A closer look at Europe shows that eurozone GDP contracted by 0.3% in the first quarter, for its sixth straight quarterly decline. With the inflation rate running at less than 1.5% and consumer and business lending steadily tracking downward, the European Central Bank cut its benchmark rates by 25 basis points to 0.50% in May. Tension on the financial markets, which had initially slackened after the Italian parliamentary elections and the Cyprus bailout plan, worsened again in anticipation of less liquidity on the United States market and uncertainty over whether an agreement would be reached on the European banking union, which was finalised only at the end of June. Although consumer and business confidence gradually recovered, access to credit remains tight. This factor is limiting the recovery, especially in periphery countries.

Growth in Latin American countries during 1H 2013 was also weaker than forecast. In spite of recovering investment spending, Brazilian GDP growth in 1Q 2013 remained virtually unchanged from the disappointing 0.6% rate reported for 4Q 2012, due to soft consumer spending and export activity. In Argentina consumer spending sustained economic growth in 1Q 2013, but both investment spending and exports fell.

Growth in the Asia-Pacific region accelerated slightly in 1H 2013, especially due to the recovery of the Japanese economy, which was driven by an expansionary monetary policy that boosted consumer confidence, and thus spending. The Chinese government is less willing to use fiscal or monetary stimuli, due to fears of overheating on the real estate market, and the Chinese economy is responding by growing at a more modest rate. Credit has expanded to risky levels over the last several years, so much so that the Chinese central bank was forced to inject liquidity into several financial institutions to reduce pressure on interbank rates.

Moving in the opposite direction, the United States economy proved to be more solid than expected, in spite of automatic public spending cuts that were triggered at the end of 1Q 2013. Consumers are driving growth, together with renewed enthusiasm for investment in real estate.

The strength of the economy has led the Federal Reserve Bank to lay out a timeline for possible curtailment of quantitative easing to begin at the end of 2013, negatively impacting performance on the financial markets at the end of June and provoking volatile exchange rates at the end of the second quarter. The relative stability of the euro in April and May crumbled in June, when it climbed to USD 1.34 in the second half of that month (after the Fed announcement), only to fall back to 1.31 at the end of June, with the average rate for 2Q 2013 coming in at USD 1.31.

The yen continued to depreciate in 1H 2013 following implementation of an expansionary monetary policy by the Japanese central bank, aimed at combating deflation. The Japanese currency broke through the JPY 100 per dollar barrier in May before recovering in June, ending 1H 2013 with an average rate of JPY 95.5 to the U.S. dollar for that period, or 16.5% lower than in the same period of 2012. The Chinese renminbi remained stable in 1H 2013, with an average rate of CNY 6.19 / USD, up 2.1% from 1H 2012.

Latin American currencies depreciated against the U.S. dollar and the euro in 1H 2013. After holding substantially steady at about BRL 2 to the dollar for over a year, the Brazilian real began depreciating steadily in the second half of June, falling to BRL 2.26 / USD. The average exchange rate for 1H 2013 was BRL 2.03 / USD, down 8.3% from 1H 2012. The Argentine peso also continued to lose ground: the average rate of ARS 5.13 / USD represents a 14% drop from 1H 2012.

Automotive market

Car registration rates remained soft in Europe in the first half of 2013. The Western European market (EU15) contracted by 6.6% (Acea figures) year-on-year in 1H 2013. Only the United Kingdom (+10%) bucked the trend prevailing on the other major markets (-11.2% in France, -10.3% in Italy, -8.1% in Germany).

The NAFTA market continued growing in 1H 2013 (+7%), but at a slower pace than the double-digit rates reported in 2012. After a slow start, light vehicle sales in Canada picked up during 2Q 2013, while growth in Mexico proved to be more robust throughout the first half of the year.

Turning to the Asian markets, car production and sales continued to expand at a healthy rate in China. In 1H 2013, Chinese car output grew at a double-digit rate while car sales rose by about 40% year-on-year. In Japan, the market continued to contract after the discontinuation of incentives for the purchase of reduced environmental impact vehicles, and light vehicle sales in 1H 2013 fell from the same period of 2012.

In Brazil light vehicle registrations accelerated in 1H 2013. The government extended the reduced rate tax on industrial products (IPI) until December 2013, thereby stimulating car purchases.

The commercial vehicle market remained soft in Europe, with only the United Kingdom expanding. During April and May, signs of improvement were reported in the light commercial vehicle segment in Spain, while the French and especially Italian markets remained depressed as compared with a year earlier. The recovering construction industry positively impacted sales of industrial vehicles in NAFTA, especially in the light-range segment, while sales of vehicles with a curb weight of over 6 tons continued to fall. In Brazil truck sales rose 5% year-on-year, being driven by a recovery in the heavy-range segment, while sales of light-range commercial vehicles remained below the levels reported in 1H 2012.

Tyre market

Tyre sales data for 1H 2013 indicate healthy performance in emerging markets but weak performance in Europe, reflecting the ongoing recession there.

The slowdown in the European consumer segment at the end of 2012 continued into 2013, albeit with less intensity and a few signs of recovery in the second quarter. In 1H 2013, net sales fell by 5% year-on-year in both the original equipment and replacement channel as compared with the same period of 2012, although this was mitigated by sales performance in the second quarter. Between April and June 2013 the original equipment channel had recovered to its 2012 levels (net sales fell by 8% in 2Q 2012), and the replacement channel showed signs of recovery by reaching a 3% growth rate (compared with a 13% decline in 2012).

In the industrial segment, net sales of original equipment on the European market fell by 2% (compared with -6% in 1H 2012), while they rose by 7% in the replacement channel (-28% in 1H 2012).

Net sales of original equipment in the consumer segment of NAFTA tracked expanding vehicle production by rising 4% year-on-year in 1H 2013. The replacement channel remained soft, shrinking by 4% in the first half, while the premium segment continued to grow. In the industrial segment, net sales of original equipment fell by 10% in 1H 2013 (after rising by 20% a year earlier), while the replacement channel remained stable at its 2012 levels (when it had contracted by 14%).

Driven by good performance in Brazil and Argentina, the Latin American tyre market grew in both the consumer and industrial segments and in both the original equipment and replacement channels during 1H 2013. More specifically, the consumer original equipment channel expanded 15% (after contracting by 8% in 1H 2012, before the introduction of vehicle sales incentives), while the replacement channel rose 11% (compared with slight growth in 2012). The industrial original equipment segment grew by 48% (-29% in 1H 2012, after building up stocks for the switch from Euro 3 to Euro 5), while the replacement channel rose by 14%, (-9% in 1H 2012).

The Russian consumer original equipment segment shrank by 6%, while the summer replacement channel also contracted. This reflected the weak performance of the local economy, which has been impacted by the current drop in commodity prices.

In Asia, the Chinese market proved to be especially dynamic during the first half of 2013. The strong performance of car sales supported growth in the consumer original equipment segment, while the industrial segment also showed clear signs of recovery after doing poorly throughout 2012. In Japan, net sales in the consumer original equipment segment slowed down in 1H 2013 after growing strongly in 2012. The market had benefited from reduced environmental impact vehicle purchase incentives during 2012 before being terminated in autumn that year. On the other hand, net sales in the consumer replacement channel rose by 5% year-on-year in 1H 2013. In the industrial segment, net sales of original equipment fell in 1H 2013, after performing quite strongly in 2012, while replacement equipment sales reversed their downward trend by returning to growth in 2Q 2013.

Commodities

Commodity prices fell in 1H 2013 on fears of a global economic slowdown and expectations that the U.S. Federal Reserve Bank would curtail quantitative easing. Oil, natural rubber, and butadiene prices fell in 1H 2013.

The average price for Brent crude oil was USD 113/bbl in 1Q 2013, up from its level in Q4 2012. However, it slid in April when new economic data released by China dampened growth expectations for that country, and consequently oil demand. Moreover, on the supply side, expanding output of American shale oil and gas drove down the risk premium on energy prices. These factors pushed average Brent crude prices down to USD 108/bbl in 1H 2013, or 5.1% less than in the same period of 2012.

Natural rubber prices fell in 2Q 2013 following expectations of less robust global demand. The average price for natural rubber in 1H 2013 was USD 2,705/ton, or 23% less than in 1H 2012.

Butadiene prices, the principal input for making synthetic rubber, continued to slide in 1H 2013. Uncertain demand, especially in Europe, weighed down on prices, which averaged euro 1,358/ton in 1H 2013, or 33% less than the average price in 1H 2012.

SIGNIFICANT EVENTS IN THE FIRST HALF OF 2013

On **January 15, 2013** the shareholders agreement of Pirelli & C. S.p.A. was renewed without any changes in its participants and the participating shares. All participants of this agreement affirmed their desire to renew it, which is set to expire on April 15, 2014.

On **January 15, 2013** Pirelli and the Ministry of Environment signed a new agreement to reduce the climate impact of activities related to tyre manufacturing and use. The agreement, signed by Minister Corrado Clini and Pirelli Chairman and CEO Marco Tronchetti Provera, defines the second phase of the agreement previously signed by the company with the Ministry in January 2012, as part of the international conference “Driving Sustainability: a Safe Road to the Future”. In this second phase, Pirelli and the Ministry of Environment will undertake technological experiments aimed to reduce the climate impact of activities related to the production and use of a representative car tyre, made by Pirelli in Brazil.

On **January 23, 2013** Pirelli initiated the Motorsport 2013 season by presenting the new versions of its Formula 1 tyres, the third such evolution in three years, and the original 17 inch tyre for Superbike championship competition, which marks a turning point in the most important motorcycle championship involving street model derivatives. Pirelli will participate in about 250 competitions, of which less than half as the sole tyre brand supplier, supplying tyres to more than 40 countries around the world, from the Americas to the Far East.

On **January 30, 2013** Pirelli and Russian Technologies announced the start-up of a new production line at the Voronezh factory, in southwest Russia. Following the investments in new technology made there, this new production line now meets Pirelli standards and will make it possible to produce premium tyre compounds, especially in the winter segment. Capital expenditure through 2015 will total euro 100 million, with a production capacity of 4 million units by 2015.

On **February 20, 2013** Pirelli & C. Ambiente S.p.A. and Clean Diesel Technologies Inc. (Nasdaq: CDTI) signed an agreement to set up a joint venture for the marketing and sale of emissions control devices in Europe and CSI countries. Through this joint venture the two companies aim to consolidate their leadership in technologies used to limit the pollution emissions of diesel or gasoline powered light or heavy vehicles in on and off-road applications in the original equipment and after market segments. The agreement calls for providing the joint venture with silicon carbide substrates by Pirelli & C. Eco Technology RO S.r.l. (Romania) and solutions for emissions controls by CDTI.

On **March 4, 2013** Mario Greco resigned as Director of the Company.

On **March 27, 2013** Pirelli & C. S.p.A, in relation to the extraordinary operation of the re-launch of the Prelios group approved by the Board of Prelios S.p.A., has announced – in its role of financier to Prelios S.p.A – that it expressed its participation in the operation along with the other parties involved.

For Pirelli, the operation entails the following:

- the contribution of "new" funds for a total maximum value of euro 25.3 million, of which:
 - approximately euro 23 million to subscribe to the capital increase of the newly constituted company vehicle (Fenice S.r.l.), in which Intesa Sanpaolo S.p.A., Unicredit S.p.A. and Feidos 11 S.p.A. (a company controlled by Feidos S.p.A.) also have stakes. The new funds will be used by Fenice S.r.l. to subscribe to new Prelios shares which are without voting rights, not traded and convertible into ordinary shares when certain events come to pass ("category B shares");
 - approximately euro 2.3 million to subscribe to a portion of any part of the Prelios S.p.A. capital increase offered as an option to its shareholders that is eventually not taken up by the market;
- the reconfiguration of the entire euro 173.5 million financial receivable from Prelios S.p.A. on December 31, 2012, which is variable according to the extent to which the market subscribes to the capital increase. In the event of absolutely no subscription, the reconfiguration will take place as follows:
 - approximately euro 26.3 million in ordinary Prelios S.p.A. shares not bound by a lock-up;
 - approximately euro 147.2 million in equity linked bonds destined for conversion, with a cash option for Prelios S.p.A. (of 7 years' duration) and with possible early conversion if certain events come to pass, of which about euro 65 million confer the right of conversion into Category B shares and around euro 81.8 million which confer conversion rights into ordinary Prelios S.p.A. shares.

At the conclusion of the first phase of the operation it is foreseen that Pirelli & C. S.p.A. will have a maximum direct stake of 17% in the voting capital of Prelios S.p.A. and approximately 33% of Fenice S.r.l. and a share of equity linked bonds destined for conversion which could vary in value between a minimum of euro 147.2 million and a maximum of euro 173.5 million depending on the degree to which the market subscribes to the capital increase offered as an option by Prelios S.p.A. to its shareholders. Pirelli & C. S.p.A.'s participation in the operation of re-launching Prelios S.p.A. does not change in any way Pirelli's strategic focus on the core tyre business, but has as its sole objective the strengthening of Prelios' equity and finances with the aim of maximising the value of the credit Pirelli has with Prelios S.p.A.

Pirelli, Intesa Sanpaolo, Unicredit and Feidos 11 also defined the term sheet that establishes the terms and conditions essential for the constitution of Fenice S.r.l., as well as its governance, for the transferability of the stakes held in it and the relative divestment, including mechanisms in specific cases of early exit for Feidos 11 and of acquisition for the other members of Fenice S.r.l. The parties then executed the final agreements. The Prelios capital increase began July 22 and is expected to be completed on August 8.

On **April 15, 2013** a Memorandum of Understanding was signed by Pirelli and Rosneft for the first Pirelli premium flagship store in Russia. It will be located inside the new Rosneft service station in Sochi, on the Black Sea coast in the region of Krasnodar. The agreement represents a new, important step towards development of the strategic commercial and marketing collaboration agreement initialled by the two partners on December 20, 2012. The flagship store will be completed by 4Q 2013, will feature the "Pzero Platinum" brand and will enjoy the exposure generated by the 2014 Sochi Winter Olympics, of which Rosneft is a partner.

The agreement also calls for the opening of other similar sales outlets at Rosneft service stations located in areas offering access to premium customers. Finally, the agreement calls for Rosneft service stations to offer – from 1Q 2014 – the Pirelli 'Safe&GO' tyre inspection service.

On **May 10, 2013** Vittorio Malacalza resigned as Deputy Chairman and member of the Pirelli & C. S.p.A. Board of Directors.

On **May 13, 2013** the Shareholders' Meeting of Pirelli & C. S.p.A. approved the annual financial report 2012, which closed with consolidated net income of euro 398.2 million, and parent company net income of euro 234.4 million, resolving to pay a dividend of euro 0.32 euro per ordinary share and euro 0.39 per savings share. The Shareholders' Meeting appointed Jean Paul Fitoussi (independent), Luca Rovati and Carlo Salvatori, who had been previously co-opted by the Board of Directors in July 2012, as Directors until the term of the current Board of Directors expires upon approval of the annual report 2013. The Shareholders' Meeting also authorised the Board of Directors to buy back and dispose of treasury shares up to the limit of 10% of share capital and for a maximum period of 18 months, and also approved certain amendments to the bylaws.

The Shareholders' Meeting approved the Company remuneration policy, with a 98.6% majority of the voting shares.

On **June 5, 2013** the Pirelli & C. S.p.A. Block Voting Shareholders' Agreement announced that the parties to the Shareholders' Agreement gave their consent, on request:

- to Allianz S.p.A. to release from the Shareholders' Agreement the entire Pirelli & C. S.p.A. shareholding that had been contributed, amounting to 20,977,270 Pirelli & C. ordinary shares (4.41% of the share capital);
- to Fondiaria-Sai S.p.A. to release from the Shareholders' Agreement a total of 12,229,394 ordinary shares in Pirelli & C. S.p.A. (2.57% of the share capital);
- to Camfin S.p.A. to release from the Shareholders' Agreement a total of 33,300,000 ordinary shares in Pirelli & C. S.p.A., (7% of the share capital); In relation to this, Camfin announced on the same date that the 33,300,000 released ordinary shares in Pirelli & C. S.p.A. are not available for sale. The release is aimed to guarantee compliance with the rules of the Shareholders' Agreement that establish specific limits on the shares that each participant may hold in relation to the total number of contributed shares;
- to amend Article 2 of the Shareholders' Agreement by establishing that when it is renewed, the extension of the Shareholders' Agreement for the Participants that have not opted out shall be subject to the condition that the remaining financial instruments tied to the Shareholders' Agreement together represent at least 30% (rather than 33%, as previously envisaged) of the ordinary subscribed share capital of Pirelli & C. S.p.A.

The following are Parties to the Shareholders' Agreement as at today:

Parties	Number of ordinary Shares granted	% of all shares granted	% of the total n. of ordinary shares issued
CAMFIN S.p.A.	63,369,168	42.24%	13.32%
MEDIOBANCA S.p.A.	21,922,205	14.61%	4.61%
EDIZIONE S.r.l.	21,921,364	14.61%	4.61%
ASSICURAZIONI GENERALI S.p.A. (*)	20,977,269	13.98%	4.41%
FONDIARIA - SAI S.p.A.	8,802,913	5.87%	1.85%
INTESA SANPAOLO S.p.A.	7,683,568	5.12%	1.62%
SINPAR S.p.A.	3,015,320	2.01%	0.63%
Massimo MORATTI (**)	2,343,392	1.56%	0.49%
Total	150,035,199	100%	31.54%

(*) n. 5,218,181 shares through Generali Vie S.A. and n. 15,759,088 shares through Generali Italia S.p.A.

(**) through CMC S.p.A. (including 1,838,459 shares fiduciary owned by Cordusio Società fiduciaria per azioni)

Lauro Sessantuno S.p.A., an entity that has made a global takeover bid on Camfin S.p.A. shares, has given notice in its takeover bid document that the shareholders of Lauro Sessantuno S.p.A. have agreed that they do not wish to alter the current ownership structure of Pirelli, other than to improve its competitiveness. In that perspective, these parties have agreed not to renew the participation of Camfin in the Pirelli Shareholders' Agreement at its next expiry date, scheduled to occur on April 15, 2014, unless jointly decided otherwise by Lauro Cinquantaquattro S.r.l. (whose share capital is wholly owned by Clessidra SGR S.p.A.) and Marco Tronchetti Provera & C. S.p.A.

GROUP PERFORMANCE AND RESULTS IN THE FIRST HALF OF 2013

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 understanding of Group operating performance. These indicators are: Gross Operating Profit, Non-current assets, Provisions, Operating working capital, Net working capital, and Net financial (liquidity)/debt position. Please refer to the section “Alternative performance indicators” for a more analytical description of these indicators.

Following the entry into force of the newly revised standard IAS 19 – Employee Benefits on January 1, 2013, the 2012 figures have been restated.

The table summarises the impact of this change on the principal balance sheet and income statement items in each quarter and their totals for all of 2012. Please see the notes and comments on the financial statements for additional details.

(in millions of euro)

	at 03.31.2012			at 06.30.2012			at 09.30.2012			at 12.31.2012		
	2012 reported	2012 restated	change	2012 reported	2012 restated	change	2012 reported	2012 restated	change	2012 reported	2012 restated	change
Profit & Loss impact												
Operating income - quarter	209.4	212.7	3.3	191.3	192.6	1.3	192.1	195.5	3.4	188.0	191.7	3.7
Operating income - cumulative				400.7	405.3	4.6	592.8	600.8	8.0	780.8	792.5	11.7
Net income (loss) - quarter	125.3	123.6	(1.7)	96.4	94.9	(1.5)	86.6	84.8	(1.8)	89.9	88.2	(1.7)
Net income (loss) - cumulative				221.7	218.5	(3.2)	308.3	303.3	(5.0)	398.2	391.5	(6.7)
Balance sheet impact												
Reserve	851.5	853.2	1.7	681.9	685.1	3.2	677.3	682.3	5.0	647.9	654.6	6.7
Net income (loss) - cumulative	125.3	123.6	(1.7)	221.7	218.5	(3.2)	308.3	303.3	(5.0)	398.2	391.5	(6.7)
Equity	2,320.1	2,320.1	0.0	2,246.9	2,246.9	0.0	2,328.9	2,328.9	0.0	2,389.4	2,389.4	0.0

In this document, the comments on the changes from 1H 2012 always refer to the restated amount, unless otherwise indicated.

GROUP PERFORMANCE AND RESULTS

Group performance in 1H 2013 was impacted by the crisis affecting Europe, where the demand for goods and services continues to contract, and a soft market in Russia, which is experiencing a slowdown in the original equipment channel and in the summer replacement channel.

The European market contracted from its 2012 levels especially in the consumer segment, where the replacement channel shrank by 5% overall, notwithstanding growth in the premium segment.

The aggregate performance of South American markets was positive in both segments instead, while China reported growth especially in the consumer segment. The premium segment continued to grow in these areas, as well as in the NAFTA area.

Consolidated net sales totalled euro 3,131.1 million at June 30, 2013, reflecting a 3.6% increase (euro 3,021.8 million in 1H 2012) attributable to emerging markets (representing 57% of net sales by the Tyre Business), more than offsetting the downturn in Europe and North America. Net sales rebounded sharply in 2Q 2013 (+8.8% year-on-year) in consequence of higher growth in sales volumes and continuous improvement in the price/mix component.

Consolidated operating income totalled euro 380.7 million in 1H 2013 and EBIT margin of 12.2% (operating income of euro 405.3 million in 1H 2012 with an EBIT margin of 13.4%). Profitability benefited from the growth in volumes, improvement in the price/mix component and operating efficiency. Together with the lower cost of raw materials, profitability helped offset the start up costs of production sites in Mexico and Russia, the rise of commercial costs for the development of Premium segment and production input costs and other operating costs, including depreciation and amortisation. The decrease in operating income from 1H 2012 is largely attributable to the impact of consolidation translation differences, amounting to about euro 19 million.

