Half-yearly Financial Report

at June 30, 2014

PIRELLI & C. Società per Azioni

Head office in Milan

Viale Piero e Alberto Pirelli, 25

Share Capital euro 1,345,380,534.66

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Administrative Business Register (REA) No. 1055

PIRELLI & C. S.p.A. – MILAN

Half-yearly Financial Report at June 30, 2014

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Board of Directors [1]

Chairman and Chief Executive Officer	Marco Tronchetti Provera
Deputy Chairman	Alberto Pirelli
Independent Director	Anna Maria Artoni
Director (*)	Didier Casimiro
Director	Paolo Fiorentino
Independent Director (*)	Ivan Glasenberg
Independent Director (*)	Andrey Kostin
Director (*)	Petr Lazarev
Independent Director	Elisabetta Magistretti
Director	Gaetano Micciché
Independent Director	Paolo Pietrogrande
Independent Director	Luigi Roth
Director (*)	Igor Sechin
Independent Director	Manuela Soffientini
Director (*)	Igor Soglaev
Secretary to the Board	Anna Chiara Svelto

Board of Statutory Auditors [2]

Chairman	Francesco Fallacara
Statutory Auditors	Antonella Carù
	Umile Sebastiano Iacovino
Deputy Auditors	Andrea Lorenzatti

Internal Control, Risks, Sustainability and Corporate Governance Committee

Committee Chairman - Independent director	Anna Maria Artoni
Independent Director	Andrey Kostin
Independent Director	Elisabetta Magistretti

Remuneration Committee

Committee Chairman - Independent Director and Lead Independent Director	Luigi Roth
Independent Director	Ivan Glasenberg
Independent Director	Manuela Soffientini

Nominations and Successions Committee

Chairman of the Committee	Marco Tronchetti Provera
Independent Director	Anna Maria Artoni
Director	Didier Casimiro
Independent Director	Paolo Pietrogrande

Strategies Committee

Chairman of the Committee	Marco Tronchetti Provera
Director	Paolo Fiorentino
Director	Didier Casimiro
Independent Director	Andrey Kostin
Independent Director	Luigi Roth
Director	Igor Sechin
Independent Director	Manuela Soffientini

Independent Auditor [3] — Reconta Ernst & Young S.p.A.

Corporate Financial Reporting Manager [4] — Francesco Tanzi

General Manager Operations — Gregorio Borgo

General Manager Technology — Maurizio Boiocchi

The Supervisory Body (mandated by the Legislative Decree 231 Organisational Model adopted by the Company) is chaired by Prof. Carlo Secchi.

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: June 12, 2014. Expiry: Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2016.
(*) Directors co-opted by the Board of Directors on July 10, 2014; their term expires at the next Shareholders' Meeting.

2 Appointment: May 10, 2012. Expiry: Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2014. Umile Sebastiano Iacovino, formerly Deputy Auditor, took over from Enrico Laghi on June 12, 2014 after the latter's resignation on the same date.

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 June 12, 2014. Expiry: together with the current Board of Directors.

MACROECONOMIC AND MARKET CONTEXT

The international economy

The global economy recovery was taking hold in first half of 2014. Advanced country economies were gradually strengthening, while the performance of emerging countries remained volatile. Inflation is still a problem on various emerging markets, but it remains moderate overall.

In **Europe**, eurozone GDP grew by 0.2% in 1Q 2014, marking a slowdown from the +0.3% posted in 4Q 2013. Inflation remains below the target rate of 2%, and in June the European Central Bank (ECB) stepped up its monetary stimulus by reducing its reference rate to 0.15% and the rate on deposits to -0.10%. To address the problems associated with obtaining credit, the ECB introduced a bank refinancing scheme to promote greater lending to the private sector in support of the economic recovery. The unemployment rate remains far above pre-crisis levels, although it has stabilised over the past few months and even fallen on several markets.

In the **United States,** adverse weather conditions caused growth to slow down abruptly to -2.9% in 1Q 2014, in contrast with +2.6% in the previous quarter. The slowdown was considered temporary, with the unemployment rate falling to 6.1% in June 2014, compared with 7.5% the previous year. The Federal Reserve maintains an expansionary monetary policy, although it is increasingly focused on returning to normal conditions.

Growth in **Latin American** countries is slowing down. In Brazil, GDP grew by 0.2% in 1Q 2014 (+0.4% in 4Q 2013). More recent indicators, such as industrial output, apparently confirm a further slowdown during the past few months. In Argentina, contractions in private consumption and export volumes have impacted economic activity, which fell by 0.8% in 1Q 2014 after shrinking by 0.5% in 4Q 2013.

Growth in the **Asia-Pacific** region held up in 1H 2014. The trend improved in China, where GDP rose by 7.5% in 2Q 2014, in line with the government target for 2014.

A similar situation prevailed on currency markets: the exchange rates of mature country currencies remained stable, while emerging country currencies experienced greater volatility.

The euro traded at an average of USD 1.37 in 1H 2014, reaching peaks of over USD 1.38 at the end of April and in the first few days of May. In the days following the interest rate cut and introduction of additional stimulus measures, the euro depreciated slightly before returning once again at USD 1.36 at the end of June.

Latin American currencies depreciated against the U.S. dollar and the euro in 1H 2014 as compared with 1H 2013. In 1H 2014 the Brazilian real traded at an average of BRL 2.30 to the dollar, down 11.5% from 1H 2013. After having been devalued by approximately 15% by the Argentine central bank in January 2014, the Argentine peso traded at an average of ARS 7.83 to the dollar, which reflected a 34.5% depreciation from 1H 2013. In Venezuela, the official bolivar – U.S. dollar exchange rate has been fixed at VEF 6.3 since February 2013. However, in 2014 the government developed a system of parallel exchange rates (SICAD I and SICAD II) that sets more depreciated exchange rates through periodic auctions for the purchase of goods and services that the government deems “non-essential”.

The SICAD I auction at the end of June 2014 set an exchange rate of 10.6 bolivars per U.S. dollar, while the exchange rate set by SICAD II remained at about 50 bolivars per U.S. dollar from its introduction in March 2014 until the end of the second quarter.

In the case of the Chinese renminbi, the average rate of CNY 6.19 per dollar for 1H2014 was at the same level as its average exchange rate during the same period of 2013. The Japanese currency remained stable against the dollar in 1H 2014, averaging JPY102.4, down 7% from the same period of 2013. This was the consequence of the expansionary monetary policy undertaken at the beginning of 2013 to combat deflation.

Automotive market

Signs of recovery on the European automotive market at the end of 2013 were confirmed by rising vehicle registration figures in 1H 2014; the European Union reported growth of 6.5% from 1H 2013 (Acea figures), when sales volumes were particularly low. In particular, the United Kingdom and Spain reported growth rates of over 10%, Italy and France reported rates of about 3%, while growth in Germany was 2%.

Sales of vehicles in the NAFTA area slowed down in the first months of 2014 due to bad weather in Canada and the United States. However, the growth rate on both markets accelerated in 2Q 2014. While new car sales in Mexico fell from the end of 2013, car output rose, driven by the opening of new plants and rising foreign demand.

Vehicle registrations in **Latin America** remained low in 1H 2014. In Brazil, light vehicle registrations fell by 8%, partly due to an increase in the tax on industrial products (IPI), high interest rates, and higher car prices following the application of new safety standards. The negative sales trend led the government to retain the current car tax level until the end of 2014, rather than raise it again on July 1 as originally planned. In Argentina, the market downturn in 1H 2014 (car sales to dealers -35%) reflects the imposition of a new tax on vehicles costing more than ARS 170,000, aggravated by depreciation of the local currency, which impacts the price of imported vehicles. The plunge in car sales in Venezuela in 1H 2014 (-86%) partly reflects scant supply due to problems that car makers have in importing components.

Turning to **Asian markets**, car production and sales in China kept growing at a positive pace. In 1H 2014, Chinese car output and sales grew at an annual rate of about 9%. Sales rose sharply on the Japanese market in 1Q 2014, +20% from 1Q2013, mainly due to purchases being made ahead of a consumer tax increase on April 1, 2014. This fact negatively impacted sales in 2Q 2014, which were down slightly from the same period of 2013.

The recovery in **commercial vehicle** sales that began in Europe during 2H 2013, sustained by the implementation of new emissions standards (Euro VI), continued in 2014. Sales of vehicles with a curb weight of over 3.5 tons rose by 3%, being driven by markets like Spain, Italy and Germany.

Just as with cars, industrial vehicles sales in the NAFTA area were negatively impacted by bad weather during the first several months of the year. The economic recovery in 2Q 2014 pushed vehicle registrations back up to healthier growth rates. In Latin America, the commercial vehicle segment contracted by 12.7% in Brazil, and even more so in Argentina and Venezuela. The sale and production of commercial vehicles in China slowed over the course of 1H 2014.

Tyre market

Tyre sales figures for the first several months of 2014 confirmed the economy recovery under way in developed countries and resilience in emerging countries.

The **European tyre market** has been expanding since 3Q 2013, being sustained by the steady improvement in consumer confidence. In the Consumer segment this trend translated into into higher sales during the first six months of 2014, in particular for the replacement channel (+7%). Also in the Industrial segment, both original equipment (+1%) and replacement (+8%) sales are up from the same period of 2013.

In **Russia**, the consumer market for both original equipment and replacement channel contracted. However, original equipment sales in the Industrial segment fell even more. This performance reflected weakness in the local economy and the current tensions between Russia and Ukraine.

The market performed well in the **NAFTA** area, with growth in the Consumer segment (replacement +3% and original equipment +4%) and, with even higher growth rates, in the Industrial segment, where the expansionary trend that began at the end of 2013 continued.

In **Latin America**, sales in the consumer original equipment segment were particularly slow during 1H 2014, reflecting the slowdown in car production (-19%). On the other hand, the replacement channel maintained positive growth rates (+4%). The Industrial segment tracked a similar trend, closing the first half with lower original equipment sales (-17%, with 2Q -30%) and stable replacement sales as compared with 2013.

In **Asia**, the Chinese market got off to a positive start in 2014, with consumer original equipment sales keeping pace with the production and sale of cars in the first half. In the Industrial segment, original equipment sales rose, while the replacement channel was stable.

Original equipment sales in the consumer and industrial segments of Japan showed signs of recovery in 1H 2014. After growing briskly in 1Q 2014, the consumer tax rate hike cut into replacement equipment sales during 2Q 2014, in both the consumer and industrial segments.

Commodities

Brent crude oil traded at an average price of USD 109/bbl in 1H 2014, remaining at the same level as the average for 2013. Price tensions were generated in June due to fears that the Iraq conflict would worsen.

Natural rubber purchase prices continued the downward trend that began in 2013, falling to an average of USD 1,854 per ton in 1H 2014, -32% from 1H 2013. This decrease follows the trend that dominated all of 2013. Notwithstanding the global economic recovery, imbalances between demand and supply and the high level of inventories continue to push rubber prices down.

The prices asked for butadiene, the principal material used in making synthetic rubber, recovered gradually over the last two quarters, consistently with the improvement of economic activity in Europe, especially on the automotive market. Its purchase price averaged euro 982/ton in 1H 2014, up 14% from 2H 2013, although still lower than in 1H 2013.

SIGNIFICANT EVENTS DURING 1H 2014

On **January 16, 2014**, following up on the decision by the World Motor Sport Council that confirmed Pirelli as sole supplier of tyres to the FIA Formula One World Championship, Pirelli announced that it had renewed that agreement with FIA. The duration of the agreement is three years, beginning with the 2014 season. Pirelli will continue to define the tyre specifications and manage all aspects of their development, in close collaboration with FIA and the teams, and within the parameters established by the FIA Formula One Sporting and Technical Regulations.

On data **February 28, 2014** Pirelli & C. S.p.A. and Bekaert announced that they had signed an agreement for sale of 100% of the Pirelli steel cord activities to Bekaert for an enterprise value of about euro 255 million. The sale of the steel cord business enables Pirelli to withdraw from a business which is too small to be competitive, and to focus on the premium tyre segment, which has higher profit margins. As part of the sale agreement, a long-term agreement was also made for long-term supply and joint development of products to boost R&D activities and guarantee that the transition to the new agreement will be consistent with the companies' respective growth and development plans. The closing of the deal is subject to regulatory approvals expected in the second half of the year and it will involve all five of the Pirelli steel cord plants located in Italy, Turkey, Romania, China and Brazil.

On **February 28, 2014** Pirelli & C. S.p.A. announced that effective from December 31, 2013, the medium-long term management cash incentive plan – Long Term Incentive (LTI) – adopted in 2012 in support of the 2012-2014 three-year objectives was closed without any pay-out, either full or pro-rated, of the three-year incentive. The Company announced that a new plan was adopted – also applicable to all of management (about 330 participants) – related to the targets for the period 2014-2016 contained in the business plan presented on November 6, 2013. Consistently with the variable compensation mechanisms adopted internationally, the three-year LTI plan is also based on the performance of Pirelli stock ("TSR") and makes it possible to align the interests of management with those of shareholders. Just like previous plans, the 2014-2016 plan is entirely self-funded, insofar as the related expenses are included in the financial figures of the Industrial Plan.

At the beginning of **April 2014**, the European Commission notified Pirelli and the other parties involved (including Prysmian Cavi e Sistemi, a Pirelli subsidiary until July 2005) of the decision it had reached on conclusion of the antitrust investigation undertaken in relation to the power cable business. The decision levies a fine of about euro 104 million on Prysmian, with Pirelli being held jointly liable with Prysmian for a portion of that amount equal to euro 67 million. The decision confirmed that Pirelli had no direct role in the alleged cartel. In fact, the only connection between Pirelli and the alleged violation of antitrust regulations is based on the principle of "parental liability", insofar as Prysmian was controlled by Pirelli during part of the period when the alleged cartel operated.

Pirelli has appealed to the European Court of Justice against the decision by the European Commission, challenging its application of the parental liability rule. In particular, Pirelli believes, on the basis of meticulous legal analyses and independent legal opinions, that it is not subject to the parental liability rule and that, since it was not involved in the irregularities allegedly committed by its former subsidiary, the final liability for any violation (and payment of the related penalty) must be borne exclusively by the company that was directly involved in the alleged violation. Consequently, Pirelli does not foresee that it will incur any financial liabilities resulting from that decision.

On **April 14, 2014**, following the evolution of circumstances leading up to an anticipated request for the conversion of the debt-for-equity bond (the "convertendo") previously subscribed to by Pirelli & C. S.p.A as part of the Prelios debt restructuring plan, Pirelli received, in exchange for the Prelios bonds it held (Tranches A and B) having a total face value of euro 148.4 million (plus accrued interest), the following:

- approx. 112 million Prelios S.p.A. Class A ordinary shares – which resulted in Pirelli's share of capital with voting rights increasing from 13,06% to 29,22% post conversion, 7% of which freely transferable and approx. 22% subject to lock-up obligations until July 2016 (with automatic renewal for a further 3-year period unless notice of termination), in line with the existing agreements amongst the shareholders of Fenice S.r.l (Pirelli& C. S.p.A, Intesa SanPaolo S.p.A., Unicredit S.p.A. and Feidos 11 S.p.A)
- approx. 93 million Prelios Class B ordinary shares – unlisted and without voting rights – which, under Fenice S.r.l. Shareholders' agreements have, on June 30, 2014, subsequently been granted to Fenice S.r.l. itself which will thus continue to hold all the Class B shares even after the aforementioned conversion.

Pirelli has confirmed its own strategy to focus on its core business tyres and, as previously announced to the market on other occasions, that it is not a long-term investor in the real estate sector. As such, it may seize the opportunities that arise on the market to increase the value of its own equity investment, in light of the existing agreements amongst the shareholders of Fenice S.r.l.

On **May 24, 2014** Pirelli and Rosneft reinforced their industrial and commercial cooperation by signing two Memoranda of Understanding (MoU) in Russia. On the industrial front, Pirelli and Rosneft will collaborate in the production of synthetic rubber (including styrene-butadiene) in Nakhodka, as already stipulated in the MoU signed in Armenia last December. On the commercial front, Pirelli and Rosneft have agreed the opening of at least 200 Pirelli brand product retail outlets at Rosneft service stations by 2019.

On **May 24, 2014** a transaction – whose framework agreements had been announced to the market on March 17, 2014 – was completed with the result that Long-Term Investments Luxembourg S.A. – a subsidiary of Neftegarant Pension Fund – acquired 50% of Camfin S.p.A. (the company that owns 26.19% of Pirelli & C. S.p.A), while the remainder is owned by a company that is 76% owned by Nuove Partecipazioni, 12% by Intesa Sanpaolo S.p.A. and 12% by Unicredit S.p.A. As part of the transaction, which closed on July 10, 2014, the equity stake in Pirelli & C. S.p.A owned by Camfin S.p.A. was valued at euro 12 per share. On the basis of agreements between the parties, the governance of Pirelli & C. S.p.A remains unchanged and based on the key role played by its Board of Directors in giving guidance, consistently with best international practices.
All strategic matters, definition of the business plan and Pirelli budget are submitted to the Board of Directors by the Chairman and CEO and approved by a majority of its members, just as is done now.

On **June 12, 2014** the Shareholders' Meeting of Pirelli & C. S.p.A. approved the Annual Financial Report 2013, which closed with a consolidated net income of euro 306.5 million, and parent company net income of euro 191.9 million, resolving to pay a dividend of euro 0.32 euro per ordinary share and euro 0.39 per savings share.

The Shareholders' Meeting also approved to authorise 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, thereby renewing the previous authorisation resolved on May 13, 2013. The Shareholders' Meeting also expressed its approval for the company Remuneration Policy, by approving – for the portion linked to Total Shareholder Return – adoption of the (Long Term Incentive (LTI) three-year incentive plan 2014-2016.

The Shareholders' Meeting also established that the term of the entire Board of Directors would be three financial years (until approval of the financial statements at December 31, 2016), and set the number of Board of Directors seats at 15, including 8 independent members. The following individuals were elected from the majority and minority slates to serve as Directors of Pirelli & C. S.p.A.: Marco Tronchetti Provera, Alberto Pirelli, Anna Maria Artoni, Luigi Piergiuseppe Ferdinando Roth, Paolo Fiorentino, Gaetano Micciché, Claudio Sposito, Riccardo Bruno, Piero Alonzo, Emiliano Nitti, Luciano Gobbi, Enrico Parazzini, Elisabetta Magistretti, Manuela Soffientini and Paolo Pietrogrande.

The new Board of Directors elected Mr Marco Tronchetti Provera as Chairman and Chief Executive Officer and Mr Alberto Pirelli as Deputy Chairman. On the basis of available information and the statements submitted by the interested parties, the Board of Directors has furthermore assessed whether Directors Anna Maria Artoni, Luigi Roth, Piero Alonzo, Emiliano Nitti, Luciano Gobbi, Elisabetta Magistretti, Manuela Soffientini and Paolo Pietrogrande satisfied the pre-requisites for independence.

The Board of Directors also confirmed Mr Francesco Tanzi as Chief Financial Officer of the Group, and took note of the resignation of Prof. Enrico Laghi as Statutory Auditor of the Company. Pursuant to the Bylaws, his position was taken by Mr Sebastiano Umile Iacovino.

Thereafter, on July 10, 2014 Directors Claudio Sposito, Riccardo Bruno, Piero Alonzo, Emiliano Nitti, Luciano Gobbi and Enrico Parazzini resigned from the Pirelli & C. S.p.A Board of Directors. Therefore, the Board of Directors then co-opted Igor Sechin (President of Rosneft, Chairman of Rosneft's Management Board), Didier Casimiro (Vice President for Commerce and Logistics of Rosneft), Andrey Kostin (President and Chairman of the Management Board, Member of the Supervisory Council of VTB Bank), Ivan Glasenberg (CEO of Glencore), Petr Lazarev (Financial Director of Rosneft) and Igor Soglaev (President, CJCS Novokuibyshevskaya Petrolchemical Company – CJSC NPC) in substitution of the resigned directors. On the basis of available information and the statements made by the interested parties, the Board of Directors also considered whether Ivan Glasenberg and Andrey Kostin satisfied the pre-requisites of independence.

The Board of Directors also confirmed the establishment of four Board of Directors committees having investigative, advisory and policy-making duties: the Remuneration Committee; the Internal Control Committee; the Risks, Sustainability and Corporate Governance Committee; the Nominations and Successions Committee, and the Strategies Committee.

The Board of Directors also designated Luigi Roth as Lead Independent Director and appointed the new Supervisory Body, which shall remain in office until the end of the term of the current Board of Directors. The following Directors were asked to join this body: Carlo Secchi (Chairman), Elisabetta Magistretti, Antonella Carù and Maurizio Bonzi.

GROUP PERFORMANCE AND RESULTS IN 1H 2014

In addition to the financial performance measures established by the International Financial Reporting Standards (IFRSs), this report presents alternative performance indicators that are derived from IFRSs. These performance indicators are used to facilitate the understanding of 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.

Following the sale agreement for 100% of the steel cord activities signed by Pirelli and Bekaert on February 28, 2014, the steel cord business qualifies as a discontinued operation. The 1H 2014 result of the discontinued operation has been reclassified in the income statement under a single item “income (loss) from discontinued operations”. The comparative income statement figures for the first half of2013 have been restated, unless otherwise indicated. More specifically, the steel cord activities were part of the Industrial segment, whose results have been restated.

* * *

Group results in 1H 2014 were characterised by:

- strengthening of the premium segment whose growth exceeded expectations with net sales volumes up 21.6%, mainly in Europe, Asia Pacific, MEAI and NAFTA where Pirelli expands its market share;
- the steady improvement of the price/mix component (+5.3% with a 2014 target of +4%/+5%) confirms the value strategy adopted thanks to the performance of the premium sector, the product mix of the Industrial segment and price increases in emerging countries;
- the realisation of internal efficiency gains totalling euro 48.9 million (54% of the annual target of euro 90 million) as the initial result of the euro 350 million, four-year cost-efficiency programme (2014-2017) announced in November 2013;
- strong improvement of profitability, with EBIT up 12.6% reaching euro 426.2 million and EBIT margin of 14.3%, up +2.1 percentage points from 1H 2013;
- positive business performance in Europe and Asia Pacific with net sales up by approximately 10% and profitability levels (EBIT margin) above the Group’s average (mid-teens for Europe, around 20% for Apac) which mitigates the effect of the current South American market downturn;
- the turnaround of the business in Russia, with positive “high single digit” profitability and with improved results in the NAFTA and MEAI areas;
- sound cash generation in 2Q2014: euro 187 million before dividend pay-out.

Consolidated net sales (continuing operations) at June 30, 2014 totalled euro 2,986.9 million, with overall growth (net of the translation effect) of 6.7%, determined by the positive contribution coming from sales volumes (+1.8%), the aforementioned improvement in the price/mix component of the Tyre Business (+5.3%) and the lower contribution from minor businesses (- 0.4%). Including the negative 10.0% translation effect, related to the depreciation of South American currencies, the Japanese yen, the Egyptian pound, the Turkish lira and the Russian rouble, net sales fell by 3.3%.

In spite of the volatility of currency rates, the **consolidated operating income of continuing operations (EBIT)**, which totalled euro 426.2 million (euro 378.5 million in 1H 2013), grew by 12.6% on improvement in operating variables (net sales volumes and the price/mix component) and cost efficiency gains. The EBIT margin was 14.3% (14.7% net of restructuring charges amounting to euro 12.7 million), up 2.1 percentage points from 1H 2013.

The **net income (loss) from continuing operations** in 1H 2014 was euro 192.1 million, up 28.5% from euro 149.5 million in 2013. In particular, the net income from equity investments (negative by euro 27.2 million) includes mainly the share of loss from the associated company Prelios S.p.A. relative to the period 4Q 2013 and 1Q 2014 for euro 13,3 million and impairment of the investment in Alitalia S.p.A. for euro 11.2 million recorded in 2Q 2014.

The **net total financial (liquidity) debt position** as of June 30, 2014 represent a liability for euro 1,935.2 million (of which euro 40.4 million associated with assets held for sale), compared to euro 1,322.4 million at December 31, 2013. The increase essentially reflects the typical seasonal variation in net working capital and the negative impact of currency depreciation amounting to about euro 58 million.

Net borrowing is down from March 2014 (euro 1,965.6 million) despite dividend pay-out for euro 156.7 million. A sound operating performance alongside a careful management of working capital have determined positive cash generation for euro 187,1 million.

The **Tyre Business**, which accounts for 99.8% of revenue, had net sales of euro 2,980.8 million with an overall growth of 7.1% (-3% including translation effect) from 1H2013.

The improvement in sales volumes in the Consumer segment (+5.1%) benefited from the recovery of activity in Europe and continued growth in the premium segment (+21.6% in 1H, +20.9% in 2Q) across all regions, while the contraction in Industrial segment volumes (-7.4%) reflected the gradual withdrawal from the conventional business in South America, the unfavourable basis of comparison (16.1% growth in volumes in 1H 2013 compared with + 8.7% for all of 2013), and increased contraction of the truck original equipment market during 2Q 2014 in South America (- 30% in 2Q, -17% in 1H).

Net sales in the premium segment were euro 1,285.1 million, up by a total of 12.7% compared with the previous year (+16.6% net of the translation effect), and with an incidence on the Consumer segment total sales equal to 56.2% (50.5% in 1H 2013). This business segment enjoyed sustained growth from 1H 2013 levels on all markets; in particular the segment has shown a strong development trend in Europe (+13.6% revenues), in Apac (+22.4%) and in Middle East Africa (+18.5%).

The Consumer segment had net sales of euro 2,288.3 million in 1H 2014, up 10.3% net of the translation effect (+1.5% including the translation effect, which was negative 8.8%), due to the aforementioned change in volumes (+5.1%) and improvement in the price/mix component (+5.2%). Operating income was euro 340.1 million (+21.4%), with an EBIT margin of 14.9%, (15.3% before restructuring expenses totalling euro 9.4 million) or about 2.5 percentage points better than in 1H 2013.The Industrial segment generated net sales of euro 692.5 million (-1.5% net of translation effect).

The price/mix displayed a steady improvement (+5.9% in 1H, +6.5% in 2Q) thanks to price increases that offset the translation effect and to the improvement of the product mix with the successful “Serie 01”. This trend mitigated the impact connected to the drop in volumes (-7.4%), which worsened during 2Q 2014 due to further contraction of the original equipment market in South America.

The translation effect was high (-13.8%) due to the exposure of the business to South America and MEAI (76% of net sales in the Industrial segment), with a negative 15.3% impact on net sales.

Discounting the translation effect and contraction in volumes, the Industrial segment ended the first half with operating income of euro 93.9 million, 14.9% lower than in the same period of 2013 (euro 110.4 million), while the EBIT margin remained fairly steady at 13.6% (slightly higher than the 13.5% in 2013).

In regard to geographical areas, Europe (which accounts for 35% of net sales) represents one of the principal areas of growth, with net sales up 9.7% and a significant improvement in profitability (EBIT margin before restructuring costs in the mid-teens from double digit) due to the contribution made by the premium segment and efficiency gains.

Net sales in the NAFTA area (accounting for 12% of net sales in the Tyre Business) grew overall by 6.5% in 1H2014 (+1.8% including the translation effect), with a stronger premium segment and an EBIT margin in the mid-teens, up by about 1.5 percentage points.

Apac (9% of net sales in the Tyre Business) confirmed its status as the area of greatest growth: 16.1% overall growth in net sales (+10.8% including the translation effect), driven by the premium segment sales (+22.4% growth in premium segment net sales) and an EBIT margin of about 20%, marking an improvement from 1H 2013.

The performance of the business in Russia matched expectations (accounting for 4% of net sales). Net sales grew by +9.4% in 1H 2014 (-5.9% including the translation effect) and high single-digit EBIT that was up from 1H 2013 (break-even EBIT margin), due to improvement in the mix component and cost efficiency programme.
The sales performance in MEAI (8% of Tyre Business net sales) was impacted by depreciation of local currencies (+4.5% growth yoy before the negative translation effect of 10.3%), which was partially offset by the increase in prices and improvement of mix. EBIT in upward trend compared with 1H 2013, with an EBIT margin above 20%.
South America (+32% of Tyre Business net sales) had aggregate growth of +3.7%, which was supported by the strong performance of car tyre sales volumes in the premium segment, (+17%) with an increase in market share and by price increases applied in response to volatile exchange rates. The aforementioned shrinking of the Original Equipment market for both the Car and the Truck businesses along with the translation effect (-20.8% of net sales), have had an impact on changes in net sales in euro (-17.1%); thanks to price/mix improvements and efficiency gains a “mid-teens” EBIT margin has been confirmed.

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

(in millions of euro)

	06/30/2014	06/30/2013 restated (*)	06/30/2013 reported	12/31/2013 restated (*)	12/31/2013 reported
Net sales	**2,986.9**	**3,090.0**	**3,131.3**	**6,061.0**	**6,146.2**
Gross operating profit before restructuring expenses	582.8	529.3	533.5	1,095.0	1,105.4
% of net sales	19.5%	17.1%	17.0%	18.1%	18.0%
Operating income before restructuring expenses	438.9	385.9	388.1	810.2	816.5
% of net sales	14.7%	12.5%	12.4%	13.4%	13.3%
Restructuring expenses	(12.7)	(7.4)	(7.4)	(25.5)	(25.5)
Operating income	**426.2**	**378.5**	**380.7**	**784.7**	**791.0**
% of net sales	14.3%	12.2%	12.2%	12.9%	12.9%
Net income (loss) from equity investments	(27.2)	(24.3)	(24.3)	(78.3)	(78.3)
Financial income/(expenses)	(92.1)	(103.5)	(104.7)	(192.9)	(195.8)
Pre-tax income (loss)	**306.9**	**250.7**	**251.7**	**513.5**	**516.9**
Income tax	(114.8)	(101.2)	(101.6)	(209.0)	(210.4)
Tax rate %	37.4%	40.4%	40.4%	40.7%	40.7%
Net income (loss) from continuing operations	**192.1**	**149.5**	**150.1**	**304.5**	**306.5**
Net income (loss) from discontinued operations	**1.7**	**0.6**	**-**	**2.0**	**-**
Total net income (loss)	**193.8**	**150.1**	**-**	**306.5**	**-**
Net income attributable to owners of Pirelli & C. S.p.A.	189.1	151.4	151.4	303.6	303.6
Total net earnings per share attributable to owners of Pirelli & C. S.p.A. (in euro)	0.388	0.310	0.310	0.622	0.622
Non-current assets related to continuing operations	**3,896.8**	**3,800.0**	**3,800.0**	**4,043.0**	**4,043.0**
Inventories	1,043.7	1,096.7	1,096.7	987.3	987.3
Trade receivables	974.0	935.5	935.5	666.4	666.4
Trade payables	(1,053.7)	(1,101.2)	(1,101.2)	(1,244.5)	(1,244.5)
Operating Net working capital related to continuing operations	**964.0**	**931.0**	**931.0**	**409.2**	**409.2**
% of net sales (°)	16.1%	15.1%	14.9%	6.8%	6.7%
Other receivables/other payables	40.9	94.2	94.2	3.0	3.0
Total Net working capital related to continuing operations	**1,004.9**	**1,025.2**	**1,025.2**	**412.2**	**412.2**
% of net sales (°)	16.8%	16.6%	16.4%	6.8%	6.7%
Net invested capital held for sale	**143.9**	**-**	**-**	**-**	**-**
Total Net invested capital	**5,045.6**	**4,825.2**	**4,825.2**	**4,455.2**	**4,455.2**
Equity	**2,371.3**	**2,321.8**	**2,321.8**	**2,436.6**	**2,436.6**
Total Provisions	**739.1**	**770.8**	**770.8**	**696.2**	**696.2**
of which provisions held for sale	*12.1*	-	-	-	-
Total Net financial (liquidity)/debt position	**1,935.2**	**1,732.6**	**1,732.6**	**1,322.4**	**1,322.4**
of which Net Financial (liquidity)/debt position held for sale	*40.4*	-	-	-	-
Equity attributable to the owners of Pirelli & C. S.p.A.	2,300.3	2,279.3	2,279.3	2,376.1	2,376.1
Equity per share attributable to the owners of Pirelli & C. S.p.A. (in euro)	4.714	4.671	4.671	4.869	4.869
Total Tyre - net sales	**2,980.8**	**3,072.9**	**3,114.0**	**6,030.6**	**6,115.8**
% of net sales total	99.8%	99.4%	99.4%	99.5%	99.5%
Total Tyre - operating income	**434.0**	**390.6**	**392.8**	**815.7**	**822.0**
% on total tyre - net sales	14.6%	12.7%	12.6%	13.5%	13.4%
Total Tyre - net sales Consumer	**2,288.3**	**2,255.4**	**2,255.4**	**4,393.7**	**4,478.9**
% on total tyre - net sales	76.8%	73.4%	72.4%	72.9%	73.2%
Total Tyre - net sales Industrial	**692.5**	**817.5**	**858.6**	**1,636.9**	**1,636.9**
% on total tyre - net sales	23.2%	26.6%	27.6%	27.1%	26.8%
Total Tyre - net sales Premium	**1,285.1**	**1,139.8**	**1,139.8**	**2,210.0**	**2,210.0**
% on net sales Consumer	56.2%	50.5%	50.6%	50.3%	49.3%
Capital expenditure	143.6	164.0	164.0	413.1	413.1
Research and development expenses	99.7	93.3	93.3	199.2	199.2
% of net sales	3.3%	3.0%	3.0%	3.3%	3.2%
Research and development expenses - Premium	80.9	75.3	75.3	163.3	163.3
% on sales Premium	6.3%	6.6%	6.6%	7.4%	7.4%
Headcount (number at end of period)	39,299	38,138	38,138	37,979	37,979
Industrial sites (number)	22	23	23	23	23

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

(*) only Income Statement figures have been restated

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

(in millions of euro)

	Total Tyre		Other business		Total	
	1Half 2014	1Half 2013 restated	**1Half 2014**	1Half 2013	**1Half 2014**	1Half 2013 restated
Net sales	**2,980.8**	**3,072.9**	**6.1**	**17.1**	**2,986.9**	**3,090.0**
Gross operating profit before restructuring expenses	589.0	538.6	(6.2)	(9.3)	582.8	529.3
Operating income before restructuring expenses	446.4	397.2	(7.5)	(11.3)	438.9	385.9
Restructuring expenses	(12.4)	(6.6)	(0.3)	(0.8)	(12.7)	(7.4)
Operating income	**434.0**	**390.6**	**(7.8)**	**(12.1)**	**426.2**	**378.5**
% of net sales	*14.6%*	*12.7%*			*14.3%*	*12.2%*
Net income (loss) from equity investments					(27.2)	(24.3)
Financial income/(expenses)					(92.1)	(103.5)
Pre-tax income (loss)					**306.9**	**250.7**
Income tax					(114.8)	(101.2)
Tax rate %					*37.4%*	*40.4%*
Net income (loss) from continuing operations					**192.1**	**149.5**
Net income (loss) from discontinued operations					**1.7**	**0.6**
Total net income (loss)					**193.8**	**150.1**

Group performance broken down on a quarterly basis is shown in the following table:

(in millions of euro)

	1° Q		2° Q		1 HALF	
	2014	**2013 restated**	**2014**	**2013 restated**	**2014**	**2013 restated**
Net sales	**1,473.2**	1,514.6	**1,513.7**	1,575.4	**2,986.9**	3,090.0
yoy	-2.7%	-	-3.9%	-	-3.3%	-
Gross operating profit before restructuring expenses	**277.3**	253.0	**305.5**	276.3	**582.8**	529.3
% of net sales	18.8%	16.7%	20.2%	17.5%	19.5%	17.1%
Operating income before restructuring expenses	**206.7**	181.7	**232.2**	204.2	**438.9**	385.9
% of net sales	14.0%	12.0%	15.3%	13.0%	14.7%	12.5%
Operating income	**201.0**	178.5	**225.2**	200.0	**426.2**	378.5
% of net sales	13.6%	11.8%	14.9%	12.7%	14.3%	12.2%
Pre-tax income (loss)	**143.9**	113.9	**163.0**	136.8	**306.9**	250.7
Net income (loss) from continuing operations	**90.4**	71.7	**101.7**	77.8	**192.1**	149.5

Net sales

In 1H 2014 net sales totalled euro 2,986.9 million, down 3.3% from the same period in previous year (euro 3,090.0 million), with 99.8% of net sales being generated by the Tyre Business, which is the core business of the Group. Excluding the negative translation effect (-10.0%), net sales were up by 6.7%.

Operating income

Operating income totalled euro 426.2 million, up 12.6% from 1H 2013, and amounted to 14.3% of net sales (12.2% in 1H 2013).

The improvement in profitability (up euro +47.7 million) from 1H 2013 reflected:

- the positive contribution made by sales volumes (euro +26 million);
- the growing contribution made by the price/mix component (euro + 93.3 million), due to improvement of the mix (premium segment growth) and the previously mentioned price increases in the emerging countries;
- efficiency gains of euro 48.9 million (54% of the annual target), realised through "decomplexity" projects, and particularly streamlining of the use of raw materials;
- the limited positive contribution made by raw materials (euro +13.7 million);
- improvement in the operating income of minor businesses (euro +4.3 million).

These factors more than offset:

- the negative impact of inflation of production costs (euro 51.0 million growth of cost inputs);
- the volatility of consolidation exchange rates (euro 47.5 million impact on EBIT);
- the increase in amortisation, depreciation and other costs (euro 34.2 million) and restructuring costs (euro 5.8 million).

<u>Net income (loss) from equity investments</u>

The net loss from equity investments was euro 27.2 million, and mainly refers to the effects of equity consolidation of the six-month results of the associated company Prelios S.p.A. (4Q 2013 and 1Q 2014), which were a negative euro 16.4 million, and impairment of the investment in Alitalia S.p.A. amounting to euro 11.2 million.

<u>Net income</u>

The **net income of continuing operations** for the six months ended at June 30, 2014 was euro 192.1 million, up 28.5% from 1H 2013 (euro 149.5 million).
Tax charges totalled euro 114.8 million, with a tax rate of 37.4% in 1H 2014 (35.6% net of the Prelios impact).
The average cost of debt during the period was 6.0%. Net financial expenses fell from euro 103.5 million for the six months ended at June 30, 2013 to euro 92.1 million for the six months ended June 30, 2014, with a decrease of euro 11.4 million.
The drop is to mainly due to non-recurrent foreign exchange losses occured in 1H2013 related to the depreciation of the Venezuelan currency (euro 8.3 million) and to lower indebtedness in emerging countries where Pirelli operates, characterized by high interest rates.

Total net income was euro 193.8 million, compared with euro 150.1 million in 1H 2013. The **total net income attributable to owners of Pirelli & C. S.p.A.** for the six months ended June 30, 2014 was euro 189.1 million (euro 0.388 per share), compared with euro 151.4 million in 1H 2013 (euro 0.310 per share).

Equity

Equity fell from euro 2,436.6 million at December 31, 2013 to euro 2,371.3 million at June 30, 2014.

Equity attributable to owners of Pirelli & C. S.p.A. at June 30, 2014 totalled euro 2,300.3 million (euro 4.714 per share) compared with euro 2,376.1 million at December 31, 2013 (euro 4.869 per share).

The change, which is broken down in the table, stems mainly from the net income for the period, the negative translation effect related to the conversion into euro of assets denominated in foreign currency, dividends paid and the actuarial losses related to employee benefits.

(in millions of euro)

	Group	Non-controlling interests	Total
Equity at 12/31/2013	**2,376.1**	**60.5**	**2,436.6**
Translation differences	(94.6)	(1.3)	(95.9)
Net income (loss)	189.1	4.7	193.8
Adjustement to fair value of other financial assets/derivative instruments	16.7	-	16.7
Actuarial gains/(losses) on employee benefits	(53.7)	-	(53.7)
Dividend resolved	(156.7)	(3.4)	(160.1)
Venezuela inflation effect	24.4	1.0	25.4
Disposal of minorities stakes	(3.3)	6.1	2.8
Acquisition through capital increase reserved to third parties	-	6.1	6.1
Other changes	2.3	(2.7)	(0.4)
Total changes	**(75.8)**	**10.5**	**(65.3)**
Equity at 06/30/2014	**2,300.3**	**71.0**	**2,371.3**

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

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

(in millions of euro)

	Q1		Q2		1 HALF	
	2014	2013 restated	2014	2013 restated	2014	2013 restated
Operating income (EBIT) before restructuring expenses	206.7	181.7	232.2	204.2	438.9	385.9
Amortisation and depreciation	70.6	71.3	73.3	72.1	143.9	143.4
Capital expenditures of property, plant and equipment and intangible assets	(65.3)	(79.7)	(78.3)	(84.3)	(143.6)	(164.0)
Change in working capital/other	(686.6)	(468.4)	77.4	(12.2)	(609.2)	(480.6)
Operating cash flow	**(474.6)**	**(295.1)**	**304.6**	**179.8**	**(170.0)**	**(115.3)**
Ordinary financial income/(expenses)	(43.3)	(58.0)	(48.8)	(45.5)	(92.1)	(103.5)
Ordinary tax charges	(53.5)	(42.2)	(61.3)	(59.0)	(114.8)	(101.2)
Net operating cash flow	**(571.4)**	**(395.3)**	**194.5**	**75.3**	**(376.9)**	**(320.0)**
Financial investments/disinvestments	(3.7)	-	2.8	-	(0.9)	-
Other dividends paid	(0.5)	-	(2.9)	(3.1)	(3.4)	(3.1)
Cash Out for restructuring operations	(12.9)	(7.5)	(5.9)	(5.2)	(18.8)	(12.7)
Net cash flow from discontinued operations	(8.7)	(22.6)	10.5	7.8	1.8	(14.8)
Foreign exchange differences/other	(46.0)	(49.6)	(11.9)	29.5	(57.9)	(20.1)
Net cash flow before divid. Paid	**(643.2)**	**(475.0)**	**187.1**	**104.3**	**(456.1)**	**(370.7)**
Dividend paid by Parent	-	-	(156.7)	(156.7)	(156.7)	(156.7)
Net cash flow	**(643.2)**	**(475.0)**	**30.4**	**(52.4)**	**(612.8)**	**(527.4)**

Operating cash flow was overall negative euro 170.0 million in 1H 2014, mainly due to the customary seasonal variation in net working capital, compared with negative operating cash flow of euro 115.3 million in 2013.

The 2Q 2014, thanks to the cash generated from sales in 1Q in particular in Europe and Russia - countries typically having stronger seasonal variations - generated a positive operating cash flow of euro 304.6 million (positive for euro 179.8 million in 2Q 2013).

A total of euro 143.6 million in investments was made, consistently with seasonal variations in capital expenditure (euro 164.0 million in 1H 2013), and was largely allocated to expanding premium segment capacity in Europe, NAFTA and China and to improving the product mix.

Net cash flow before dividends was a negative euro 456.1 million (negative euro 370.7 million in 1H 2013).

About euro 58 million resulted from the impact on the net financial (liquidity) debt position of changes in exchange rates, especially in relation to the position in Venezuela. Worthy of note is the improved cash generation in 2Q: euro187.1 million before dividend pay-out (euro 104.3 million in 2Q 2013) also thanks to the careful management of working capital.

Net financial (liquidity) debt position

At June 30, 2014 the net financial (liquidity) debt position of the Group was a negative euro 1,935.2 million (of which euro 40.4 million related to discontinued operation), compared with euro 1,322.4 million at December 31, 2013, and is detailed as follows:

in millions of euro		06/3/2014	03/31/2014	12/31/2013
	Current borrowings from banks and other financial institutions	331.2	313.5	316.7
	Current derivative financial instruments	2.5	5.1	3.2
	Non-Current borrowings from banks and other financial institutions	2,137.2	2,088.8	2,014.3
	Total gross debt continuing activities	**2,470.9**	**2,407.4**	**2,334.2**
	Cash and cash equivalents	(466.3)	(389.8)	(879.9)
	Securities held for trading	(32.8)	(23.8)	(48.1)
	Current financial receivables	(10.3)	(13.6)	(17.7)
	Current derivative financial instruments	(4.3)	(5.6)	(6.7)
	Non-current financial receivables	(62.4)	(59.9)	(59.4)
	Total financial receivables, cash and cash equivalents	**(576.1)**	**(492.7)**	**(1,011.8)**
A	**Net financial (liquidity)/debt position continuing operations**	**1,894.8**	**1,914.7**	**1,322.4**
B	**Net financial (liquidity)/debt position discontinued**	**40.4**	**50.9**	**-**
A+B	**Net financial (liquidity)/debt position total**	**1,935.2**	**1,965.6**	**1,322.4**

The **structure of gross financial debt of continuing operations** totalling euro 2,470.9 million is summarised as follows:

(in millions of euro)

	Financial Statements 06/30/2014	Maturity date				
		2014	2015	2016	2017	2018 and beyond
Use of committed credit facilities	850.0	-	850.0	-	-	-
Bond 5,125% - 2011/2016	500.0	-	-	500.0	-	-
EIB loans	250.0	-	100.0	100.0	20.0	30.0
USD private placement	109.9	-	-	-	11.0	98.9
Schuldschein	155.0	-	-	114.0	31.0	10.0
Other financing	606.0	144.2	208.7	123.1	75.1	54.9
Total gross debt	**2,470.9**	**144.2**	**1,158.7**	**837.1**	**137.1**	**193.8**
		5.8%	47.0%	33.9%	5.5%	7.8%

At June 30, 2014 the Group disposed of euro 350 million as the unused portion of the euro 1.2 billion committed credit facility (euro 625 million available at December 31, 2013) which, added to the euro 499.1 million in cash or cash equivalents, provides the Group with a liquidity margin amounting to euro 849.1 million.

Headcount

Group headcount was 39,299 employees at June 30, 2014, as compared with 37,979 employees at December 31, 2013 and 38,138 employees at June 30, 2013. The growth in headcount was concentrated in South America, Turkey and China.

OPERATING PERFORMANCE

TOTAL TYRE BUSINESS

The table below sets forth the consolidated results for the first half of 2014 as compared with the same period of 2013:

(in millions of euro)

	06/30/2014	06/30/2013 restated (*)	06/30/2013 reported	12/31/2013 restated (*)	12/31/2013 reported
Net sales	**2,980.8**	**3,072.9**	**3,114.0**	**6,030.6**	**6,115.8**
yoy	-3.0%		3.8%		1.4%
Gross operating profit before restructuring expenses	589.0	538.6	542.8	1,119.9	1,130.3
% of net sales	19.8%	17.5%	17.4%	18.6%	18.5%
Operating income before restructuring expenses	446.4	397.2	399.4	839.1	845.4
% of net sales	15.0%	12.9%	12.8%	13.9%	13.8%
Restructuring expenses	(12.4)	(6.6)	(6.6)	(23.4)	(23.4)
Operating income	**434.0**	**390.6**	**392.8**	**815.7**	**822.0**
% of net sales	14.6%	12.7%	12.6%	13.5%	13.4%

The following table illustrates the quarterly breakdown of operating income:

	1 Q		2 Q		1 HALF	
(in millions of euro)	2014	2013 restated	2014	2013 restated	2014	2013 restated
Net sales	**1,469.5**	1,505.0	**1,511.3**	1,567.9	**2,980.8**	3,072.9
yoy	-2.4%	-	-3.6%	-	-3.0%	-
Gross operating profit before restructuring expenses	**280.3**	257.8	**308.7**	280.8	**589.0**	538.6
% of net sales	19.1%	17.1%	20.4%	17.9%	19.8%	17.5%
Operating income before restructuring expenses	**210.3**	187.5	**236.1**	209.7	**446.4**	397.2
% of net sales	14.3%	12.5%	15.6%	13.4%	15.0%	12.9%
Operating income	**204.9**	184.3	**229.1**	206.3	**434.0**	390.6
% of net sales	13.9%	12.2%	15.2%	13.2%	14.6%	12.7%

Net sales

Net sales totalled euro 2,980.8 million, compared with euro 3,072.9 million in 1H 2013. Excluding the translation effect (negative 10.1%), net sales grew 7.1% on a like-for-like basis, with a 1.8% increase in volumes that was particularly significant on mature markets (+12.2%), while the emerging markets were down 3.2% from the previous year, due to the contraction concentrated especially in the Latin American original equipment market.