Net income in 1H 2013 was euro 150.1 million, compared with euro 218.5 million in 1H 2012. The aggregate amount was impacted by an increase in net financial expenses of about euro 47 million, related to the higher level of average indebtedness during the period and a different mix of geographic areas of financing, and the recognition in 2012 of non-recurring exchange gains for euro 8.7 million related to the start-up of activities in Russia, the negative euro 8.3 million impact resulting from depreciation of the Venezuelan currency and approximately euro 7 million in lower financial income on the loan to Prelios S.p.A.

The aggregate impact of equity investments was also negative, totalling euro -24.3 million (mainly related to RCS Mediagroup and Mediobanca), compared with euro -2.7 million in 1H 2012.

The consolidated net financial (liquidity)/debt position was negative for euro 1,732.6 million, compared to the negative amount of euro 1,205.2 million at December 31, 2012 and the negative amount of euro 1,680.2 million at March 31, 2013. The increase in net debt during the first half reflects the typical seasonal change in net working capital, which was concentrated in the first quarter this year, and the payment of approximately euro 157 million in dividends from Pirelli & C. S.p.A. to shareholders in the second quarter.

Net operating cash flow totalled a positive euro 188.3 million in the second quarter, compared with a negative euro 80.9 million in the same period of 2012, due to careful management of working capital. For the six months ended June 30, 2013, net operating cash flow was negative for euro 128.5 million (negative for euro 393 million in 1H 2012).

Net sales by the **Tyre Business**, which generates 99.5% of Company net sales, totalled euro 3,114.0 million, with an increase of 3.8% (+8.8% net of the translation effect), being sustained by higher volumes (+6.3% in the first half and +8.8% in the second quarter) and the steady improvement in the price/mix component (+2.5% in the first half and +5,1% in the second quarter). The growth in volume was impacted not only by operating activity at the Russian plants, which became fully operational only in 2Q 2012, but also by the increase in industrial activities, especially in South America, and higher growth in the consumer original equipment segment in South America, China, and Europe.

In Europe net sales fell by 8% from 1H 2012 and 6% in the NAFTA area. This decline was more than offset by the increase in emerging markets, which is a distinctive feature of Pirelli business activity: net sales were up +17% in South America (including translation effect), +15% in the Asia-Pacific region, +8% in Russia, and +7% in the Middle East Africa region.

Operating income totalled euro 392.8 million, with an EBIT margin of 12.6%. In 1H 2012 it totalled euro 418.2 million, or 13.9% of net sales.

Premium segment net sales totalled euro 1,104.7 million in 1H 2013, up 1.6% from 1H 2012 (+6.4% in 2Q 2013 after the 2.8% decrease in 1Q 2013), and account for 49% of net sales in the consumer segment.

As measured by sales volumes, the premium segment grew by 8.3% in the first half following the strong recovery in 2Q 2013: +12.9% as compared with +4% in 1Q 2013.

Emerging countries confirmed their position as the fastest growing areas: premium net sales were up 27.7% compared with 1H 2012 (+28% in 2Q 2013), while demand in the NAFTA area slowed with premium segment net sales holding steady at their 1H 2012 levels. In 1H 2013 the European recession drove down aggregate premium segment net sales by 6.6% , although they began recovering in the second quarter (+1.2% compared with the 13% drop reported in 1Q 2013).

Looking at the various business segments, the consumer segment was hardest hit by the European market contraction, posting net sales of euro 2,255.4 million in 1H 2013, up 1.1% year-on-year, (+5.6% in 2Q 2013). Operating income totalled euro 280.2 million (EBIT margin of 12.4%, -2.8 percentage points lower than the 1H 2012 figure, reflecting the negative translation effect, the costs of converting the truck plants at Settimo Torinese to premium car production, the start-up costs of activities in Mexico and Russia, and higher commercial costs for the development of premium products).

The industrial segment, which is focused almost entirely on emerging markets, posted net sales of euro 858.6 million, up 11.5% on the 2012 figure, with operating income rising 44% to euro 112.6 million, and EBIT margin increasing from 10.2% to 13.1%.

The consolidated financial highlights for the Group are summarised as follows:

(in millions of euro)					
	6/30/2013	6/30/2012 restated	6/30/2012 reported	12/31/2012 restated	12/31/2012 reported
Net sales	3,131.1	3,021.8	3,021.8	6,071.5	6,071.5
Gross operating profit before restructuring expenses	533.5	550.3	545.7	1,102.9	1,091.2
% of net sales	17.0%	18.2%	18.1%	18.2%	18.0%
Operating income before restructuring expenses	388.1	419.8	415.2	831.6	819.9
% of net sales	12.4%	13.9%	13.7%	13.7%	13.5%
Restructuring expenses	(7.4)	(14.5)	(14.5)	(39.1)	(39.1)
Operating income	380.7	405.3	400.7	792.5	780.8
% of net sales	12.2%	13.4%	13.3%	13.1%	12.9%
Net income (loss) from equity investments	(24.3)	(2.7)	(2.7)	(52.2)	(52.2)
Financial income/(expenses)	(104.7)	(57.8)	(48.8)	(150.5)	(129.5)
Pre-tax income (loss)	251.7	344.8	349.2	589.8	599.1
Income tax	(101.6)	(126.3)	(127.5)	(198.3)	(200.9)
Tax rate %	40.4%	36.6%	36.5%	33.6%	33.5%
Total net income (loss)	150.1	218.5	221.7	391.5	398.2
Net income attributable to owners of Pirelli & C. S.p.A.	151.4	216.3	219.5	387.1	393.8
Total net earnings per share attributable to owners of Pirelli & C. S.p.A. (in euro)	0.310	0.443	0.450	0.793	0.807
Non-current assets	3,800.0	3,813.4	3,813.4	3,877.2	3,877.2
Inventories	1,096.7	1,200.4	1,200.4	1,102.6	1,102.6
Trade receivables	935.5	964.3	964.3	704.6	704.6
Trade payables	(1,101.2)	(1,149.0)	(1,149.0)	(1,268.7)	(1,268.7)
Operating Net working capital	931.0	1,015.7	1,015.7	538.5	538.5
% of net sales ^(c)	14.9%	16.8%	16.8%	8.9%	8.9%
Other receivables/other payables	94.2	(69.9)	(69.9)	11.0	11.0
Total net working capital	1,025.2	945.8	945.8	549.5	549.5
% of net sales ^(c)	16.4%	15.6%	15.6%	9.1%	9.1%
Net invested capital	4,825.2	4,759.2	4,759.2	4,426.7	4,426.7
Equity	2,321.8	2,246.9	2,246.9	2,389.4	2,389.4
Provisions	770.8	809.6	809.6	832.1	832.1
Net financial (liquidity)/debt position	1,732.6	1,702.7	1,702.7	1,205.2	1,205.2
Equity attributable to the owners of Pirelli & C. S.p.A.	2,279.3	2,195.3	2,195.3	2,337.4	2,337.4
Equity per share attributable to the owners of Pirelli & C. S.p.A. (in euro)	4.671	4.499	4.499	4.790	4.790
Total Tyre - net sales	3,114.0	3,000.3	3,000.3	6,031.3	6,031.3
% of net sales total	99.5%	99.3%	99.3%	99.3%	99.3%
Total Tyre - operating income	392.8	418.2	413.6	820.8	809.1
% on total tyre - net sales	12.6%	13.9%	13.8%	13.6%	13.4%
Total Tyre - net sales Consumer	2,255.4	2,230.1	2,230.1	4,419.8	4,419.8
% on total tyre - net sales	72.4%	74.3%	74.3%	73.3%	73.3%
Total Tyre - net sales Industrial	858.6	770.2	770.2	1,611.5	1,611.5
% on total tyre - net sales	27.6%	25.7%	25.7%	26.7%	26.7%
Total Tyre - net sales Premium	1,104.7	1,086.9	1,086.9	2,075.9	2,075.9
% on net sales Consumer	49.0%	48.7%	48.7%	47.0%	47.0%
Capital expenditure	164.0	194.9	194.9	470.9	470.9
Research and development expenses	93.3	91.6	91.6	178.9	178.9
% of net sales	3.0%	3.0%	3.0%	2.9%	2.9%
Research and development expenses - Premium	75.3	72.5	72.5	141.9	141.9
% on sales Premium	6.8%	6.7%	6.7%	6.8%	6.8%
Headcount (number at end of period)	38,138	36,349	36,349	37,338	37,338
Industrial sites (number)	23	23	23	23	23

^(c) the net sales figure is annualised in interim periods

To facilitate understanding of Group performance, the table below sets forth the breakdown of the income statement by business segment.

(in millions of euro)

	Total Tyre		Other business		Total	
	1Half 2013	1Half 2012 restated	1Half 2013	1Half 2012 restated	1Half 2013	1Half 2012 restated
Net sales	3,114.0	3,000.3	17.1	21.5	3,131.1	3,021.8
Gross operating profit before restructuring expenses	542.8	560.8	(9.3)	(10.5)	533.5	550.3
Operating income before restructuring expenses	399.4	432.7	(11.3)	(12.9)	388.1	419.8
Restructuring expenses	(6.6)	(14.5)	(0.8)	-	(7.4)	(14.5)
Operating income	392.8	418.2	(12.1)	(12.9)	380.7	405.3
<i>% of net sales</i>	<i>12.6%</i>	<i>13.9%</i>			<i>12.2%</i>	<i>13.4%</i>
Net income (loss) from equity investments					(24.3)	(2.7)
Financial income/(expenses)					(104.7)	(57.8)
Pre-tax income (loss)					251.7	344.8
Income tax					(101.6)	(126.3)
Tax rate %					<i>40.4%</i>	<i>36.6%</i>
Total net income (loss)					150.1	218.5
Net financial (liquidity)/debt position					1,732.6	1,702.7

Group performance broken down on a quarterly basis is shown next:

(in millions of euro)

	1° Q		2° Q		1° Half	
	2013	2012	2013	2012	2013	2012
Net sales	1,536.3	1,556.5	1,594.8	1,465.3	3,131.1	3,021.8
<i>yoy</i>	<i>-1.3%</i>	<i>11.1%</i>	<i>8.8%</i>	<i>5.5%</i>	<i>3.6%</i>	<i>8.3%</i>
Gross operating profit before restructuring expenses	255.3	279.1	278.2	271.2	533.5	550.3
<i>% of net sales</i>	<i>16.6%</i>	<i>17.9%</i>	<i>17.4%</i>	<i>18.5%</i>	<i>17.0%</i>	<i>18.2%</i>
Operating income before restructuring expenses	183.0	214.7	205.1	205.1	388.1	419.8
<i>% of net sales</i>	<i>11.9%</i>	<i>13.8%</i>	<i>12.9%</i>	<i>14.0%</i>	<i>12.4%</i>	<i>13.9%</i>
Operating income	179.8	212.7	200.9	192.6	380.7	405.3
<i>% of net sales</i>	<i>11.7%</i>	<i>13.7%</i>	<i>12.6%</i>	<i>13.1%</i>	<i>12.2%</i>	<i>13.4%</i>
Pre-tax income (loss)	114.6	188.9	137.1	155.9	251.7	344.8
Total net income (loss)	72.1	123.6	78.0	94.9	150.1	218.5

Net sales

In 1H 2013 net sales totalled euro 3,131.1 million, up 3.6% from the previous year (euro 3,021.8 million), with 99.5% of net sales being generated by the Tyre Business, which is the core business of the Group. Excluding the negative translation effect (-5.0%), the like-for-like figure was up by 8.6%.

Net sales rose by 8.8% in the second quarter (+13.8% net of the translation effect), while they fell by 1.3% in the first quarter.

Operating income

Operating income totalled euro 380.7 million, with an EBIT margin of 12.2%, down euro 24.6 million from 1H 2012, of which euro 19 million related to the change in consolidation translation rates. The positive contribution made by sales volumes (up euro 46 million), the stability of the price/mix component, the lower cost of raw materials (positive euro 68 million) and gross efficiency gains (positive euro 26 million) offset the increase in production costs, including depreciation and amortisation.

This result was also impacted by euro 7.4 million in restructuring charges and the expenses resulting from ongoing organisational streamlining measures. In 1H 2012 restructuring charges totalled euro 14.5 million.

Net income (loss) from equity investments

Net income (loss) from equity investments was a negative euro 24.3 million and essentially consists of euro 12.6 million from consolidation of the associate RCS MediaGroup S.p.A. according to the equity method, euro 13.2 million for the adjustment of equity investments in Mediobanca (euro -10.4 million), Fin Priv. (euro -1.3 million) and Alitalia (euro -1.4 million).

Net income

Net income for 1H 2013 was euro 150.1 million, down 31% from the euro 218.5 million for 1H 2012.

Tax expenses totalled euro 101.6 million, lower than in 2012 due to the fall in operating income, with a tax rate of 40.4%.

Net financial expenses rose from euro 57.8 million at June 30, 2012 to euro 104.7 million, mainly due to the growth in average indebtedness during the period, the recognition in 2012 of non-recurring foreign exchange gains for euro 8.7 million related to the start-up of activities in Russia, the negative euro 8.3 million impact resulting from devaluation of the Venezuelan currency, and about euro 7 million in lower financial income on the loan to Prelios S.p.A. The average cost of debt during the period was about 6.4%.

In relation to average gross debt (about +17%), the increase in the average cost of debt – while lower than at March 31, 2013 – essentially reflects greater exposure to currencies in emerging countries where Pirelli operates, characterised by a higher interest rate and the different composition of debt, which has enabled it to lengthen the average duration of debt, as well as diversify sources of financing. During 2013 it is expected that the cost of debt will be reduced consistently with the target of 6.3%, due to a different mix of currencies and reduction in gross debt.

The total net income attributable to owners of Pirelli & C. S.p.A. in 1H 2013 was euro 151.4 million (euro 0.31 per share), compared with euro 216.3 million in 1H 2012 (euro 0.44 per share).

Equity

Consolidated equity fell from euro 2,389.4 million at December 31, 2012 to euro 2,321.8 million at June 30, 2013.

Equity attributable to owners of Pirelli & C. S.p.A. at June 30, 2013 totalled euro 2,279.3 million (euro 4.67 per share), compared with euro 2,337.4 million at December 31, 2012 (euro 4.79 per share).

The change, whose details are illustrated in the following table, largely reflects the net income for the period, euro 150.1 million, payment of the euro 156.7 million parent company dividend, the negative change resulting from changes in the translation rate of foreign equity investments (principally due to depreciation of the Brazilian, Venezuelan, Turkish, Egyptian and Argentine currencies), and the positive net effect of inflation/devaluation on the equity held in the Venezuelan subsidiary.

(in millions of euro)

	Group	Non-controlling interests	Total
Equity at 12/31/2012	2,337.4	52.0	2,389.4
Translation differences	(95.4)	(1.9)	(97.3)
Net income (loss)	151.4	(1.3)	150.1
Adjustment to fair value of other financial assets/derivative instruments	0.5	-	0.5
Actuarial gains/(losses) on employee benefits	23.0	-	23.0
Dividend resolved	(156.7)	(3.1)	(159.8)
Venezuela inflation effect	18.8	1.9	20.7
Other changes	0.3	(5.1)	(4.8)
Total changes	(58.1)	(9.5)	(67.6)
Equity at 06/30/2013	2,279.3	42.5	2,321.8

Cash flow – change in net financial (liquidity) debt position

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

(in millions of euro)

	Q1		Q2		1° HALF	
	2013	2012	2013	2012	2013	2012
Operating income (EBIT) before restructuring expenses	183.0	214.7	205.1	205.1	388.1	419.8
Amortisation and depreciation	72.3	64.4	73.1	66.1	145.4	130.5
Capital expenditures of property, plant and equipment and intangible assets	(79.7)	(80.1)	(84.3)	(114.8)	(164.0)	(194.9)
Change in workin capital/other	(492.4)	(511.1)	(5.6)	(237.3)	(498.0)	(748.4)
Operating cash flow	(316.8)	(312.1)	188.3	(80.9)	(128.5)	(393.0)
Ordinary financial income/(expenses)	(58.6)	(24.3)	(46.1)	(33.5)	(104.7)	(57.8)
Ordinary tax charges	(42.5)	(65.3)	(59.1)	(61.0)	(101.6)	(126.3)
Net operating cash flow	(417.9)	(401.7)	83.1	(175.4)	(334.8)	(577.1)
Financial investments/disinvestments	-	3.2	-	-	-	3.2
Russia Investment	-	(154.5)	-	-	-	(154.5)
Dackia Investment - Sweden	-	-	-	(70.8)	-	(70.8)
Campneus Investment - Brasil	-	-	-	(35.4)	-	(35.4)
Dividend paid by Parent	-	-	(156.7)	(132.3)	(156.7)	(132.3)
Other dividends paid	-	(2.2)	(3.1)	(0.7)	(3.1)	(2.9)
Cash Out for restructuring operations	(7.5)	(4.2)	(5.2)	(3.3)	(12.7)	(7.5)
Foreign exchange differences/other	(49.6)	(8.5)	29.5	20.2	(20.1)	11.7
Net cash flow	(475.0)	(567.9)	(52.4)	(397.7)	(527.4)	(965.6)

Operating cash flow was negative for euro 128.5 million in 1H 2013, largely due to the typically seasonal variation in net working capital, although this absorbed lower amount of cash than in 1H 2012. The 2Q 2013 figure was positive, with the generation of euro 188.3 million in cash being partly due to the improvement in net working capital from 2Q 2012.

In 1H 2013 capital expenditure on property, plant and equipment and intangible assets totalled euro 164 million (1.1 times depreciation and amortisation). Capital expenditure was mainly related to development of the premium segment (capacity and improved mix and quality) in Russia, Mexico, Romania and China.

Total net cash flow was negative for euro 527.4 million, of which about euro 20 million resulting from the impact of the change in translation rates on the net financial (liquidity)/debt position and euro 156.7 million for payment of the parent company dividend. So, before the parent company dividend was paid, total net cash flow in 2Q 2013 was positive euro 104.3 million.

Net financial (liquidity) debt position

At June 30, 2013 the Group's net borrowings totalled euro 1,732.6 million.

<i>in millions of euro</i>	06/30/2013	03/31/2012	12/31/2012
Current borrowings from banks and other financial institutions/derivative financial instruments	475.3	467.0	459.7
Non-Current borrowings from banks and other financial institutions	2,087.2	2,009.6	1,995.8
Total gross debt	2,562.5	2,476.6	2,455.5
Cash and cash equivalents	(384.6)	(344.3)	(679.8)
Securities held for trading	(131.0)	(122.0)	(224.7)
Current financial receivables	(55.2)	(64.3)	(84.4)
Non-current financial receivables	(259.1)	(265.8)	(261.4)
<i>of which Prelios</i>	<i>(173.5)</i>	<i>(173.5)</i>	<i>(173.5)</i>
Total financial receivables, cash and cash equivalents	(829.9)	(796.4)	(1,250.3)
Net financial (liquidity)/debt position	1,732.6	1,680.2	1,205.2

Gross debt rose during 1H 2013 in consequence of the dividend payment, while cash and cash equivalents decreased to meet the cash flow requirements related to seasonal changes in net working capital.

In regard to financial receivables, the valuation of the receivable from Prelios S.p.A. (euro 173.5 million) is based on the underlying assumptions of the restructuring program resolved by Prelios S.p.A. at the end of March, aimed to relaunch the business development prospects and strengthening the financial position of the group owned by Prelios S.p.A., as well as to rebalance its overall financial structure. Pirelli has granted its consent to this program. That transaction calls for converting a portion of the financial receivable into equity and another portion into equity instruments (the *convertendo* or debt for equity instruments) in 3Q 2013, with a cash option for redemption exercisable by Prelios S.p.A.

The **structure of gross debt**, which totals euro 2,562.5 million and of which about 78.4% matures beginning in 2015, is summarised as follows:

(in millions of euro)

	Financial Statements 06/30/2013	Maturity date				
		2013	2014	2015	2016	2017 and beyond
Use of committed credit facilities	605.0	-	-	605.0	-	-
Bond 5,125% - 2011/2016	500.0	-	-	-	500.0	-
EIB loans	262.5	12.5	-	100.0	100.0	50.0
USD private placement	114.7	-	-	-	-	114.7
Schuldschein	155.0	-	-	-	114.0	41.0
Other financing	925.3	384.8	157.1	54.0	133.9	195.5
Total gross debt	2,562.5	397.3	157.1	759.0	847.9	401.2
		15.5%	6.1%	29.6%	33.1%	15.7%

At June 30, 2013 the Group disposed of euro 595 million as the unused portion of the euro 1.2 billion committed credit facility (euro 625 million at December 31, 2012). When combined with the euro 515 million in cash or cash equivalents, this provides the Group with a liquidity margin amounting to euro 1,110 million.

Employees

Group headcount was 38,138 employees at June 30, 2013, as compared with 37,338 employees at December 31, 2012 and 36,349 employees at June 30, 2012. The growth in headcount was concentrated in South America and China.

OPERATING PERFORMANCE

TOTAL TYRE BUSINESS

The table below sets forth the consolidated results for 1H 2013 as compared with the same period of 2012:

(in millions of euro)

	06/03/2013	06/30/2012 restated	06/30/2012 reported	12/31/2012 restated	12/31/2012 reported
Net sales	3,114.0	3,000.3	3,000.3	6,031.3	6,031.3
yoY	3.8%	8.7%	8.7%	7.7%	7.7%
Gross operating profit before restructuring expenses	542.8	560.8	556.2	1,126.5	1,114.8
% of net sales	17.4%	18.7%	18.5%	18.7%	18.5%
Operating income before restructuring expenses	399.4	432.7	428.1	859.9	848.2
% of net sales	12.8%	14.4%	14.3%	14.3%	14.1%
Restructuring expenses	(6.6)	(14.5)	(14.5)	(39.1)	(39.1)
Operating income	392.8	418.2	413.6	820.8	809.1
% of net sales	12.6%	13.9%	13.8%	13.6%	13.4%

The following table illustrates the quarterly breakdown of operating income:

(in millions of euro)

	1° Q		2° Q		1° Half	
	2013	2012	2013	2012	2013	2012
Net sales	1,526.7	1,542.6	1,587.3	1,457.7	3,114.0	3,000.3
yoY	-1.0%	11.4%	8.9%	5.9%	3.8%	8.7%
Gross operating profit before restructuring expenses	260.1	283.6	282.7	277.2	542.8	560.8
% of net sales	17.0%	18.4%	17.8%	19.0%	17.4%	18.7%
Operating income before restructuring expenses	188.8	220.5	210.6	212.2	399.4	432.7
% of net sales	12.4%	14.3%	13.3%	14.6%	12.8%	14.4%
Operating income	185.6	218.5	207.2	199.7	392.8	418.2
% of net sales	12.2%	14.2%	13.1%	13.7%	12.6%	13.9%

Net sales

Net sales totalled euro 3,114.0 million, compared with euro 3,000.3 million in 1H 2012. Excluding the translation effect (negative 5.0%), net sales increased by 8.8%. This performance reflects the growth in volumes (+6.3%), which was very strong in the emerging markets (+16.9%) that represent 57% of net sales in 1H 2013, and a 2.5% increase in the price/mix, concentrated in the second quarter when it rose by 5.1%, after the first quarter figure remained at its 2012 level.