The Consumer and Industrial segments reported contrasting performance, given their different geographical exposure (80% of net sales by the Industrial segment were generated on emerging markets, as compared with 43% for the Consumer segment) and their divergent market dynamics.

Net sales by the Consumer segment grew at an overall rate of 10.3% (+1.5% including the translation effect), due to the contribution made by the volume component (+5.1%, +12.5% on mature markets, + 0.9% on emerging markets which are affected by the downturn in the Original Equipment South American market, -19%) and improvement in the price/mix component (+5.2%), which mainly resulted from the growing weight of the premium segment (56.2% of net sales in the Consumer segment during 1H 2014, compared with 50.5% in 1H 2013).

Net sales volumes in the premium segment grew by 21.6% in 1H 2014 (+22.2% in 1Q 2014, +20.9% in 2Q 2014), with 18.1% growth on mature markets and 32.9% growth on emerging markets.

Net sales in the Industrial segment fell by 1.5% overall in 1H 2014 (-15.3% including the negative translation effect, -13.8%). The significant improvement in the mix and price increase (+5.9%) more than offset the contraction in net sales volumes (-7.4%) resulting from gradual withdrawal from the conventional business in Latin America, the unfavourable basis of comparison (+16.1% in net sales volumes in 1H 2013, compared with +8.7% for all of 2013), and the accelerated contraction of the truck original equipment market in Latin America in 2Q 2014.

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

	1Q		2Q		1 HALF	
	2014	2013 reported	2014	2013 reported	2014	2013 reported
Volume	3.8%	3.9%	-0.2%	8.8%	1.8%	6.3%
of which Premium volume	*22.2%*	*4.0%*	*20.9%*	*12.9%*	*21.6%*	*8.3%*
Price/mix	4.6%	0.0%	6.0%	5.1%	5.3%	2.5%
Change on a like-for-like basis	**8.4%**	**3.9%**	**5.8%**	**13.9%**	**7.1%**	**8.8%**
Translation effect	-10.8%	-4.9%	-9.4%	-5.0%	-10.1%	-5.0%
Total change	**-2.4%**	**-1.0%**	**-3.6%**	**8.9%**	**-3.0%**	**3.8%**

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

(in millions of euro)

GEOGRAPHICAL AREA	**06/30/2014**			**06/30/2013**
	Euro\mln	*yoy*		
Italy	178.3	*10.1%*	6.0%	5.3%
Rest of Europe	874.9	*9.6%*	29.4%	26.0%
Russia and CIS	131.2	*-5.9%*	4.4%	4.5%
Nafta	352.0	*1.8%*	11.8%	11.2%
Central and South America	939.8	*-17.1%*	31.5%	36.9%
Asia\Pacific	261.2	*10.8%*	8.8%	7.7%
Middle East\Africa\India	243.4	*-5.9%*	8.2%	8.4%
TOTAL	**2,980.8**	*-3.0%*	**100.0%**	**100.0%**

PRODUCT	**06/30/2014**			**06/30/2013**
	Euro\mln	*yoy*		
Car tyres	2,066.9	*1.6%*	69.3%	66.2%
Motorcycle tyres	221.4	*-0.1%*	7.5%	7.2%
Consumer	**2,288.3**	*1.5%*	**76.8%**	**73.4%**
Industrial vehicle tyres	608.9	*-14.6%*	20.4%	23.2%
Agriculture tyres	83.6	*-19.8%*	2.8%	3.4%
Industrial	**692.5**	*-15.3%*	**23.2%**	**26.6%**

Operating income

Operating income at June 30, 2014 totalled euro 434.0 million (euro 390.6 million in 1H 2013), with EBIT margin of 14.6% (15% before restructuring expenses) up almost 2 percentage points.

The positive contribution made by the price/mix component (positive euro 93.3 million), internal cost efficiency gains (positive euro 48.9 million), the growth in sales volumes (positive euro 26 million) and lower commodity costs (positive euro 13.7 million) more than offset higher inflation of production factors (euro 51.0 million), higher amortisation and depreciation and other costs supporting development on the various markets (euro 34.2 million), the negative euro 47.5 million consolidation translation effect and higher non-recurring charges amounting to euro 5.8 million.

The changes as compared with the same quarter of 2013 are broken down as follows:

(in millions of euro)	**1Q**	**2Q**	**1 HALF**
2013 Operating income restated	**184.3**	**206.3**	**390.6**
Foreign exchange effect	(19.2)	(28.3)	(47.5)
Prices/mix	39.3	54.0	93.3
Volumes	24.0	2.0	26.0
Cost of prodution factors (commodities)	7.9	5.8	13.7
Cost of prodution factors (labour/energy/others)	(29.5)	(21.5)	(51.0)
Efficiency	27.6	21.3	48.9
Amortisation, depreciation and other	(27.2)	(7.0)	(34.2)
Restructuring expenses	(2.3)	(3.5)	(5.8)
Change	**20.6**	**22.8**	**43.4**
2014 Operating income	**204.9**	**229.1**	**434.0**

CONSUMER BUSINESS

The results for 1H 2014 as compared with those for 1H 2013 are highlighted in the following table:

(in millions of euro)	1Q		2Q		1 HALF	
	2014	2013	2014	2013	2014	2013
Net sales	1,128.7	1,116.7	1,159.6	1,138.7	2,288.3	2,255.4
yoy	*1.1%*	*-3.0%*	*1.8%*	*5.6%*	*1.5%*	*1.1%*
Gross operating profit before restructuring expenses	219.4	194.8	245.1	203.5	464.5	398.3
% of net sales	*19.4%*	*17.4%*	*21.1%*	*17.9%*	*20.3%*	*17.7%*
Operating income before restructuring expenses	162.7	138.0	186.8	146.7	349.5	284.7
% of net sales	*14.4%*	*12.4%*	*16.1%*	*12.9%*	*15.3%*	*12.6%*
Operating income	158.8	136.0	181.3	144.2	340.1	280.2
% of net sales	*14.1%*	*12.2%*	*15.6%*	*12.7%*	*14.9%*	*12.4%*

The next table shows the detailed breakdown of market performance:

	1Q	2Q	1st half 2014
EUROPE (*)			
Original Equipment	+8%	+0%	+4%
Replacement	+9%	+6%	+7%
NAFTA			
Original Equipment	+4%	+3%	+4%
Replacement	+2%	+4%	+3%
SOUTH AMERICA			
Original Equipment	-11%	-25%	-19%
Replacement	+4%	+3%	+4%
CINA			
Original Equipment	+10%	nd	nd
(*) including Turkey; excluding Russia			

Net sales totalled euro 2,288.3 million, up 10.3% from 1H 2013, net of the negative 8.8% translation effect.

Sales volumes grew by 5.1% (+12.5% on mature markets, + 0.9% on emerging markets), driven by the premium segment (+21.6% at the global level).

The following table sets forth the breakdown of net sales:

	1Q		2Q		1 HALF	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Volume	5.9%	1.2%	4.3%	4.6%	5.1%	2.9%
of which Premium volume	*22.2%*	*4.0%*	*20.9%*	*12.9%*	*21.6%*	*8.3%*
Price/mix	4.4%	-0.5%	5.8%	5.7%	5.2%	2.4%
Change on a like-for-like basis	**10.3%**	**0.7%**	**10.1%**	**10.3%**	**10.3%**	**5.3%**
Translation effect	-9.2%	-3.7%	-8.3%	-4.7%	-8.8%	-4.2%
Total change	**1.1%**	**-3.0%**	**1.8%**	**5.6%**	**1.5%**	**1.1%**

Operating income before restructuring expenses totalled euro 349.5 million in 1H 2014, with a margin on net sales of 15.3%, as compared with euro 284.7 million in 2013 (12.6% of net sales). **Operating income** was euro 340.1 million (ROS of 14.9%), as compared with euro 280.2 million in 1H 2013 (ROS of 12.4%).

The improvement in profitability reflects:

- the positive changes in sales mix, with continuous growth in premium volumes in all regions and a stronger incidence of the replacement channel;
- internal efficiency gains, lower start-up costs and better use of production capacity.

Car Business

In 1H 2014, 71.2% of net sales in the car business were generated by the replacement channel (70% in 1H 2013) and 28.8% by the original equipment channel (about 30% in 1H2013).

This was mainly the consequence of lower original equipment sales in South America (where the market contraction that began in the final quarter of last year continued, as compared with a particularly positive basis of comparison with 1H 2013), and the NAFTA area, due to reduction in less interesting segments, and growth in the replacement channel in virtually all regions.

The reference market showed a positive change in all areas, with the exception of the original equipment channel in South America (-19 % in 1H2014). The market was expanding in Europe (+7% replacement channel and +4% original equipment channel) and the NAFTA area (+3% replacement channel and +4% original equipment channel), while the positive trend continued on the South American replacement market and in China.

Motorcycle Business

The Motorcycle Business was positively affected by a market recovery, especially in Europe, which drove a 8.2% net sales increase in the region, while the North American market recovered in 2Q 2014 from a negative 1Q 2014 that was impacted by bad weather. The devaluation or depreciation of South American currencies caused net sales in euro to remain substantially stable compared with 1H 2013.

During 1H 2014, 84.3% of net sales were generated by the replacement channel and 15.7% by the original equipment channel.

In 1H 2013, the replacement channel accounted for 82.2% of net sales, with original equipment accounting for 17.8%.

INDUSTRIAL BUSINESS

The results for 1H 2014 as compared with those for 1H 2013 are highlighted in the following table:

(in millions of euro)	1Q		2Q		1 HALF	
	2014	**2013 restated**	**2014**	**2013 restated**	**2014**	**2013 restated**
Net sales	340.8	388.3	351.7	429.2	692.5	817.5
yoy	*-12.2%*		*-18.1%*		*-15.3%*	
Gross operating profit before restructuring expenses	60.9	63.0	63.6	77.3	124.5	140.3
% of net sales	*17.9%*	*16.2%*	*18.1%*	*18.0%*	*18.0%*	*17.2%*
Operating income before restructuring expenses	47.6	49.5	49.3	63.0	96.9	112.5
% of net sales	*14.0%*	*12.7%*	*14.0%*	*14.7%*	*14.0%*	*13.8%*
Operating income	46.1	48.3	47.8	62.1	93.9	110.4
% of net sales	*13.5%*	*12.4%*	*13.6%*	*14.5%*	*13.6%*	*13.5%*

The next table shows the breakdown of market performance:

	1Q	**2Q**	**1st half 2014**
EUROPE (*)			
Original Equipment	+7%	-4%	+1%
Replacement	+14%	+2%	+8%
NAFTA			
Original Equipment	+10%	+11%	+10%
Replacement	+5%	+12%	+8%
SOUTH AMERICA			
Original Equipment	-1%	-30%	-17%
Replacement	+5%	-4%	+0%
CINA			
Original Equipment	+13%	nd	nd

(*) including Turkey; excluding Russia

Net sales totalled euro 692.5 million, down 15.3% from 1H 2013 (euro 817.5 million), with a translation effect negative for 13.8%.

The volume component was a negative 7.4%, with a more pronounced reduction in the X-Ply segments (conventional business -21%), -4% for the All Steel business, conditioned by the performance of the original equipment channel in South America. The price/mix variable made a positive contribution of +5.9%, both for the sales price increases that were gradually applied on emerging markets in reaction to the depreciating currency rates and for improvement of the product mix (particularly Europe).

The following table sets forth the breakdown of net sales:

	1Q		2Q		1 HALF	
	2014	**2013 reported**	**2014**	**2013 reported**	**2014**	**2013 reported**
Volume	-2.2%	11.7%	-12.2%	20.6%	-7.4%	16.1%
Price/mix	5.4%	1.4%	6.5%	3.6%	5.9%	2.6%
Change on a like-for-like basis	**3.2%**	**13.1%**	**-5.7%**	**24.2%**	**-1.5%**	**18.7%**
Translation effect	-15.4%	-8.2%	-12.4%	-6.0%	-13.8%	-7.2%
Total change	**-12.2%**	**4.9%**	**-18.1%**	**18.2%**	**-15.3%**	**11.5%**

Operating income before restructuring expenses totalled euro 96.9 million, or 14.0% of net sales, (EBIT margin 13.6 % including restructuring expenses for euro 3 million).

The decrease compared to 1H 2013 (EBIT before charges amounting to euro 112.5 million) is due to the abovementioned drop in volumes, the translation impact and increase in inflation, factors which have partially been offset by the positive price/mix contribution and lower costs of commodities.

Truck Business

The first half was highlighted by generally positive performance on the reference markets, except for South America, where the original equipment channel contracted by 17%.
The market was expanding in Europe (+8% in the replacement channel, +1% in the original equipment channel), while the replacement channel was flat in South America (+0%), reflecting a particularly negative month in June, after a first quarter that was up by 5% and a definitely shrinking original equipment market (1H2014 -17%, -30% in 2Q).

Agricultural Business

During 1H 2014, net sales fell overall by 19.8%, with sales volumes contracting by 10.2%, due to a slowdown in the original equipment channel of the agricultural market in South America (Rear original equipment market in Brazil, -20%), and a negative translation effect of 16.5% resulting from the high concentration of the business in that region (86% of total net sales).
Pirelli continues to confirm its leadership in South America, especially in the original equipment channel, focusing on growth in the rear and radial segment.

DISCONTINUED OPERATIONS – STEELCORD BUSINESS

Steel cord product net sales to non-captive customers (euro 43.6 million) in 1H 2014 grew by 6.1% yoy, with substantially continuous results.

BUSINESS OUTLOOK IN 2014

Given the 1H 2014 trend, **Pirelli confirms**, at constant consolidation perimeter, **its full year targets** indicated last May in terms of:

- Consolidated revenues of approx. 6.2 billion euro, confirming a growth of almost 1%;
- Ebit of 850 million euro after restructuring costs for 50 million euro
- Investments for less than 400 million euro;
- Cash generation of over 250 million euro before dividend payout;
- Net Financial Position of approx. 1.2 billion euro negative.

The outlook for both the Consumer and Industrial businesses has been updated.

More specifically, the **Consumer business** revenue target increases to approx. 4.7 billion euro (vs. previous target of ~4.6 billion euro) driven by:

- Higher volume growth (>6.5% vs. previously indicated >6%);
- Stronger Premium segment with volume growing above 16% (>14% was the previous indication);
- Improved Price/Mix (+4.5/5.5% vs previous target of +4/+4.5%);
- Lower negative impact from foreign exchange rates (~ -7.5%/~-8.5% versus previously indicated -8%/~-9%).

These operating variables contributed to **improve Consumer profitability** with an Ebit margin before restructuring costs equal or higher than 15% (~15% was the previous target).

For the **Industrial business**, we expect revenues for ~1.5 billion euro (against the previous target of ~1.6 billion euro) due to:

- 2% Volume reduction (the previous indication was ~+4%/~+4.5%) due to the truck and agro market slowdown in Latam;
- price-mix growth by +4%/+5% (against the previous target of +5%/6%) due to lower price increases (versus what was initially planned) deriving from the current scenario of natural rubber prices and from foreign exchange rates;
- Lower exchange rate negative impact (~-11.0%/~-11.5% vs. previously indicated ~-11.5%/~-12.5%).

As a consequence, **profitability in the Industrial business** (Ebit margin before restructuring costs) **is expected to be equal or above 13.5%** (vs. the previously announced target of ~14%).

Higher revenues and profitability in the Consumer business thus counterbalance the Industrial business trend, leaving our Group targets unchanged.
At Group level, the trend of both businesses combined shows:

- ~+4.5% growth in volume (previous target was >+5%);
- ~+4%/~+5% price-mix improvement (in line with previous target);
- Lower exchange rates negative impact (~-8.5%/~-9.5% vs. ~-9%/~-10%).

We thus confirm our operating income after restructuring costs target (Ebit) of 850 million euro as a result of:

- Lower impact from raw material cost (-35 million euro vs. the previous target of -75 million euro, with a 40 million euro positive impact on Ebit);
- The already mentioned foreign exchange rate improvement, with a general positive impact of +5 million euro on the operating income.

Such variables offset the lower growth in volume (-30 million euro is the delta on Ebit when compared with the previous guidance) and allow the funding of higher marketing costs (15 million euro), as investments to the previous guidance) and allow the funding of higher marketing costs (15 million euro), as investments to accelerate developments in the Premium segment where the growth trend was 3 x that of the non Premium.

HIGHLIGHTS OF OTHER ACTIVITIES

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

(in millions of euro)

	Pirelli Ambiente		Pzero		Total Other Business	
	1Half 2014	1Half 2013	**1Half 2014**	1Half 2013	**1Half 2014**	1Half 2013
Net sales	**3.1**	13.2	**3.0**	3.9	**6.1**	17.1
Gross operating profit before restructuring expenses	**(1.4)**	(2.4)	**(4.8)**	(6.9)	**(6.2)**	(9.3)
Operating income before restructuring expenses	**(2.3)**	(4.0)	**(5.2)**	(7.3)	**(7.5)**	(11.3)
Restructuring expenses	-	-	**(0.3)**	(0.8)	**(0.3)**	(0.8)
Operating income	**(2.3)**	(4.0)	**(5.5)**	(8.1)	**(7.8)**	(12.1)

At June 30, 2014 net sales totalled euro 6.1 million, compared with euro 17.1 million in 1H 2013; the decline is to be attributed to the exit from the Gecam business in France, within the framework of Pirelli Ambiente operations. The operating loss was euro 7.8 million, compared with the euro 12.1 million operating loss in 1H 2013.

PARENT COMPANY HIGHLIGHTS

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

(in millions of euro)	06/30/2014	06/30/2013	12/31/2013
Operating income	4.0	10.3	24.3
Net financial income and net income from equity investments	151.2	198.5	195.9
Net income (loss)	**157.2**	**212.0**	**191.9**
Non current-financial assets	1,560.9	1,355.5	1,536.1
Equity	**1,955.3**	**1,921.2**	**1,940.0**
Net financial (liquidity)/debt position	(204.2)	(329.5)	(227.1)

Net income, equal to euro 157.2 million, mainly includes dividends for euro 158.4 million, of which euro 148 million paid out by the subsidiary Pirelli Tyre S.p.A, the impairment of the Alitalia investment for euro 11.2 million euro and the positive impact of the replacement of the Prelios debt-for-equity bond (the "convertendo") for euro 13.3 million, equal to euro 104.1 million (including impairment of the instrument at December 31, 2013 for euro 44.3 million) with Prelios S.p.A. Class A and B shares for a total value of euro 117.4 million, obtained following the anticipated conversion which took place in the month of April 2014.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE FIRST HALF

On **July 10, 2014** Directors Claudio Sposito, Riccardo Bruno, Piero Alonzo, Emiliano Nitti, Luciano Gobbi and Enrico Parazzini resigned from the Pirelli Board of Directors. Therefore, the Board of Directors then co-opted Igor Sechin (President of Rosneft, Chairman of Rosneft's Management Board), Didier Casimiro (Vice President for Commerce and Logistics of Rosneft), Andrey Kostin (President and Chairman of the Management Board, Member of the Supervisory Council of VTB Bank), Ivan Glasenberg (CEO of Glencore), Petr Lazarev (Financial Director of Rosneft) and Igor Soglaev (President, CJCS Novokuibyshevskaya Petrolchemical Company – CJSC NPC) in substitution of the resigned directors. On the basis of available information and the statements made by the interested parties, the Board of Directors also considered whether Ivan Glasenberg and Andrey Kostin satisfied the pre-requisites of independence.

The Board of Directors also confirmed the establishment of four Board of Directors committees having investigative, advisory and policy-making duties: the Remuneration Committee; the Internal Control Committee; the Risks, Sustainability and Corporate Governance Committee; the Nominations and Successions Committee, and the Strategies Committee.

The Board of Directors also designated Luigi Roth as Lead Independent Director and appointed the new Supervisory Body, which shall remain in office until the end of the term of the current Board of Directors. The following Directors were asked to join this body: Carlo Secchi (Chairman), Elisabetta Magistretti, Antonella Carù and Maurizio Bonzi.

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 based on IFRSs figures ("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 associated companies 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 operating 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 interim financial statements" presents a table showing the items of the Statement of financial position used to calculate 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, 2013, 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 Tyre 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 keeping with the regulatory provisions, the above "Operating Rules" prescribe how the financial statements (the statement of financial position 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, no significant transaction has been submitted for Pirelli's Board approval between January 1, 2014 and June 30, 2014, pursuant to Article 3(1)(a) of the aforementioned regulation.

There were no other related party transactions that had a material impact on the Group's financial position or earnings.

Furthermore, no material, non-recurring, unusual and/or atypical related transactions, including intercompany transactions, were carried out with related parties.

The information on related party transactions required pursuant to Consob Notice no. DEM/6064293 of July 28, 2006 is presented in the financial statements and in the Explanatory Note "Related party transactions" of the condensed interim financial statements at June 30, 2014.

In the 2010 financial year, the Board of Directors approved the Procedure for Related Party Transactions for the first time in view of, inter alia, implementing the aforementioned Consob regulation. Moreover, during 2013 (November 5, 2013), in implementation of a specific Consob recommendation on this matter and acting on advice by the delegated Board committee, the Board of Directors found that the Procedure for Related Party Transactions was still valid and effective and was accepted , with no variations, also by the Board of Directors designated on June12, 2014.

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 abovementioned 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, 2014

INTERIM CORPORATE GOVERNANCE REPORT

*** * ***

The Company adopts the traditional administration and control system.

Pirelli's Corporate Governance system is based on the following: (i) the central role played by the Board of Directors that is responsible for the strategic guidance and supervision of the company's overall activities, with the power to guide the overall administration and the power to intervene directly in a series of significant decisions necessary or useful to achieve the company purpose; (ii) the central role of the Independent Directors; (iii) an effective internal control system; (iv) a proactive risk management system; (v) a remuneration system, in general, and an incentive system, in particular, 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.

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 in relation to national and international best practices.

In the Interim Financial Report the Company discloses, on a voluntary basis, the updates and integrations made to its governance system compared to the details contained in the Annual Financial Report.

* * *

Pirelli has been declared the "Best Corporate Governance in Italy" for the fourth consecutive year in the framework of the World Finance Corporate Governance Award 2014.

* * *

The Board of Directors' mandate expired with the approval of the financial statements as at December 31, 2013. Accordingly, the Shareholders' Meeting held on June 12, 2014 renewed the Board of Directors. The Shareholders' Meeting appointed a Board of Directors comprising 15 members.

By adopting the voting slate system, the so-called minorities were able to appoint 3 Directors, corresponding to one fifth of the total (more in detail, the Directors Elisabetta Magistretti, Paolo Pietrogrande and Manuela Soffientini). In particular, 2 slates were submitted to the Shareholders' Meeting: one slate from Camfin S.p.A.[1] (that obtained approximately 62.14% of the votes of the voting capital represented in the Shareholders' Meeting[2]) and one slate from a group of asset management companies and financial intermediaries[3] (that obtained approximately 26.48% of the votes of the voting capital represented in the Shareholders' Meeting).

The proponents of the lists made the candidates' profiles available to the shareholders to permit the prior knowledge of their personal and professional characteristics, as well as the fact that some candidates satisfied the requirements to be defined as independent.

The following persons were elected during the Shareholders' Meeting held on June 12, 2014: Marco Tronchetti Provera; Alberto Pirelli; Piero Alonzo (independent); Anna Maria Artoni (independent); Riccardo Bruno; Paolo Fiorentino; Luciano Gobbi (independent); Elisabetta Magistretti (independent); Gaetano Micciché; Emiliano Nitti (independent); Enrico Parazzini; Paolo Pietrogrande (independent); Luigi Roth (independent); Manuela Soffientini (independent); Claudio Sposito.

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[1] The list was submitted by Camfin S.p.A. also for and on behalf of the subsidiary companies Cam Partecipazioni S.p.A. and Cam 2012 S.p.A.

[2] The reader is referred to: http://www.pirelli.com/mediaObject/corporate/documents/common/investors/agm/2014/Pirelli_e_C_SpA-assemblea_12-6-2014-rendiconto_sintetico_votazioni0/original/Pirelli_e_C_SpA-assemblea_12-6-2014-rendiconto_sintetico_votazioni.pdf

[3] AcomeA SGR.p.A. manager of the AcomeA Italia fund; Anima SGR S.p.A. manager of the following funds: Anima Geo Italia Fund, Anima Star Italia Alto Potenziale and Anima Italia Fund; APG Asset Management NV manager of the Stichting Depositary APG Developed Markets Equity Pool fund; Arca S.G.R. S.p.A. manager of the Arca BB and Arca Azioni Italia funds; Ersel Asset Management SGR S.p.A. manager of the Fondersel PMI fund; Eurizon Capital S.G.R. S.p.A. manager of the Eurizon Azioni Area Euro and Eurizon Azioni Italia funds; Eurizon Capital SA manager of the following funds: Eurizon Easy Fund Equity Italy, Eurizon Investment SICAV Europe Equities, Eurizon Easy Fund Equity Europe LTE, Eurizon Easy Fund Equity Euro LTE, Eurizon Easy Fund Equity Consumer Discretionary LTE, Rossini Lux Fund - Azionario Euro and Eurizon Easy Fund Equity Italy LTE; FIL Investments International manager of the Fidelity Funds - Italy Pool funds; Fideuram Investimenti S.G.R. S.p.A. manager of the Fideuram Italia fund; Fideuram Asset Management (Ireland) Limited manager of the following funds: Fideuram Fund Equity Italy, Fideuram Fund Equity Europe and Fonditalia Equity Italy; Interfund Sicav manager of the Interfund Equity Italy fund; Generali Investments SICAV for and on behalf of the following shareholders: GIS Small & Mid Cap Euro Equity and GIS Equity Italy; Mediolanum Gestione Fondi SgrpA manager of the Mediolanum Flessibile Italia fund; Mediolanum International Funds Limited - Challenge Funds; Pioneer Asset Management SA manager of the following funds: Pioneer Funds - Italian Equity and Pioneer Investment Management SGRpA manager of the Pioneer Italia Azionario Crescita fund.

The Board of Directors then appointed the following persons on June 12, 2014:

- Chairman and Chief Executive Officer: the Director, Marco Tronchetti Provera (also appointed to supervise the operation of the internal control system);
- Vice Chairman: the Director, Alberto Pirelli.

Lastly, the Board of Directors confirmed the Chief Financial Officer, Francesco Tanzi as the Director designated to prepare the company's accounting documents and also confirmed the qualification attributed to the previous “Executives with strategic business responsibilities”: Gregorio Borgo, Francesco Tanzi, Maurizio Sala, Maurizio Boiocchi, Christian Vasino and Giuliano Menassi.

In addition, it should be noted that on June 12, 2014 Enrico Laghi resigned from the position as the Company's Statutory Auditor. As a result of the foregoing resignation, Sebastiano Umile Iacovino took over the office as Statutory Auditor, in accordance with the Company Bylaws; Sebastiano Umile Iacovino was an Alternate Auditor on the same list as the auditor that resigned.

On July 10, 2014, the Board of Directors acknowledged the resignation of the Directors Sposito, Bruno, Gobbi, Parazzini, Alonzo and Nitti and the Board co-opted the following six new directors, in accordance with Article 2386, paragraph 1 of the Italian Civil Code: Igor Sechin; Didier Casimiro; Andrey Kostin (independent); Ivan Glasenberg (independent); Petr Lazarev; Igor Soglaev.

In the same meeting the Board of Directors appointed Luigi Roth as the Lead Independent Director.

It should be noted that the Board of Directors established four Board Committees on July 10, 2014 with investigating, consultative and/or proposing duties:

- Committee for Control, Risks, Sustainability and Corporate Governance (also identified as the Committee for Transactions with Related Parties, excluding resolutions related to the remuneration of Directors and Executives with strategic responsibilities which are entrusted to the Remuneration Committee);
- Remuneration Committee;
- Strategies Committee;
- Appointments and Succession Committee.

The Board of Directors established the following conditions with regard to the structure of the above mentioned Committees:

- the Committee for Control, Risks, Sustainability and Corporate Governance was to be composed of Anna Maria Artoni, as Chairwoman, Andrey Kostin and Elisabetta Magistretti, all qualified as Independent Directors;
- the Remuneration Committee was to be composed of 3 members, exclusively independent, and in particular by: Luigi Roth, as Chairman, Ivan Glasenberg and Manuela Soffientini;
- the Strategies Committee was to be chaired by Marco Tronchetti Provera and the remaining members were to be Igor Sechin, Didier Casimiro, Andrey Kostin, Paolo Fiorentino, Luigi Roth and Manuela Soffientini;
- the Appointments and Succession Committee was to be chaired by Marco Tronchetti Provera and the other members were to be Annamaria Artoni, Didier Casimiro and Paolo Pietrogrande.

The Board of Directors also renewed the Supervisory Board on July 10, 2014, appointing Carlo Secchi as Chairman, and the Independent Director Elisabetta Magistretti, the Statutory Auditor Antonella Carù and the Internal Audit Director Maurizio Bonzi.

* * *

It should be noted that in the above-mentioned meeting held on June 12, 2014, the Shareholders' Meeting was also called to express an opinion regarding the Pirelli Group's “Remuneration Policy”, in addition to approving the financial statements and appointing the Board of Directors.

The Policy was prepared based on the Policy adopted during the previous years and on the respective application experience, and in addition, takes into account the regulatory requirements adopted by Consob, as well as the fact that the Board of Directors has adopted a new Long Term Incentive Cash Plan for the 2014-2016 period (“the new LTI Plan”) in support of the new 2013-2017 Industrial Plan.

The Shareholders' Meeting expressed its favourable vote as regards the Policy with 97% of the votes of the voting capital represented in the Shareholders' Meeting. The Shareholders' Meeting also approved the adoption of the 2014-2016 three-year LTI (Long Term Incentive) Plan, for the part associated with the Total Shareholder Return; the Long-Term Incentive Plan was announced to the market on February 28 and is related to the targets of the 2013-2017 industrial plan.

Lastly, the Shareholders' Meeting was called to express an opinion on the proposal to "acquire and dispose of treasury shares", in relation to which the Shareholders' Meeting expressed a favourable vote with 98% of the votes of the voting capital represented in the Shareholders' Meeting.

PIRELLI & C. S.p.A.

CONDENSED INTERIM FINANCIAL STATEMENTS

AT JUNE 30, 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in thousands of euro)

		06/30/2014		12/31/2013	
			of which related parties		of which related parties
7	Property, plant and equipment	2,480,466	-	2,608,448	-
8	Intangible assets	1,006,518	-	1,013,979	-
9	Investments in associates and J.V.	218,672	-	131,466	-
10	Other financial assets	191,112	-	289,096	*104,087*
11	Deferred tax assets	207,853	-	210,181	-
13	Other receivables	180,565	-	169,463	-
14	Tax receivables	8,518	-	7,890	-
	Non-current assets	**4,293,704**	-	**4,430,523**	-
15	Inventories	1,043,734	-	987,318	-
12	Trade receivables	973,999	*915*	666,427	*1,367*
13	Other receivables	286,779	*8,736*	267,535	*8,485*
16	Securities held for trading	32,811	-	48,090	-
17	Cash and cash equivalents	466,287	-	879,897	-
14	Tax receivables	58,145	-	55,604	-
25	Derivative financial instruments	18,562	-	24,818	-
	Current assets	**2,880,317**	-	**2,929,689**	-
	Assets held for sale	**223,396**	-	-	
	Total Assets	**7,397,417**	-	**7,360,212**	-
18.1	Equity attributable to owners of the Parent:	2,300,337	-	2,376,066	-
	- Share capital	1,343,285	-	1,343,285	-
	- Reserves	768,020	-	729,207	-
	- Net income (loss)	189,032	-	303,574	-
18.2	Equity attributable to non-controlling interests:	70,989	-	60,523	-
	- Reserves	66,267	-	57,605	-
	- Net income (loss)	4,722	-	2,918	-
18	**Equity**	**2,371,326**	-	**2,436,589**	-
21	Borrowings from banks and other financial institutions	2,137,229	*1,730*	2,014,406	*1,674*
23	Other payables	75,695	-	76,853	-
19	Provisions for liabilities and charges	120,521	-	116,745	-
11	Provisions for deferred tax liabilities	51,306	-	49,956	-
20	Employee benefit obligations	478,203	-	439,450	-
24	Tax payable	3,634	-	3,537	-
	Non-current liabilities	**2,866,588**	-	**2,700,947**	-
21	Borrowings from banks and other financial institutions	331,164	-	316,653	-
22	Trade payables	1,053,685	*27,762*	1,244,466	*41,075*
23	Other payables	417,379	*74*	434,158	*69*
19	Provisions for liabilities and charges	76,972	-	90,089	-
24	Tax payables	91,538	-	80,272	*600*
25	Derivative financial instruments	56,836	-	57,038	-
	Current liabilities	**2,027,574**	-	**2,222,676**	-
	Liabilities related to assets held for sale	**131,929**	-	-	
	Total liabilities and equity	**7,397,417**	-	**7,360,212**	-

For a description of related party transactions, please refer to note 39 of the Explanatory Notes.

CONSOLIDATED INCOME STATEMENT (in thousands of euro)

		1/1 - 06/30/2014		1/1 - 06/30/2013 (*)	
			of which related parties		**of which related parties**
27	Revenues from sales and services	2,986,871	*66*	3,089,997	*1,160*
28	Other income	87,530	*1,602*	120,616	*1,249*
	- of which non-recurring events	-		*33,715*	
	Change in inventories of work in progress, semi-finished and finished products	65,096	-	11,039	-
	Raw materials and consumables (net of change in inventories)	(1,081,680)	-	(1,197,700)	-
29	Personnel expenses	(617,049)	*(2,520)*	(631,935)	*(1,105)*
	- of which non-recurring events	*(12,681)*		*(23,339)*	
30	Amortisation,depreciation and impairment	(145,836)		(143,504)	
31	Other costs	(869,784)	*(22,724)*	(871,643)	*(34,114)*
	- of which non-recurring events	-		*(3,137)*	
	Additions to property ,plant and equipment for internal work	1,095		1,652	
	Operating income	**426,243**		**378,522**	
32	Net income (loss) from equity investments	(27,227)		(24,296)	
	- share of net income (loss) of asscoiates and jv	*(15,869)*	*(15,869)*	*(11,509)*	*(11,509)*
	- gains on equity investments	*14,160*	*13,307*	*85*	-
	- losses on equity investments	*(26,194)*		*(13,283)*	
	- dividends	*676*		*411*	
33	Financial income	21,480	*207*	26,943	*790*
34	Financial expenses	(113,582)		(130,502)	
	Net income (loss) before income tax	**306,914**		**250,667**	
35	Income tax	(114,860)		(101,186)	
	Net income (loss) from continuing operations	**192,054**		**149,481**	
36	Net income (loss) from discontinued operations	1,700		600	
	Total net income (loss)	**193,754**		**150,081**	
	Attributable to:				
	Owners of the parent	189,032		151,433	
	Non-controlling interests	4,722		(1,352)	
37	Earnings (losses) per share from continuing operations (euro per shares)	0.384		0.309	
	Earnings (losses) per share from discontinued operations (euro per shares)	0.003		0.001	

(*) Steel cord business qualifies as "discontinued operation". All comparative amounts have been restated as described at note 2.

For a description of related party transactions, please refer to note 39 of the Explanatory Notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in thousands of euro)

		1/1 - 06/30/2014	1/1 - 06/30/2013
A	**Net income (loss) for the period**	**193,754**	**150,081**
Components of other comprehensive income:			
	B - Items that will not be reclassified to income statement:		
	- Net actuarial gains (losses) on employee benefits	(53,661)	23,010
	- Tax effect	5,660	(1,901)
	Total B	**(48,001)**	**21,109**
	C - Items reclassified / that may be reclassified to income statement:		
	Exchange differences from translation of foreign financial statements	(95,930)	(97,258)
	Fair value adjustment of other financial assets:		
	- Gains / (losses) for the period	10,119	(374)
	- (Gains) / losses reclassified to income statement	4,772	131
	Fair value adjustment of derivatives designated as cash flow hedges:		
	- Gains / (losses) for the period	18	(809)
	- (Gains) / losses reclassified to income statement	1,513	3,944
	- Tax effect	(237)	(533)
	Fair value adjustment of derivatives designated as net investment hedges:		
	- Gains / (losses) for the period	(4,392)	-
	Total C	**(84,137)**	**(94,899)**
	Share of other comprehensive income related to associates and joint ventures	(740)	-
	Total D	**(740)**	**-**
E	**Total components of other comprehensive income (B+C+D)**	**(132,878)**	**(73,790)**
A+E	**Total comprehensive income (loss) for the period**	**60,876**	**76,291**
	Attributable to:		
	- Owners of the Parent	57,472	79,514
	- Non-controlling interests	3,404	(3,223)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY at 06/30/2014

(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 12/31/2013	**1,343,285**	**(228,301)**	**(452,545)**	**1,713,628**	**2,376,066**	**60,523**	**2,436,589**
Other comprehensive income	-	(94,612)	(36,947)	-	(131,559)	(1,318)	(132,877)
Net income (loss)	-	-	-	189,032	189,032	4,722	193,754
Total comprehensive income	**-**	**(94,612)**	**(36,947)**	**189,032**	**57,473**	**3,404**	**60,877**
Dividends paid	-	-	-	(156,743)	(156,743)	(3,358)	(160,101)
Venezuela inflation effect	-	-	-	24,392	24,392	958	25,350
Disposal of minorities stakes	-	-	-	(3,316)	(3,316)	6,115	2,799
Acquisition through capital increase reserved to third parties	-	-	-	-	-	6,094	6,094
Other	-	-	612	1,853	2,465	(2,747)	(282)
Total at 06/30/2014	**1,343,285**	**(322,913)**	**(488,881)**	**1,768,846**	**2,300,337**	**70,989**	**2,371,326**

(in thousands of euro)

	Breakdown of IAS reserves *				
	Reserve for fair value adjustment of avaible-for-sale financial assets	Reserve for cash flow hedge	Reserve for actuarial gains/losses	Reserve for deferred taxes	**Total IAS reserve**
Balance at 12/31/2013	**35,632**	**(30,499)**	**(518,039)**	**60,361**	**(452,545)**
Other comprehensive income	14,384	(3,095)	(53,661)	5,424	(36,948)
Other changes	-	-	784	(172)	612
Balance at 06/30/2014	**50,016**	**(33,594)**	**(570,916)**	**65,613**	**(488,881)**

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

(in thousands of euro)

	Attributable to owners of the Parent						
	Share Capital	Translation reserve	Total IAS Reserves *	Other reserves/retained earnings	**Total attributable to owners of the Parent**	**Non controlling interests**	**TOTAL**
Total at 12/31/2012	**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 avaible-for-sale financial assets	Reserve for cash flow hedge	Reserve for actuarial gains/losses	Reserve for deferred taxes	**Total IAS reserve**
Balance at 12/31/2012	**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 CASH FLOWS (in thousands of euro)

		1 Half 2014		1 Half 2013 (*)	
			of which related parties		**of which related parties**
	Net income (loss) from continuing operations before taxes	306,914		250,667	
	Amortisation, depreciation, impairment losses and reversals of impaired property, plant and equipment and intangible assets	145,836		143,504	
	Reversal of financial expenses	113,582		130,502	
	Reversal of financial income	(21,480)		(26,943)	
	Reversal of dividends	(676)		(411)	
	Reversal of gains/(losses) on equity investments	12,034		13,198	
	Reversal of share of net income from associates and joint ventures	15,869		11,509	
	Income taxes	(114,860)		(101,186)	
	Change in inventories	(100,429)		(34,900)	
	Change in trade receivables	(327,193)		(239,878)	
	Change in trade payables	(142,014)		(105,336)	
	Change in other receivables/payables	(59,472)		(129,440)	
	Change in provisions for employee benefits and other provisions	(4,712)		(15,864)	
	Other changes	(16,712)		33,813	
A	**Net cash flows provided by (used in) operating activities**	**(193,313)**		**(70,765)**	
	Purchase of property, plant and equipment	(141,039)		(159,243)	
	Disposal of property, plant and equipment	9,959		4,628	
	Purchase of intangible assets	(2,628)		(4,812)	
	Disposals (Acquisitions) of retail investments	-		(7,074)	
	Disposals (Acquisitions) of other financial assets	(447)	-	(1,409)	*(558)*
	Dividends received	676		411	
B	**Net cash flows provided by (used in) investing activities**	**(133,479)**		**(167,499)**	
	Increase (reduction) in equity	2,799		-	
	Change in financial payables	204,544		102,301	-
	Change in financial receivables/Securities held for trading	25,678		88,374	
	Financial income (expenses)	(92,102)		(103,559)	
	Dividends paid	(156,743)		(159,789)	
C	**Net cash flows provided by (used in) financing activities**	**(15,824)**		**(72,673)**	
	Net cash flows provided by (used in) operating activities	13,120		(10,972)	
	Net cash flows provided by (used in) investing activities	-		-	
	Net cash flows provided by (used in) financing activities	3,046		(10,683)	
D	**Total financial cash flow provided by (used in) discontinued operations**	**16,166**		**(21,655)**	
E	**Total cash flows provided (used) during the period (A+B+C+D)**	**(326,449)**		**(332,592)**	
F	**Cash and cash equivalents at beginning of year**	**806,856**		**665,004**	
G	Exchange differences on translation of cash and cash equivalents	(52,555)		(19,234)	
H	**Cash and cash equivalents at end of the period (E+F+G) (°)**	**427,852**		**313,178**	
(°)	**of which:**				
	cash and cash equivalents (note 19)	466,287		384,530	
	bank overdrafts	(38,435)		(71,352)	

(*) Steel cord business qualifies as "discontinued operation". All comparative amounts have been restated as described at note 2.

The Statement of Cash Flows shows transactions with related parties only if they cannot be directly derived from the other statements. Please refer to note 39 of the Explanatory Notes for further detail.

The reconciliation between the cash and cash equivalents shown on the Consolidated Statement of Financial Position and the same item shown on the Consolidated Statement of Cash Flows is provided in note 17.

EXPLANATORY NOTES

1. GENERAL INFORMATION

Pursuant to Art. 154 ter of Legislative Decree 158/1998, the Pirelli & C. Group has prepared the condensed interim financial statements in accordance with IAS 34 *Interim Financial Reporting*.

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

The condensed interim financial statements at June 30, 2014 of Pirelli & C S.p.A. were approved by the Board of Directors of Pirelli & C. S.p.A. on August 5, 2014.

2 . BASIS OF PRESENTATION

Financial statement formats

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

The condensed interim financial statements consist of the Statement of Financial Position, 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 Statement of Financial Position classifies assets and liabilities as current and non-current.

The Group has 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 recognised directly in equity.

The Group has 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 sets forth, in addition to total comprehensive income (loss) for the period, transactions with equity holders and the changes in the period of the 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 items, 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.

As a result of the sale agreement of 100% of the steelcord business signed by Pirelli and Bekaert on February 28, 2014, the business steelcord is qualified as discontinued operation. In accordance with IFRS 5, assets and liabilities related to the the business are presented in the Consolidated Statement of Financial Position as two separate line items “Assets held for sale” and “Liabilities related to assets held for sale”. The half year result of the discontinued operation is presented in the income statement separately from other continuing operations, net of tax effect, in the line item “net income (loss) from discontinued operations.” The comparative income statement has been restated. With respect to transactions between the steelcord business, qualified as discontinued operation, and the remaining Pirelli Group’s activities, the Company chose a “post-disposal” representation in the income statement. In this regard the steelcord business, held for sale, supplies the steelcord necessary for tyre production and the sales agreement includes a *long term supply agreement* to supply Pirelli with such material.

In order to represent the result from discontinued operations in the income statement, revenues from the sales of the steelcord to third parties have been considered and the related costs have been determined; the result composed by both these components has been presented accordingly. Please refer to Note 36 for relative details.

Scope of Consolidation

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

Subsidiaries are considered to be all those investees in which the Company simultaneously has:

- decision-making power, in particular the ability to direct relevant activities of the investee, in other words, activities that significantly affect the investee’s returns;
- the right to variable results (positive or negative) from its involvement with the investee;
- the ability to use its own decision-making power over the investee to affect the investor’s results.

The financial statements of subsidiaries are included in the consolidated financial statements beginning on the date when control is acquired until the time when control ceases. Equity and and net income (loss) attributable to non controlling interest are separately indicated on the consolidated Statement of Financial Position and Income Statement.

All companies over which the Group can exercise significant influence (as defined by IAS 28 – Investments in Associates and Joint Ventures) 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.

A joint venture is a joint control agreement over an entity on the basis of which the parties having the joint control have rights over net assets of the entity itself. The joint control involves the sharing, on the basis of an agreement, of the control of a venture, which exists solely when an unanimous consensus by all of the parties sharing the control is required.

Joint ventures differ from joint operations as the latter are agreements that give the parties of the agreement, which have joint control of the initiative, rights to the individual assets and obligations for the individual liabilities related to the agreement. In case of joint operations, the assets, liabilities, costs and revenue of the agreement must be recognised on the basis of the applicable accounting standard.The group has no joint operations agreements in place.

No material change has taken place in the scope of consolidation since December 31, 2013.

Consolidation Policies

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

The financial statements expressed in foreign currencies have been translated into euro at the period-end rates for the Statement of Financial Position 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.

The 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.

The consolidation policies may be summarised as follows:

- subsidiaries are consolidated on a line-by-line basis, according to which:
  - the assets, liabilities, revenue, and costs in 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;
  - equity and income (loss) attributable to non-controlling interest are presented separately in the Statement of Financial Position and Income Statement;
  - upon disposal of a subsidiary with loss of control, the gain or loss from that disposal takes into account the corresponding attributable value of goodwill;

- in the case of further interests acquired after acquisition of a controlling interest, any difference between the purchase cost and the corresponding share of equity acquired 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 under 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 investor's share of profits and losses recognised directly in the equity of the associate or joint venture, in accordance with the applied 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 set to zero and the share of any further losses is recognised under "Provisions for liabilities and charges," to the extent that the Group has a legal or constructive 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 of equity interest in the acquiring entity.

3. ADOPTED ACCOUNTING STANDARDS

The accounting standards and policies applied in preparing these condensed interim financial statements are the same as those used to prepare the consolidated financial statement December 31, 2013, to which reference is made for more details, with the exception of the following standards that become effective starting from January 1, 2014:

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

  These amendments clarify the requirements for offsetting financial assets and liabilities, already provided in the standard, in particular:

  - the meaning of currently having the statutory right to offset financial assets and liabilities;
  - the fact that in certain cases, recovery 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 condensed interim financial statements.