The overall change in net sales from the same period in the previous year is summarised as follows:

	1° Q		2° Q		1° Half	
	2013	2012	2013	2012	2013	2012
Volume	3.9%	-7.4%	8.8%	-7.6%	6.3%	-7.5%
<i>of which Premium volume</i>	4.0%	15.8%	12.9%	12.3%	8.3%	14.0%
Price/mix	0.0%	16.5%	5.1%	11.1%	2.5%	13.9%
Change in scope of Russia	-	2.2%	-	3.5%	-	2.8%
Change on a like-for-like basis	3.9%	11.3%	13.9%	7.0%	8.8%	9.2%
Translation effect	-4.9%	0.1%	-5.0%	-1.1%	-5.0%	-0.5%
Total change	-1.0%	11.4%	8.9%	5.9%	3.8%	8.7%

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

(in millions of euro)

GEOGRAPHICAL AREA	1° half 2013			1° half 2012
	<i>Euro\mln</i>	<i>yoy</i>		
Italy	166.2	-16%	5.3%	6.6%
Rest of Europe	827.2	-6%	26.7%	29.4%
Russia	135.5	8%	4.4%	4.2%
Nafta	348.2	-6%	11.2%	12.4%
Central and South America	1,135.6	17%	36.5%	32.3%
Asia\Pacific	235.8	15%	7.6%	6.8%
Middle East\Africa	265.5	7%	8.5%	8.3%
TOTAL	3,114.0	4%	100.0%	100.0%

PRODUCT	1° half 2013			1° half 2012
	<i>Euro\mln</i>	<i>yoy</i>		
Car tyres	2,033.8	2%	65.3%	66.4%
Motorcycle tyres	221.6	-7%	7.1%	7.9%
Consumer	2,255.4	1%	72.4%	74.3%
Industrial vehicle tyres	817.5	14%	26.3%	23.9%
Steelcord	41.1	-24%	1.4%	1.8%
Industrial	858.6	11%	27.6%	25.7%

Operating income

Operating income at June 30, 2013 totalled euro 392.8 million (euro 418.2 million in 1H 2012), with EBIT margin of 12.6% (13.9% in 1H 2012).

In 1H 2013, the change in volume was a positive euro 45.9 million, while the contribution made by the change in the price/mix component to the result was substantially neutral (euro +0.6 million in 1H 2013, euro +20.2 million in 2Q 2013), notwithstanding the fall in prices on mature markets and greater exposure in the original equipment channel, as an investment in the future development of the premium segment. Taken together with efficiency gains (euro 25.9 million before the impact of the slowdown in production) and lower raw material costs (euro 68.2 million), these operating results nearly offset both the rising inflation production input costs (euro 61.4 million) and the increase in all other operating costs and depreciation and amortisation (euro 80.6 million). This last quantity mainly refers to:

- higher industrial costs (about euro 18 million), mainly tied to transformation of the Settimo Torinese truck plant into a new plant making premium car tyres and to the start-up costs for the plants in Mexico and Russia;
- higher costs for reducing the capacity of production plants (slowdown impact) due to the fall in demand (euro 13 million);
- higher depreciation and amortisation (euro 20 million) as the result of intense investment activity during previous financial years;
- higher commercial costs (euro 19 million) related to development of the premium segment;
- positive delta of euro 5 million between the impact of non-recurring events occurring in 1Q 2012 (euro 10 million for the positive balance of income and expenses) and in 2Q 2013 (euro 15 million, as the balance between gain on the sale of real estate in Brazil and the expenses related to settlement of a lawsuit in that country).

So, the euro 25.4 million reduction in operating income from 1H 2012 is essentially related to the approximately euro 19 million impact of the translation effect on the consolidated result.

The changes from 1H 2012 may be summarised as follows:

<i>(in millions of euro)</i>	1° Q	2° Q	1° HALF
2012 Operating income restated	218.5	199.7	418.2
Foreign exchange effect	(9.6)	(9.2)	(18.8)
Prices/mix	(19.6)	20.2	0.6
Volumes	17.9	28.0	45.9
Cost of production factors (raw materials)	37.0	31.2	68.2
Cost of production factors (labour/energy/others)	(24.2)	(37.2)	(61.4)
Efficiency *	7.6	5.3	12.9
Ammortisation, depreciation and other	(40.8)	(39.8)	(80.6)
Restructuring expenses	(1.2)	9.0	7.8
Change	(32.9)	7.5	(25.4)
2013 Operating income	185.6	207.2	392.8
* of which slowdown impact	(5.5)	(7.5)	(13.0)

CONSUMER BUSINESS

The following table illustrates the 2013 results compared with the same period in 2012:

<i>(in millions of euro)</i>		1° Q		2° Q		1° Half	
		2013	2012	2013	2012	2013	2012
Net sales		1,116.7	1,151.8	1,138.7	1,078.3	2,255.4	2,230.1
	yoy	-3.0%	17.1%	5.6%	12.5%	1.1%	14.8%
Gross operating profit before restructuring expenses		194.8	235.4	203.5	214.7	398.3	450.1
	% of net sales	17.4%	20.4%	17.9%	19.9%	17.7%	20.2%
Operating income before restructuring expenses		138.0	187.3	146.7	164.4	284.7	351.7
	% of net sales	12.4%	16.3%	12.9%	15.2%	12.6%	15.8%
Operating income		136.0	185.4	144.2	154.5	280.2	339.9
	% of net sales	12.2%	16.1%	12.7%	14.3%	12.4%	15.2%

The next table shows the detailed breakdown of market performance:

	1° Q	2° Q	1° HALF
EUROPE (*)			
Original Equipment	-10%	+0%	-5%
Replacement	-11%	+3%	-5%
NAFTA			
Original Equipment	+1%	+6%	+4%
Replacement	-7%	-3%	-4%
SOUTH AMERICA			
Original Equipment	+8%	+22%	+15%
Replacement	+7%	+15%	+11%
CINA			
Original Equipment	+16%	+14%	+15%
(*) excluding Russia			

Net sales at June 30, 2013 totalled euro 2,255.4 million, 1.1% higher than in 1H 2012 (+5.3% without the translation effect).

Volumes increased overall by 2.9% (+1.2% in 1Q 2013 and +4.6% in 2Q 2013), due to the exposure on emerging markets (+13.5%) that more than offset the contraction in volumes in Europe and the NAFTA area.

The Premium segment confirmed its greater resilience, with volumes rising by 8.3% in 1H 2013, higher than the overall growth rate, and was characterised by different regional dynamics. Growth remained strong on emerging markets (volumes up by 39.5%; net sales up by 28%), especially in Asia and South America (premium net sales up 37% and 31% respectively in 1H 2013), while net sales in NAFTA were essentially stable. In contrast, Europe reported a downturn in the first half (net sales down 6.6%) due to the consumer crisis gripping that region, the partial adjustment of prices to reflect current commodities scenario, and the different mix between sales segments, with the greater weight of original equipment representing an investment in future development of the replacement channel.

The following table sets forth the breakdown of net sales:

	1° Q		2° Q		1° Half	
	2013	2012	2013	2012	2013	2012
Volume	1.2%	-5.1%	4.6%	-5.3%	2.9%	-5.2%
<i>of which Premium volume</i>	4.0%	15.8%	12.9%	12.3%	8.3%	14.0%
Price/mix	-0.5%	18.8%	5.7%	13.6%	2.4%	16.3%
Change in scope of Russia	-	2.7%	-	4.4%	-	3.5%
Change on a like-for-like basis	0.7%	16.4%	10.3%	12.7%	5.3%	14.6%
Translation effect	-3.7%	0.7%	-4.7%	-0.2%	-4.2%	0.2%
Total change	-3.0%	17.1%	5.6%	12.5%	1.1%	14.8%

Operating income totalled euro 280.2 million in 1H 2013, with an EBIT margin of 12.4%, as compared with euro 339.9 million in 2012 (15.2% of net sales).

The drop in profitability reflected:

- the previously mentioned higher industrial costs (about euro 18 million) for transformation of the production plant in Settimo Torinese and the start-up costs for the plants in Mexico and Russia;
- rising inflation for factors of production, mainly related to the cost of labour in emerging countries;
- higher commercial costs for development of the premium segment (euro 19 million);
- the translation effect (negative euro 12.4 million) and increased depreciation and amortisation (negative euro 15.1 million);

- the costs related to the new activities that have not yet reached full operating capacity, especially in Russia and Sweden, where the seasonal nature of the business is more focused on the winter segment.

Car Business

In 1H 2013, 70% of net sales in the car business were generated by the replacement channel and 30% by the original equipment channel. In 1H 2012 the replacement channel accounted for 72.7% of net sales.

The change is mainly the consequence of rising original equipment sales in South America (where the market was dynamic during the first few months of the year, compared with a downturn in 1H 2012), in Asia (due to continuous growth of the premium segment) and full operating activity in Russia as compared with the previous year. Net sales in the replacement channel fell in Europe and grew significantly in all emerging areas.

The results of the car business suffered from:

- an unfavourable basis of comparison with 1H 2012, which was characterised by strong growth in the price/mix component and net sales in the premium segment;
- soft markets in Europe and Russia, characterised by falling demand and greater competition;
- the previously mentioned rise in industrial and start-up costs.

In 1H 2013 Pirelli reinforced its market presence by rolling out products offering constantly improving performance and responsiveness to environmental concerns, both for winter and summer tyres: the Cinturato P7 Blue, the first summer tyre to come in efficiency class A sizes for rolling resistance and wet braking in compliance with new European labelling requirements; the Winter Sottozero 3, developed to guarantee safety and performance for new sedans and sports cars in the winter season; the Winter Ice Zero, a studded tyre designed for harsh winter climates, dedicated to Nordic markets and Russia.

Over the past year, Pirelli has consolidated its role as a key partner in the sports car and prestige car segment by obtaining numerous product approvals, including those for the new Audi RS6 and RS7, BMW X5, Range Rover, Maserati Quattroporte and Ghibli, and Porsche Panamera, just to mention a few, demonstrating the technological reliability of its products in the P ZERO, Cinturato and Scorpion lines. Continuous dedication to innovation has led to introduction of the PNCS (Pirelli Noise Cancelling System) technology: Pirelli was the first tyre maker to integrate a tyre noise abatement solution in original equipment. The new system, initially developed for the new Audi RS6 and RS7 in the P ZERO tread, makes it possible to improve driving comfort without compromising the classic performance characteristics of this tyre.

Motorcycle Business

The reference markets in the motorcycle business have performed badly during the crisis, especially in Europe (-6% for replacement equipment), where the downturn in demand was exacerbated by unfavourable weather that impacted sales volumes, with vehicle registrations down 26% and a slowdown even on the replacement market.

The motorcycle business also suffered from lower sales on the South American original equipment market, due to lower financing of motorcycle purchases, and in the NAFTA area (-14% in the replacement channel), while the market was up in Asia.

Net sales in 1H 2013 totalled euro 221.6 million, down 7% from 2012, due to the aforementioned external conditions, with markets contracting in the various reference regions.

During 1H 2013, 82.2% of net sales were generated by the replacement channel and 17.8% by the original equipment channel.

New Metzeler 888 products were launched in 1H 2013 for the custom segment, the Tourance Next and the Angel GT products. The new products won all comparative tests conducted by leading European motorcycle magazines.

INDUSTRIAL BUSINESS

The following table illustrates the 2013 results compared with the same period in 2012:

<i>(milioni di euro)</i>	1° Q		2° Q		1° Half	
	2013	2012	2013	2012	2013	2012
Net sales	410.0	390.8	448.6	379.4	858.6	770.2
<i>yoy</i>	4.9%	-2.6%	18.2%	-9.1%	11.5%	-5.9%
Gross operating profit before restructuring expenses	65.3	48.2	79.2	62.5	144.5	110.7
<i>% of net sales</i>	15.9%	12.3%	17.7%	16.5%	16.8%	14.4%
Operating income before restructuring expenses	50.8	33.2	63.9	47.8	114.7	81.0
<i>% of net sales</i>	12.4%	8.5%	14.2%	12.6%	13.4%	10.5%
Operating income	49.6	33.1	63.0	45.2	112.6	78.3
<i>% of net sales</i>	12.1%	8.5%	14.0%	11.9%	13.1%	10.2%

The following table shows the detailed breakdown of market performance:

	1° Q	2° Q	1° HALF
EUROPE (*)			
Original Equipment	-6%	+2%	-2%
Ricambi	+1%	+12%	+7%
NAFTA			
Original Equipment	-11%	-10%	-10%
Ricambi	-8%	+6%	+0%
SOUTH AMERICA			
Original Equipment	+44%	+51%	+48%
Ricambi	+12%	+16%	+14%
CINA			
Original Equipment	-6%	+40%	+14%
<i>(*) excluding Russia</i>			

Net sales totalled euro 858.6 million, up 11.5% from 1H 2012 (euro 770.2 million), with a negative translation effect of 7.2%.

The +16.1% change in net sales volumes was extremely positive (with the second quarter showing growth of 20.6%), mainly due to good performance in South America. The contribution made by the price/mix component was also positive, +2.6%.

The following table sets forth the breakdown of net sales:

	1° Q		2° Q		1° Half	
	2013	2012	2013	2012	2013	2012
Volume	11.7%	-12.3%	20.6%	-11.3%	16.1%	-11.8%
Price/mix	1.4%	11.2%	3.6%	5.3%	2.6%	8.2%
Change on a like-for-like basis	13.1%	-1.1%	24.2%	-6.0%	18.7%	-3.6%
Translation effect	-8.2%	-1.5%	-6.0%	-3.1%	-7.2%	-2.3%
Total change	4.9%	-2.6%	18.2%	-9.1%	11.5%	-5.9%

Operating income totalled euro 112.6 million, equal to 13.1% of net sales, compared with euro 78.3 million at June 30, 2012 (10.2% of net sales).

The result for the period was positively impacted by expanding activity on the reference markets, especially in South America, where Pirelli increased its market share, and Middle East Africa. The complete localisation of truck production capacity on emerging markets had a positive impact on business, following conversion of the truck tyre production capacity in Italy to premium car production. The start-up costs for this conversion (about euro 7 million) were charged instead to the consumer business segment.

Truck Business

In relation to the reference markets, the performance of the truck business varied from region to region and segment to segment.

The original equipment channel recovered strongly in South America, rising 48%, after having been impacted in 2012 by the conversion of production capacity from Euro3 to Euro5 vehicles. The second quarter confirmed a 51% growth after the 44% increase in 1Q 2013. The NAFTA area bucked the trend, by contracting 10% in 1H 2013. The European market contracted by -2% from 1H 2012, with a few positive signs in Q2 2013 (+2%).

In the replacement channel, the South American market closed up by 14%, +16% in the second quarter by posting an improvement over the first quarter, while expanding 7% in Europe from the previous year, with a positive recovery trend in Q2 2013 (+12%). The NAFTA area replacement segment was substantially on par with 2012, with positive performance in 2Q 2013 (+6%).

Against this backdrop, the profitability of this business segment has improved significantly from the previous year, notwithstanding the negative translation effect, being driven by growing net sales volumes, especially in South America, and lower commodity prices. Special emphasis should also be given to the growing contribution that will be made over the course of the year by the new industrial organisation, with 100% of production capacity being located on emerging markets and gradual introduction of new products.

The Driving Innovation event was held in Munich in March, being attended by over 300 participants, including journalists, fleets, dealers and business partners, coming from Europe, Turkey, Australia, China and Egypt. The content of this event, reported in the specialised press and online, was focused on the innovative, complete and integrated package of products and services designed for fleets. This event also offered Pirelli another opportunity to confirm its goal of providing transport operators with a package of products and services allowing them to operate with maximum economic efficiency, safety and respect for the environment.

The product range was extended in the Series 01 lines, with the most recent ST:01 Neverending™ and ST:01 Base. They went on sale on the European market at the end of the second quarter, at the same time sales of the new associated Formula brand began. Finally, after the official launch of the Pirelli Fleet Solutions project in Munich, the gradual start-up of sales also got under way in Europe (beginning in Italy, Germany and Spain) of CyberFleet™. The agreement with the partner Marangoni was renewed for the tyre rebuilding activity (Novateck) following the excellent results achieved in South America.

Agricultural Business

In 1H 2013, net sales totalled euro 104.3 million, marking an aggregate increase of 18.5% from 1H 2012, with volumes up 25%, and a negative translation effect tied to business operations in South America, which accounts for the bulk of sales. The strong growth rate was confirmed in 2Q 2013, with final net sales up +22%, driven by a +28% increase in volume, which more than offset the negative translation effect. The business remains heavily concentrated in South America, which generates 87% of total turnover.

The Agricultural Business in Brazil enjoyed strong growth in 1H 2013, both in the replacement channel (+11% over the previous year) and in the original equipment channel (+31%), for an aggregate rise of 23%.

Pirelli has confirmed its leadership in this context, especially in the original equipment channel, focusing on growth in the rear and radial segment.

Steel Cord Business

Steel cord product sales (both to captive and non-captive customers) performed on par with the previous year in the consumer segment, and improved over 2012 in the industrial segment (Truck+Agricultural/OTR). The hose wire business, which is connected with the production of high pressure pipes for new vehicles, contracted in line with the rest of the market.

Restructuring in Germany was completed in the first half, with the termination of production activity at the Merzig factory at the end of June 2013.

BUSINESS OUTLOOK IN 2013

Pirelli confirms the economic-financial targets indicated last May, taking the macro-economic context and market dynamics into account, re-modulating some development drivers. In particular:

- Consolidated sales foreseen at between 6.3 and 6.35 billion euro (about 6.3-6.4 billion euro previously) as a consequence of the following variables:
 - total volumes increasing by between 5.5% and 6.5% (between 3% and 4% with greater probability towards the higher target previously), driven by the Premium segment where volumes are seen growing at a rate above 13% (between 13% and 14% previously);
 - the price/mix is seen growing by between 3.5% and 4% (between 4% and 5%, with greater probability towards the lower target previously);
 - exchange rates are expected to diminish by about 6% (about 4% previously) with a negative impact on Ebit of 60 million euro (previous indication 40 million);
- consolidated ebit equal to about 810 million euro, in line with the base of the previous range (810-850 million euro);
- lower raw material costs (impact on Ebit of 110 to 125 million euro) which will counterbalance the impact of greater industrialization and start-up costs in Russia and higher inflation in emerging countries;
- investments confirmed at about 400 million euro;
- cash generation, before dividends, confirmed at above 200 million euro and net financial position confirmed negative at below 1.2 billion euro, before the reclassification of Prelios's credit

For the Consumer segment revenues are confirmed at about 4.6 billion euro as a reflex of:

- volumes' growth 4.5% and 5.5% (3%-4% previously), with an increase of Premium above 13% (about 13%-14% previously);
- price-mix between 3.5% and 4.5% (+4.5%-5.5% previously with greater probability towards the lower target);
- exchange rates' effect about -5% (below -3% previously).

Therefore, the Ebit margin is revised to >13% from <14%

In the Industrial segment revenues are confirmed at about 1.7 billion euro deriving from:

- volumes' increase of 9% (3.5%-4.5% previously, with greater probability of the higher target);
- price/mix at +3%/+4% (+4%/+5% previously)
- exchange rates' effect about -8% (from -5% previously)

The Ebit margin revised to >13% from >12%.

HIGHLIGHTS OF OTHER ACTIVITIES

The other activities are comprised by Pirelli & C. Eco Technology S.p.A., Pirelli & C. Ambiente S.p.A., and PZero S.r.l. and are broken down as follows:

(in millions of euro)

	Pirelli Eco Technology		Pirelli Ambiente		Pzero		Total others business	
	1 Half 2013	1 Half. 2012	1 Half 2013	1 Half. 2012	1 Half 2013	1 Half. 2012	1 Half 2013	1 Half. 2012
Net sales	12.6	15.6	0.6	0.6	3.9	5.3	17.1	21.5
Gross operating profit before restructuring expenses	(1.8)	(3.2)	(0.6)	(0.4)	(6.9)	(6.9)	(9.3)	(10.5)
Operating income before restructuring expenses	(3.3)	(5.0)	(0.7)	(0.7)	(7.3)	(7.2)	(11.3)	(12.9)
Restructuring expenses	-	-	-	-	(0.8)	-	(0.8)	-
Operating income	(3.3)	(5.0)	(0.7)	(0.7)	(8.1)	(7.2)	(12.1)	(12.9)

At June 30, 2013 net sales totalled euro 17.1 million, compared with euro 21.5 million in 1H 2012, while the operating loss was euro 12.1 million, compared with the euro 12.9 million operating loss in 1H 2012.

The 2013 result reflects restructuring charges of euro 0.8 million for the PZero business, connected with revision of its overall business plan.