- IFRS 10 – Consolidated Financial Statements

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

  The new IFRS 10 sets out just one control model that applies to all investees and represents the key factor in determining whether an investee has to be consolidated. Accounting treatment and consolidation procedures have not changed with respect to the prescription of IAS 27 effective until December 31, 2013.

The new control model introduces a greater degree of subjectivity and requires management to exercise a higher degree of judgement to determine whether an entity is controlled. Control exists when an entity has all of the following:

- decision-making power, i.e. the ability to direct the relevant activities of the investee, in other words, the activities that significantly affect the investee’s returns;
- the right to variable results (positive or negative) resulting from its involvement with the investee;
- the ability to use its own decision-making power over the investee to affect the amount of the investor’s returns.

Furthermore, this new standard also clearly envisages the possibility of controlling an entity even in the absence of a majority of votes (de facto control), a concept that was not explicitly stated in IAS 27.
Application of these amendments has no impact on the Group financial statements.

- IFRS 11 – Joint Arrangements

  IFRS 11 replaces IAS 31 – Interests in Joint Ventures, and SIC 13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers and defines the benchmark principles for representation of the joint arrangements. The new standard distinguishes two categories of joint arrangements associated with different accounting treatment:
  - joint operations: these are agreements that give the parties of the agreement, which have joint control of the initiative, rights to the individual assets and obligations for the individual liabilities related to the agreement. In case of joint operations, the assets, liabilities, costs and revenue of the agreement must be recognised on the basis of the applicable accounting standards;
  - joint ventures: a joint venture exists when the parties, which have joint control of the venture, do not have rights or obligations in relation to the individual assets or liabilities covered by the agreement, but only in relation to the net assets or net income (loss) of the venture. Joint ventures must be consolidated under the equity method, while IAS 31 allowed the option of choosing between the proportional consolidation method and consolidation under the equity method.

To determine what category a joint arrangement falls in, the substance of the agreement must be considered on the basis of the rights and obligations defined therein.

The application of these amendments does not impact on the Group condensed interim financial statements.

- IFRS 12 – Disclosure of Interests in Other Entities

  IFRS 12 sets out – and extends – all the requirements governing the disclosures to be provided with regard to subsidiaries, associates, joint arrangements and other investments (“structured entities”). Many of the disclosures required as per IFRS 12 were previously required by IAS 27 – Consolidated and Separate Financial Statements, IAS 28 – Investments in Associates, and IAS 31 – Interests in Joint Ventures, while others are new.

  The application of this standard will have an impact on the year end consolidated financial statement disclosures at year-end, and in particular with regard to the disclosure on subsidiaries. It does not impact on the condensed interim financial Statements as this disclosure is not required by IAS 34.

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

  These amendments clarify the transitional provisions for application of IFRS 10, which have been found too onerous. They also limit the obligation to provide restated comparative data only for the comparative period preceding first-time application of IFRS 10, 11 and 12.

  The application of these amendments will impact on the disclosures of the year end consolidated financial statements.

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities

  These amendments apply to a specific class of entities defined as "investment entities," whose purpose consists of investing funds in order to obtain investment income or returns from capital appreciation, or both. Examples of such entities include private equity and venture capital firms, pension funds, and other types of investment funds. As a consequence of these amendments, the companies controlled by investment entities must not be consolidated on a straight-line basis but instead recognised at fair value through profit or loss.

  These changes do not impact on the Group, since none of the entities belonging to it qualifies as an investment entity pursuant to IFRS 10.

- Amendments to IAS 36 – Impairment of Assets – recoverable amounts disclosures for non-financial assets

  IFRS 13 – Fair Value Measurement requires additional disclosure on the recoverable amount of non-financial assets. The amendments to IAS 36 – Impairment of Assets require the publication of such disclosures only if the recoverable amount is based on the fair value net of disposal costs.

  The amendment does not impact on the disclosure in the explanatory notes to the condensed interim financial statements.

- Amendments to IAS 39 – Financial Instruments: Recognition and Measurement – novation of derivatives and continuation of hedge accounting

  These amendments, introduced as a consequence of the legislative changes which it is believed will lead to several novations of derivatives, allow for the non-discontinuing of hedge accounting when derivative financial instruments designated as hedging instruments are modified to execute clearing with a central counterparty in response to legal obligations, provided that they have satisfied certain conditions. In such case, the novation indicates that the parties to a contract agree to replace the original counterparty with a new one.

  This amendment will also result in amendment of IFRS 9.

  These changes do not impact on the condensed interim financial statements.

Seasonal factors

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

Estimates and assumptions

The preparation of the condensed interim financial statements entails that management make estimates and assumptions which, under certain circumstances, are based on complex and subjective assessments and estimates that are based on historical experience, and assumptions that are periodically considered reasonable and realistic in light of the circumstances. The results that actually emerge could therefore differ from such estimates.

Estimates and assumptions are reviewed regularly and the effects of each change made to them are recognised in the income statement for the period when the estimate is revised.

If in the future, estimates and assumptions, on the basis of the best information available, were to diverge from actual circumstances, they will be modified accordingly in the period during which these variations occur.

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 fair value measurement of the financial instruments thus assessed, to the recognition/measurement of provisions, pension schemes and other post-employment benefits. The estimates and assumptions are based on data that reflect the best, current available knowledge.

4. FAIR VALUE MEASUREMENT

The classification of financial instruments measured at fair value on the basis of a hierarchy of levels pursuant to IFRS 13 is illustrated as follows. This hierarchy reflects the significance of the inputs used to determine fair value. The following levels are distinguished:

– 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 level, 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 assets and liabilities measured at fair value at **June 30, 2014**, divided into the three levels defined above:

(in thousands of euro)

	Note	Carrying amount at 06/30/2014	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Financial assets carried at fair value through profit and loss:					
Securities held for trading	16	32,811	699	32,112	-
Current derivative financial instruments	25	17,247	-	17,247	-
Hedging financial instruments:					
Current derivative financial instruments	25	1,315	-	1,315	-
Available-for-sale financial assets:					
Other financial assets					
Equities		176,028	143,159	18,691	14,178
Investment funds		15,084	-	15,084	-
	10	191,112	143,159	33,775	14,178
TOTAL ASSETS		**242,485**	**143,858**	**84,449**	**14,178**
FINANCIAL LIABILITIES					
Financial liabilities carried at fair value through profit and loss:					
Current derivative financial instruments	25	(18,580)	-	(18,580)	-
Hedging financial instruments:					
Current derivative financial instruments	25	(38,256)	-	(38,256)	-
TOTAL LIABILITIES		**(56,836)**	**-**	**(56,836)**	**-**

The breakdown at **December 31, 2013** was as follows:

(in thousands of euro)

	Note	Carrying amount at 12/31/2013	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Financial assets carried at fair value through profit and loss:					
Securities held for trading	16	48,090	1,130	46,960	-
Current derivative financial instruments	25	22,268	-	22,268	-
Other financial assets	10	104,087	-	-	104,087
Hedging financial instruments:					
Current derivative financial instruments	25	2,550	-	2,550	-
Available-for-sale financial assets:					
Other financial assets					
Equities		169,925	130,864	16,365	22,696
Investment funds		15,084	-	15,084	-
	10	185,009	130,864	31,449	22,696
TOTAL ASSETS		**362,004**	**131,994**	**103,227**	**126,783**
FINANCIAL LIABILITIES					
Financial liabilities carried at fair value through profit and loss:					
Current derivative financial instruments	25	(16,718)	-	(16,718)	-
Hedging financial instruments:					
Current derivative financial instruments	25	(40,320)	-	(40,320)	-
TOTAL LIABILITIES		**(57,038)**	**-**	**(57,038)**	**-**

During 1H 2014, there were no transfers of financial assets/liabilities from level 1 to level 2 or vice-versa.

The following table shows the changes that occurred with financial assets in level 3 during 1H 2014:

(in thousands of euro)

	06/30/2014	12/31/2013
Opening balance	126,783	20,241
Assets held for sale	(127)	-
Increases / Subscription of capital	4,142	113,940
Disposals	(104,087)	-
Impairment	(13,032)	(6,185)
Fair value adjustments through Equity	269	(1,250)
Other changes	230	37
Closing balance	**14,178**	**126,783**

Financial assets are mainly represented by investments in Istituto Europeo di Oncologia (euro 5,382 thousand), Equinox Two S.C.A. (euro 4.410 thousand) and TlcomI LP (euro 700 thousand).

The item **increases / subscriptions of capital** mainly refers to conversion of the Alitalia Convertible Bond (euro 3,696 thousand) converted in January 2014.

The item **decreases** refers to conversion of the Prelios “convertendo” debt-for-equity loan. The loan, whose original due date was December 31, 2019, was converted in April 2014. Reference is made to note 10 below.

The item **impairments** mainly refers to the investments in Alitalia S.p.A. (euro 11,229 thousand) and Equinox Two S.C.A. (euro 1,679 thousand).

During the first half, there were no transfers of financial assets or liabilities 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 investments classified as financial assets 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, using widely applied financial measurement techniques:

- 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.

5. BUSINESS COMBINATIONS

Acquisition of Abouchar retail network in Brazil

On April 30, 2014, Comercial e Importadora de Pneus Ltda (Pneuac), a Brazilian subsidiary of Pirelli Pneus Ltda, acquired the Abouchar retail network through a capital increase of euro 6.094 thousand, fully subscribed by the company Distribuidora Automotiva S.A. through contribution of the sales network itself. As a result of the capital increase the stake in the share capital of Comercial e Importadora de Pneus Ltda held by Distributora Automotiva S.A. increased from 21.7 % to 36.5 %.
This transaction aims to reinforce the market leadership of Pirelli in Brazil through greater control of the commercial network, as already defined in the strategy and objectives of the latest Group Industrial Plan. Through this acquisition, Pirelli will focus on the areas with greatest growth in the premium segment, reinforcing the relationship with end customers and increasing the number of Pneuac retail outlets from 104 to 133.

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

(in thousands of euro)

		Fair value recognised on acquisition
Property, plant and equipment		819
Intangible assets (trademarks)		7,473
	A	***8,292***
Other payables		518
Deferred tax liabilities		2,541
	B	***3,059***
Total net identifiable assets acquired	**(A+B = C)**	***5,233***
Goodwill	**D**	***861***
Share capital increase subscribed through contribution of Abouchar sales network		6,094
Total consideration	**(C+D = E)**	***6,094***

As the acquisition took place on April 30, 2014, thus close to the approval date for the condensed interim financial statements, the value of the net assets acquired and of the transferred consideration must be considered provisional. The purchase price allocation to the fair value of the acquired assets and liabilities, and consequent determination of the final value of goodwill resulting from the acquisition will be completed upon availability of all of the necessary information to close the allocation process and in any case no later than 12 months from the date of acquisition (April 30, 2015).

6. OPERATING SEGMENTS

To align the presentation of the operating segments to the internal reporting of the Group, the operating segments presented have been modified starting December 31, 2013 with the breakdown of the single operating *Total Tyre* segment into Consumer and Industrial segments. Comparative information for June 30, 2013 has thus been restated.

The operating segments separately disclosed at June 30, 2014 are defined as follows:

- Consumer Business segment includes car and motorcycle tyres made for both the original equipment and replacement markets;
- Industrial Business segment includes truck tyres, tyres for agricultural equipment, made both for the original equipment and replacement markets, and the steel cord business which, following the sale and purchase agreement for 100% of the steel cord activities signed by Pirelli and Bekaert on February 28, 2014, is classified as "*discontinued operation*. 2013 comparative figures have thus been restated.

Financial figures of the holding companies and service companies (including the parent company) have been allocated to the operating segments by using reasonable and consistent principles. The "Other business" consists of the Pirelli Ambiente Group and the PZero Group.

The **results** for **1H 2014** by operating segments are as follows:

(in thousands of euro)	CONSUMER	INDUSTRIAL	OTHER BUSINESS	TOTAL 06/30/2014
Total net sales	**2,288,320**	**692,500**	**6,051**	**2,986,871**
Gross operating profit	**455,095**	**121,500**	**(6,536)**	**570,059**
Depreciation and amortisation	(115,004)	(27,600)	(1,212)	(143,816)
Operating income (loss)	**340,091**	**93,900**	**(7,748)**	**426,243**
Net income (loss) from equity investments	-	-	-	(27,227)
Financial income (expenses)	-	-	-	(92,102)
Net income (loss) before income taxes	**-**	**-**	**-**	**306,914**
Income taxes	-	-	-	(114,860)
Net income (loss) from continuing operations	**-**	**-**	**-**	**192,054**

The **results** for **1H 2013** by operating segments are as follows:

(in thousands of euro)	CONSUMER	INDUSTRIAL	OTHER BUSINESS	TOTAL 06/30/2013
Total net sales	**2,255,406**	**817,500**	**17,091**	**3,089,997**
Gross operating profit	**393,866**	**138,200**	**(10,093)**	**521,973**
Depreciation and amortisation	(113,641)	(27,800)	(2,010)	(143,451)
Operating income (loss)	**280,225**	**110,400**	**(12,103)**	**378,522**
Net income (loss) from equity investments	-	-	-	(24,296)
Financial income (expenses)	-	-	-	(103,559)
Net income (loss) before income taxes	**-**	**-**	**-**	**250,667**
Income taxes	-	-	-	(101,186)
Net income (loss) from continuing operations	**-**	**-**	**-**	**149,481**

7. PROPERTY, PLANT AND EQUIPMENT

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

(in thousands of euro)

	06/30/2014			12/31/2013		
	Gross Amount	**Accumulated Depreciation**	**Net Amount**	**Gross Amount**	**Accumulated Depreciation**	**Net Amount**
Land	96,957	-	96,957	106,896	-	106,896
Buildings	1,031,155	(411,457)	619,698	1,099,434	(429,450)	669,984
Plant and machinery	3,322,839	(1,799,103)	1,523,736	3,480,584	(1,909,024)	1,571,560
Industrial and commercial equipment	669,772	(489,879)	179,893	691,235	(507,690)	183,545
Other assets	198,704	(138,522)	60,182	230,162	(153,699)	76,463
	5,319,427	**(2,838,961)**	**2,480,466**	**5,608,311**	**(2,999,863)**	**2,608,448**

GROSS AMOUNT (in thousands of euro)

	12/31/2013	Hyperinflation effect	Assets held for sale	Business combination	Translation differ.	Increases	Decreases	Reclassif.	Other	06/30/2014
Land	106,896	732	(8,843)	-	(1,026)	-	(597)	-	(205)	96,957
Buildings	1,099,434	8,090	(72,777)	-	(9,686)	7,982	(2,376)	482	6	1,031,155
Plant and machinery	3,480,584	15,419	(207,263)	819	19,706	106,198	(94,110)	(3,850)	5,336	3,322,839
Industrial and commercial equipment	691,235	3,353	(17,089)	-	5,749	17,875	(41,463)	10,062	50	669,772
Other assets	230,162	5,744	(8,840)	-	(14,363)	8,984	(17,590)	(6,694)	1,301	198,704
	5,608,311	**33,338**	**(314,812)**	**819**	**380**	**141,039**	**(156,136)**	**-**	**6,488**	**5,319,427**

ACCUMULATED DEPRECIATION (in thousands of euro)

	12/31/2013	Hyperinflation effect	Assets held for sale	Business combination	Translation differ.	Reclassif.	Decreases	Deprec.	Other	06/30/2014
Buildings	(429,450)	(7,330)	28,228	-	12,157	-	2,049	(16,091)	(1,020)	(411,457)
Plant and machinery	(1,909,024)	(8,373)	127,894	-	(15,292)	267	87,199	(82,864)	1,090	(1,799,103)
Industrial and commercial equipment	(507,690)	(2,751)	11,637	-	(4,398)	(5)	40,268	(26,799)	(141)	(489,879)
Other assets	(153,699)	(1,303)	6,522	-	1,679	(262)	16,661	(7,696)	(425)	(138,522)
	(2,999,863)	**(19,757)**	**174,281**	**-**	**(5,854)**	**-**	**146,177**	**(133,450)**	**(496)**	**(2,838,962)**

NET AMOUNT (in thousands of euro)

	12/31/2013	Hyperinflation effect	Assets held for sale	Business combination	Translation differ.	Increases	Decreases	Reclassif.	Depreciation	Other	06/30/2014
Land	106,896	732	(8,843)	-	(1,026)	-	(597)	-	-	(205)	96,957
Buildings	669,984	760	(44,549)	-	2,471	7,982	(327)	482	(16,091)	(1,014)	619,698
Plant and machinery	1,571,560	7,046	(79,369)	819	4,414	106,198	(6,911)	(3,583)	(82,864)	6,426	1,523,736
Industrial and commercial equipment	183,545	602	(5,452)	-	1,351	17,875	(1,195)	10,057	(26,799)	(91)	179,893
Other assets	76,463	4,441	(2,318)	-	(12,684)	8,984	(929)	(6,956)	(7,696)	877	60,182
	2,608,448	**13,581**	**(140,531)**	**819**	**(5,474)**	**141,039**	**(9,959)**	**-**	**(133,450)**	**5,993**	**2,480,465**

The **increases,** amounting to euro 141,039 thousand, mainly refer to investments to expand premium segment capacity in Europe, NAFTA area and China, and to improve the mix.

The ratio of additions to property, plant and equipment to depreciation in 1H 2014 was 1.06 (1.49 at December 31, 2013 and 1.17 in 1H 2013).

Construction in progress at June 30, 2014, included in the individual categories of property, plant and equipment, amount to euro 303,858 thousand (euro 274,703 thousand at December 31, 2013).

8. INTANGIBLE ASSETS

The breakdown and changes in intangible assets are as follows:

(in thousands of euro)

	12/31/2013	Translation differences	Discontinued operations	Effect of business combination	Increase	Decrease	Amortisation	Other	06/30/2014
Patents and intellectual property rights	49	(1)	-	-	-	-	(12)	0	36
Concessions/licenses/trademarks	52,683	375	-	7,473	185	-	(3,548)	8,566	65,734
Goodwill	913,017	(211)	(16,300)	861	-	-	-	0	897,367
Application software	18,201	(24)	-	-	643	(32)	(5,039)	204	13,953
Other intangible assets	30,029	(434)	(29)	-	1,800	(137)	(1,767)	(34)	29,428
	1,013,979	**(295)**	**(16,329)**	**8,334**	**2,628**	**(169)**	**(10,366)**	**8,736**	**1,006,518**

The table below sets forth the allocation of goodwill by operating segment and the cash generating units (CGU) to which it was allocated for impairment testing:

(in thousands of euro)

Operating segment	Cash generating unit	06/30/2014	12/31/2013
Consumer	Consumer	587.883	587.233
Industrial	Industrial	309.484	325.784
		897.367	**913.017**

As for goodwill, no update of the impairment test was necessary as there were no impairment indicators compared with the financial report closed at December 31, 2013.

“Concessions, licenses and trademarks” mainly include brands resulting from the purchase in 1H 2014 of 29 retail outlets belonging to the Abouchar network (euro 7,473 thousand), from acquisition in 2013 of 25 retail outlets belonging to Wagner in Germany (euro 9,770 thousand), and from the acquisitions made in Russia during 2012 (euro 7,542 thousand), the Daeckia retail chain in Sweden (euro 24,206 thousand) and the Campneus retail chain in Brazil (euro 9,443 thousand). Concessions, licenses and trademarks as at June 30, 2014 include also the net book value (euro 8,566 thousand) of the right of use of the land of one of the Russian production plants that has been reclassified.

The **“other intangible assets”** mainly include the value of customer relationships and commercial partnerships resulting from the acquisitions made in 2012 in Russia and Sweden (Daeckia).

9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The following table sets forth the changes in investments in associates and joint ventures during the period:

(in thousands of euro)

	06/30/2014	12/31/2013
Opening balance	**131,466**	**113,171**
Increases	112,622	76,780
Distribution of dividends	(200)	(1,947)
Impairment	(8,390)	-
Share of net income (loss)	(15,869)	(25,835)
Share of other components of other comprehensive income	(740)	(3,932)
Reclassifications and other	(217)	(26,771)
Closing balance	**218,672**	**131,466**

The breakdown by individual investment is as follows:

(in thousands of euro)

	12/31/2013	Increases	Distrub. of dividends	Impairment	Share of net income (loss)	Share of components of other comprehensive income	Reclass. and other	06/30/2014
Eurostazioni S.p.A.	**57,965**	-	-	-	952	-	-	**58,917**
Prelios	**8,998**	69,858	-	-	(16,382)	-	-	**62,474**
Fenice S.r.l.	**18,185**	42,764	-	(8,390)	-	(507)	-	**52,052**
GWM Renewable Energy II S.p.A.	**24,501**	-	-	-	(121)	(233)	-	**24,147**
PT Evoluzione Tyres	**19,941**	-	-	-	(456)	-	-	**19,485**
Idea Granda Società Consortile r.l.	**633**	-	-	-	-	-	-	**633**
Other companies	**1,243**	-	(200)	-	138	-	(217)	**964**
Total	**131,466**	**112,622**	**(200)**	**(8,390)**	**(15,869)**	**(740)**	**(217)**	**218,672**

The investment in GWM Renewable Energy II S.p.A. (16.87%) is classified as an associate (although the percentage of ownership is below 20%), since the Group has a significant influence through the presence of its own managers on that entity's board of directors.

The **increases** (euro 112,622 thousand) refer to investments in Prelios S.p.A. (euro 69,858 thousand) and Fenice S.r.l. (euro 42,764 thousand).

The increase in value of the investment in Prelios S.p.A. is connected to the conversion of the debt-for-equity bond (the "convertendo"). On April 14, 2014, following the evolution of circumstances leading up to an anticipated request for the conversion of the Convertendo previously subscribed to by Pirelli as part of the Prelios debt restructuring plan, Pirelli received, in exchange for the Prelios bonds it held (Tranches A and B) having a total nominal value of euro 148,372 thousand (plus accrued interest) and a carrying amount on conversion date of euro 104,087 thousand (as a result of fair value adjustment at December 31 2013, negative by euro 44,285 thousand), the following:

- 111,916,082 Prelios Class A ordinary shares – which resulted in Pirelli's shareholding with voting rights increase from 13,06% to 29,22% post conversion, 7% of which freely transferable and approximately 22% subject to lock-up obligations until July 2016 (with automatic renewal for a further 3-year period unless cancellation), in line with the existing agreements amongst the shareholders of Fenice S.r.l (Pirelli, Intesa SanPaolo S.p.A., Unicredit S.p.A. and Feidos 11 S.p.A); the above-mentioned shares have been recognized at fair value represented by the value of Prelios shares quotation on the stock market at April 14, 2014 (euro 0.62 per share) for a total of euro 69,858 thousand;
- 93,390,705 Prelios Class B shares – unlisted and without voting rights – which, are classified under IFRS as financial assets available for sale and which have been recorded at the fair value determined on April 14,2014 for the equivalent of euro 47,536 thousand (for further details please refer to subsequent note 10 " Other financial assets").

Therefore the outcome of the replacement of the Convertendo with Prelios Class A and B shares resulted in a positive impact of euro 13,307 thousand recognized in the 1H 2014 income statement under the item "gains from equity investments"(please refer to subsequent note 32.2).

The fair value of the investment in Prelios S.p.A., listed on the Milan Stock Exchange, was determined by applying the quotation on the stock market at June 30, 2014 (euro 0.56 per share), and amounts to euro 83,174 thousand.

In accordance with the existing agreements amongst the shareholders of Fenice S.r.l., the increase in value of the investment in Fenice S.r.l. is attributable to contribution of the Prelios Class B shares which took place on June 30, 2014 for a total value of euro 42.764 thousand, equal to the fair value of the 93.390.705 Prelios class B shares contributed at a value of 0.46 per share. This value has been determined by applying a discount for illiquidity of approximately 18% on the Prelios Stock Exchange quotation value at June, 30 2014 (0.56 per share).