PARENT HIGHLIGHTS

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

(in millions of euro)	6/30/2013	6/30/2012	12/31/2012
Operating income	10.3	6.2	17.5
Net financial income and net income from equity investments	198.5	220.7	211.2
Net income (loss)	212.0	242.6	234.4
Non-current financial assets	1,355.5	1,406.7	1,363.7
Equity	1,921.2	1,832.0	1,866.2
Net financial (liquidity)/debt position	(329.5)	(194.6)	(288.6)

At June 30, 2013 the company had positive net income of euro 212 million, inclusive of the dividend paid by the subsidiary Pirelli Tyre S.p.A. for the 2012 financial year (euro 210 million) and the impairment of certain equity investments that had an aggregate negative impact of euro 13.2 million (Mediobanca negative euro 10.4 million, Fin.Priv. negative euro 1.3 million, Alitalia negative euro 1.4 million).

The net financial (liquidity)/debt position was a positive euro 329.5 million (of which euro 173.5 million for the financial receivable from Prelios S.p.A. that will be converted into equity instruments in 3Q 2013), and was impacted during the period by collection of euro 215 million in dividends and the pay-out of dividends for euro 157 million to shareholders in May.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FIRST HALF

As part of the rights issue by RCS Mediagroup S.p.A., on **July 4, 2013** Pirelli exercised all of its options on the 5,757,493 shares restricted by the Block Voting Shareholders' Agreement of the company and sold on the market 105,696 options on the remaining shares of RCS that Pirelli owned but were not restricted by the Shareholders' Agreement, resulting in a net outlay of about euro 21.3 million.

On **July 10, 2013** Pirelli received the 'Global Champion' prize as part of the Volkswagen Group Award, which that automotive group gives out every year to its best suppliers. This award recognises the excellence of Pirelli in global partnership, product quality, competitiveness, project management and flexibility. An annual supply of six million Ultra High Performance (UHP) tyres for over 200 automotive approvals, in sizes ranging from 15 to 21 inches, plus another 250 approved versions under development and ready to be produced over the coming years. A long list of prestige and premium models equipped with Pirelli tyres, and a global partnership that has extended far beyond Europe over the years, has grown in South America, Mexico, China, and now also Russia and the United States.

On **July 12, 2013** Pirelli announced that the new Business Plan 2013-2017 would be presented on November 6.

On **July 24, 2013** Pirelli announced that it had received the resignation of Giulia Maria Ligresti as member of the Pirelli & C. S.p.A. Board of Directors.

In **August 2013** Pirelli, confirming the strategic importance of the Russian market, seized the opportunity to increase its participation in the joint venture between Pirelli, Russian Technologies (“RT”) and Fleming Family & Partners – now named GHP Asset Management Holdings Ltd. (“GHP”) – as mutually agreed with the financial partner GHP and the partner RT. Consequently, the share of Pirelli in the joint venture will rise to 65% from its previously agreed 50% share, with the stake held by RT to remain unchanged at 25%, while GHP will reduce its share to 10% from the previous 25%. The agreements between the parties also envisage a mechanism for exit by GHP in 2017 (previously scheduled for 2015) that is applicable to the entire 10% share still held by GHP, as well as introduction of a new exit mechanism (put and call options) on a 15% share in the joint venture applicable to the total 25% stake held by RT.

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 considered as substitutes for the information required under the IFRSs.

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

- **Gross Operating Profit (EBITDA):** gross operating profit is an intermediate economic measure deriving from operating income, but excluding depreciation of property, plant and equipment and amortisation of intangible assets;
- **Non-current assets:** this measure is the sum of “property, plant and equipment,” “intangible assets,” “investments in associates and 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”;
- **Operating working capital:** this measure consists of the sum of "inventories," "trade receivables" and "trade payables";
- **Net working capital:** this measure consists of working capital and the other receivables and payables not included in "net financial (liquidity)/debt position";
- **Net financial (liquidity) debt position:** this performance measure is represented by gross financial debt less cash and cash equivalents and other financial receivables. The section “Explanatory notes to the condensed consolidated interim financial statements” includes a table that sets forth the items of the balance sheet used to determine this measure.

OTHER INFORMATION

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”).

On the basis of the figures reported at December 31, 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 Pneus Ltda (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); Pirelli Neumaticos S.A. de C.V. (Mexico).

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. Under the terms of the said Operating Rules, the delegated 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 in order to ensure that the Board of Statutory Auditors of the Company can carry out the required and appropriate audits. Finally, in compliance 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 consolidated financial statements are to be made available to the public.

Therefore, it is certified that the Company has fully complied with the provisions of Article 36 of Consob Regulation 16191/2007 and that its conditions have been satisfied.

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, between January 1, 2013 and June 30, 2013 the Pirelli Board of Directors approved a most significant transaction, as defined in Article 3(1)(a) of the aforementioned regulation, after receiving the favourable opinion of the Related-Party Transactions Committee.

On April 3, 2013 Pirelli & C. S.p.A. made the Information Document prescribed by the aforementioned Consob Regulation available to the public at the Company head office (in Milan, Viale Piero e Alberto Pirelli, 25), on the Company website and at Borsa Italiana S.p.A. That Information Document concerns the aforementioned most significant transaction intended to strengthen the financial position, rebalance the financial structure, and relaunch the business activities of Prelios S.p.A., through recapitalisation and restructuring of its gross financial debt. As part of this transaction, Pirelli will have to restructure its entire financial receivable towards Prelios S.p.A. at December 31, 2012, amounting to euro 173.5 million, and guarantee the contribution of "new" financial resources for a maximum total of euro 25 million. There were no other related party transactions that had a material impact on the Group's financial position or earnings.

Furthermore, there were no material, non-recurring, unusual and/or atypical related transactions, including intercompany transactions.

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 Consolidated Interim Financial Statements at June 30, 2013.

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 Related Party Transactions in the Annual Report on Governance and Share Ownership and the procedure published on the Group website *www.pirelli.com*.

Waiver to publish disclosure documents

In light of the simplifications to regulatory measures introduced by Consob in the Issuers Regulation no. 11971/99, the Board of Directors has resolved to exercise the waiver, granted in Art. 70(8) and Art. 71(1-bis) of that regulation, of the obligation to publish the disclosure documents that are prescribed in the event of significant mergers, demergers, capital increases through contribution in kind, acquisitions and disposals.

The Board of Directors

Milan, August 5, 2013

INTERIM CORPORATE GOVERNANCE REPORT

* * *

The Company adopts the traditional system of administration and control.

Pirelli's Corporate Governance system is based on the following: (i) the central function of the Board of Directors, responsible for the strategic guidance and supervision of the Company's overall business activities, with policy-making powers in relation to the overall administration and the authority to intervene directly in a series of significant decisions necessary or useful to achieve the company purpose; (ii) the central role of 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 system, and a particular incentive system for Managers associated with medium and long-term economic targets in order to align the management's interests with the shareholders' interests, 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, the performance of individuals and Pirelli's performance, on the other hand; (vi) a strict discipline concerning potential conflicts of interest and solid principles of conduct to execute transactions with related parties.

Pirelli complies with the Self-Regulatory Code of companies listed on the Italian Stock Exchange (Borsa Italiana) from the date the Code was first issued (in October 1999) having then complied with the Code dated July 2002 and subsequently with the Code dated March 2006.

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

The Company's governance system is formally defined in the Code of Ethics, in the Company Bylaws, in the Regulation that governs Shareholders' Meetings and in a series of principles and procedures which are updated periodically on the basis of national and international 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 financial report.

* * *

At the beginning of 2013, Pirelli was declared the "Best Corporate Governance in Italy" for the third consecutive year, in the framework of the 2013 World Finance Corporate Governance Award.

Moreover, in June 2013, for the second consecutive year, Pirelli sponsored the ICGN Annual Conference held in New York, thereby confirming the importance that Corporate Governance themes represent for Pirelli.

* * *

The Shareholders' Meeting held on May 13, 2013, inter alia, appointed the following persons as Company Directors: Carlo Salvatori (formerly co-opted during the Board of Directors' Meeting held on July 26, 2012), to substitute Mr. Giuseppe Vita; Mr. Jean Paul Fitoussi and Mr. Luca Rovati to substitute Mr. Paolo Ferro-Luzzi (who died on November 11, 2012) and Mr. Mario Greco (formerly co-opted during the Board of Directors' Meeting held on November 12, to substitute Mr. Giovanni Perissinotto and who subsequently resigned as a Director on March 4, 2013).

Furthermore, it should be noted that (i) on May 10, 2013, Mr. Vittorio Malacalza resigned from the following positions: Deputy-Chairman of the Board of Directors, member of the Strategies Committee, member of the Appointments and Succession Committee and as Company Director and (ii) on July 24, 2013, Ms. Giulia Maria Ligresti resigned as a Company Director.

It should also be noted that on July 17, 2013, Mr. Carlo Acutis, Director, notified that he felt he no longer satisfied the requirements of independence in relation to his position as a controlling shareholder of Vittoria Assicurazioni S.p.A. and Yura International B.V. - entities which co-operate with Lauro Sessantuno S.p.A. in the absolute takeover bid promoted in relation to Camfin S.p.A. shares and that, for these reasons, Mr. Acutis had resigned as the Chairman and member of the Remuneration Committee.

In view of these resignations, in the Meeting held on August 5, 2013, the Board of Directors resolved to appoint Mr. Luigi Campiglio, Director, as a member of the Remuneration Committee and to appoint Mr. Luigi Roth, Director, as the Committee's Chairman; Mr. Luigi Roth is already a member of the Committee.

In the same meeting the Board of Directors assessed the existence of the requirements of independence in relation to Mr. Jean Paul Fitoussi, Director; this was the first meeting after the Shareholders' Meeting held on May 13, 2013.

Pirelli's Board of Directors is composed of 18 Directors at the date of this Report, the majority are independent Directors, and in particular, the following: Anna Maria Artoni, Alberto Bombassei, Franco Bruni, Luigi Campiglio, Jean Paul Fitoussi, Pietro Guindani, Elisabetta Magistretti, Luigi Roth, Carlo Secchi and Manuela Soffientini.

At the date of this Report and during 2013:

- the Board of Directors met 4 times;
- the Committee for Internal Control, Risks and Corporate Governance met 11 times;
- the Remuneration Committee met 3 times;
- the Appointments and Succession Committee met once;
- the Strategies Committee met once;

and 1 meeting of only Independent Directors and 3 informal meetings extended to all Directors have already been held.

* * *

In the cited meeting held on May 13, 2013, the Shareholders' Meeting was also called to express its opinion:

- i) on Pirelli's "Remuneration Policy", this Policy is defined as a result of a clear and transparent process in which the Remuneration Committee and the Company's Board of Directors play a central role.

The indemnity of Directors with special duties and who have been assigned specific responsibilities and are not bound by a management employment relationship was reduced from three to two annuities compared to the 2012 Remuneration Policy, in the case of resignation or termination of the employment relationship, in line with best practices and also adopts the requests of certain "long investors" and "proxy advisors".

The Shareholders' Meeting voted in favour in the consultation with a percentage that exceeded 98% of the share capital represented in the Meeting;

- ii) on the proposal to "purchase and dispose of treasury shares", in relation to which the Shareholders' Meeting voted in favour with a percentage that exceeded 95% of the share capital represented in the Meeting;

iii) on the proposal to “amend Article 7 (Shareholders' Meeting), Article 10 (Board of Directors) and Article 16 (Board of Auditors) of the Company Bylaws and to introduce Article 21 (transitional clause) to the Company Bylaws”, on the one hand, consequent to the regulations set out concerning the balance between genders within the administrative and control body of listed companies and, on the other hand, certain new regulatory provisions concerning the participating shares necessary to submit the lists to elect the Board of Directors and the Board of Auditors, as well as to take into account the amendments made by the Legislator to Article 126-bis of Legislative Decree No. 58/98, with the introduction of the right of shareholders representing at least one fortieth of the share capital to submit their own resolution proposals concerning items already on the Agenda.

The Shareholders' Meeting voted in favour of the Board of Directors' proposal with a percentage that exceeded 99% of the share capital represented in the Meeting.

* * *

In the Meeting held on March 11, 2013, the Board of Directors approved the Group's “new” Whistleblowing Policy that also gives the “outside community” the possibility of submitting reports.

* * *

Lastly, it is important to note that:

- a shareholders' agreement was entered into on June 4, 2013 among Marco Tronchetti Provera & C. S.p.A., Marco Tronchetti Provera Partecipazioni S.p.A., Gruppo Partecipazioni Industriali S.p.A., Nuove Partecipazioni S.p.A. (a company controlled indirectly by Marco Tronchetti Provera & C. S.p.A.), Lauro Cinquantaquattro S.r.l. (a company 100% owned by Clessidra SGR S.p.A.), Intesa Sanpaolo S.p.A. and UniCredit S.p.A, as a result of winding-up the partnership among Marco Tronchetti Provera & C. S.p.A., Marco Tronchetti Provera Partecipazioni S.p.A. and Malacalza Investimenti S.r.l. in relation to Gruppo Partecipazioni Industriali S.p.A. and Camfin S.p.A (the Company's main shareholder), in the framework of an operation to rationalise the ownership structures of Camfin S.p.A. Among other aspects, the shareholders' agreement includes provisions relating to the governance of Camfin, as well as the governance of Pirelli, concerning certain profiles and within the limits permitted by the legal regime and the nature of the investee company (the Camfin group owns a 26.19% participating interest in Pirelli's share capital with voting rights), in order to pursue the shared objective of ensuring the stability of Camfin's structures and thereby create the best conditions for a further creation of value in relation to the participating interest that the latter holds in Pirelli;

- on June 5, 2013, the participants of “Sindacato di Blocco Azioni Pirelli & C. S.p.A.” informed the market that, on request, they had given their consent (i) to Allianz S.p.A. to release the entire assigned participating interest in Pirelli from the Agreement, corresponding to 20,977,270 ordinary shares (4.41% of the share capital); (ii) to Fondiaria-Sai S.p.A. to release 12,229,394 ordinary shares, overall, from the Agreement (2.57% of the share capital); (iii) to Camfin S.p.A. to release 33,300,000 ordinary shares, overall, from the Agreement (7% of the share capital); (iv) to amend Article 2 of the Agreement, establishing that, at the time of renewal, the Agreement's extension among the Participants which have not withdrawn shall be subject to the condition that the residual shares bound to the Agreement represent at least 30%, overall (instead of 33% as envisaged previously) of Pirelli's share capital in subscribed ordinary shares.

The abstracts of the foregoing Shareholders' Agreements are published on the Pirelli internet website, in the *Investor Relations section*.

PIRELLI & C. S.p.A.

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

AT JUNE 30, 2013

CONSOLIDATED BALANCE SHEET (in thousands of euro)

	06/30/2013		12/31/2012 *	
		of which related parties		of which related parties
4 Property, plant and equipment	2,572,776	-	2,623,444	-
5 Intangible assets	1,010,747	-	1,022,484	-
6 Investments in associates	110,430	-	113,171	-
7 Other financial assets	106,045	-	118,125	-
8 Deferred tax assets	203,634	-	207,110	-
10 Other receivables	374,976	173,506	370,210	173,968
11 Tax receivables	8,809	-	9,297	-
Non-current assets	4,387,417	-	4,463,841	-
12 Inventories	1,096,723	-	1,102,560	-
9 Trade receivables	935,517	5,409	704,558	6,377
10 Other receivables	328,894	34,219	341,404	40,536
13 Securities held for trading	130,984	-	224,717	-
14 Cash and cash equivalents	384,530	-	679,794	-
11 Tax receivables	49,477	-	28,246	-
22 Derivative financial instruments	43,577	-	47,703	-
Current assets	2,969,702	-	3,128,982	-
Total Assets	7,357,119	-	7,592,823	-
15.1 Equity attributable to owners of the Parent:	2,279,329	-	2,337,403	-
- Share capital	1,343,285	-	1,343,285	-
- Reserves	784,611	-	607,009	*
- Net income (loss)	151,433	-	387,109	*
15.2 Equity attributable to non-controlling interests:	42,519	-	52,026	-
- Reserves	43,872	-	47,575	-
- Net income (loss)	(1,353)	-	4,451	-
15 Equity	2,321,848	-	2,389,429	-
18 Borrowing from bank and other financial institutions	2,087,231	413	1,995,775	2,565
20 Other payables	73,797	-	70,643	-
16 Provisions for liabilities and charges	134,658	-	142,230	-
8 Provisions for deferred tax liabilities	52,117	-	56,056	-
17 Employee benefit obligations	473,879	-	522,957	-
21 Tax payable	3,944	-	4,172	-
Non-current liabilities	2,825,627	-	2,791,833	-
18 Borrowing from bank and other financial institutions	468,435	-	440,526	877
19 Trade payable	1,101,179	46,348	1,268,683	5,305
20 Other payables	382,578	93	417,556	105
16 Provisions for liabilities and charges	110,129	-	110,839	-
21 Tax payables	71,280	-	77,609	-
22 Derivative financial instruments	76,043	-	96,348	-
Current liabilities	2,209,644	-	2,411,561	-
Total liabilities and equity	7,357,119	-	7,592,823	-

* The figures of 2012 have been restated due to the new standard IAS 19 revised "employee benefits" being effective from 1/1/2013

For the description of related party transactions, please refer to note 35 of the Explanatory Notes.

CONSOLIDATED INCOME STATEMENT (in thousands of euro)

		1/1 - 06/30/2013		1/1 - 06/30/2012 *	
			of which related parties		of which related parties
24	Revenues from sales and services	3,131,097	1,160	3,021,771	1,223
25	Other income	120,616	1,249	72,385	617
	- of which non-recurring events	33,715	-	-	-
	Change in inventories of work in progress, semi-finished and finished products	11,039	-	46,377	-
	Raw materials and consumables (net of change in inventories)	(1,211,700)	-	(1,119,746)	-
26	Personal expenses	(640,435)	(1,105)	(602,615)	(8,175)
	- of which non-recurring events	(23,339)	-	(14,501)	-
27	Amortisation, depreciation and impairment	(145,504)	-	(130,482)	-
28	Other costs	(886,043)	(34,114)	(884,222)	(19,197)
	- of which non-recurring events	(3,137)	-	-	-
	Additions to property, plant and equipment for internal work	1,652	-	1,875	-
Operating income		380,722		405,343	
29	Net income (loss) from equity investments	(24,296)		(2,692)	
	- share of net income (loss) of associates and jv	(11,509)	(11,509)	(2,376)	(2,376)
	- gains on equity investments	85	-	304	-
	- losses on equity investments	(13,283)	-	(1,221)	-
	- dividends	411	-	601	-
30	Financial income	26,943	790	33,180	7,781
31	Financial expenses	(131,702)	-	(91,080)	-
Net income (loss) before income tax		251,667		344,751	
32	Income tax	(101,586)		(126,333)	-
Net income (loss)		150,081		218,418	
Attributable to:					
Owners of the parent		151,433		216,225	
Non-controlling interests		(1,352)		2,193	
33	Earnings (losses) per share (euro per shares)	0.31		0.44	

* The figures of 2012 have been restated due to the new standard IAS 19 revised "employee benefits" being effective from 1/1/2013

For the description of related party transactions, please refer to note 35 of the Explanatory Notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in thousands of euro)

	1/1 - 06/30/2013	1/1 - 06/30/2012 *
A Net income (loss) for the period	150,081	218,418
Components of other comprehensive income:		
B - Items that will not be reclassified to income statement:		
- Net actuarial gains (losses) on employee benefits	23,010	(18,466)
- Tax effect	(1,901)	1,381
Total B	21,109	(17,085)
C - Items reclassified / that may be reclassified to income statement:		
Exchange differences from translation of foreign financial statements	(97,258)	2,527
Fair value adjustment of other financial assets:		
- Gains / (losses) for the period	(374)	(18,189)
- (Gains) / losses reclassified to income statement	131	(239)
Fair value adjustment of derivatives designated as cash flow hedges:		
- Gains / (losses) for the period	(809)	(14,278)
- (Gains) / losses reclassified to income statement	3,944	8,515
- Tax effect	(533)	(1,124)
Total C	(94,899)	(22,789)
Share of other comprehensive income related to associates and joint ventures	-	(257)
Total D	-	(257)
E Total components of other comprehensive income (B+C+D)	(73,790)	(40,131)
A+E Total comprehensive income (loss) for the period	76,291	178,287
Attributable to:		
- Owners of the Parent	79,514	175,392
- Non-controlling interests	(3,223)	2,895

* The figures of 2012 have been restated due to the new standard IAS 19 revised "employee benefits" being effective from 1/1/2013

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY at 06/30/2013

(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 12/31/2012	1,343,285	(1,606)	(531,446)	1,527,170	2,337,403	52,026	2,389,429
Other comprehensive income	-	(95,388)	23,468	-	(71,920)	(1,871)	(73,791)
Net income (loss)	-	-	-	151,433	151,433	(1,353)	150,080
Total other comprehensive income	-	(95,388)	23,468	151,433	79,513	(3,224)	76,289
Dividends paid	-	-	-	(156,743)	(156,743)	(3,129)	(159,872)
Venezuela inflation effect	-	-	-	18,821	18,821	1,936	20,757
Other	-	-	-	335	335	(5,090)	(4,755)
Total at 06/30/2013	1,343,285	(96,994)	(507,978)	1,541,016	2,279,329	42,519	2,321,848

(in thousands of euro)

	Breakdown of IAS reserves *				
	Reserve for fair value adjustment of available-for-sale financial assets	Reserve for cash flow hedge	Reserve for actuarial gains/losses	Reserve for deferred taxes	Total IAS reserve
Balance at 12/31/2012	2,001	(44,971)	(539,558)	51,082	(531,446)
Other comprehensive income	(243)	3,135	23,010	(2,434)	23,468
Other changes	-	-	-	-	-
Balance at 06/30/2013	1,758	(41,836)	(516,548)	48,648	(507,978)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY at 6/30/2012

(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 12/31/2011	1,343,285	64,446	(513,494)	1,251,862	2,146,099	45,479	2,191,578
Other comprehensive income	-	1,826	(42,657)	-	(40,831)	701	(40,130)
Net income (loss)	-	-	-	216,225	216,225	2,193	218,418
Total comprehensive income	-	1,826	(42,657)	216,225	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	(555,816)	1,341,535	2,195,276	51,599	2,246,875

(in thousands of euro)

	Breakdown of IAS reserves *				
	Reserve for fair value adjustment of available-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)
Other comprehensive income	(18,428)	(6,020)	(18,466)	257	(42,657)
Other changes	-	-	335	-	335
Balance at 6/30/2012	(37,644)	(61,324)	(504,692)	47,844	(555,816)

CONSOLIDATED STATEMENT OF CASH FLOW (in thousands of euro)

	1 Half 2013		1 Half 2012 *	
		of which related parties		of which related parties
Net income (loss) from continuing operations before taxes	251,667		344,751	
Amortisation, depreciation, impairment losses and reversals of impaired property, plant and equipment and intangible assets	145,504		130,482	
Reversal of financial expenses	131,702		91,080	
Reversal of financial income	(26,943)		(33,180)	
Reversal of dividends	(411)		(601)	
Reversal of gains/(losses) on equity investments	13,198		917	
Reversal of share of net income from associates and joint ventures	11,509		2,376	
Income taxes	(101,586)		(126,333)	
Change in inventories	(42,680)		(127,716)	
Change in trade receivables	(258,994)		(207,928)	
Change in trade payables	(109,428)		(260,530)	
Change in other receivables/payables	(114,021)		(187,231)	
Change in provisions for employee benefits and other provisions	(15,067)		7,867	
Other changes	33,813		28,982	
A Net cash flows provided by (used in) operating activities	(81,737)		(337,064)	
Purchase of property, plant and equipment	(159,243)		(186,993)	
Disposal of property, plant and equipment	4,628		2,050	
Purchase of intangible assets	(4,812)		(7,912)	
Acquisitions of equity investments in subsidiaries - Russia	-		(154,531)	
Acquisitions of equity investments in subsidiaries - Campneus (Brazil)	(7,074)		(21,220)	
Acquisitions of equity investments in subsidiaries - Dackia (Sweden)	-		(69,717)	
Disposals (Acquisition) of available-for-sale financial assets	(1,409)	(558)	1,912	(818)
Dividends received	411		601	
B Net cash flows provided by (used in) investing activities	(167,499)		(435,810)	
Increase (reduction) in Equity	-		5,833	
Change in financial payables	92,818		644,290	-
Change in financial receivables	88,374		(42,097)	
Financial income (expenses)	(104,759)		(57,900)	
Dividends paid	(159,789)		(135,286)	
C Net cash flows provided by (used in) financing activities	(83,356)		414,840	
D Total cash flows provided (used) during the period (A+B+C)	(332,592)		(358,034)	
E Cash and cash equivalents at beginning of year	665,004		542,443	
F Exchange differences on translation of cash and cash equivalents	(19,234)		1,644	
G Cash and cash equivalents at end of the period (D+E+F) (°)	313,178		186,053	
(°) of which:				
cash and cash equivalents	384,530		207,720	
bank overdrafts	(71,352)		(21,667)	

* The figures of 2012 have been restated due to the new standard IAS 19 revised "employee benefits" being effective from 1/1/2013

The Statement of Cash Flows should present transactions with related parties only if they may not be directly derived from the other financial statements. Please refer to note 35 of the Explanatory Notes for further information..

The reconciliation of cash and cash equivalents between balance sheet and statement of cash flows is provided in note 14.

EXPLANATORY NOTES

The Condensed Consolidated Interim Financial Statements at June 30, 2013 of Pirelli & C S.p.A. were approved by the Board of Directors of Pirelli & C. S.p.A. on August 5, 2013.

1 . BASIS OF PRESENTATION

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

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

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

Financial statement formats

The condensed consolidated interim financial statements 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 Directors' Report on Operations.

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

The Group opted to present the components of profit or loss for the period in a separate Income Statement, rather than include these components directly in the Statement of Comprehensive Income. The Income Statement classifies costs by nature.

The Statement of Comprehensive Income includes the result for the period and, for homogeneous categories, the revenues and costs which, in accordance with IFRSs, are directly recognised in equity.

The Group decided to present both 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 movements that occurred during the period in retained earnings.

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.

Consolidation Area

The consolidation area 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 usually met 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 the Group 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 date when such control ceases. Non-controlling interests are separately indicated on the consolidated Balance Sheet and Consolidated 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.

No material change has taken place in the consolidation area since December 31, 2012.

Consolidation Policies

The financial statements used for consolidation purposes are those of the companies included in the consolidation area, 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 euro at the period-end rates for the Balance Sheet and at the average exchange rates of the period for the Income Statement, with the exception of financial statements of companies operating in high-inflation countries, whose income statements are translated at the period-end exchange rates.

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

Consolidation methods 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;
 - upon disposal of the equity investment with consequent loss of control, the gain or loss from that disposal reflects the corresponding residual value of goodwill;
 - 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 non-controlling interests without loss of control are also recognised in equity;
- 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 in the losses of the associate/ joint venture 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 profits resulting from sales made by subsidiaries to joint ventures or associates are eliminated in proportion to the percentage equity interest in the acquiring entity.

2. ADOPTED ACCOUNTING STANDARDS

The accounting standards and policies are the same as those used to prepare the Annual Financial Report at December 31, 2012, to which reference is made for more details, with the exception of the following standards that became effective beginning January 1, 2013:

- Amendments to IAS 1 – Presentation of Financial Statements – presentation of items of other comprehensive income

The principal changes to IAS 1 concern the new way to present the components of the comprehensive income statement: the other components recognised in equity will have to be grouped between those that may be recycled in future to the income statement and those for which this possibility is not envisaged.

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

These changes are reflected in the statement of comprehensive income at June 30, 2013 and in the comparative statement of comprehensive income at June 30, 2012.

- 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 to not recognise actuarial gains/losses if they fell within a certain "corridor" ("corridor approach") has been eliminated;

- elimination of the “expected return on plan assets” and “interest expense,” which will be replaced by the “net interest,” calculated by applying the discount rate previously used only for the gross liability to the net liability (i.e. the gross liability net of the plan assets);
- request for additional disclosure to be included in the explanatory notes to the financial statements to improve disclosure 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 lay-off 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.

The transition to the new accounting standard has not had any impact on equity. The elimination of “expected return on plan assets” and the “interest expense”, replaced by a new quantity named “net interest”, has caused a restatement of 2012 figures. Moreover, beginning January 1, 2013, net interest is classified under financial expenses, and no longer as a component of the operating result. These effects are summarised in the following table:

(in thousands of euro)

	1 HALF 2012			TOTAL YEAR 2012		
	2012 reported	2012 restated	change	2012 reported	2012 restated	change
Operating income	400,700	405,343	4,643	780,791	792,472	11,681
Net income (loss)	221,655	218,418	(3,237)	398,236	391,560	(6,676)
Reserve	681,935	685,172	3,237	647,908	654,584	6,676
Equity	2,246,875	2,246,875	0	2,389,429	2,389,429	0

- 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 changes are not applicable to the Group.

- Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards – Severe hyperinflation and removal of fixed dates for first-time adopters

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 for 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 changes are not applicable to the Group.

- IFRS 13 – Fair Value Measurement

IFRS 13 introduces unique guidelines for determining fair value. 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. The application of IFRS 13 has not had a material impact on the fair value measurements made by the Group.

IFRS 13 also requires specific disclosure on the fair value, that replaces the current disclosure requirements previously envisaged by other standards, including IFRS 7 – Financial Instruments: Disclosure. Certain of this information is specifically required in the interim financial statements as well, and have thus affected the disclosures made in the explanatory notes to these condensed interim financial statements.

- Amendments to IFRS 7 – Financial Instruments: Disclosure – Offsetting of Financial Assets and Financial 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). Application of these amendments has no impact on the Group financial statements.

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

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

- the meaning 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.

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

- Amendments to IFRS 1 – Government Loans

These amendments concern government loans received at below-market rates and during transition allow adoption of the same accounting treatment applicable to financial statements that already use IFRSs, rather than apply IAS 20, "Accounting for Government Grants and Disclosure of Government Assistance" on a fully retrospective basis.

These changes are not applicable to the Group.

- "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	<ul style="list-style-type: none"> • An entity may apply IFRS 1 more than once in specific circumstances, for example when IFRSs are actually adopted for the first time and after a period of suspended application of IFRSs; • an entity may choose to adopt IAS 23 "Borrowing costs" during transition to IFRSs or beginning from a prior date.
IAS 1 – Presentation of Financial Statements	Clarifications with regard to the comparative data that must be presented when an entity publishes three balance sheets on a voluntary basis or if required by IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors
IAS 16 – Property, Plant and Equipment	Clarification of spare parts and servicing equipment as plant and machinery, and not as inventory, when they meet the definition given in IAS 16.

IAS 32 – Financial Instruments: Presentation	Recognition of the tax effect of dividends paid to shareholders (on the Income Statement) and transaction costs (in equity)
IAS 34 – Interim Financial Reporting	Clarification regarding disclosure on assets and liabilities of operating segments in interim financial statements

These amendments have no material impact on the consolidated financial statements of the Group, with the exception of the changes to IFRS 1, which are not applicable to the Group.

Seasonality

Trade receivables are subject to certain seasonality, 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 significantly impacted by seasonality.

Estimates and assumptions

The preparation of the condensed consolidated 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 are recognised in income statement in the period when the estimate is revised if the revision itself only affects that period, or also in subsequent periods if the revision affects both the current period and future ones.

The estimates and assumptions relate mainly to assessments of the recoverability of intangible assets, to the definition of the useful lives of property, plant and equipment, to the recoverability of receivables, to the measurements of financial assets, to the recognition/measurement of provisions and pension schemes. The estimates and assumptions are based on data that reflect the current state of available knowledge.

In particular, the valuation of the euro 173,506 thousand loan made to Prelios S.p.A. is based on the underlying assumptions of the restructuring program resolved by Prelios S.p.A. at the end of March 2013, aimed at relaunching the business development prospects and strengthening the financial position of the group owned by Prelios S.p.A., as well as rebalancing its overall financial structure. Pirelli has granted its consent to this program. That transaction calls for converting, during 3Q 2013, a portion of the financial receivable into shares and another portion into other equity instruments (the convertendo or debt for equity instruments), with a cash option for redemption exercisable by Prelios S.p.A.. The value recognised on the basis of these assumptions does not indicate the need to impair the receivable at June 30, 2013, with its principal assumption being that the transaction will be ultimately carried out.

Additional information: fair value hierarchy

Financial instruments carried at fair value are classified on the basis of a hierarchy of levels as per IFRS 13. This hierarchy reflects the significance of the inputs used to determine fair value and includes:

- Level 1 – unadjusted quotations recorded on an active market for the assets or liabilities to be measured;
- Level 2 – inputs different from the quoted prices referred to at the preceding sub-indent, and that are observable on the market either directly (as in the case of prices) or indirectly (because they are derived from prices);
- Level 3 – inputs that are not based on observable market data.

The following table shows the breakdown by hierarchy level of assets and liabilities carried at fair value at June 30, 2013:

(in thousands of euro)

	Note	Carrying amount at 06/30/2013	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Financial assets carried at fair value through profit and loss:					
Securities held for trading	13	130,984	963	130,021	
Current derivative financial instruments	22	39,368		39,368	
Hedging financial instruments:					
Current derivative financial instruments	22	4,209		4,209	
Available-for-sale financial assets:					
Other financial assets					
Equities		93,702	63,163	10,883	19,656
Investment funds		12,343	-	12,343	
	7	106,045	63,163	23,226	19,656
TOTAL ASSETS		280,606	64,126	196,824	19,656
FINANCIAL LIABILITIES					
Financial liabilities carried at fair value through profit and loss:					
Current derivative financial instruments	22	(33,932)		(33,932)	
Hedging financial instruments:					
Current derivative financial instruments	22	(42,111)		(42,111)	
TOTAL LIABILITIES		(76,043)		(76,043)	

The following table shows the breakdown by hierarchy level of assets and liabilities carried at fair value at December 31, 2012:

(in thousands of euro)

	Note	Carrying amount at 12/31/2012	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Financial assets carried at fair value through profit and loss:					
Securities held for trading	13	224,717	755	223,962	
Current derivative financial instruments	22	42,208		42,208	
Hedging financial instruments:					
Current derivative financial instruments	22	5,495		5,495	
Available-for-sale financial assets:					
Other financial assets					
Equities		105,782	73,602	11,939	20,241
Investment funds		12,343	-	12,343	
	7	118,125	73,602	24,282	20,241
TOTAL ASSETS		390,546	74,357	295,948	20,241
FINANCIAL LIABILITIES					
Financial liabilities carried at fair value through profit and loss:					
Current derivative financial instruments	22	(44,756)		(44,756)	
Hedging financial instruments:					
Current derivative financial instruments	22	(51,592)		(51,592)	
TOTAL LIABILITIES		(96,348)		(96,349)	

During 1H 2013, there were no transfers from level 1 to level 2 or vice-versa.

The following table shows the changes occurred in level 3 during 1H 2013:

(in thousands of euro)

	06/30/2013
Opening balance	20,241
Increases / Subscription of capital	1,409
Impairment	(1,368)
Fair value adjustments through Equity	(663)
Other changes	37
Closing balance	19,656

The **increases / subscription of capital** refers to the capital increase for the investment in F.C. Internazionale S.p.A. (euro 558 thousand) and in Equinox Two SCA (euro 851 thousand).

The **impairments** refer to the investment Alitalia S.p.A.

The **fair value adjustment through equity** refers mainly to the investment in the Istituto Europeo di Oncologia (negative euro 494 thousand), Euroqube (negative euro 173 thousand), and S.In.T. S.p.A. (positive euro 55 thousand).

During the period, there were no transfers from level 3 to other levels or vice-versa.

The fair value of financial instruments traded on active markets is based on the price quotations published at the reporting date. These instruments, included in level 1, mainly consist of equity investments classified as financial assets held for trading or available for sale.

The fair value of financial instruments not traded on active markets (e.g. derivatives) is measured by means of techniques that maximise the use of observable and available market data. If the most material data for determining the fair value of a financial instrument are observable, the instrument is included in level 2. The measurement techniques used to determine the fair value of these instruments include:

- the market prices for similar instruments;
- the fair value of interest rate swaps is calculated by discounting estimated future cash flows based on observable yield curves;
- the fair value of foreign exchange derivatives (forward contracts) is determined by using the forward exchange rate at the reporting date.

3. OPERATING SEGMENTS

At June 30, 2013 the only operating segment to be reported separately was the Total Tyre Business. It includes not only the Tyre activities but also the data of the holding and service companies (including the parent company). The “Other activities” include the Pirelli Ecotechnology Group, the Pirelli Ambiente Group and the Pzero Group.

The segment **results** for **1H 2013** are as follows:

(in thousands of euro)

	Total Tyre	Other activities	Eliminations and adjustments	TOTAL 1° Half 2013
Total net sales	3,114,006	17,091	-	3,131,097
Gross operating profit	536,265	(10,093)	-	526,172
Depreciation and amortisation	(143,441)	(2,010)	-	(145,451)
Operating income (loss)	392,826	(12,104)	-	380,722
Net income (loss) from equity investments	(24,296)	-	-	(24,296)
Financial income (expenses)	(102,005)	(2,754)	-	(104,759)
Net income (loss) before income taxes	266,525	(14,858)	-	251,667
Income taxes	(101,549)	(37)	-	(101,586)
Net income (loss)	164,976	(14,895)	-	150,081

The segment **results** for **1H 2012** are as follows:

(in thousands of euro)

	Total Tyre	Other activities	Eliminations and adjustments	TOTAL 1° Half 2012
Total net sales	3,000,302	21,469	-	3,021,771
Gross operating profit	546,563	(10,547)	(192)	535,824
Depreciation and amortisation	(128,079)	(2,402)	-	(130,481)
Operating income (loss)	418,484	(12,949)	(192)	405,343
Net income (loss) from equity investments	(2,758)	66	-	(2,692)
Financial income (expenses)	(56,466)	(1,434)	-	(57,900)
Net income (loss) before income taxes	359,260	(14,317)	(192)	344,751
Income taxes	(126,314)	(19)	-	(126,333)
Net income (loss)	232,946	(14,336)	(192)	218,418

4. PROPERTY, PLANT AND EQUIPMENT

The breakdown and changes in property, plant and equipment are as follows:

(in thousands of euro)

	06/30/2013			12/31/2012		
	Gross Amount	Accumulated Depreciation	Net Amount	Gross Amount	Accumulated Depreciation	Net Amount
Land	104,240	-	104,240	108,399	-	108,399
Buildings	1,094,382	(416,213)	678,169	1,101,203	(416,187)	685,016
Plant and machinery	3,485,773	(1,966,836)	1,518,937	3,521,488	(1,971,572)	1,549,916
Industrial and commercial equipment	708,143	(523,249)	184,894	715,488	(524,765)	190,723
Other assets	250,021	(163,485)	86,536	260,803	(171,413)	89,390
	5,642,559	(3,069,783)	2,572,776	5,707,381	(3,083,937)	2,623,444

GROSS AMOUNT (in thousands of euro)

	12/31/2012	Hyperinflation Effect	Transaltion differ.	Increases	Decreases	Reclassif.	Other	06/30/2013
Land	108,399	638	(2,521)	319	(3,032)	84	353	104,240
Buildings	1,101,203	7,003	(34,183)	18,945	(2,931)	4,625	(280)	1,094,382
Plant and machinery	3,521,488	16,464	(118,356)	100,836	(21,842)	(10,887)	(1,930)	3,485,773
Industrial and commercial equipment	715,488	(3,488)	(27,664)	17,621	(8,357)	14,656	(113)	708,143
Other assets	260,803	12,806	(20,267)	21,522	(15,816)	(8,478)	(549)	250,021
	5,707,381	33,423	(202,991)	159,243	(51,978)	-	(2,519)	5,642,559

ACCUMULATED DEPRECIATION (in thousands of euro)

	12/31/2012	Hyperinflation Effect	Transaltion differ.	Reclassif.	Decreases	Deprec.	Other	06/30/2013
Buildings	(416,187)	(6,277)	21,432	3	2,150	(17,774)	441	(416,213)
Plant and machinery	(1,971,572)	(11,609)	72,705	341	27,262	(83,718)	(245)	(1,966,836)
Industrial and commercial equipment	(524,765)	(2,131)	21,297	332	7,864	(27,396)	1,550	(523,249)
Other assets	(171,413)	(1,343)	7,011	(676)	10,074	(7,154)	16	(163,485)
	(3,083,937)	(21,361)	122,445	-	47,350	(136,042)	1,763	(3,069,783)

NET AMOUNT (in thousands of euro)

	12/31/2012	Hyperinflation Effect	Transaltion differ.	Increases	Decreases	Reclassif.	Depreciation	Other	06/30/2013
Land	108,399	638	(2,521)	319	(3,032)	84	-	353	104,240
Buildings	685,016	725	(12,751)	18,945	(781)	4,628	(17,774)	161	678,169
Plant and machinery	1,549,916	4,855	(45,651)	100,836	5,420	(10,546)	(83,718)	(2,175)	1,518,937
Industrial and commercial equipment	190,723	(5,619)	(6,367)	17,621	(493)	14,988	(27,396)	1,437	184,894
Other assets	89,390	11,463	(13,256)	21,522	(5,742)	(9,154)	(7,154)	(533)	86,536
	2,623,444	12,062	(80,546)	159,243	(4,628)	-	(136,042)	(757)	2,572,776

The **additions** mainly refer to capital expenditure focused on Russia, Mexico, Romania and China and intended to increase the availability of premium products.

The ratio of increases of property, plant and equipment to depreciation in 1H 2013 was 1.17 (1.75 at December 31, 2012 and 1.48 in 1H 2012).

Construction in progress at June 30, 2013, included the individual categories of property, plant and equipment, totalled euro 280,800 thousand (euro 241,107 thousand at December 31, 2012).

5. INTANGIBLE ASSETS

The breakdown and changes in intangible assets are as follows:

(in thousands of euro)

	12/31/2012	Translation differences	Increase	Amortisation	Other	06/30/2013
Patents and intellectual property rights	19	(3)	-	(15)	66	67
Concessions/licenses/trademarks	52,349	(1,928)	176	(3,486)	102	47,213
Goodwill	918,689	(4,283)	-	-	-	914,406
Application software	18,570	(39)	236	(3,996)	172	14,943
Other intangible asstes	32,857	(1,219)	4,398	(1,912)	(6)	34,118
	1,022,484	(7,472)	4,811	(9,409)	334	1,010,747

The allocation of goodwill by operating segment, the cash generating units (CGU) to which it was allocated for impairment testing, and the method used to measure the recoverable amount are shown in the following table:

(in thousands of euro)

Operating segment	Cash generating unit	6/30/2013	12/31/2012	Recoverable amount
Total Tyre	Consumer	587,214	590,488	Value in use
Total Tyre	Industrial	327,192	328,201	Value in use
		914,406	918,689	

Since there were no indicators that the value of goodwill has been impaired since the annual report at December 31, 2012, it was not deemed necessary to update the impairment test.

Concessions, licenses and trademarks mainly relates to trademarks resulting from the acquisitions in Russia (euro 9,193 thousand), the acquisition of Däckia in Sweden (euro 25,366 thousand) and of Campneus in Brazil (euro 11,190 thousand) in 2012.

Other intangible assets mainly relates to the fair value of customer relationships resulting from the acquisition in Russia (euro 9,728 thousand) and Däckia in Sweden (euro 6,449 thousand), as well as the fair value of commercial partnerships associated with the Däckia acquisition (euro 8,927 thousand).

6. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The changes in investments in associates and joint ventures during the period are illustrated as follows:

(in thousands of euro)

	06/30/2013
Opening balance	113,171
Share of net income (loss)	(11,509)
Reclassifications and other	8,768
Closing balance	110,430

The breakdown by individual investment is as follows:

(in thousands of euro)

	12/31/2012	Share of net income (loss)	Riclass. and other	6/30/2013
Eurostazioni S.p.A.	59,912	707	-	60,619
RCS MediaGroup S.p.A.	19,327	(12,596)	-	6,731
Sino Italian Wire Tech. Co Ltd	8,491	382	-	8,873
GWM Renewable Energy II S.p.A.	23,823	-	-	23,823
PT Evoluzione Tyres	-	(103)	8,863	8,760
Idea Granda Società Consortile r.l.	633	-	-	633
Other companies	985	101	(95)	991
Associates	113,171	(11,509)	8,768	110,430

Reclassifications and other refers specifically to the investment in PT Evoluzione Tyres, a joint venture operating in Indonesia.