Following the contribution, shareholding in Fenice S.r.l. passed from 32.83% to 62.56%; even if shareholding exceeds 50%, on the basis of the Shareholders' Agreement, Pirelli does not exercise control over Fenice s.r.l.

Reference is made to note 10 “Other financial assets” for more details about the transaction.

Impairment refers to the investment in Fenice S.r.l.: the increased shareholding by Pirelli in Fenice S.r.l. (as a result of the contribution of Prelios class B shares) determined a stronger asymmetry amongst shareholders for the allocation of potential income from the sale of Prelios Class B shares (shareholding's pay-off) due to existing Shareholders' Agreement. In fact, pursuant to existing provisions, pay-off at maturity of attributable income for each shareholder is asymmetrical with respect to shareholding levels. This asymmetry has been deemed to be an impairment indicator and thus the investment has been subject to impairment test so as to compare the value of the investment, following application of the equity method, with its recoverable amount, represented by its fair value. As of June 30, 2014, the investment's fair value, for the appraisal of which Pirelli used the assistance of an independent consultant, turned out to be lower compared to its carrying amount, thus resulting in the recognition of an impairment loss of euro 8,390 thousand.

The income approach was used to estimate fair value based on the options criterion and level 2 inputs have been applied in the calculation. The appraisal was carried out starting from *the liquidation preference* mechanism, which implies a preferential / asymmetrical allocation of the potential income for Fenice S.r.l. itself deriving from the sale of Prelios Class B shares. As for the presumptive disposal date, the first Shareholders' Agreement expiry date has been adopted, namely July 31, 2018. As pay –off is asymmetrical, it has been reproduced on the basis of a portfolio of long term and short term options, valued at June 30, 2014 on the basis of the *Black&Scholes* model.

The **share of net income (loss)**, (negative for euro 15,869 thousand) mainly refers to Prelios S.p.A (loss of euro 16,382 thousand).

In line with what was done at December 31, 2013, the financial statements of Prelios S.p.A. utilized to apply the equity method does not refer to June 30, 2014 closing. In particular, the attributable portion for the half year, equal to euro 16,382 thousand is composed as follows:

- difference equal to euro 13,627 thousand between the total 4Q 2013 loss (pro-rated Pirelli, negative euro 26,465 thousand) and the loss relative to the single sale of the German platform already included in the financial statement at December 31, 2013 (pro-rated Pirelli euro 12,838 thousand);

- loss recorded in 1Q 2014 (euro 2,755 thousand).

The associate company published the June 30 results at July 30, 2014 which post a net loss equal to euro 37.6 million, of which euro 24.2 million realated to 2Q 2014 (pro-rated Pirelli euro 5.0 million); this result will be included in the evaluation under the equity method of the associate Company at September 30, 2014.

The share of **other components recognised in other comprehensive income** mainly refers (for euro 507 thousand) to the Group's share of the losses (32.83%) recognised directly in equity by Fenice S.r.l. in 1H 2014, resulting from fair value adjustment of the 117,597,496 Prelios S.p.A. Class B shares held by it before contribution. These shares are classified by Fenice S.r.l. as available-for-sale financial assets, and the fair value of these shares was determined by applying an approximately 18% non-liquidity discount rate on the value of Prelios S.p.A. ordinary shares. This discount was deemed necessary because of the nature of the Prelios S.p.A. Class B shares that will be automatically converted into ordinary shares when a sales procedure is initiated and coinciding with their transfer to third parties. The distinctive element between Class B shares and ordinary shares is thus constituted by the lock-up restriction implied by holding them.

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10. OTHER FINANCIAL ASSETS

Other financial assets totalled euro 191,112 thousand, compared to euro 289,096 thousand at December 31, 2013. The breakdown is as follows:

(in thousands of euro)

	06/30/2014	12/31/2013
Financial assets available for sale	191,112	185,009
Financial assets at fair value through profit and loss	-	104,087
	191,112	**289,096**

The financial assets at fair value through profit or loss at December 31, 2013 referred to the "Convertendo" loan, a debt-for-equity financial instrument subscribed as part of the restructuring plan of the financial receivable from Prelios S.p.A. finalised in August 2013. The loan, whose original due date was December 31, 2019, was converted on April 14, 2014 after the conditions were satisfied for the issuer to request premature conversion.

Following this conversion, Pirelli received:

- 111,916,082 Class A shares, - refer to previous note 9;
- 93,390,705 Class B shares – unlisted and without voting rights – recorded at fair value at euro 0.51 per share, for a total of euro 47,536 thousand. Fair value was determined by applying a discount for illiquidity of approx. 18% on the value of Prelios S.p.A. ordinary shares at April 14, 2014 (euro 0.62 per share).

The Class B shares are classified as available-for-sale financial assets, and are measured at fair value. Changes in fair value are recognized in equity.

As provided in the agreements amongst the shareholders of the associate Fenice S.r.l., these shares were contributed to Fenice itself on June 30, 2014, with it thus continuing to own all the post-conversion Class B shares. The losses (euro 4,772 thousand) recognised in equity in the period from initial recognition (April 14, 2014), to June 30, 2014, have thus been recycled to the income statement in the item “losses from equity investments” (see note 32.3).

The changes during the year in **available-for-sale financial assets** are the following:

(in thousands of euro)

	06/30/2014	12/31/2013
Opening balance	185,009	118,125
Assets held for sale	(127)	-
Exchange difference	229	67
Increases	51,678	9,931
Decreases	(42,764)	(29)
Impairment	(13,032)	(17,970)
Fair value adjustments through Equity	10,119	37,499
Transfer from investments in associated companies	-	37,480
Other	-	(94)
Closing balance	**191,112**	**185,009**

The breakdown by individual investment is as follows:

(in thousands of euro)	06/30/2014					12/31/2013
	Historical cost	Cumulated FV adjustments through equity	FV adjustments through P&L		Fair Value	Fair Value
			Previous periods	2014		
Listed stock	A	B	C	D	A+B+C+D	A+B+C+D
Mediobanca S.p.A.	90,247	51,671	(27,234)	-	114,684	100,191
RCS Mediagroup S.p.A.	37,480	(9,139)	-	-	28,341	30,539
Other companies	134	11	(11)	-	134	134
	127,861	**42,543**	**(27,245)**	**-**	**143,159**	**130,864**
Unlisted stock						
Alitalia S.p.A.	31,229	-	(20,000)	(11,229)	-	7,534
Fin. Priv. S.r.l.	14,458	6,630	(5,562)	-	15,526	13,732
Fondo Anastasia	13,250	1,834	-	-	15,084	15,084
Istituto Europeo di Oncologia S.r.l.	4,039	1,343	-	-	5,382	5,038
F.C. Internazionale Milano S.p.A.	7,213	-	(6,655)	-	558	558
Euroqube	373	-	-	-	373	373
Tlcom I LP	1,319	-	(619)	-	700	700
Emittenti Titoli	117	3,048	-	-	3,165	2,633
Equinox Two SCA	7,321	-	(1,232)	(1,679)	4,410	5,421
Other companies	3,937	(75)	(983)	(124)	2,755	3,072
	83,256	**12,780**	**(35,051)**	**(13,032)**	**47,953**	**54,145**
	211,117	**55,323**	**(62,296)**	**(13,032)**	**191,112**	**185,009**

The item **increases** refers mainly, for euro 47,536 thousand, to Prelios S.p.A. Class B shares, obtained following the anticipated conversion of the afore-mentioned Prelios debt to equity loan and to the conversion of the Convertible Bond issued by Alitalia (euro 3,695 thousand) in January 2014.

The item **decreases** refers to contribution of the Class B shares of Prelios S.p.A. mentioned above to the associate Fenice S.r.l. which took place June 30, 2014.

The item **impairments** refers mainly refer to the investments in Alitalia S.p.A. (euro 11,229 thousand) and Equinox Two S.C.A. (euro 1,679 thousand) determined on the basis of the most recent available information.

The **fair value adjustment through equity,** amounting to a net value of euro 10,119 thousand, mainly refers to the investments in Mediobanca S.p.A. (positive for euro 14,493 thousand), Fin. Priv. S.r.l. (positive for euro 1,794 thousand), Emittenti Titoli (positive for euro 532 thousand), RCS Mediagroup S.p.A. (negative for euro 2,198 thousand) and Prelios S.p.A. Class B shares (negative for euro 4,772 thousand).

The fair value of listed financial instruments corresponds to their stock market price at June 30, 2014.

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

11. DEFERRED TAX ASSETS AND PROVISION FOR DEFERRED TAX LIABILITIES

This breakdown is as follows:

(in thousands of euro)

	06/30/2014	12/31/2013
Deferred tax assets	207,853	210,181
Provision for deferred tax liabilities	(51,306)	(49,956)
	156,547	**160,225**

Deferred tax assets and deferred tax liabilities are offset when a legal right exists to offset current tax receivables and current tax payables, and the deferred taxes refer to the same legal entity and the same tax authority.

12. TRADE RECEIVABLES

The breakdown of trade receivables is set forth below:

(in thousands of euro)

	06/30/2014			12/31/2013		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Trade receivables	1,021,718	-	1,021,718	708,000	-	708,000
Provision for bad debts	(47,718)	-	(47,718)	(41,573)	-	(41,573)
	973,999	**-**	**973,999**	**666,427**	-	**666,427**

The increase from December 31, 2013 is due to seasonal changes.

13. OTHER RECEIVABLES

The breakdown of other receivables is as follows:

(in thousands of euro)

	06/30/2014			12/31/2013		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Financial receivables	74,745	63,001	11,744	77,198	59,460	17,738
Trade and other accrued income and prepaid expenses	33,287	427	32,860	17,166	573	16,593
Receivables from employees	24,789	1,756	23,033	11,722	2,265	9,457
Receivables from social security and welfare institutions	13,298	-	13,298	11,910	-	11,910
Receivables from tax authorities not related to income taxes	138,215	9,756	128,459	135,209	7,857	127,352
Other receivables	183,627	105,625	78,002	184,415	99,308	85,107
	467,961	**180,565**	**287,396**	**437,620**	**169,463**	**268,157**
Provision for bad debts	(617)	-	(617)	(622)	-	(622)
	467,344	**180,565**	**286,779**	**436,998**	**169,463**	**267,535**

Non-current financial receivables (euro 63,001 thousand) mainly include euro 52,810 thousand (euro 47,317 thousand at December 31, 2013) related to escrow accounts in connection with tax and legal disputes of the subsidiary Pirelli Pneus Ltda (Brazil), bearing interest at market rates.

Current financial receivables (euro 11,744 thousand) include euro 8,373 thousand in loans to the associate GWM Renewable Energy II S.p.A. and euro 2,680 thousand financial accrued income and prepaid expenses.

Non-current other receivables (euro 105,625 thousand) mainly refer to amounts in escrow accounts related to lawsuits and tax litigation involving the Brazilian units (euro 80,696 thousand), receivables for guarantees in favour of Pirelli (for euro 8,891 thousand) that may be exercised if contingent liabilities materialise in relation to the company Campneus Lider de Pneumaticos Ltda (Brazil), and receivables relating to a cash contribution (for euro 8,250 thousand) paid in connection with the execution of a partnership agreement.

Other current receivables (euro 78,002 thousand) mainly include euro 42,241 thousand of advances paid to suppliers, euro 13,579 thousand of receivables deriving from the settlement of the Eletrobras lawsuit in Brazil, euro 3,317 thousand of receivables from disposal of property not used for the industrial operations in Brazil, and euro 4,437 thousand of contributions for research and development to be received from the Region of Piedmont.

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

14. TAX RECEIVABLES

Tax receivables refer to income taxes and amount to euro 66,663 thousand (of which euro 8,518 thousand included in non-current assets), compared with euro 63,494 thousand at December 31, 2013 (of which euro 7,890 thousand included in non-current assets). This amount mainly refers to receivables for income taxes (mainly referred to current year tax advance), 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 subsidiaries.

15. INVENTORIES

The breakdown of inventories is as follows:

(in thousands of euro)

	06/30/2014	**12/31/2013**
Raw and auxiliary materials and consumables	209,490	205,033
Sundry materials	8,671	7,029
Work in progress and semi-finished products	64,146	77,473
Finished products	750,752	691,781
Goods for resale	2,169	2,827
Advances to suppliers	8,507	3,175
	1,043,734	**987,318**

Inventories are not subject to any collateral pledges.

16. SECURITIES HELD FOR TRADING

Securities held for trading amounted to euro 32,811 thousand, compared to euro 48,090 thousand at December 31, 2013, down by euro 15,279 thousand. The item can be detailed as follows:

- unlisted floating rate bonds for euro 31,705 thousand (euro 25,309 thousand at December 31, 2013);
- shares for euro 736 thousand (euro 1,166 thousand at December 31, 2013), including euro 699 thousand in listed stock (euro 1,130 thousand at December 31, 2013);
- unlisted fixed rate bonds for euro 368 thousand (euro 21,613 thousand at December 31, 2013);
- other securities for euro 2 thousand (no change from December 31, 2013).

The fair value of listed financial instruments corresponds to their stock market price at June 30, 2014.

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

Changes in fair value of the period are recognised in the Income Statement in the item "financial expenses".

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents decreased by euro 413,610 thousand, from euro 879,897 thousand at December 31, 2013 to euro 466,287 thousand at June 30, 2014. This was mainly attributable to the cash flow connected with 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 essentially invested 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 is net of bank overdrafts amounting to euro 38,435 thousand at June 30, 2014 (euro 71,352 thousand at June 30, 2013).

18. EQUITY

18.1 Equity attributable to owners of the Parent

The **equity attributable to owners of the Parent** shows a decrease from euro 2,376,066 thousand at December 31, 2013 to euro 2,300,337 thousand at June 30, 2014. The change (negative for euro 75,729 thousand) is substantially due to the net result for the period (positive for euro 189,032 thousand), the combined effect of inflation/depreciation deriving from the application of inflation accounting principles in Venezuela (positive for euro 24,392 thousand), fair value adjustment of available-for-sale financial assets (positive for euro 14,891 thousand), offset by the negative changes related to dividend payouts (euro 156,743 thousand), actuarial losses on pension funds excluding the tax effect (euro 53,661 thousand), and exchange differences from translation into euro of the financial statements of subsidiaries which have functional currencies other than the euro (euro 94,612 thousand).

The subscribed and paid-up **share capital** at June 30, 2014 (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 treasury shares (351,590 ordinary shares and 408,342 savings shares), for a net total of euro 1,343,285 thousand. Total treasury shares represent 0.16% of share capital.

The **equity per share** was euro 4,714 versus euro 4,869 of December, 31 2013.

18.2 Equity attributable to non-controlling interests

The equity attributable to non-controlling interests rose from euro 60,523 thousand at December 31, 2013 to euro 70,989 thousand at June 30, 2014. The net increase of euro 10,466 thousand is mainly due to the result for the period (positive for euro 4,722 thousand) , the disposal of a minority stake of the subsidiary Comercial e Importadora de Pneus Ltda – (Brazil) for euro 6,115 thousand and the acquisition in Brazil from the company Distribuidora Automotiva S.A.- through a capital increase for euro 6,094 thousand - of the Abouchar sales network (refer to Note 5 Business Combinations), offset by the decreases due to the dividends paid out (euro 3,358 thousand) and the translation difference (euro 1,318 thousand).

19. 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)	
	06/30/2014
Opening balance at 12/31/2013	116,745
Liabilities held for sale	(3,334)
Translation differences	4,705
Increases	6,096
Uses	(4,138)
Reversals	(2,076)
Other	2,523
Closing balance at 06/30/2014	**120,521**

The **non-current portion** of **provisions for liabilities and charges** mainly refers to accruals recorded by (i) the Brazilian subsidiary Pirelli Pneus Ltda for legal claims, tax litigation (euro 48,984 thousand) and labour lawsuits (euro 34,997 thousand) and by (ii) the parent company Pirelli & C. S.p.A. for tax litigation (euro 17,234 thousand) and commercial risks, site remediation and labour disputes (euro 17,167 thousand).

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

The **decreases** were for costs incurred, mainly in labour lawsuits by the subsidiary Pirelli Pneus Ltda – Brazil and for labour lawsuits and site remediation by the parent company Pirelli & C. S.p.A.

The **reversal** of excess provisions were mainly related to tax lawsuits by the parent company Pirelli & C. S.p.A.

PROVISION FOR LIABILITIES AND CHARGES/CURRENT PORTION (in thousands of euro)	06/30/2014
Opening balance at 12/31/2013	90,089
Liabilities held for sale	(1,483)
Translation differences	250
Increases	7,178
Uses	(15,442)
Reversals	(3,614)
Other	(6)
Closing balance at 06/30/2014	**76,972**

The **current portion** of **provisions for liabilities and charges** mainly includes accruals for technical claims and product warranties (euro 24,191 thousand), site remediation of disused areas of land (euro 7,789 thousand), reorganisation and closure of business units (euro 7,006 thousand), litigation for occupational diseases (euro 5,500 thousand), tax liabilities (euro 8,950 thousand), labour lawsuits (euro 4,117 thousand), industrial accident insurance (euro 4,810 thousand) and lawsuits (euro 3,605 thousand).

The **increases** mainly refer to provisions for product claims, labour lawsuits, tax liabilities and other risks.

The **uses** are mainly related to costs incurred to close pending actions against business units domiciled in Italy for occupational disease lawsuits and in Germany for corporate reorganisation.

The **reversal** of excess provisions mainly concerned labour lawsuits and lawsuits for occupational diseases.

20. EMPLOYEE BENEFIT OBLIGATIONS

This item includes:

(in thousands of euro)

	06/30/2014	12/31/2013
Pension funds:		
- funded	259,815	222,242
- unfunded	98,584	93,763
Employees'leaving indemnity (Italian companies)	40,516	44,496
Healthcare plans	17,899	17,333
Other long term benefits	61,389	61,616
	478,203	**439,450**

- Pension funds

The following table shows the breakdown of pension funds at June 30, 2014:

(in thousands of euro)

	06/30/2014						
	Germany	**Sweden**	**Total unfunded pension funds**	**USA**	**UK**	**Other countries**	**Total funded pension funds**
Funded funds							
Present value of funded liabilities				128,112	1,065,956	5,109	1,199,177
Fair value of plan assets				(106,626)	(828,515)	(4,221)	(939,362)
Unfunded funds							
Present value of unfunded liabilities	94,829	3,755	98,584				
Net liabilities recognised	**94,829**	**3,755**	**98,584**	**21,486**	**237,441**	**888**	**259,815**

The following table shows the breakdown of pension funds at December 31, 2013:

(in thousands of euro)

	12/31/2013						
	Germany	**Sweden**	**Total unfunded pension funds**	**USA**	**UK**	**Other countries**	**Total funded pension funds**
Funded funds							
Present value of funded liabilities				124,986	973,635	4,527	1,103,148
Fair value of plan assets				(98,799)	(778,403)	(3,704)	(880,906)
Unfunded funds							
Present value of unfunded liabilities	90,087	3,676	93,763				
Net liabilities recognised	**90,087**	**3,676**	**93,763**	**26,187**	**195,231**	**823**	**222,242**

The following changes occurred in the net defined benefit liability in 1H 2014 referring to funded and non-funded pension funds:

(in thousand of euro)

	Present value of obligation	Fair value of plan assets	Total
Opening balance at 1 January 2013	1,196,912	(880,907)	316,005
Exchange difference	41,503	(32,718)	8,785
Movements through income statement:			
- Current service cost	444	-	444
- interest expense / (income)	27,011	(20,650)	6,361
	27,455	(20,650)	6,805
Remeasurements recognized in equity:			
- (gain) loss from change in demographic assumptions	-	-	-
- (gain) loss from change in financial assumptions	62,184	-	62,184
- experience (gains) losses	(932)	-	(932)
- return on plan assets, excluding amounts included in interest income		(11,452)	(11,452)
	61,252	(11,452)	49,800
Employer's contributions	-	(23,312)	(23,312)
Plan participants' contributions	14	(14)	-
Benefits paid	(29,209)	29,209	0
Other	(167)	483	316
Closing balance at 30 June 2014	**1,297,760**	**(939,361)**	**358,399**

Current service cost is included in the item “personnel expense” (note 29) and net interest expenses for euro 6,361 thousand are included in the item “ financial expenses” (note 34)

- Employees' leaving indemnities (TFR) – Italian companies

Employees' leaving indemnities in 1H 2014 (for Italian companies) changed as follows:

(in thousands of euro)

	06/30/2014
Opening balance	44,496
Liabilities related to assets held for sale	(6,574)
Movements through Income Statement:	
- Current service cost	87
- Interest expense	631
Remeasurements recognized in equity:	
- actuarial (gains) losses arising from changes in demographic assumptions	-
- actuarial (gains) losses arising from changes in financial assumptions	2,916
- effect of experience adjustments	-
Payments/advances	(990)
Other	(50)
Closing balance	**40,516**

The service cost (euro 87 thousand) is recognised in the income statement in the item "personnel expense" (note 29), while the interest expense (euro 631 thousand) is included in the item "financial expenses" (note 34).

- Healthcare plans

This item refers exclusively to the healthcare plan in place in the United States subsidiary.

The following changes occurred during the period:

(in thousands of euro)

	06/30/2014
Opening balance	17,333
Translation differences	170
Movements through Income Statement:	
- current service cost	2
- interest expense	368
Remeasurements recognized in equity:	
- actuarial (gains) losses arising from changes in demographic assumptions	-
- actuarial (gains) losses arising from changes in financial assumptions	743
- effect of experience adjustments	(14)
Benefits paid	(703)
Closing balance	**17,899**

Service cost is included in the item “personnel expense” (note 29) and net interest expenses for euro 368 thousand are included in the item “ financial expenses” (note 34)

Additional information regarding post-employment benefits

Net actuarial losses accrued in 1H 2014 and recognised directly in equity totalled euro 53,661 thousand (at December 31, 2013 net income totalled euro 22,823 thousand).

The main actuarial assumptions used at June 30, 2014 are as follows:

	Italia	Germania	Olanda	Svezia	UK	USA
Tasso di sconto	2.70%	2.70%	2.70%	3.50%	4.40%	3.90%
Tasso di inflazione	2.00%	2.00%	2.00%	2.00%	3.27%	-
Tasso atteso di incremento delle retribuzioni	-	3.00%	2.00%	-	-	-
Tasso tendenziale dei costi per assistenza medica - iniziale	-	-	-	-	-	7.50%
Tasso tendenziale dei costi per assistenza medica - finale	-	-	-	-	-	4.50%

The main actuarial assumptions used at December 31, 2013 were as follows:

	Italy	Germany	Netherlands	Sweden	UK	USA
Discount rate	3.40%	3.40%	3.40%	4.00%	4.70%	4.40%
Inflation rate	2.00%	2.00%	2.00%	2.00%	3.33%	-
Expected rate of wage and salary increases	-	3.00%	2.00%	-	-	-
Healthcare cost trend rates - initial	-	-	-	-	-	7.50%
Healthcare cost trend rates - final	-	-	-	-	-	4.50%

Other long-term benefits

The table below sets forth the breakdown of other long-term benefits:

(in thousands of euro)

	06/30/2014	12/31/2012
Long-term incentive plans	5,000	-
Jubilee awards	13,954	16,093
Leaving indemnities - non Italian companies	33,147	34,898
Other long-term benefits	9,288	10,625
	61,389	**61,616**

The amount recognised for Long Term Incentive Plans, euro 5,000 thousand at June 30, 2014, represented the best target estimate of the three-year Long Term Incentive 2014-2016 incentive plan reserved for Pirelli Group management. This plan was approved by the Board of Directors of Pirelli & C. and by the Shareholders' Meeting held on February 27, 2014 and June 12, 2014 respectively. This plan is subordinated to the targets for 2014-2016 set out in the Business Plan 2013-2017.

21. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

The following table sets forth the amounts owed to banks and other financial institutions:

(in thousands of euro)

	06/30/2014			12/31/2013		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Bonds	608,209	608,209	-	607,157	607,157	-
Borrowings from banks	1,824,316	1,524,372	299,944	1,659,221	1,401,490	257,731
Borrowings from other financial institutions	3,626	1,833	1,793	11,740	2,929	8,811
Finance lease payables	1,275	1,055	220	1,345	1,080	265
Financial accrued expenses and deferred income	22,411	108	22,303	43,395	97	43,298
Other financial payables	8,556	1,652	6,904	8,201	1,653	6,548
	2,468,393	**2,137,229**	**331,164**	**2,331,059**	**2,014,406**	**316,653**

The item **bonds** refers to:

– the unrated bond placed by Pirelli & C. S.p.A. on the Eurobond market on February 2011 for an aggregate nominal amount of euro 500 million, with a fixed coupon of 5.125% and maturity in February 2016;

– the private placement issued by Pirelli International Plc on the American market on December 5, 2012 for an aggregate nominal amount of USD 150 million (equal to euro 109,826 thousand based on the exchange rate at June 30, 2014), with a duration between 5 and 12 years and an average coupon of 5.05%.

The carrying amounts of the bonds were determined as follows:

(in thousands of euro)	06/30/2014	12/31/2013
Nominal value	609,827	608,767
Transaction costs	(6,136)	(6,136)
Amortisation of effective interest rate	3,527	2,942
Adjustment for fair value hedge accounting	992	1,584
	608,209	**607,157**

Bank borrowings, amounting to euro 1,824,316 thousand, mainly consist of:

- loans granted by the European Investment Bank (EIB) to Pirelli & C. S.p.A. and Pirelli Tyre S.p.A. for research and development projects and to S.C. Pirelli Tyres Romania S.r.l. for local industrial investments. These loans total euro 250,000 thousand (euro 250,000 thousand at December 31, 2013), were fully used, and are classified as non-current bank borrowings;
- euro 850,000 thousand for utilisation of the syndicated facility (euro 575,000 thousand at December 31, 2013), granted to Pirelli & C. S.p.A., Pirelli Tyre S.p.A. and Pirelli International Plc for a total amount of euro 1,200,000 thousand, subscribed on November 30, 2010 and having a duration 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 Plc 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, classified under non-current bank borrowings;
- euro 51,180 thousand classified as non-current bank borrowings, granted to the Mexican associates by Bancomext in 1H 2013 with a duration of 7 years. These loans are guaranteed by Pirelli Tyre S.p.A. The loan received from Bancomext is covered by a secured guarantee;
- euro 6,020 thousand classified as non-current bank borrowings, granted by Banco Nacion Argentina between October 2011 and June 2012 to Pirelli Neumaticos S.A.I.C. The term of the loan is 5 years and is covered by a secured guarantee;
- use of credit lines at the local level, in China, Brazil and Turkey, for euro 454,398 thousand.

At June 30, 2014 the Group had, aside from cash, cash equivalents and securities held for trading of euro 499,099 thousand, unused committed credit facilities of euro 350,000 thousand (euro 625,000 thousand at December 31, 2013) expiring in 2015.

Accrued financial expenses and deferred financial income (euro 22,411 thousand) mainly refer to euro 9,437 thousand of interest accrued on bonds (euro 21,974 thousand at December 31, 2013) and euro 9,728 thousand of expenses accrued on interest rate swaps (euro 17,717 thousand at December 31, 2013).

Other current financial payables mainly consist of euro 3,171 thousand for the price adjustment to the sale price of 21.7% of the share capital of the subsidiary Comercial e Importadora de Pneus Ltda to the Distribuidora Automotiva SA and euro 2,329 thousand for a tax refund by the Brazilian tax authorities that will have to be transferred to a third party.

Other non-current financial payables include euro 1,650 thousand of security deposit towards Prelios S.p.A., related to the lease for part of the building where the R&D activities of Pirelli & C. S.p.A. are operated in Italy, for the entire duration of the lease (October 15, 2012 – October 14, 2018).

The average cost of debt during 1H 2014 was 6%.

For current payables, the carrying amount is considered to approximate their fair value. The table below compares the fair value of non-current financial payables with their carrying amount:

(in thousands of euro)

	06/30/2014		12/31/2013	
	Carrying amount	***Fair value***	**Carrying amount**	***Fair value***
Bond Pirelli & C. S.p.A.	498,939	530,585	499,217	533,010
Private placement - Pirelli International Plc	109,270	115,651	107,940	108,774
Borrowings from banks	1,524,372	1,557,903	1,401,490	1,409,316
Othr non-current financial payables	4,648	4,648	5,759	5,759
	2,137,229	**2,208,786**	**2,014,406**	**2,056,858**

With 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 Plc for a total of euro 1,200,000 thousand, and withdrawn for euro 850,000 thousand, is subject to the respect of one financial covenant: a certain ratio between consolidated net indebtedness and gross operating profit must be maintained. This parameter was fully satisfied at June 30, 2014. With regard to the negative pledges, the credit facility provides for a commitment not to grant secured guarantees, above a threshold defined as the greater between euro 100,000 thousand and 3% of Total Assets (as resulting from 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:
  - the respect of a maximum ratio of 25% between non-centralised indebtedness (referred to companies other than Pirelli International PLC, 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. (and the ratio between secured debt and total assets not exceeding 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. 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, 2014;
- the *Schuldschein* subscribed by Pirelli International Plc 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 between euro 100,000 thousand and 3% of Total Assets (as per 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.

22. TRADE PAYABLES

The breakdown of trade payables is as follows:

(in thousands of euro)

	06/30/2014			12/31/2013		
	Total	Non-current	Current	Total	Non-current	Current
Suppliers	1,053,685	-	1,053,685	1,233,162	-	1,233,162
Notes payable	-	-	-	11,304	-	11,304
	1,053,685	**-**	**1,053,685**	**1,244,466**	**-**	**1,244,466**

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

23. OTHER PAYABLES

The following table sets forth the breakdown of other payables:

(in thousands of euro)

	06/30/2014			12/31/2013		
	Total	Non-current	Current	Total	Non-current	Current
Trade and other accrued liabilities and deferred income	71,431	33,557	37,874	79,897	36,054	43,843
Tax payables not related to income taxes	111,271	5,404	105,867	93,799	5,038	88,761
Payables to employees	120,807	-	120,807	111,317	856	110,461
Payables to social security and welfare intitutions	60,846	27,638	33,208	64,027	22,781	41,246
Dividends payable	2,844	-	2,844	2,076	-	2,076
Other payables	125,875	9,096	116,779	159,895	12,124	147,771
	493,074	**75,695**	**417,379**	**511,011**	**76,853**	**434,158**

Non-current trade and other accrued liabilities and deferred income mainly include euro 31,824 thousand for capital grants received for investments in Mexico and Romania, the benefit of which is recognized in the income statement in proportion with the costs for which the contribution has been granted.

Current trade and other accrued liabilities and deferred income include euro 10,476 thousand for the tax incentive tied to the Gravataì industrial plant realised in Brazil and apportioned on the duration of the investment amortisation period, euro 6,152 thousand for public contributions paid by the Region of Piedmont to build the New Technological Centre in Settimo Torinese and whose benefits are recognised in the Income Statement in proportion to the costs for which the contribution was granted, and euro 2,684 thousand for insurance coverage.

Tax payables not related to income taxes are mainly comprised of payables for VAT or equivalent taxes, indirect taxes not related to income and withholding tax for employees.

Current payables to employees include amounts accrued during the period but not yet paid, including the estimate of incentives.

Other current payables (euro 116,779 thousand) mainly consist of:

- euro 65,312 thousand for the purchase of property, plant and equipment (euro 84,531 thousand at December 31, 2013);
- euro 13,735 thousand for income withholding tax (euro 11,993 thousand at December 31, 2013);
- euro 6,506 thousand for down payments from customers (euro 8,835 thousand at December, 31 dicembre 2013);
- euro 6,083 thousand for payables to representatives, agents, professionals and consultants (euro 6,693 thousand at December 31, 2013);
- euro 3,022 thousand for payables to directors, statutory auditors and supervisory bodies (euro 2,527 thousand at December 31, 2013);
- euro 2,178 thousand, which groups together the receivables and payables to the provisions for employee healthcare benefits, for reimbursement of employees and payments of annual membership contributions, respectively;

- euro 1,775 thousand for the acquisition of 25 retail outlets belonging to Reifen Wagner I.S. Autoservice GmbH & Co (Germany) (euro 8,993 thousand at December 31, 2013);
- euro 1,054 thousand for costs relative to urban and environmental projects in Brazil.

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

24. TAX PAYABLES

Tax payables mainly relate to national and regional income taxes in the various countries and total euro 95,172 thousand (including a non current portion of euro 3,634 thousand), compared with euro 83,809 thousand at December 31, 2013 (including a non current portion of euro 3,537 thousand).

25. DERIVATIVE FINANCIAL INSTRUMENTS

This item includes the fair value of derivative instruments outstanding at June 30, 2014. The following table shows the breakdown:

(in thousands of euro)

	06/30/2014		12/31/2013	
	Current Assets	Current Liabilities	Current Assets	Current Liabilities
Hedge accounting not adopted				
Foreign currency derivatives - commercial transactions	13,770	(16,041)	17,255	(13,544)
Foreign currency derivatives - included in net financial position	2,666	(2,539)	4,438	(3,175)
Other derivatives - included in net financial position	811	-	575	-
Hedge accounting adopted				
- cash flow hedge:				
Foreign currency derivatives - commercial transactions	190	(292)	384	(1,482)
Interest rate derivatives	-	(32,377)	513	(38,824)
Other derivatives	-	(902)	-	(13)
- fair value hedge				
Interest rate derivatives - included in net financial position	831	-	1,653	-
- net investment hedge				
Foreign currency derivatives	294	(4,685)	-	-
	18,562	**(56,836)**	**24,818**	**(57,038)**
- Total derivatives included in net financial position	4,308	(2,539)	6,666	(3,175)

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 as current liabilities for euro 32,377 thousand (euro 38,824 thousand at December 31, 2013), consists mainly of:

– euro 11,786 thousand (euro 20,302 thousand at December 31, 2013) for the fair value of 12 "plain vanilla" interest rate swaps on a total notional amount of euro 575 million expiring 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 Plc for a total amount of euro 1,200,000 thousand and of which euro 850,000 thousand had been withdrawn at June 30,2014..

  The amount recognised in equity during the period for the effective part was positive for euro 7,347 thousand, broken down as follows:

  - euro 6,025 thousand for profits recognised in equity during the period;
  - euro 1,322 thousand for reclassification to the Income Statement of losses previously accumulated in equity (refer to note 34 "financial expenses");
  - euro 18,730 thousand (euro 17,423 thousand at December 31, 2013) 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 by Pirelli International Plc on the American market for an aggregate nominal amount of USD 150 million, having a duration between 5 and 12 years (refer to note 21 "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 amount for euro 13,327 thousand was recognised in equity for the period.

- Fair value hedge

The value of **interest rate derivatives** recognised as current assets for euro 831 thousand (euro 1,653 thousand at December 31, 2013) includes the fair value of 2 interest rate swaps on a notional amount of euro 50 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 (refer to note 21 “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 821 thousand at June 30, 2014) 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 as financial income and that adjusted the carrying amount of the bond (“basis adjustment”).

- Net investment hedge

The value of **currency derivatives** (current assets for euro 294 thousand – current liabilities for euro 4,685 thousand) include the fair value of forward currency sales contracts outstanding at the reporting date, which were made to hedge the translation risk generated by conversion into euro of a portion of the equity of the Brazilian subsidiary Pirelli Pneus Ltda, amounting to BRL 342 million. A negative amount for euro 4,392 thousand was recognised in equity for the period.

26. COMMITMENTS AND CONTINGENCIES

Commitments to purchase property, plant and equipment

The commitments to purchase property, plant and equipment amount to euro 124,982 thousand, and mostly relate to companies in Russia, Romania, Brazil, Germany, Italy, Mexico and Turkey.

Commitments to purchase equity interests/fund units

These refer to commitments 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 2,358 thousand.

Guarantees given on the sale of Olimpia

On the sale of the 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 settled or outstanding 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 their assumption, which Pirelli deems 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. The Company is waiting for the hearing to be scheduled.

On the basis of what has been mentioned above, there are grounds to believe that the final judgement will be favourable.

With reference to the tax assessment notified for the fiscal years 2002, 2003 and 2004, in which Olimpia was classified 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.

For the 2003 tax year alone**,** instead, the Agenzia delle Entrate, acting through the Solicitor General, is pursuing an appeal before the Court of Cassation. This concerns alleged financial income resulting from the premature extinguishment of the Bell bond loan, which the Company offset with a similar loss, for a nearly equally amount, and which was consequently not counted towards the IRAP taxable basis. It must be pointed out that even if this financial income had contributed to IRAP, the related taxable amount would have still been negative. So, in any event, the finding would not result in any tax or related penalty. For the Agenzia delle Entrate, this would only amount to pure defence of a principle, useful in similar disputes, but different from the case in question, with a positive impact on income. The Company, partly in defence of a principle, has submitted its own cross-claim based on solid arguments.

Other contingencies

At the beginning of April 2014, the European Commission notified Pirelli and the other parties involved (including Prysmian Cavi e Sistemi, a Pirelli subsidiary until July 2005) of the decision it had reached on conclusion of the antitrust investigation undertaken in relation to the power cable business. The decision levies a fine of about euro 104 million on Prysmian, with Pirelli being held jointly liable with Prysmian for
a portion of that amount, i.e. euro 67 million.

Such decision confirms that Pirelli had no direct role in the alleged cartel. In fact, the only connection between Pirelli and the alleged violation of antitrust regulations is based on the principle of "parental liability", insofar as Prysmian was controlled by Pirelli during part of the period when the alleged cartel operated.

Pirelli has appealed to the European Court against the decision by the European Commission, challenging its application of the parental liability rule. In particular, Pirelli believes, on the basis of meticulous legal analyses and independent legal opinions, that it is not subject to the parental liability rule and that, since it was not involved in the irregularities allegedly committed by its former subsidiary, the final liability for any violation (and payment of the related penalty) must be borne exclusively by the company that was directly involved in the alleged violation. Consequently, Pirelli does not foresee that it will incur any financial liabilities resulting from that decision.

27. REVENUE FROM SALES AND SERVICES

The breakdown of revenue from sales and services is as follows:

(in thousands of euro)

	1H 2014	1H 2013
Revenue from sales of goods	2,933,794	3,035,567
Revenue from services	53,077	54,430
	2,986,871	**3,089,997**

28. OTHER INCOME

The breakdown of this account is as follows:

(in thousands of euro)

	1H 2014	1H 2013
Gains on disposal of property, plant and equipment	2,355	34,298
Rent income	3,921	5,433
Insurance indemnities and other refunds	12,931	4,068
Recoveries and reimbursements	29,871	34,126
Government grants	1,918	1,710
Other income	36,534	40,981
	87,530	**120,617**

Gains from disposal of property, plant and equipment include euro 1,602 thousand from the sale of several properties not used for the industrial activity in Turkey, Brazil and Germany. The change from 1H 2013 is mainly due to the gains (euro 33,715 thousand, 28% of the total), classified as **non-recurring events**, realised in 1H 2013 following the sale of several properties in Brazil.

Insurance indemnities and other refunds principally consist of the damages awarded to Pirelli Tyre S.p.A. when it won a lawsuit against several suppliers of synthetic rubber (euro 7.050 thousand, with an impact on the income statement of euro 5.411 thousand net of relative legal expenses recorded in the item “other costs”).

Other income mainly includes income from sports activities for euro 17,237 thousand, reversal for provisions for liabilities and charges for euro 4,887 thousand, and income related to retirement incentives paid in Germany for euro 3,220 thousand.

29. PERSONNEL EXPENSE

The breakdown of this account is as follows:

(in thousands of euro)

	1H 2014	**1H 2013**
Wages and salaries	479,806	474,107
Social security and welfare contributions	88,565	86,830
Expenses for employees' leaving indemnity and similar costs (*)	15,185	22,910
Expenses for defined contribution pension funds	10,275	9,943
Expenses for defined benefit pension funds	342	461
Expenses for defined benefit healthcare plans	2	2
Expenses for jubilee awards	1,530	467
Expenses for defined contribution healthcare plans	18,115	18,318
Other costs	3,229	18,897
	617,049	**631,935**

* Includes Italian and foreign companies

Personnel expense includes **non-recurring expenses** for euro 12,681 thousand related to restructuring costs (2.1% of the total), whereas in 1H 2013 non-recurring expenses included restructuring costs for euro 7,442 thousand and euro 15,897 thousand in expenses for a lawsuit in Brazil.

30. AMORTISATION, DEPRECIATION AND IMPAIRMENT

The breakdown of this account is as follows:

(in thousands of euro)

	1H 2014	**1H 2013**
Amortisation	10,366	9,409
Depreciation	133,450	134,042
Impairment of property, plant and equipment	2,020	53
	145,836	**143,504**

Impairment refers mainly to property, plant and equipment no longer used in production processes in Voronezh (Russia).

31. OTHER COSTS

The breakdown of this item is as follows:

(in thousands of euro)

	1H 2014	1H 2013
Selling costs	145,886	147,987
Purchases of goods for resale	147,184	159,637
Fluids and power	113,854	124,300
Advertising	107,195	90,729
Professional advice	24,816	23,887
Maintenance	31,072	31,518
Warehouse operating costs	28,112	22,484
Leases, rental and lease instalments	53,351	50,318
Outsourcing	17,885	9,591
Travel expenses	22,484	21,099
IT expenses	13,508	13,369
Compensation of key managers	3,921	2,863
Other provisions	10,733	11,118
Duty stamps, duties and local taxes	18,403	25,594
Canteen	9,496	9,398
Bad debts	10,225	4,385
Insurance	13,931	14,568
Cleaning expenses	9,869	9,537
Waste disposal	11,152	11,954
Security expenses	5,624	5,832
Telephone expenses	5,848	5,435
Other	65,235	76,040
	869,784	**871,643**

In 1H 2013 this item included euro 3,137 thousand classified as **non-recurring events** (0.4% of the total).

32. NET INCOME (LOSS) FROM EQUITY INVESTMENTS

32.1 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 under the equity method was negative for euro 15,869 thousand and relates mainly to the investment in Prelios S.p.A., for a negative euro 16,382 thousand, to the investment in PT Evoluzione Tyres (with headquarters in Indonesia), for a negative euro 456 thousand, and to the investment in Eurostazioni, for a positive euro 952 thousand.

For further detail please refer to Note 9 (Investments in Associates and Joint Ventures).

32.2 Gains from equity investments

The breakdown is as follows:

(in thousands of euro)

	1H 2014	**1H 2013**
Conversion effect of Prelios S.p.A. bond	13,307	85
Other	853	-
	14,160	**85**

Concerning the effect of the Prelios S.p.A. bond (Convertendo) conversion please refer to previous Note 9 "Investments in Associates and Joint Ventures"

32.3 Losses from equity investments

The breakdown is as follows:

(in thousands of euro)

	1H 2014	1H 2013
Fair value adjustment of Prelios S.p.A. class B shares	4,772	-
Impairment of equity investments in associates	8,390	-
Impairment of available-for-sale financial assets	13,032	13,283
	26,194	**13,283**

Concerning **fair value adjustment of Prelios S.p.A. class B shares** please refer to previous note 10 " Other financial assets".

Impairment of investments in associates refers to impairment of the investment in Fenice S.r.l. previously described in Note 9 "Investments in Associates and Joint Ventures".

The **impairment of available-for-sale financial assets** refers mainly to the investments in Alitalia S.p.A (euro 11,229 thousand) and Equinox Two S.C.A. (euro 1,679 thousand).
In 1H 2013 the item referred mainly to the impairment of the investment 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).

32.4 Dividends

The dividends received in 1H 2014 totalled euro 676 thousand and mainly refer to euro 304 thousand from mutual funds and euro 212 thousand from Euroqube S.A..

33. FINANCIAL INCOME

The breakdown of this account is as follows:

(in thousands of euro)

	1H 2014	1H 2013
Interest	16,492	13,505
Other financial income	4,988	5,695
Fair value measurement of securities held for trading	-	193
Fair value measurement of currency derivatives	-	7,550
	21,480	**26,943**

Interest relates mainly to interest rate swaps for euro 4,337 thousand (euro 4,636 thousand at 1H 2013) and interest on fixed income securities for euro 4,696 thousand (euro 3,396 thousand in 1H 2013).

Other financial income relates mainly to euro 3,137 thousand for interests accrued on escrow accounts for legal and tax litigations related to Brazilian subsidiaries.

34. FINANCIAL EXPENSES

The breakdown of this account is as follows:

(in thousands of euro)

	1H 2014	1H 2013
Interest	56,893	55,377
Commissions	8,849	9,884
High inflation effect Venezuela	12,113	6,417
Other financial expenses	3,748	2,391
Net losses on exchange rates	9,611	41,213
Net interest costs on employee benefit obligations	9,313	9,146
Fair value measurement of securities held for trading	431	-
Fair value measurement of currency derivatives	7,964	-
Fair value measurement of other derivatives	4,660	6,074
	113,582	**130,502**

Interest includes euro 13,251 thousand on the bond issued by Pirelli & C. S.p.A. in 2011 (euro 13,223 thousand in 1H 2013), euro 2,924 thousand on the private placement made by Pirelli International Plc on the American market at the end of 2012 (euro 2,933 thousand in 1H 2013) and euro 8,168 thousand for interest on interest rate swaps (euro 7,525 thousand in 1H 2013).

The **net losses on exchange rates** of euro 9,611 thousand (losses from exchange rate of euro 313,465 thousand and gains from exchange rate of euro 303,854 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.

Comparing net losses (euro 9,611 thousand) with the fair value measurement of the foreign exchange component of currency derivatives negotiated as part of the Group currency risk management strategy (net gain of euro 6,391 thousand, as indicated below at the item "fair value measurement of currency derivatives") shows that management of foreign exchange risk is substantially in balance, considering that the negative unbalance, amounting to euro 3,220 thousand, is mainly related to the devaluation for euro 380 thousand of the local currency by the Venezuelan subsidiary and the losses on exchange for euro 2,298 thousand of the Egyptian subsidiary.

Net interest cost on employee benefit obligations mainly consists of euro 6,361 thousand for pension funds, euro 631 thousand for employees leaving indemnities (TFR), and euro 368 thousand for healthcare plans (see note 20 "Employee benefit obligations").

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 14,355 thousand, and the exchange rate component, a net gain of euro 6,391 thousand.

Fair value measurement of other derivative instruments (see note 25 "Derivative financial instruments") mainly consists of:

- negative amount for euro 592 thousand related to the fair value adjustment on interest rate swaps made to hedge the interest rate associated with financial liabilities, for which hedge accounting (fair value hedge) has been adopted (euro 1,814 thousand in 1H 2013);
- negative amount for euro 1,322 thousand related to the reclassification in the Income Statement of losses that were previously accumulated in equity and referred to interest rate derivatives for which hedge accounting was interrupted (negative for euro 2,463 thousand in 1H 2013);

35. INCOME TAXES

The breakdown of income taxes for the period is as follows:

(in thousands of euro)

	1H 2014	1H 2013
Current taxes	114,860	103,029
Deferred taxes	-	(1,843)
	114,860	**101,186**

36. ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

In consequence of the agreement for sale of 100% of the steel cord business signed by Pirelli and Bekaert on February 28, 2014, the business steelcord is qualified as discontinued operation. Accordingly, the assets and liabilities related to the business held for sale are classified as a discontinued operation and are thus measured in the condensed interim financial statements at June 30, 2014 at the lower of their net carrying amount and their fair value less cost to sell.