With regard to the **share of net income (loss)**, refer to note 29.1 “share of net income (loss) of associates and joint ventures.”

7. OTHER FINANCIAL ASSETS

Other financial assets consists exclusively of financial assets falling in the accounting category "available-for-sale financial assets" envisaged in IAS 39, which are recognised at their fair value with a balancing entry in equity.

The following changes took place during the period:

(in thousands of euro)

	06/30/2013
Opening balance	118,125
Increases	1,409
Impairment	(13,152)
Fair value adjustments through Equity	(374)
Other	37
Closing balance	106,045

The breakdown of this item by individual investment is as follows:

(in thousands of euro)	06/30/2013				12/31/2012	
	Historical cost	Cumulated FV adjustments through equity	FV adjustments through P&L		Fair Value	Fair value
			Previous periods	1st half 2013		
	A	B	C	D	A+B+C+D	
Listed stock						
Mediobanca S.p.A.	90,247		(16,805)	(10,429)	63,013	73,442
Prelios S.p.A.	246		(201)	(10)	35	45
Other companies	-	126	(11)		115	115
	90,493	126	(17,017)	(10,439)	63,163	73,602
Unlisted stock						
Alitalia S.p.A.	20,000		(15,075)	(1,368)	3,557	4,925
Fin. Priv. S.r.l.	14,458		(4,217)	(1,345)	8,896	10,241
Fondo Anastasia	13,250	(907)			12,343	12,343
Istituto Europeo di Oncologia S.r.l.	4,039	999			5,038	5,532
F.C. Internazionale Milano S.p.A.	7,213		(6,655)		558	-
Euroqube	373	4			377	550
Ticom I LP	1,319		(591)		728	728
Emittenti Titoli	117	1,870			1,987	1,698
Equinox Two SCA	6,197				6,197	5,346
Other companies	3,702	(335)	(35)	(131)	3,201	3,160
	70,668	1,631	(26,573)	(2,844)	42,882	44,523
	161,161	1,757	(43,590)	(13,283)	106,045	118,125

Increases refers to the capital increase for the investment in F.C. Internazionale S.p.A. (euro 558 thousand) and in Equinox Two SCA (euro 851 thousand).

Impairments mainly refers to the equity investments in Mediobanca S.p.A for euro 10,429 thousand, Alitalia S.p.A. for euro 1,368 thousand and Fin. Priv. S.r.l. for euro 1,345 thousand. In this regard, also see note 29.3 - Losses from investments.

The **adjustment to fair value in equity**, totalling a negative euro 374 thousand, mainly refers to the equity investments in Emittenti Titoli (positive euro 289 thousand), Istituto Europeo di Oncologia (negative euro 494 thousand), Euroqube (negative euro 173 thousand) and S.In.T. S.p.A. (positive euro 55 thousand).

The fair value of listed financial instruments corresponds to their stock market price at June 28, 2013.

The fair value of unlisted financial instruments was determined by making estimates on the basis of the best information available.

8. DEFERRED TAX ASSETS AND PROVISION FOR DEFERRED TAX LIABILITIES

(in thousands of euro)

	06/30/2013	12/31/2012
Deferred tax assets	203,634	207,110
Provision for deferred tax liabilities	(52,117)	(56,056)
	151,517	151,054

9. TRADE RECEIVABLES

(in thousands of euro)

	06/30/2013			12/31/2012		
	Total	Non-current	Current	Total	Non-current	Current
Trade receivable	982,203	-	982,203	755,641	-	755,641
Provision for bad debts	(46,686)	-	(46,686)	(51,083)	-	(51,083)
	935,517	-	935,517	704,558	-	704,558

The increase from December 31, 2012 is due to seasonal changes.

10. OTHER RECEIVABLES

(in thousands of euro)

	06/30/2013			12/31/2012		
	Total	Non-current	Current	Total	Non-current	Current
Financial receivables	298,589	259,148	39,441	327,617	261,327	66,290
Trade and other accrued income and prepaid expenses	39,996	523	39,473	25,878	526	25,352
Receivables from employees	23,652	2,018	21,634	11,978	1,889	10,089
Receivables from social security and welfare institutions	11,236	-	11,236	5,015	-	5,015
Receivables from tax authorities non related to income taxes	132,738	6,591	126,147	171,819	7,158	164,661
Other receivables	197,863	106,696	91,167	169,595	99,310	70,285
	704,074	374,976	329,098	711,902	370,210	341,692
Provision for bad debts	(204)	-	(204)	(288)	-	(288)
	703,870	374,976	328,894	711,614	370,210	341,404

Non-current financial receivables (euro 259,148 thousand) principally refer to the euro 173,506 thousand loan to Prelios S.p.A and euro 74,622 thousand (euro 77,434 thousand at 31 December 2012) deposited as a bond for tax and legal disputes in relation to the subsidiary Pirelli Pneus Ltda (Brazil), remunerated at market rates.

In regard to the floating rate loan made to Prelios S.p.A. (6-month Euribor + 7%) for euro 173,506 thousand, of which euro 160,000 thousand in principal and euro 13,506 thousand for the interest accrued from the date the loan was granted until December 31, 2012, it is emphasised that the recognised amount of the receivable from Prelios S.p.A. considers the assumptions underlying the restructuring program, resolved by Prelios S.p.A. at the end of March 2013. This program is aimed at relaunching the business development prospects and reinforcing the balance sheet and financial position of the corporate group owned by Prelios S.p.A., as well as rebalancing of its overall financial structure. Pirelli has given its consent to that program.

The program calls for converting, during 3Q 2013, part of the financial receivable into shares and part into other equity instruments (the *convertendo*, or debt for equity instruments), with a cash option for reimbursement exercisable by Prelios S.p.A., unless situations arise before the expiry date, scheduled for December 31, 2019, that involve measures which are typically taken in the event of a *convertendo* (takeover bid, premature repayment of the loans) and those envisaged in Articles 2446 and 2447 Italian Civil Code (which would trigger immediate conversion only of the portion necessary to restore the statutory equity to a pre-set level). The value recognised on the basis of these assumptions does not indicate the need to impair the receivable at June 30, 2013 with its principal assumption being that the transaction will be ultimately carried out. In particular, the portion of the receivable that will be converted into Prelios shares upon completion of the capital increase approvals process will result in the Prelios shares being recognised at their fair value. That fair value will correspond to the closing stock market price on the day that the capital increase is completed or on the day after the capital increase, but after the shareholding dilution effects have occurred. Any difference between the book value of the receivable and the value of Prelios shares measured at fair value will be recognised in the income statement. When the value of the receivable was recognised in the financial statements at June 30, 2013, it was estimated that at the time of conversion, the Prelios stock market price would substantially reflect the price for subscription of the capital increase, and thus would not have a material impact on the income statement in relation to exchange of the financial receivable for Prelios Shares.

In regard to the portion of the receivable that will be replaced by the *convertendo*, it is emphasised that the *convertendo* is a financial instrument covered by IAS 39 and that, since it does not give rise to “fixed or determinable payments”, it cannot be qualified as a “loan”, but rather as an equity instrument that will be designated as a “financial asset at fair value through profit and loss”.

The *convertendo* envisages that the receivable be “converted” into Prelios shares at a price equal to the greater of the capital increase subscription price (euro 0.5953) and their market price (if the Prelios shares are listed on that date, corresponding to the weighted average of the official stock market prices of ordinary Prelios shares in the month before the conversion date). Therefore:

- if the market price is greater or equal to the subscription price of the capital increase, there will be no impact on the income statement;
- if, instead, the market price will be less than the subscription price of the capital increase, a loss will be generated in the income statement equal to the difference between the two prices.

Accordingly, in the value recognised at June 30, 2013 for the portion of the receivable reserved for the *convertendo*, no impairment losses were recognised insofar as at the date on which the condensed interim financial statements were approved, it is estimated that on the basis of the market prices of Prelios shares, its market price at the exchange date will not be less than the subscription price of the capital increase, which has already been determined as indicated above.

Finally, it must be noted that the 1% interest that will accrue on the *convertendo* will be capitalised until maturity. This interest may be settled with Prelios shares, as in the case of the capital, at the maturity date. Therefore, the greater number of Prelios shares that will be received in consequence of the interest will be included in the fair value measurement of the aforementioned equity instrument. This component will contribute to the change in fair value of the equity instrument. The balancing entry will be recognised in the income statement for each year following recognition.

Current financial receivables (euro 39,441 thousand) mainly consist of euro 32,348 thousand in loans to associates (euro 38,273 thousand at December 31, 2012), and specifically euro 23,809 thousand to Sino Italian Wire Technology Co. Ltd (China) and euro 8.128 thousand to GWM Renewable Energy II S.p.A.

Other non-current receivables (euro 106,696 thousand) mainly refer to amounts deposited as security in lawsuits and tax litigation involving the Brazilian units (euro 78,436 thousand), euro 9,605 in receivables for guarantees in favour of Pirelli that may be exercised if contingent liabilities materialise in relation to the newly acquired company Campneus Lider de Pneumaticos Ltda (Brazil), and euro 7,900 thousand in receivables relating to a cash grant paid in connection with the execution of an equity partnership agreement.

Other current receivables (euro 91,167 thousand) mainly include advances to suppliers for euro 41,909 thousand (euro 31,535 thousand at 31 December 2012), euro 28,660 thousand in receivables for the sale of real estate not used for the industrial activity in Brazil, euro 4,747 thousand in contributions for research and development activity to be received from the Region of Piedmont, and euro 1,326 thousand in receivables for the sale of plants to GWM Renewable Energy II S.p.A.

It is believed that the carrying value of **other current and non-current receivables** approximates their fair value.

11. TAX RECEIVABLES

Tax receivables refer to income taxes and amount to euro 58,286 thousand (including euro 8,809 thousand classified within non-current assets), compared to euro 37,543 thousand at December 31, 2012 (including 9,297 thousand classified within non-current assets). They mainly refer to receivables for income taxes of the various subsidiaries (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 units.

12. INVENTORIES

(in thousands of euro)

	06/30/2013	12/31/2012
Total Tyre	1,085,276	1,088,945
Other activities	11,447	13,615
	1,096,723	1,102,560

- -

(in thousands of euro)

	06/30/2013	12/31/2012
Raw and auxiliary materials and consumables	252,055	255,517
Sundry materials	7,710	6,448
Work in progress and semi-finished products	83,298	81,756
Finished products	742,526	747,724
Goods for resale	5,547	6,769
Advances to suppliers	5,587	4,346
	1,096,723	1,102,560

The impairment of inventories recognised in 1H 2013 amounts to euro 6,801 thousand (euro 12,518 thousand at December 31, 2012). Inventories were not subject to any collateral pledges.

13. SECURITIES HELD FOR TRADING

The securities held for trading amount to euro 130,984 thousand, compared with euro 224,717 thousand at December 31, 2012, reflecting a decrease of euro 93,733 thousand mainly due to cover cash flow requirements related to seasonal changes in net working capital.

The fair value of listed financial instruments corresponds to their stock market price at June 28, 2013.

The fair value of unlisted financial instruments was determined by making estimates on the basis of the best information available.

The changes in fair value are recognised in the Income Statement at “financial expenses”.

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents decreased from euro 679,794 thousand at December 31, 2012 to euro 384,530 thousand at June 30, 2013. The euro 295,264 thousand decrease mainly reflects the requirements to cover the changes in cash flow related to seasonal changes in net working capital.

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 of euro 71,352 thousand at June 30, 2013 (euro 21,667 thousand at June 30, 2012).

15. EQUITY

15.1 Equity attributable to owners of the Parent

The **equity attributable to owners of the Parent** fell from euro 2,337,403 thousand at December 31, 2012 to euro 2,279,329 thousand at June 30, 2013.

The net decrease from December 31, 2012 (euro 58,074 thousand) is substantially due to net income (positive euro 151,433 thousand), the combined effect of inflation/devaluation upon application of inflation accounting in Venezuela (positive euro 18,821 thousand), fair value adjustment of derivative financial instruments in cash flow hedges net of its tax effect (positive euro 3,135 thousand), actuarial gains on pension funds net of their tax effect (euro 23,010 thousand), offset by the negative changes related to dividend resolved (euro 156,743 thousand), exchange differences from translation into euro of the financial statements of subsidiaries whose functional currency is not the euro (euro 95,388 thousand), and fair value adjustment of available-for-sale financial assets (euro 243 thousand).

The subscribed and paid-up **share capital** at June 30, 2013 (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, for a net total of euro 1,343,285 thousand. The total of treasury shares represents 0.16% of share capital.

The **equity per share** was euro 4.671, compared with euro 4.790 at December 31, 2012.

15.2 Equity attributable to non-controlling interests

The equity attributable to non-controlling interests fell from euro 52,026 thousand at December 31, 2012 to euro 42,519 thousand at June 30, 2013. The net decrease of euro 9,507 thousand is mainly due to the loss for the period (euro 1,353 thousand), translation differences upon translation of the financial statements of foreign subsidiaries into euro (negative euro 1,871 thousand), and a euro 3,129 thousand due to dividend payouts.

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

	06/30/2013	12/31/2012
Drahtcord Saar GmbH & Co. K.G. (Germany)	50.00%	50.00%
Euro Driver Car S.L. (Spain)	47.14%	47.14%
Yanzhou Hixih Ecotech Environment CO. Ltd (China)	40.00%	40.00%
Driver Italia S.p.A. (Italy)	27.64%	27.64%
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%

16. 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)	
	06/30/2013
Opening balance at 12/31/2012	142,230
Translation differences	(5,921)
Increases	2,640
Decreases	(597)
Release	(4,374)
Other	680
Closing balance at 06/30/2013	134,658

The **provisions for liabilities and charges – non-current portion** mainly refer to accruals made by the Brazilian subsidiary Pirelli Pneus Ltda for lawsuits and tax litigation (euro 50,103 thousand) and labour lawsuits (euro 34,344 thousand) and by the parent company Pirelli & C. S.p.A. for tax litigation (euro 26,104 thousand) and commercial risks, site clean-up and labour disputes (euro 23,339 thousand).

The **increases** mainly refer to accruals for labour disputes at the subsidiary Pirelli Pneus Ltda – Brazil.

The **release** of excess provisions was mainly for settlement of labour disputes at the Brazilian subsidiary Pirelli Pneus Ltda.

PROVISION FOR LIABILITIES AND CHARGES/CURRENT PORTION (in thousands of euro)	
	06/30/2013
Opening balance at 12/31/2012	110,839
Translation differences	(2,272)
Increases	8,477
Decreases	(4,737)
Release	(2,406)
Other	228
Closing balance at 06/30/2013	110,129

The **provisions for liabilities and charges – current portion** mainly include amounts set aside for claims and product warranties (euro 36,123 thousand), site clean-up of disused tracts of land (euro 7,668 thousand), reorganisation and closure of business units (euro 17,835 thousand), litigation for occupational diseases (euro 12,191 thousand), tax risks (euro 4,634 thousand), labour lawsuits (euro 5,393 thousand) and industrial accident insurance (euro 3,964 thousand).

The **increases** mainly refer to accruals for labour disputes, product warranties and occupational diseases.

Decreases / release of the current portion related mainly to the settlement of the disputes for occupational diseases, product warranties and complaints at the Italian based units, and to product warranties and labour disputes in Turkey, Germany and North America.

17. EMPLOYEE BENEFIT OBLIGATIONS

This item includes:

(in thousands of euro)

	06/30/2013	12/31/2012
Pension funds:		
- funded	223,763	271,288
- unfunded	98,086	99,681
Employees' leaving indemnity (Italian companies)	46,946	47,007
Healthcare plans	18,726	20,403
Other benefits	86,358	84,578
	473,879	522,957

- Pension funds

The following table shows a breakdown of pension funds at June 30, 2013:

(in thousands of euro)

	06/30/2013						Total funded pension funds
	Germany	Sweden	Total unfunded pension funds	USA	UK	Other countries	
Funded funds							
Present value of funded liabilities				134,906	936,947	4,640	1,076,493
Fair value of plan assets				(101,759)	(747,119)	(3,852)	(852,730)
Unfunded funds							
Present value of unfunded liabilities	94,104	3,982	98,086				
Net liabilities recognised	94,104	3,982	98,086	33,147	189,828	788	223,763

The following table shows a breakdown of pension funds at December 31, 2012:

(in thousands of euro)

	12/31/2012						Total funded pension funds
	Germany	Sweden	Total unfunded pension funds	USA	UK	Other countries	
Funded funds							
Present value of funded liabilities				145,518	974,197	4,517	1,124,232
Fair value of plan assets				(94,134)	(755,093)	(3,717)	(852,944)
Unfunded funds							
Present value of unfunded liabilities	95,693	3,988	99,681				
Net liabilities recognised	95,693	3,988	99,681	51,384	219,104	800	271,288

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

(in thousands of euro)	
	06/30/2013
Opening balance	1,223,913
Translation differences	(45,650)
Movements through Income Statement:	
- current service cost	461
- interest cost	25,096
Remeasurements through equity:	-
- actuarial (gains) losses arising from changes in demographic assumptions	(16,368)
- actuarial (gains) losses arising from changes in financial assumptions	18,631
- effect of experience adjustments	(3,252)
Employer contributions	14
Benefits paid	(28,013)
Other	(253)
Closing balance	1,174,579

The fair value of pension plan assets changed during the period as follows:

(in thousands of euro)	
	06/30/2013
Opening balance	(852,944)
Translation differences	35,581
Movements through Income Statement:	
- interest income	(17,798)
Remeasurements through equity:	
- return on plan assets	(20,854)
Employer contributions	(21,891)
Employee contributions	(14)
Benefits paid	24,937
Other	253
Closing balance	(852,730)

The pension fund costs expensed to income are as follows:

(in thousands of euro)		
	06/30/2013	06/30/2012
Current service cost	461	403
Interest cost on defined benefit obligations	25,096	27,287
Interest income on plan assets	(17,798)	(19,603)
	7,759	8,087

The amounts expensed to the income statement are included in the item “personnel expense” (note 26) for euro 461 thousand and the item “financial expenses” (note 31) for euro 7,298 thousand.

- Employees’ leaving indemnities (TFR) – Italian companies

Employees’ leaving indemnities (Italian companies) changed as follows:

(in thousands of euro)	
	06/30/2013
Opening balance	47,007
Movements through Income Statement:	
- Current service cost	99
- Interest cost	714
Remeasurements through equity:	
- actuarial (gains) losses arising from changes in demographic assumptions	-
- actuarial (gains) losses arising from changes in financial assumptions	249
- effect of experience adjustments	-
Payments/advances	(1,283)
Other	160
Closing balance	46,946

The amounts expensed to the income statement are included in the item “personnel expense” (note 26) for euro 99 thousand and the item “financial expenses” (note 31) for euro 714 thousand.

- Healthcare plans

The item refers exclusively at the healthcare plan existing in the United States.

The following changes took place during the period:

(in thousands of euro)

	06/30/2013
Opening balance	20,403
Translation differences	170
Movements through Income Statement:	
- current service cost	2
- interest cost	359
Remeasurements through equity:	
- actuarial (gains) losses arising from changes in demographic assumptions	-
- actuarial (gains) losses arising from changes in financial assumptions	(849)
- effect of experience adjustments	(570)
Benefits paid	(789)
Closing balance	18,726

The healthcare plan costs expensed to income are as follows:

(in thousands of euro)

	1° half 2013	1° half 2012
Current service cost	2	2
Interest cost	359	436
	361	438

The amounts expensed to the income statement are included in the item “personnel expense” (note 26) for euro 2 thousand and the item “financial expenses” (note 31) for euro 359 thousand.

Additional information regarding post-employment benefits

Net actuarial losses accrued in 1H 2013 and recognised directly in equity totalled euro 23,010 thousand (at December 31, 2012 net actuarial losses totalled euro 62,000 thousand).

The principal actuarial assumptions used at June 30, 2013, which changed from December 31, 2012, are as follows:

	Italy	Germany	Netherlands	Sweden	UK	USA
Discount rate	3.10%	3.10%	3.10%	3.50%	4.80%	4.25%
Inflation rate	2.00%	2.00%	2.00%	2.00%	3.34%	-

The principal actuarial assumptions used at December 31, 2012 are as follows:

	Italy	Germany	Netherlands	Sweden	UK	USA
Discount rate	3.15%	3.15%	3.15%	3.60%	4.55% - 4.60%	3.75%
Inflation rate	2.00%	2.00%	2.00%	2.00%	2.80% - 2.90%	-
Expected rate of wage and salary increases	-	3.00%	2.00%	-	2.90% - 3.80%	-
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)	06/30/2013	12/31/2012
Long-term incentive plans	18,437	12,371
Jubilee awards	16,922	16,419
Benefits similar to employees' leaving indemnity - non-Italian companies	33,764	35,931
Other long-term benefits	17,234	19,857
	86,357	84,578

The increase in the **long-term incentive plans**, totalling euro 6,066 thousand, reflects the best estimate of the portion accrued for 1H 2013 by 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. 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.

18. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

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

(in thousands of euro)

	06/30/2013			12/31/2012		
	Total	Non-current	Current	Total	Non-current	Current
Bonds	613,895	613,895	-	614,150	614,150	-
Borrowings from banks	1,885,632	1,456,012	429,620	1,735,226	1,352,850	382,376
Borrowings from other financial institutions	5,693	3,783	1,910	6,466	4,890	1,576
Finance lease payables	16,997	3,983	13,014	17,354	4,313	13,041
Financial accrued expenses and deferred income	24,743	2,316	22,427	47,565	4,413	43,152
Other financial payables	8,706	7,242	1,464	15,540	15,159	381
	2,555,666	2,087,231	468,435	2,436,301	1,995,775	440,526

The item **bonds** refers to:

- the unrated bond issued by Pirelli & C. S.p.A. on the Eurobond market in February 2011 for an aggregate nominal amount of euro 500 million, a fixed coupon of 5.125% and maturity in February 2016;
- the private placement issued by Pirelli International Ltd on the American market for an aggregate nominal amount of USD 150 million (equal to euro 114,679 thousand at the exchange rate applicable on June 30, 2013), with a duration of between 5 and 12 years and an average coupon of 5.05%.

The carrying value of the bonds at June 30, 2013 was determined as follows:

(in thousands of euro)		
	06/30/2013	12/31/2012
Nominal value	614,679	613,688
Transaction costs	(6,136)	(6,149)
Amortisation of effective interest rate	2,370	1,816
Adjustment for fair value hedge accounting	2,982	4,795
	613,895	614,150

Bank borrowings, amounting to euro 1,885,632 thousand, mainly consist of:

- 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. local industrial investments. These loans total Euro 262,500 thousand (euro 275,000 thousand at December 31, 2012), fully used, of which euro 12,500 thousand (euro 25,000 thousand at December 31, 2012) classified as current bank borrowings and euro 250,000 thousand (unchanged from December 31, 2012) classified as non-current bank borrowings;
- euro 605,000 thousand for utilisation of the aforementioned syndicated facility (euro 575,000 thousand at December 31, 2012), 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;
- euro 155,000 thousand for the *Schuldschein*, a syndicated loan by the lender on the basis of a German law debt security, granted to Pirelli International Ltd and guaranteed by Pirelli & C. S.p.A. and Pirelli Tyre S.p.A., disbursed on December 14, 2012 with a duration of between 3.5 and 7 years;
- euro 174,400 thousand classified as non-current bank borrowings, disbursed by BBVA to the Mexican associates in December 2012 with a duration of 5 years and by Bancomext in 1H 2013 with a duration of 7 years. Both of these loans are guaranteed by Pirelli Tyre S.p.A.. The loan received from Bancomext is covered by a secured guarantee;
- euro 23,800 thousand, including euro 16,200 classified as non-current bank borrowings, disbursed by Banco Nacion Argentina between October 2011 and June 2012 in favour of Pirelli Neumaticos S.A.I.C. The term of the loan is 5 years and is covered by a secured guarantee;
- use of uncommitted credit lines at the local level, especially in China, Brazil and Turkey, for euro 585,600 thousand.

At June 30, 2013 the Group had, aside from cash and financial assets held for trading of euro 515,514 thousand, undrawn committed credit facilities of euro 595,000 thousand (euro 625,000 thousand at December 31, 2012) maturing in 2015.

Financial accrued expenses and deferred income, totalling euro 24,743 thousand, mainly include euro 9,057 thousand (euro 21,974 at December 31, 2012) for the interest accrued but not yet paid on the bonds, the interest expenses accrued but not yet paid on interest rate swaps (euro 9,695 thousand; euro 17,854 thousand at December 31, 2012), and the deferred income for euro 2,210 thousand on the up-front commission for the loan made to Prelios S.p.A. (euro 2,565 thousand at December 31, 2012).

The **non-current other financial payables** include the euro 7,073 thousand payable related to the put option in favour of the Faria da Silva family for acquisition of 20% of the company Campneus Lider de Pneumaticos Ltda. The decrease is attributable to purchase of an additional 20% of Campneus Lider de Pneumaticos Ltda in 1H 2013, as envisaged in the agreement.

The average cost of debt during 1H 2013 was about 6.4%.

For current payables, the carrying amount is considered approximate to their fair value.

The fair value of non-current payables is shown below, compared with their carrying amount:

(in thousands of euro)

	06/30/2013		12/31/2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	613,895	640,349	614,150	641,149
Borrowings from banks	1,456,012	1,469,182	1,352,850	1,364,677
Othr non-current financial payables	17,324	17,324	28,775	28,775
	2,087,231	2,126,855	1,995,775	2,034,601

In regard to the financial covenants and negative pledge clauses, it should be noted that:

- the revolving credit line 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, and used for euro 605,000 thousand, contains just one financial covenant: a certain ratio must be maintained between consolidated net indebtedness and gross operating profit. This parameter was fully satisfied at June 30, 2013. 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 trade finance, project finance and subsidised finance or on loans provided by supranational entities;
- the private placement for a total of USD 150 million with due dates falling between December 5, 2017 and December 5, 2024 envisages, aside from the commitments indicated hereinabove:
 - satisfaction of a maximum ratio between non-centralised indebtedness (at companies other than Pirelli International Limited, Pirelli & C. S.p.A. and Pirelli Tyre S.p.A.) and total assets as reported in the consolidated financial statements of Pirelli & C. S.p.A. set at 25% (and that the ratio between secured debt and total assets not exceed 15% in any event);
 - introduction of a financial covenant whereby the ratio between gross operating profit and financial expenses as reported in the consolidated financial statements of Pirelli & C. S.p.A. would be greater than or equal to 3.5 when the ratio between net consolidated indebtedness and gross operating profit is greater than 2.5.

Both of these parameters were satisfied at June 30, 2013;

- the *Schuldschein* obtained by Pirelli International Limited for a total of euro 155,000 thousand, with due dates falling between June 14, 2016 and December 14, 2019 envisages, in the case of negative pledges, the undertaking not to grant secured guarantees beyond the threshold defined as being the higher 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 existing debt or debt to replace it, to be granted pursuant to law, relating to trade finance, project finance and subsidised finance, or on loans granted by supranational entities.

The other outstanding financial payables do not contain financial covenants.

19. TRADE PAYABLES

(in thousands of euro)

	06/30/2013			12/31/2012		
	Total	Non-current	Current	Total	Non-current	Current
Suppliers	1,095,115	-	1,095,115	1,251,404	-	1,251,404
Notes payable	6,064	-	6,064	17,279	-	17,279
	1,101,179	-	1,101,179	1,268,683	-	1,268,683

The carrying amount of trade payables is considered approximate to their fair value.

20. OTHER PAYABLES

(in thousands of euro)

	06/30/2013			12/31/2012		
	Total	Non-current	Current	Total	Non-current	Current
Trade and other accrued liabilities and deferred income	82,130	30,882	51,248	77,033	28,393	48,640
Tax payables	87,434	7,707	79,727	103,967	8,860	95,107
Payables to employees	118,508	29	118,479	86,555	154	86,401
Payables to social security and welfare institutions	57,644	22,374	35,270	60,867	20,862	40,005
Dividends payable	2,877	-	2,877	1,870	-	1,870
Other payables	107,782	12,805	94,977	157,907	12,374	145,533
	456,375	73,797	382,578	488,199	70,643	417,556

The increase in **current payables to employees** from December 31, 2012, amounting to euro 32,078 thousand, is mainly due the amounts accrued during the period but not yet paid out, inclusive of the estimate of the management bonus plan portion.

Other current payables (euro 94,977 thousand) mainly consist of:

- euro 50,391 thousand of payables for the purchase of property, plant and equipment (euro 95,568 at December 31, 2012);
- payables of euro 8,168 thousand for withholding income tax (euro 7,838 thousand at December 31, 2012) ;
- euro 6,707 thousand of advances from customers (euro 7,491 thousand at December 31, 2012);
- payables of euro 5,561 thousand to agents, professionals and consultants (euro 5,263 thousand at December 31, 2012);
- payables of euro 2,862 thousand to directors, statutory auditors and supervisory bodies (euro 3,041 thousand at 31 December 2012).

For other current and non-current payables, the carrying amount is considered approximate to the fair value.

21. TAX PAYABLES

Tax payables mainly consist of national and regional income taxes in the various countries and total euro 75,224 thousand (including euro 3,944 thousand in non-current liabilities), compared with euro 81,781 thousand at December 31, 2012 (including euro 4,172 thousand in non-current liabilities).

22. DERIVATIVE FINANCIAL INSTRUMENTS

This item includes the fair value of derivative instruments outstanding at June 30, 2013. The breakdown is shown as follows:

(in thousands of euro)

	06/30/2013		12/31/2012	
	Current Assets	Current Liabilities	Current Assets	Current Liabilities
Hedge accounting not adopted				
Foreign currency derivatives - commercial transactions	26,535	(27,050)	28,847	(25,588)
Foreign currency derivatives - included in net financial position	12,833	(6,218)	13,065	(19,168)
Other derivatives - included in net financial position		(664)	296	
Hedge accounting adopted				
- cash flow hedge:				
Foreign currency derivatives - commercial transactions	133		603	(927)
Interest rate derivatives	1,113	(40,942)		(50,665)
Other derivatives		(1,169)	117	
- fair value hedge				
Interest rate derivatives - included in net financial position	2,963		4,775	
	43,577	(76,043)	47,703	(96,348)
- TOTAL derivatives included in net financial position	15,796	(6,881)	18,136	(19,168)

Derivative financial instruments for which hedge accounting was not 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 forward exchange rate at the reporting date.

Derivative financial instruments for which hedge accounting was adopted

- Cash flow hedge

The value of **interest rate derivatives**, recognised under current liabilities for euro 40,942 thousand (euro 50,665 thousand at December 31, 2012), consists mainly of:

- euro 1,448 thousand (euro 2,334 thousand at December 31, 2012) for the fair value of four “plain vanilla” interest rate swaps on a notional amount of euro 100 million, which envisage the payment of an average fixed interest rate and collection of a variable interest rate. These derivatives were made to hedge against a rise in interest rates on a euro 100 million loan at a variable rate granted by the European Investment Bank (EIB) in favour of Pirelli Tyre S.p.A. for research and development projects. A positive euro 811 thousand was recognised in equity for the period;

euro 28,932 thousand (euro 39,566 thousand at December 31, 2012) for the fair value of 12 “plain vanilla” interest rate swaps on a total notional amount of euro 575 million maturing in February 2015, which envisage the payment of an average fixed interest rate and collection of a variable interest rate. These derivatives were made to hedge against the risk of change in interest rates associated with the variable rate revolving syndicated credit facility 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 and of which euro 605,000 thousand was used at June 30, 2013. The amount recognised in equity during the period for the effective part was euro 7,943 thousand, and is broken down as follows:

- euro 5,480 thousand for profits recognised in equity during the period;
- euro 2,463 thousand for reclassification to the Income Statement of losses previously accumulated in equity (see note 31 “financial expenses”);
- euro 10,251 thousand (euro 8,420 thousand at December 31, 2012) for the fair value of 4 cross currency interest rate swaps negotiated in November 2012 to hedge exposure to currency risk and limit exposure to the interest rate risk associated with the private placement issued by Pirelli International Ltd on the American market for an aggregate nominal amount of USD 150 million, having a duration of between 5 and 12 years (see note 18 “Borrowings from banks and other financial institutions”). The aim is to hedge against changes in the cash flows of the payable denominated in foreign currency (both principal and interest) tied to changes in foreign exchange rates. A negative euro 1,831 thousand was recognised in equity for the year;

The value of **other derivatives** (current liabilities of euro 1,169 thousand – current assets of euro 117 thousand at December 31, 2012) 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 in 2013. The net amount that was recognised in equity during the period was a negative euro 4,801 thousand, of which:

- euro 7,346 thousand for losses recognised in equity during the period;
- euro 2,545 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 period.

- Fair value hedge

The value of **interest rate derivatives** recognised under current assets for euro 2,963 thousand (euro 4,775 thousand at December 31, 2012) includes the fair value of 5 interest rate swaps on a 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 18 “Borrowings from banks and other financial institutions”). Fair value hedge accounting was adopted for these derivative financial instruments, according to which the negative change in fair value of the derivative instrument (euro 1,812 thousand at June 30, 2013) is recognised in the Income Statement and is offset by a gain on the bond attributable to the risk hedged for the same amount, recognised in the Income Statement under financial income and that adjusted the carrying amount of the bond (“basis adjustment”).

23. COMMITMENTS AND CONTINGENCIES

Commitments for purchase of property, plant and equipment

The commitments to purchase property, plant and equipment amount to euro 109,535 thousand (euro 120,735 thousand at December 31, 2012), mostly regarding companies in Russia, Romania, Brazil, Germany, Italy, Mexico and Turkey.

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 3,255 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 absolutely unfounded 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 unexceptionable double judgements against it, the Agenzia delle Entrate filed an appeal before 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 tax challenge was extinguished when the Appeal Court decision became final and the Agenzia delle Entrate did not file appeal in the Court of Cassation against the Appeal Court decision.

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

The IRPEG (corporate income tax) claim amounted to euro 28.5 million (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 then submitted its own counter-arguments against that appeal.

Following extinguishment of the similar tax claim previously made for the 2003 tax year, the Agenzia delle Entrate requested at the hearing held on October 23, 2012 that discussion of this 2003 tax year claim be postponed until February 26, 2013. After that postponement, the case was postponed a second time, until September 24, 2013. Both postponements are aimed at preparing a similar abandonment of the claim, after first obtaining the necessary authorisation to do so from the Lombardy DRE (Regional Revenue Agency Head Office).

With its own written submission filed in the last few days, the Agenzia delle Entrate has stated its intention to abandon its claim that Olimpia is a shell company, similarly to what has been done regarding the final judgements affecting the 2002 and 2004 tax year claims.

Instead, the Agenzia delle Entrate is continuing to pursue minor claims concerning losses on investments that it considers non-deductible. In its counter-arguments, the Company is reaffirming its right to deduct them. The liability related to these claims would be very low.

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

The IRES (corporate income tax) claim amounts to euro 29.6 million (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 then submitted its own counter-arguments against that appeal.

At the next hearing the appeal court ruled in favour of the Company, upholding the trial court decision.

The Agenzia delle Entrate did not appeal this last decision to the Court of Cassation. Therefore, this third tax claim has also been extinguished in consequence of the Regional Tax Court decision becoming final, just as in the case of the 2002 tax year claim.

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.

A mandatory hearing of the parties was held in June 2012 in consequence of the proceeding filed by the European Commission. Nothing new came out during that hearing in regard to what was previously known. No decision on the matter has yet been taken by the European Commission.

24. REVENUE FROM SALES AND SERVICES

Revenue from sales and services is broken down as follows:

(in thousands of euro)

	1° half 2013	1° half 2012
Total Tyre	3,062,647	2,969,792
Other activities	14,020	19,538
Revenue from sales of goods	3,076,667	2,989,330
Total Tyre	51,359	30,510
Other activities	3,071	1,931
Revenue from services	54,430	32,441
	3,131,097	3,021,771

25. OTHER INCOME

Other income is broken down as follows:

(in thousands of euro)

	1° half 2013	1° half 2012
Gains on the sale of property, plant and equipment	34,298	427
Rent income	5,433	4,221
Insurance indemnities	4,068	7,710
Recoveries and reimbursements	34,126	28,471
Government grants	1,710	887
Other income	40,980	30,669
	120,616	72,385

The **gains on sale of property, plant and equipment** include euro 33,715 thousand from the sale of certain properties not used for the industrial activity in Brazil. These gains are classified as **non-recurring events** (28% of the total).

Other income mainly consists of income from sports activities (euro 17,311 thousand), income from release of provisions for liabilities and charges (euro 6,780 thousand) and of provisions for bad debts for euro 3,858 thousand.

26. PERSONNEL EXPENSE

Personnel expense is broken down as follows:

(in thousands of euro)

	1° half 2013	1° half 2012
Wages and salaries	482,607	450,290
Social security and welfare contributions	86,830	101,648
Expenses for employees' leaving indemnity and similar costs (*)	22,910	15,278
Expenses for defined contribution pension funds	9,943	9,155
Expenses for defined benefit pension funds	461	404
Expenses for defined benefit healthcare plans	2	2
Expenses for jubilee awards	467	408
Expenses for defined contribution healthcare plans	18,318	20,116
Other costs	18,897	5,314
	640,435	602,615

* Includes Italian and foreign companies

Personnel expense includes **non-recurring charges** of euro 7,442 thousand for restructuring costs and euro 15,897 thousand related to the settlement of a lawsuit in Brazil that represent 3.6% of the total (compared with euro 14,501 thousand in 1H 2012 that represented 2.4% of the total).

27. AMORTISATION, DEPRECIATION AND IMPAIRMENT

Amortisation, depreciation and impairment are broken down as follows:

(in thousands of euro)

	1° half 2013	1° half 2012
Amortisation	9,409	3,790
Depreciation	136,042	126,692
Impairment of property, plant and equipment	53	-
	145,504	130,482

28. OTHER COSTS

Other costs are broken down as follows:

(in thousands of euro)	1° half 2013	1° half 2012
Selling costs	147,987	138,979
Purchases of goods for resale	159,637	159,808
Fluids and power	124,300	121,410
Advertising	90,729	82,952
Professional advice	23,887	25,358
Maintenance	31,518	31,392
Warehouse operating costs	22,484	22,431
Leases, rental and lease instalments	50,318	43,690
Outsourcing	9,591	11,000
Travel expenses	21,099	20,582
IT expenses	13,369	11,934
Compensation of key managers	2,863	3,237
Other provisions	11,118	4,378
Duty stamps, duties and local taxes	25,594	19,274
Canteen	9,398	9,504
Bad debts	4,385	177
Insurance	14,568	13,373
Cleaning expenses	9,537	8,011
Waste disposal	11,954	11,638
Security expenses	5,832	5,741
Telephone expenses	5,435	3,922
Other	90,441	135,431
	886,043	884,223

Other costs include euro 3,137 thousand classified under **non-recurring events** (0.4% of the total).

29. NET INCOME (LOSS) FROM EQUITY INVESTMENTS

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

The Group's share of net income (loss) of associates and joint ventures accounted for using the equity method was a negative euro 11,509 thousand, compared with a negative euro 2,376 thousand in 1H 2012.

This result mainly consists of the amounts recognised for the shareholding in RCS Mediagroup S.p.A. (negative euro 12,596 thousand in 1H 2013, compared with a negative euro 1,271 thousand in 1H 2012), in Sino Italian Wire Technology Co. Ltd (positive euro 382 thousand in 1H 2013, compared with a negative euro 1,297 thousand in 1H 2012), and in Eurostazioni S.p.A. (positive euro 707 thousand in 1H 2013).

29.2 Gains from equity investments

The item is broken down as follows:

(in thousands of euro)

	1° half 2013	1° half 2012
Ganis on disposal of available-for-sale financial assets	85	304
	85	304

29.3 Losses from equity investments

The item is broken down as follows:

(in thousands of euro)

	1° half 2013	1° half 2012
Losses on disposal of available-for-sale financial assets	-	3
Impairment of available-for-sale financial assets	13,283	1,218
	13,283	1,221

Impairment of available-for-sale financial assets refers mainly to the equity investments in Mediobanca S.p.A (euro 10,429 thousand), Alitalia S.p.A. (euro 1,368 thousand) and Fin. Priv. S.r.l. (euro 1,345 thousand). In this regard, also see note 7 – Other financial assets.

29.4 Dividend income

Dividends in 1H 2013 totalled euro 411 thousand (euro 601 thousand at June 30, 2012) and principally consist of income from mutual funds.

30. FINANCIAL INCOME

The item is broken down as follows:

(in thousands of euro)

	1° half 2013	1° half 2012
Interest	13,505	16,886
Other financial income	5,695	5,011
Fair value measurement of securities held for trading	193	367
Fair value measurement of currency derivatives	7,550	10,916
	26,943	33,180

Interest largely consists of euro 4,636 thousand in interest on interest rate swaps (euro 1,143 thousand at June 30, 2012) and euro 3,396 thousand for interest on fixed income securities (euro 2,205 thousand at June 30, 2012). The euro 3,381 thousand decrease is mainly due to lower income on the loan granted to Prelios S.p.A for euro 6,986 thousand, partly offset by the increase in interest on interest rate swaps for euro 3,493 thousand.

Other financial income mainly consists of euro 1,812 thousand as the basis adjustment to the bond issued by Pirelli & C. S.p.A. following the adoption of fair value hedge accounting. This adjustment is offset by the negative change in fair value of the hedge instrument included in the financial expenses recognised under “fair value measurement of other derivative” (see note 31).

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 outstanding at the end of the period, the fair value is determined using the forward exchange rate at the reporting date. Fair value measurement is made up of two elements: the interest component linked to the interest rate spread between the two currencies subject to the individual hedges, a net hedging cost of euro 21,912 thousand, and the exchange rate component, a net gain of euro 29,461 thousand.

31. FINANCIAL EXPENSES

The item is broken down as follows:

(in thousands of euro)

	1° half 2013	1° half 2012
Interest	56,577	48,716
Commissions	9,884	9,901
High inflation effect	6,417	2,880
Other financial expenses	2,391	1,713
Net losses on exchange rates	41,213	16,868
Net interest costs on employee benefit obligations	9,146	9,132
Fair value measurement of other derivatives	6,074	1,870
	131,702	91,080

Interest rose from euro 48,716 thousand at June 30, 2012 to euro 56,577 thousand at June 30, 2013, for an increase of euro 7,861 thousand, mainly due to the growth in average debt for the period. Interest mainly consists of euro 13,223 thousand on the bond issued by Pirelli & C. S.p.A. (euro 13,324 thousand at June 30, 2012), euro 2,933 thousand for the private placement issued by Pirelli International Ltd on the American market, and euro 7,525 thousand for interest on interest rate swaps (euro 7,888 thousand at June 30, 2012).

Net losses on exchange rates of euro 41,213 thousand (exchange rate losses of euro 392,200 thousand and exchange rate gains of euro 350,987 thousand) refer to adjustment to period-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 first half.

Comparison of these net losses (euro 41,213 thousand) with the fair value measurement of the foreign exchange component of currency hedges negotiated as part of the Group currency risk management strategy (net gain of euro 29,461 thousand, as indicated previously in the item “fair value measurement of currency derivatives”) shows that net foreign exchange gains (losses) are substantially in balance, considering that the negative unbalance, amounting to euro 11,752 thousand, is mainly related to devaluation of euro 8,261 thousand of the local currency by the Venezuelan subsidiary.