The breakdown of assets held for sale and of liabilities related to assets held for sale is as follows:

STATEMENT OF FINANCIAL POSITION ASSETS HELD FOR SALE

(in thousands of euro)	06/30/2014
Property, plant and equipment	140,531
Intangible assets	16,329
Other financial assets	136
Deferred tax assets	5,316
Inventories	34,255
Trade receivables	4,513
Other receivables	12,770
Cash and cash equivalents	6,439
Tax receivables	2,693
Derivative financial instruments	414
Total Assets	**223,396**
Employee benefit obligations	11,000
Borrowings from banks and other financial institutions	48,835
Trade payables	40,078
Other payables	23,799
Provisions for liabilities and charges	5,279
Tax payable	2,687
Derivative financial instruments	251
Total Liabilities	**131,929**

The breakdown of income (loss) from discontinued operations is as follows:

(in thousands of euro)

	1/01 - 06/30/2014	1/01-06/30/2013
Revenues from sales and services	43,600	41,100
Raw materials and consumables (net of change in inventories)	(14,100)	(14,000)
Personal expenses	(8,500)	(8,500)
Amortisation,depreciation and impairment	(2,200)	(2,000)
Other costs	(14,500)	(14,400)
Operating income	**4,300**	**2,200**
Financial expenses	(1,600)	(1,200)
Net income (loss) before income tax	**2,700**	**1,000**
Income tax	(1,000)	(400)
Net income (loss) from discontinued operations	**1,700**	**600**

The result of discontinued operations, positive for euro 1,700 thousand, as shown in the previous table, includes, as described in the section "Financial statement formats" of the previous Note 2, the revenues from the steelcord business to third parties external to the Pirelli Group (euro 43,600 thousand) and related costs (euro 41,900 thousand in total, including also financial charges and taxes). It is worthy of note that the total amount of costs of the steelcord business to third parties, including financial charges and taxes, amounts to 138,713 thousand in 1H 2014. The result of discontinued operations which would have been determined considering revenues to third parties and total costs to third parties of the steelcord business (including costs related to revenues to the Pirelli Group deriving from the steelcord business) in the 1H 2014 would be negative by euro 95,113 thousand.

37. EARNINGS (LOSSES) PER SHARE

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

(in thousands of euro)

	1H 2014	1H 2013
Net income (loss) attributable to owners of the Parent from **continuing operations**	187,332	150,833
Net income (loss) attributable to savings shares reflecting 2% minimun dividend	(4,642)	(3,738)
Adjusted net income (loss) attributable to owners of the Parent from **continuing operations**	182,690	147,095
Basic earning (loss) per ordinary share from continuing operations (in euro per share)	**0.384**	**0.309**

Net income (loss) attributable to owners of the Parent from **discontinued operations**	1,700	600
Net income (loss) attributable to savings shares reflecting 2% minimun dividend	(42)	(15)
Adjusted net income (loss) attributable to owners of the Parent from **discontinued operations**	1,658	585
Basic earning (loss) per share from discontinued operations (in euro per share)	**0.003**	**0.001**

The **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.

38. DIVIDENDS PER SHARE

In 1H 2014, Pirelli & C. S.p.A. paid to its shareholders dividends based on 2013 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 2013 Pirelli & C. S.p.A. paid to its shareholders dividends based on 2012 earnings equal to euro 0.32 per ordinary share (excluding treasury shares) and euro 0.39 per savings share (excluding treasury shares). The total dividends paid out amounted to euro 156,743 thousand.

39. 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 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 statement below shows a summary of related parties transactions and their percentage impact:

(in millions of euro)	Total reported at 06/30/2014	of which related parties	% share	Total reported at 12/31/2013	of which related parties	% share
CONSOLIDATED STATEMENT of FINANCIAL POSITION						
Non-current assets						
Other financial assets	191.1	-	-	289.1	104.1	36.00%
Current assets						
Trade receivables	974.0	0.9	0.09%	666.4	1.4	0.21%
Other receivables	286.8	8.7	3.05%	267.5	8.5	3.17%
Non-current liabilities						
Borrowings from banks and other financial institutions	2,137.2	1.7	0.08%	2,014.4	1.7	0.08%
Current liabilities						
Trade payables	1,053.7	27.8	2.63%	1,244.5	41.1	3.30%
Other payables	417.4	0.1	0.02%	434.2	0.1	0.02%
Tax payables	91.5	-	-	80.3	0.6	0.75%
	Total 1H 2014	**of which related parties**	**% share**	**Total 1H 2013**	**of which related parties**	**% share**
CONSOLIDATED INCOME STATEMENT						
Revenue from sales and services	2,986.9	0.1	0.00%	3,090.0	1.2	0.04%
Other income	87.5	1.6	1.83%	120.6	1.2	1.04%
Personnel expenses	(617.0)	(2.5)	0.41%	(631.9)	(1.1)	0.17%
Other costs	(869.8)	(22.7)	2.61%	(871.6)	(34.1)	3.91%
Financial income	21.5	0.2	0.97%	26.9	0.8	2.93%
Net income (loss) from equity investments	(27.2)	(2.6)	9.4%	(24.3)	(11.5)	47.37%

The effects of related party transactions on the consolidated income statement, statement of financial position, and statement of cash flows of the Pirelli Group at June 30, 2014 are shown below. 2014.

TRANSACTIONS WITH ASSOCIATES and JV

(in millions of euro)

Other income	1.5	The amount refers to rental income and operating expenses refunds from Prelios Group (euro 1.0 million) and royalties due by Idea Granda Consortium S.r.l. to Pirelli & C. Ambiente S.r.l. (euro 0.3 million).
Other costs	12.2	The amount mainly concerns Pirelli Deutschland GmbH energy purchases and machinery rental from Industriekraftwerk Breuberg GmbH (euro 12.0 milion).
Net income (loss) from equity investments	13.3	Effect resulting form the conversion of Prelios bond in Prelios share.
Financial income	0.2	The amount relates to interest income from the loan granted by Pirelli & C. Ambiente S.r.l. to GWM Renewable Energy II S.p.A.
Current trade receivables	0.9	The amount mainly concerns receivables for services provided by Pirelli Tyre S.p.A. and Poliambulatorio S.r.l. to Prelios Group S.p.A. (euro 0.3 million), and by PT Evoluzione Tyre (euro 0.1 million) and Pirelli & C. Ambiente S.r.l. to Idea Granda Società Consortile S.r.l. (euro 0.4 million).
Current financial receivables	8.6	The amount refers to receivables of Pirelli & C. Ambiente S.r.l from GWM Renewable Energy II S.p.A..
Non-current borrowings from banks and other financial institutions	1.7	Guarantee deposit to Prelios Group.
Current trade payables	24.5	The amount mainly consists of Pirelli Deutschland GmbH payables for energy purchases from Industriekraftwerk Breuberg GmbH.
Current other payables	0.1	The amount refers to payables of Pirelli & C. S.p.A. to Prelios S.p.A. for the R&D builiding rental.

TRANSACTIONS WITH RELATED PARTIES THROUGH DIRECTORS

(in millions of euro)

Revenue from sales and services	0.1	The amount refers to services provided by Pirelli Sistemi Informativi S.p.A. and Pirelli & C. S.p.A. to Camfin Group.
Other income	0.1	The amount mainly refers to rental income and related operating expenses from Camfin Group
Other costs	6.6	The amount mainly refers to advertising costs owed to FC Internazionale Milano S.p.A..
Current trade payables	3.3	The amount mainly refers to payables to FC Internazionale Milano S.p.A. for sponsorship agreement as detailed above.

Benefits for key managers of the Company

The benefit to key managers totalled euro 6,441 thousand in 1H 2014 (euro 3,968 thousand at June 30, 2013). The portion relating to employee benefits was recognised in the income statement as “personnel expense” for euro 2,520 thousand (euro 1,105 thousand in 1H 2013) and euro 3,921 thousand in the income statement as “other costs” (euro 2,863 thousand in 1H 2013).

40. OTHER INFORMATION

Research and development expenses

Research expenses rose from euro 93.3 million in 1H 2013 (3% of sales) to euro 99.7 million in 1H 2014 (3.3% of sales). They were expensed in the income statement as incurred 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 no unusual and/or exceptional transactions were carried out in 1H 2014, 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 1° Half		Change in %
	06/30/2014	06/30/2013		2014	2013	
Venezuelan Bolivar Fuerte	14.4775	8.2404	75.69%	14.4775	8.2404	75.69%
Swedish Krona	9.1762	8.7773	4.54%	8.9561	8.5289	5.01%
Australian Dollar	1.4537	1.4171	2.58%	1.4990	1.2946	15.79%
Canadian Dollar	1.4589	1.3714	6.38%	1.5031	1.3333	12.73%
Singaporean Dollar	1.7047	1.6545	3.03%	1.7282	1.6318	5.91%
U.S. Dollar	1.3658	1.3080	4.42%	1.3708	1.3129	4.41%
Taiwan Dollar	40.7869	39.2021	4.04%	41.3792	38.9282	6.30%
Swiss Franc	1.2156	1.2338	(1.48%)	1.2214	1.2296	(0.66%)
Egyptian Pound	9.7711	9.1814	6.42%	9.6240	8.9546	7.48%
Turkish Lira (new)	2.8971	2.5183	15.04%	2.9704	2.3813	24.74%
New Romanian Leu	4.3830	4.4603	(1.73%)	4.4642	4.3915	1.66%
Argentinian Peso	11.1081	7.0475	57.62%	10.9531	6.7330	62.68%
Mexican Peso	17.7519	16.6277	6.76%	17.9557	16.4825	8.94%
South African Rand	14.4597	13.0704	10.63%	14.6733	12.1010	21.26%
Brazilian Real	3.0150	2.8827	4.59%	3.1487	2.6694	17.96%
Chinese Renminbi	8.4035	8.0817	3.98%	8.4146	8.1944	2.69%
Russian Ruble	45.8251	42.7180	7.27%	48.1140	40.7636	18.03%
British Pound	0.8015	0.8572	(6.50%)	0.8215	0.8504	(3.40%)
Japanese Yen	138.4400	129.3900	6.99%	140.4673	125.3108	12.10%

So as to consolidate data for the Venezuelan subsidiary at June 30, 2014 the exchange rate established at the SICAD 1 auction of the end of June has been adopted equal to 10.6 bolivars per US dollar (14.48 bolivars per euro) and no longer the official fixed exchange rate of 6.3 bolivars per US dollar (8.68 bolivars per euro) as established by the “Convenio Cambiario N. 25” issued in Venezuela in January 22, 2014 which has determined that the official rate of 6.3 bolivars per US dollar can only be applied for the purchase of goods and services deemed “essential” by the country’s government.

Net financial (liquidity)/debt position

(alternative performance measure not envisaged by the accounting standards)

(in thousands of euro)

		Note	06/30/2014		12/31/2013	
				of which related parties		of which related parties
	Current borrowings from banks and other financial institutions	21	331,164	-	316,653	-
	Current derivative financial instruments (liabilities)	25	2,539	-	3,175	-
	Non-current borrowings from banks and other financial institutions	21	2,137,229	*1,730*	2,014,406	*1,674*
	Total gross debt continuing activities		**2,470,932**	**-**	**2,334,234**	**-**
	Cash and cash equivalents	17	(466,287)	-	(879,897)	-
	Securities held for trading	16	(32,811)	-	(48,090)	-
	Current financial receivables	13	(10,266)	*(8,640)*	(17,738)	*(8,234)*
	Current derivative financial instruments (assets)	25	(4,308)	-	(6,666)	-
	Net financial debt *		**1,957,260**	**-**	**1,381,843**	**-**
	Non-current financial receivables	13	(62,442)	-	(59,460)	-
A	**Total net financial (liquidity) debt position from continuing operations**		**1,894,818**	**-**	**1,322,383**	**-**
B	**Total net financial (liquidity) debt position from discontinued operations**		**40,359**	**-**	**-**	**-**
A+B	**Total net financial (liquidity) debt position**		**1,935,177**	**-**	**1,322,383**	**-**

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

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						
Pneus Pirelli S.a.S	Tyre	Villepinte	Euro	1.515.858	100,00%	Pirelli Tyre S.p.A.
Germany						
Deutsche Pirelli Reifen Holding GmbH	Financial	Breuberg / Odenwald	Euro	7.694.943	100,00%	Pirelli Tyre S.p.A.
Drahtcord Saar Geschaeftsfuehrungs GmbH	Tyre	Merzig	Deut. Mark	60.000	50,00%	Pirelli Deutschland GmbH
Drahtcord Saar GmbH & Co. KG	Tyre	Merzig	Deut. Mark	30.000.000	50,00%	Pirelli Deutschland GmbH
Driver Handelssysteme GmbH	Tyre	Breuberg / Odenwald	Euro	26.000	100,00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Deutschland GmbH	Tyre	Breuberg / Odenwald	Euro	26.334.100	100,00%	Deutsche Pirelli Reifen Holding GmbH
Pirelli Personal Service GmbH	Tyre	Breuberg / Odenwald	Euro	25.000	100,00%	Deutsche Pirelli Reifen Holding GmbH
PK Grundstuecksverwaltungs GmbH	Tyre	Hoechst / Odenwald	Euro	26.000	100,00%	Deutsche Pirelli Reifen Holding GmbH
Pneumobil GmbH	Tyre	Breuberg / Odenwald	Euro	259.225	100,00%	Deutsche Pirelli Reifen Holding GmbH
Greece						
Elastika Pirelli C.S.A.	Tyre	Kallithea (Athens)	Euro	11.630.000	99,90%	Pirelli Tyre S.p.A.
					0,10%	Pirelli Tyre (Suisse) SA
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 C.S.A.

Company	Business	Headquarter	Currency	Share Capital	% holding	Held by
Italy						
Driver Italia S.p.A.	Commercial	Milan	Euro	350.000	71,21%	Pirelli Tyre S.p.A.
Driver Servizi Retail S.p.A.	Commercial	Milan	Euro	120.000	100,00%	Pirelli Tyre S.p.A.
HB Servizi S.r.l.	Services	Milan	Euro	10.000	100,00%	Pirelli & C. 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.r.l.	Sustainable mobility	Milan	Euro	5.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli Design S.r.l.	Commercial	Milan	Euro	20.000	100,00%	PZero S.r.l.
Pirelli Industrie Pneumatici S.r.l.	Tyre	Settimo Torinese (To)	Euro	40.000.000	100,00%	Pirelli Tyre S.p.A.
Pirelli Labs S.p.A.	Research and Development	Milan	Euro	5.000.000	100,00%	Pirelli & C. S.p.A.
Pirelli 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	12.010.000	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.
					1,95%	Pirelli & C. Ambiente S.r.l.
					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.
Luxembourg						
Pirelli Finance (Luxembourg) S.A.	Financial	Luxembourg	Euro	13.594.910	100,00%	Pirelli & C. S.p.A.
The Netherlands						
E-VOLUTION Tyre B.V.	Tyre	Heinenoord	Euro	261.700.000	65,00%	Pirelli Tyre S.p.A.
Pirelli China Tyre N.V.	Tyre	Rotterdam	Euro	38.045.000	100,00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Heinenoord	Euro	18.152	100,00%	Pirelli Tyre (Suisse) SA
Poland						
Driver Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	100.000	70,00%	Pirelli Polska Sp.ZO.O.
Pirelli Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	625.771	100,00%	Pirelli Tyre S.p.A.

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 2008 Ltd	Tyre	Burton on Trent	British Pound	100.000	100,00%	Pirelli UK Tyres Ltd
Pirelli International plc (ex-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 S.p.A.
Romania						
S.C. Cord Romania S.r.l.	Tyre	Slatina	Rom. Leu	36.492.150	80,00%	Pirelli Tyre S.p.A.
S.C. Pirelli & C. Eco Technology RO S.r.l.	Sustainable mobility	Oras Bumbesti-Jiu	Rom. Leu	74.001.000	100,00%	Pirelli & C. Ambiente S.r.l.
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	10.000	95,00%	Pirelli & C. Ambiente S.r.l.
					5,00%	
Russia						
Closed Joint Stock Company "Voronezh Tyre Plant"	Commercial	Voronezh	Russian Rouble	1.520.000.000	100,00%	Limited Liability Company Pirelli Tyre Russia
OOO Pirelli Tyre Services	Commercial	Moscow	Russian Rouble	54.685.259	95,00%	Pirelli Tyre (Suisse) SA
					5,00%	Pirelli Tyre S.p.A.
Limited Liability Company "AMTEL-Russian Tyres"	Commercial	Moscow	Russian Rouble	10.000	100,00%	Limited Liability Company Pirelli Tyre Russia
Limited Liability Company Pirelli Tyre Russia	Holding Company	Moscow	Russian Rouble	4.000.000	99,91%	E-VOLUTION Tyre B.V.
					0,09%	OOO Pirelli Tyre Services
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
Spain						
Euro Driver Car S.L.	Tyre	Barcelona	Euro	951.000	56,15%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
					0,32%	Omnia Motor S.A. - Sociedad Unipersonal
Omnia Motor S.A. - Sociedad Unipersonal	Tyre	Barcelona	Euro	1.502.530	100,00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Pirelli Neumaticos S.A. - Sociedad Unipersonal	Tyre	Barcelona	Euro	25.075.907	100,00%	Pirelli Tyre S.p.A.
Tyre & Fleet S.L. - Sociedad Unipersonal	Tyre	Barcelona	Euro	20.000	100,00%	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 S.p.A.
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	100,000%	Pirelli Tyre S.p.A.
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	Turkey Lira	204.500.000	100,00%	Pirelli Tyre S.p.A.
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3.000.000	100,00%	Pirelli Tyre S.p.A.

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%	Pirelli Tyre S.p.A.
					5,00%	Pirelli Pneus Ltda
Brazil						
Comercial e Importadora de Pneus Ltda	Tyre	Sao Paulo	Bra. Real	101.427.384	64,00%	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	9.099.055	97,74%	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	6.812.000	49,00%	Pirelli Pneus Ltda
TLM - Total Logistic Management Serviços de Logistica Ltda	Holding Company	Santo Andrè	Bra. Real	1.006.000	99,98%	Pirelli Pneus Ltda
					0,02%	Pirelli Ltda
Chile						
Pirelli Neumaticos Chile Limitada	Tyre	Santiago	Chile Peso/000	1.918.451	99,98%	Pirelli Pneus Ltda
					0,02%	Pirelli Ltda
Colombia						
Pirelli de Colombia SAS (ex-Pirelli de Colombia SA)	Tyre	Santa Fe De Bogota	Col. Peso/000	3.315.069	94,51%	Pirelli Pneus Ltda
					2,28%	Pirelli de Venezuela C.A.
					1,60%	TLM - Total Logistic Management Serviços de Logistica Ltda
					1,60%	Comercial e Importadora de Pneus Ltda
Perù						
Pirelli de Peru S.A.C.	Tyre	Lima	Nuevos Soles	83.095	100,00%	Pirelli 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
					0,02%	Pirelli Ltda
Pirelli Neumaticos S.A. de C.V.	Tyre	Silao	Mex. Peso	1.953.954.000	99,00%	Pirelli Tyre S.p.A.
					1,00%	Pirelli Pneus Ltda
Pirelli Servicios S.A. de C.V.	Tyre	Silao	Mex. Peso	50.000	99,00%	Pirelli Tyre S.p.A.
					1,00%	Servicios Pirelli Mexico S.A. de C.V.
Servicios Pirelli Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	50.000	99,00%	Pirelli Pneus Ltda
					1,00%	Pirelli Ltda
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.
					0,03%	Pirelli Tyre (Suisse) SA
International Tire Company Ltd	Tyre	Alexandria	Egy. Pound	50.000	99,80%	Alexandria Tire Company S.A.E.
South Africa						
Pirelli Tyre (Pty) Ltd	Tyre	Centurion	S.A. Rand	1	100,00%	Pirelli Tyre (Suisse) SA
Oceania						
Australia						
Pirelli Tyres Australia Pty Ltd	Tyre	Sydney	Aus. $	150.000	100,00%	Pirelli Tyre (Suisse) SA
New Zealand						
Pirelli Tyres (NZ) Ltd	Tyre	Auckland	N.Z. $	100	100,00%	Pirelli Tyres Australia Pty Ltd
Asia						
China						
Pirelli Tyre Co. Ltd	Tyre	Yanzhou	Ch. Renminbi	1.721.150.000	90,00%	Pirelli China Tyre N.V.
Pirelli Tyre Trading (Shangai) Co., Ltd	Tyre	Shangai	US $	700.000	100,00%	Pirelli China Tyre N.V.
Sino Italian Wire Technology Co. Ltd	Tyre	Yanzhou	Renminbi	227.500.000	49,00%	Pirelli Tyre S.p.A.
Yanzhou HIXIH Ecotech Environment CO., Ltd	Sustainable mobility	Yanzhou	Ch. Renminbi	130.000.000	100,00%	Pirelli Tyre Co. Ltd
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	2.200.000.000	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						
Consorzio per la Ricerca di Materiali Avanzati (CORIMAV)	Financial	Milan	Euro	103.500	100,00%	Pirelli & C. 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	23.345.263	62,56%	Pirelli & C. S.p.A.
GWM Renewable Energy II S.p.A.	Enviroment	Rome	Euro	15.063.016	16,87%	Pirelli & C. Ambiente S.r.l.
Idea Granda Società Consortile r.l.	Enviroment	Cuneo	Euro	1.292.500	49,00%	Pirelli & C. Ambiente S.r.l.
Prelios S.p.A.	Financial	#REF!	Euro	189.896.923	29,22%	Pirelli & C. S.p.A.
						of the voting shares
Serenergy S.r.l.	Enviroment	Milan	Euro	25.500	50,00%	Pirelli & C. Ambiente S.r.l.
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						
Indonesia						
PT Evoluzione Tyres	Tyre	Subang	$ USA	68.000.000	60,00%	Pirelli Tyre S.p.A.

Other investments

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 UK Ltd
Tunisia						
Société Tunisienne des Industries de Pnéumatiques S.A.	Tyre	Tunis	Tun. Dinar	12.623.472	15,83%	Pirelli Tyre S.p.A.

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, 2014 – June 30, 2014.

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, 2014 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, 2014

The Chairman
and Chief Executive Officer

Marco Tronchetti Provera

The Corporate Financial
Reporting Manager

Francesco Tanzi

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

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

1. We have reviewed the condensed consolidated interim financial statements, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flow and the related explanatory notes, of Pirelli & C. S.p.A. (the "Company") and its subsidiaries (the "Pirelli Group") as of June 30, 2014. 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 the condensed consolidated interim financial statements for the prior year. As described in the explanatory notes, the Directors have restated certain comparative data related to the condensed consolidated interim financial statements for the prior year. The data previously presented have been, respectively, audited and reviewed and we issued our related auditor's report on April 10, 2014 and on August 6, 2013. 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, 2014 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.

Reconta Ernst & Young S.p.A.
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4. As a matter of emphasis, we draw your attention to the fact that as a result of the sale agreement signed on February 28, 2104, the steelcord business is qualified as discontinued operation in accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations). As illustrated in the explanatory notes n.2 (Basis of presentation - Financial statement formats) and n. 36 (Assets and liabilities held for sale and discontinued operations), the condensed consolidated interim financial statements as of June 30, 2014 reflect the effects of the application of IFRS 5 in presenting and evaluating assets and liabilities and results related to the discontinued operation. In the absence of a specific IFRS 5 guidance, with respect to the transactions between the steelcord business and other continuing operations the company has chosen to present in the income statement the post disposal effects, including in the net income from discontinued operation the revenues from third party sales and the related expenses.

Milan, August 6, 2014

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