Net interest on employee benefit obligations includes the new item introduced by the revised version of IAS 19 – Employee Benefits, which became effective from January 1, 2013, and which substituted the “expected return on plan assets” and “interest expense”. The net interest is calculated by applying the discount rate previously used only for the gross liability to the net liability (i.e. the gross liability net of the plan assets). This item mainly consists of euro 7,298 thousand for pension funds, euro 714 thousand for employees' leaving indemnities (TFR), and euro 359 thousand for healthcare plans (see note 17 "Employee benefit obligations").

Fair value measurement of other derivatives (see note 22 “Derivative financial instruments”) mainly consists of:

- negative euro 2,463 thousand for reclassification in the Income Statement of losses that were previously accumulated in equity and associated with interest rate derivatives for which hedge accounting was interrupted (negative euro 1,676 thousand at June 30, 2012);
- negative euro 1,814 thousand for the measurement of the interest rate swaps made by Pirelli & C. S.p.A. and Pirelli International Ltd on a notional value of euro 125 million and USD 150 million respectively, for which fair value hedge accounting was adopted (positive euro 385 thousand at June 30, 2012);

32. INCOME TAXES

Income taxes for the period are broken down as follows:

(in thousands of euro)		
	1 half 2013	1 half 2012
Current taxes	103,429	88,751
Deffered taxes	(1,843)	37,582
	101,586	126,333

33. EARNINGS (LOSSES) PER SHARE

Basic earnings (losses) per share are calculated as 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.

<i>(in thousands of euro)</i>		
	1° half 2013	1° Half 2012
Net income (loss) attributable to owners of the Parent	151,433	216,225
Net income (loss) attributable to savings shares reflecting 2% minimum dividend	(3,753)	(5,358)
Adjusted net income (loss) attributable to owners of the Parent	147,680	210,867
Basic earning (loss) per ordinary share (in euro per share)	0.311	0.444
Weighted average of outstanding ordinary shares (in thousands)	475,389	475,389

Diluted earnings (losses) per share have not been calculated because, following expiration of the stock option plans, the prerequisites for such calculation are not met.

34. DIVIDENDS PER SHARE

In 1H 2013, Pirelli & C. S.p.A. paid to its shareholders dividends based on 2012 earnings equal to euro 0.32 per each of the 475,388,592 ordinary shares (excluding treasury shares) and euro 0.39 per each of the 11,842,969 savings shares (excluding treasury shares). The total dividends paid out amounted to euro 156,743 thousand.

In 2012 Pirelli & C. S.p.A. paid to its shareholders dividends based on 2011 earnings equal to euro 0.27 per ordinary share (excluding treasury shares) and euro 0.34 per savings share (excluding treasury shares). The total dividends paid out amounted to euro 132,382 thousand.

35. 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 compliance with the rules set out in the Group Procedure for Related Party Transactions.

The table 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 6/30/2013	of which related parties	% share	Total reported at 12/31/2012	of which related parties	% share
BALANCE SHEET						
Non-current assets						
Other receivables	375.0	173.5	46.27%	370.2	174.0	46.99%
Current assets						
Trade receivables	935.5	5.4	0.58%	704.6	6.4	0.91%
Other receivables	328.9	34.2	10.40%	341.4	40.5	11.87%
Non-current liabilities						
Borrowings from banks and other financial institutions	2,087.2	0.4	0.02%	1,995.8	2.6	0.13%
Current liabilities						
Borrowings from banks and other financial institutions	468.4	-	0.00%	440.5	0.9	0.20%
Trade payables	1,101.2	46.3	4.21%	1,268.7	5.3	0.42%
Other payables	382.6	0.1	0.02%	417.6	0.1	0.03%
	Total 1° half 2013	of which related parties	% share	Total 1° half 2012	of which related parties	% share
INCOME STATEMENT						
Revenue from sales and services	3,131.1	1.2	0.04%	3,021.8	1.2	0.04%
Other income	120.6	1.2	1.04%	72.4	0.6	0.85%
Personnel expense	(640.4)	(1.1)	0.17%	(602.6)	(8.2)	1.36%
Other costs	(886.0)	(34.1)	3.85%	(884.2)	(19.2)	2.17%
Financial income	26.9	0.8	2.93%	33.2	7.8	23.45%

The effects of related party transactions on the consolidated income statement, balance sheet, and statement of cash flows of the Pirelli & C. Group at June 30, 2013 are shown below.

RELATIONS WITH ASSOCIATES and JV

(in millions of euro)

Revenue from sales and services	0.9	The amount mainly concerns services provided by: Pirelli Tyre S.p.A. to Sino Italian Wire Technology Co. Ltd (euro 0.3 million); Pirelli & C. Ambiente S.p.A. to Idea Granda Società Consortile S.r.l. (euro 0.4 million).
Other costs	23.8	The amount mainly concerns: costs for purchase of products of Pirelli Tyre Co. Ltd (euro 10.7 million) from Sino Italian Wire Technology Co. Ltd and purchase of energy of Pirelli Deutschland GmbH from Industriekraftwerk Breuberg GmbH (euro 13,1 million).
Financial income	0.8	The amount relates to interest income on the loan granted by Pirelli International Ltd (euro 0.3 million) and Pirelli Tyre Co. Ltd (euro 0.3 million) to Sino Italian Wire Technology Co. Ltd. and Pirelli & C. Ambiente S.p.A. to GWM Renewable Energy II S.p.A. (euro 0,2 million).
Current trade receivables	4.5	The amount mainly concerns receivables for provision of services by: Pirelli Tyre S.p.A. to Sino Italian Wire Technology Co. Ltd (euro 3.7 million); Pirelli & C. Ambiente S.p.A. to Idea Granda Società Consortile r.l. (euro 0.7 million).
Current other receivables	1.3	The amount mainly concerns: receivable disposal plant of Pirelli & C. Ambiente S.p.A. to GWM Renewable Energy II S.p.A. (euro 1.3 million) .
Current financial receivables	32.3	The amount concerns mainly of receivables of: Pirelli International Ltd. (euro 7,7 million) and Pirelli Tyre Co. Ltd (euro 16.2 million) from Sino Italian Wire Technology Co. Ltd; Pirelli & C. Ambiente S.p.A. from GWM Renewable Energy II S.p.A. (euro 8.2 million)
Current trade payables	42.3	The amount consists of payables for provision of services by: Sino Italian Wire Technology Co. Ltd to Pirelli Tyre Co. Ltd to (euro 6.8 million) and Industriekraftwerk Breuberg GmbH to Pirelli Deutschland GmbH (euro 35,5 million) for purchase of energy.

TRANSACTIONS WITH PARTIES RELATED TO PIRELLI THROUGH DIRECTORS

(in millions of euro)

Revenue from sales and services	0.3	The amount mainly refers to services provided by Poliambulatorio Bicocca S.r.l., Pirelli Sistemi Informativi S.p.A. and Pirelli & C. S.p.A. to Camfin Group (euro 0.2 million) and Prelios Group (euro 0.1 million).
Other income	1.2	The amount mainly refers to rental income and associated operating expenses to Prelios Group.
Other costs	6.5	The amount is mainly refers advertising costs owed to FC Internazionale Milano S.p.A. (euro 6.4 million) and services (euro 0.1 milioni) owed to the Prelios Group.
Non current other financial receivables	173.5	The amount refers to the loan granted to Prelios S.p.A. as part of the spin-off and financial receivables for matured financial interest on the same.
Current other receivables	0.1	The amount mainly refers to receivables to Prelios Group.
Current trade receivables	0.9	The amount mainly refers to receivables connected to the services provided to Prelios Group (euro 0.5 million) and Camfin Group (euro 0.2 million).
Non current borrowings from banks and other financial institutions	0.4	The amount refers to a guarantee deposit paid by Prelios S.p.A. to Pirelli & C. S.p.A. compared to a lease.
Current trade payables	4.0	The amount mainly refers to payables to FC Internazionale Milano S.p.A. (euro 3.2 million) and Lambda S.r.l. (euro 0.7 million).
Investments in other financial assets (cash outflow)	0.6	This refers to the advances from shareholders of F.C. Internazionale Milano S.p.A. (euro 0.6 million).

RELATED PARTY TRANSACTIONS

(in millions of euro)

Other costs	1.0	The amount mainly refers to insurance costs of Pirelli Industrie Pneumatici S.r.l. (euro 0.1 million), Pirelli Tyre S.p.A. (euro 0,6 million) and Pirelli & C. S.p.A. (euro 0.2 million) owed to Allianz S.p.A., Assicurazioni Generali S.p.A. and Fonsai 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 Assicurazioni Generali S.p.A..
Current trade payables	0.1	The amount mainly refers to payables of Pirelli Tyre S.p.A. to Assicurazioni Generali S.p.A. (euro 0.1 million).

Benefits for key managers of the Company

The remuneration payable to key managers, i.e. to those who have the power and responsibility, directly or indirectly, for planning, managing and controlling the business of Pirelli & C. S.p.A., totalled euro 3,968 thousand at June 30, 2013 (euro 11,412 thousand at June 30, 2012). The portion relating to employee benefits was recognised in the income statement item “personnel expense” for euro 1,105 thousand (euro 8,175 thousand at June 30, 2012) and euro 2,863 thousand for the income statement item “other costs” (euro 3,237 thousand at June 30, 2012).

36. OTHER INFORMATION

Research and development expenses

Research expenses rose from euro 91.6 million in 1H 2012 (3.5% of sales) to euro 93.3 million in 1H 2013 (3% of sales). They were expensed on the income statement as they did not meet IFRS requirements for capitalisation.

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 unusual and/or exceptional transactions in 1H 2013, as defined in the Notice itself.

Exchange rates

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

(local currency against euro)

	Period-end		Change in %	Average		Change in %
	06/30/2013	06/30/2012		2013	2012	
Venezuela Bolivar Fuerte	8.2404	5.4137	52.21%	8.2404	5.4137	52.21%
Swedish Krona	8.7773	8.7728	0.05%	8.5289	8.8816	(3.97%)
Australian Dollar	1.4171	1.2339	14.85%	1.2946	1.2562	3.06%
Canadian Dollar	1.3714	1.2871	6.55%	1.3333	1.3040	2.25%
Singapore Dollar	1.6545	1.5974	3.57%	1.6318	1.6392	(0.45%)
U.S. Dollar	1.3080	1.2590	3.89%	1.3129	1.2968	1.24%
Taiwan Dollar	39.2021	37.6063	4.24%	38.9282	38.4446	1.26%
Swiss Franc	1.2338	1.2030	2.56%	1.2296	1.2048	2.06%
Egyptian Pound	9.1814	7.6363	20.23%	8.9546	7.8348	14.29%
Turkey Lira (new)	2.5183	2.2852	10.20%	2.3813	2.3380	1.85%
New Romanian Leu	4.4603	4.4513	0.20%	4.3915	4.3903	0.03%
Argentinean Peso	7.0475	5.6995	23.65%	6.7330	5.6987	18.15%
Mexican Peso	16.6277	16.8862	(1.53%)	16.4825	17.2110	(4.23%)
South African Rand	13.0704	10.3669	26.08%	12.1010	10.2934	17.56%
Brazilian Real	2.8827	2.5448	13.28%	2.6694	2.4203	10.29%
Chinese Renminbi	8.0817	7.9631	1.49%	8.1944	8.1796	0.18%
Russian Ruble	42.7180	41.1963	3.69%	40.7636	39.6198	2.89%
British Pound	0.8572	0.8068	6.25%	0.8504	0.8225	3.40%
Japanese Yen	129.3900	100.1300	29.22%	125.3108	103.3875	21.21%

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

(in thousands of euro)

	Note	06/30/2013		12/31/2012	
			of which related parties		of which related parties
Current borrowing from bank and other financial institutions	18	468,435	-	440,526	877
Current derivative financial instruments (liabilities)	22	6,881	-	19,168	-
Non-current borrowing from bank and other financial institutions	18	2,087,231	413	1,995,775	2,565
Total gross debt		2,562,547	-	2,455,469	-
Cash and cash equivalents	14	(384,530)	-	(679,794)	-
Securities held for trading	13	(130,984)	-	(224,717)	-
Current financial receivables	10	(39,443)	(32,348)	(66,290)	(38,723)
Current derivative financial instruments (assets)	22	(15,796)	-	(18,136)	-
Net financial debt *		1,991,794	-	1,466,532	-
Non-current financial receivables	10	(259,149)	(173,506)	(261,327)	(173,506)
Total net financial (liquidity) debt position		1,732,645		1,205,205	

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

Companies consolidated line-by-line

Company	Business	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 Geschaefstfuehrungs 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% 0,10%	Pirelli Tyre (Suisse) SA 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	72,80%	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	72,36%	Pirelli Tyre S.p.A.
Driver Servizi Retail S.p.A.	Commercial	Milan	Euro	120.000	100,00%	Pirelli Tyre 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.
Pirelli & C. Ambiente S.p.A.	Environment	Milan	Euro	2.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente Site Remediation S.p.A.	Environment	Milan	Euro	155.700	100,00%	Pirelli & C. Ambiente S.p.A.
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	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 Steelcord S.r.l.	Tyres	Milan	Euro	10.000	100,00%	Pirelli Tyre 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.
					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.
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	Heinoord	Euro	170.140.000	50,00%	Pirelli Tyre S.p.A.
Pirelli China Tyre N.V.	Tyre	Heinoord	Euro	38.045.000	100,00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Heinoord	Euro	18.152	100,00%	Pirelli Tyre (Suisse) SA
Poland						
Driver Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	100.000	70,50%	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	163.991.278	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	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	853.912.300	100,00%	Pirelli Tyre S.p.A.
Syro Consumer S.r.l.	Sustainable mobility	Bumbesti-Jiu	Rom. Leu	200	95,00% 5,00%	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)
OOO Pirelli Tyre Services (ex-OOO Pirelli Tyre Russia)	Commercial	Moscow	Russian Rouble	54.685.259	95,00% 5,00%	Pirelli Tyre (Suisse) SA 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)
Limited Liability Company Pirelli Tyre Russia (ex-Limited Liability Company)	Holding Company	Moscow	Russian Rouble	4.000.000	99,91% 0,09%	E-VOLUTION Tyre B.V. 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)
Spain						
Euro Driver Car S.L.	Tyre	Barcelona	Euro	924.000	54,22%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Omnia Motor S.A. - Sociedad Unipersonal	Tyre	Barcelona	Euro	1.502.530	100,00%	Omnia Motor S.A. - Sociedad Unipersonal
Pirelli Neumaticos S.A. - Sociedad Unipersonal	Tyre	Barcelona	Euro	25.075.907	100,00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Tyre & Fleet S.L. - Sociedad Unipersonal	Tyre	Barcelona	Euro	20.000	100,00%	Pirelli Tyre S.p.A. Pirelli Neumaticos S.A. - Sociedad Unipersonal
Sweden						
Dackia Aktiebolag	Tyre	Taby	Swed. Krona	31.000.000	100,00%	Pirelli Tyre S.p.A.
Inter Wheel Sweden Aktiebolag	Tyre	Karlstad	Swed. Krona	1.000.000	100,00%	Dackia Aktiebolag
Pirelli Tyre Nordic Aktiebolag	Tyre	Bromma	Swed. Krona	950.000	100,00%	Pirelli Tyre (Suisse) SA
Switzerland						
Pirelli Group Reinsurance Company SA	Reinsurance	Lugano	Swiss Franc	8.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Tyre (Suisse) SA	Tyre	Basel	Swiss Franc	1.000.000	100,00%	Pirelli Tyre S.p.A.
Turkey						
Celikord A.S.	Tyre	Istanbul	Turkey Lira	44.000.000	98,733% 0,632% 0,367% 0,267%	Pirelli Tyre S.p.A. Pirelli International Ltd Pirelli UK Tyres Ltd Pirelli Industrie Pneumatici S.r.l.
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	Turkey Lira	204.500.000	99,84% 0,15%	Pirelli Tyre S.p.A. 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

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
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% 5,00%	Pirelli Tyre S.p.A. Pirelli Pneus Ltda
Brazil						
Campneus Lider de Pneumaticos Ltda	Tyre	Campinas (Sao Paulo)	Bra. Real	27.732.700	80,00%	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	5.799.055	96,46%	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% 0,02%	Pirelli Pneus Ltda Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda
Chile						
Pirelli Neumaticos Chile Limitada	Tyre	Santiago	Chile Peso/000	1.918.451	99,98% 0,02%	Pirelli Pneus Ltda 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% 2,28% 1,60% 1,60% 1,60%	Pirelli Pneus Ltda Pirelli de Venezuela C.A. Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda TLM - Total Logistic Management Serviços de Logistica Ltda Comercial e Importadora de Pneus Ltda

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	35.098.400	99,98%	Pirelli Pneus Ltda Comercial e Importadora de Pneus Ltda
Pirelli Neumaticos S.A. de C.V.	Tyre	Silao	Mex. Peso	1.291.654.000	99,00%	Pirelli Tyre S.p.A. 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 Comercial e Importadora de Pneus Ltda
					1,00%	
Venezuela						
Pirelli de Venezuela C.A.	Tyre	Valencia	Bolivar/000	20.062.679	96,22%	Pirelli Tyre S.p.A.
Africa						
Egypt						
Alexandria Tire Company S.A.E.	Tyre	Alexandria	Egy. Pound	393.000.000	89,08%	Pirelli Tyre S.p.A. Pirelli Tyre (Suisse) SA
International Tire Company Ltd	Tyre	Alexandria	Egy. Pound	50.000	99,80%	Alexandria Tire Company S.A.E.
South Africa						
Pirelli Tyre (Pty) Ltd	Tyre	Centurion	S.A. Rand	1	100,00%	Pirelli Tyre (Suisse) SA
Oceania						
Australia						
Pirelli Tyres Australia Pty Ltd	Tyre	Sydney	Aus. \$	150.000	100,00%	Pirelli Tyre (Suisse) SA
New Zealand						
Pirelli Tyres (NZ) Ltd	Tyre	Auckland	N.Z. \$	100	100,00%	Pirelli Tyres Australia Pty Ltd
Asia						
China						
Pirelli Tyre Co. Ltd	Tyre	Yanzhou	Ch. Renminbi	1.721.150.000	90,00%	Pirelli China Tyre N.V.
Pirelli Tyre Trading (Shanghai) Co. Ltd	Tyre	Shanghai	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.
Korea						
Pirelli Korea Ltd	Tyre	Seoul	Korean Won	100.000.000	100,00%	Pirelli Asia Pte Ltd
Japan						
Pirelli Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2.700.000.000	100,00%	Pirelli Tyre S.p.A.
Singapore						
Pirelli Asia Pte Ltd	Tyre	Singapore	Sing. \$	2	100,00%	Pirelli Tyre (Suisse) SA
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 (in liquidation)	Enviroment	Rome	Euro	86.112	50,00%	Pirelli & C. Ambiente S.p.A.
Consorzio Bonifiche Ambientali S.c.a.r.l. (in liquidation)	Enviroment	Fiumicino (Rome)	Euro	20.000	25,00%	Pirelli & C. Ambiente S.p.A. Pirelli & C. Ambiente site Remendation S.p.A.
Consorzio per la Ricerca di Materiali Avanzati (CORIMAV)	Financial	Milan	Euro	103.500	100,00%	Pirelli & C. S.p.A.
Eco Emission Enterprise	Enviroment	Milan	Euro	100.000	50,00%	Pirelli & C. Ambiente S.p.A.
Eurostazioni S.p.A.	Holding	Rome	Euro	160.000.000	32,71%	Pirelli & C. S.p.A.
Fenice S.r.l.	Financial	Milan	Euro	10.000	32,83%	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%	Pirelli & C. Ambiente S.p.A.
Idea Granda Società Consortile r.l.	Enviroment	Cuneo	Euro	1.292.500	49,00%	Pirelli & C. Ambiente S.p.A.
RCS MediaGroup S.p.A.	Finance Holding Company	Milan	Euro	762.019.050	5,33%	Pirelli & C. S.p.A.
Serenergy S.r.l.	Enviroment	Milan	Euro	25.500	50,00%	Pirelli & C. Ambiente S.p.A.
Romania						
S.C. Eco Anvelope S.A.	Tyre	Bucarest	Rom. Leu	160.000	20,00%	S.C. Pirelli Tyres Romania S.r.l.
Spain						
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200.000	20,00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Asia						
China						
Sino Italian Wire Technology Co. Ltd	Tyre	Yanzhou	Renminbi	227.500.000	49,00%	Pirelli Tyre S.p.A.
Indonesia						
PT Evoluzione Tyres	Tyre	Kamojing (West Indonesia)	\$ USA	18.360.000	60,00%	Pirelli Tyre S.p.A.

Other investments considered significant

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	1.154	10,83%	Pirelli Finance (Luxembourg) S.A.
Tunisia						
Société Tunisienne des Industries de Pneumatiques 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

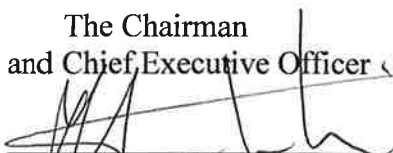
**Certification of the Condensed Interim Financial Statements pursuant to Article
154-bis of Legislative Decree no. 58 of February 24, 1998 and Article
81-ter of
Consob Regulation no. 11971 of
May 14, 1999, as amended**

- 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, 2013 – June 30, 2013.

- 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, 2013 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.

August 5, 2013

The Chairman
and Chief Executive Officer <

Marco Tronchetti Provera

The Corporate Financial
Reporting Manager

Francesco Tanzi



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, 2013. The Directors of Pirelli & C. S.p.A. 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 condensed consolidated interim financial statements present, for comparative purposes the consolidated financial statements and condensed consolidated interim financial statements for the prior year. As described in the explanatory note n. 2 "*Adopted accounting standards*", the Directors have restated certain comparative data related to the consolidated financial statements and to the condensed consolidated interim financial statements of the prior year as compared to the data previously presented, on which we issued our reports dated March 29, 2013 and August 2, 2012, respectively. We have examined the methods used to restate the comparative financial data and the information presented in the explanatory notes in this respect for the purposes of issuing this review report.

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, 2013 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 6, 2013

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