Volume A

Annual Financial Report at December 31, 2011

Vol. A

Vol. A

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

Annual Financial Report at December 31, 2011

Annual Financial Report at December 31, 2011 Vol. A

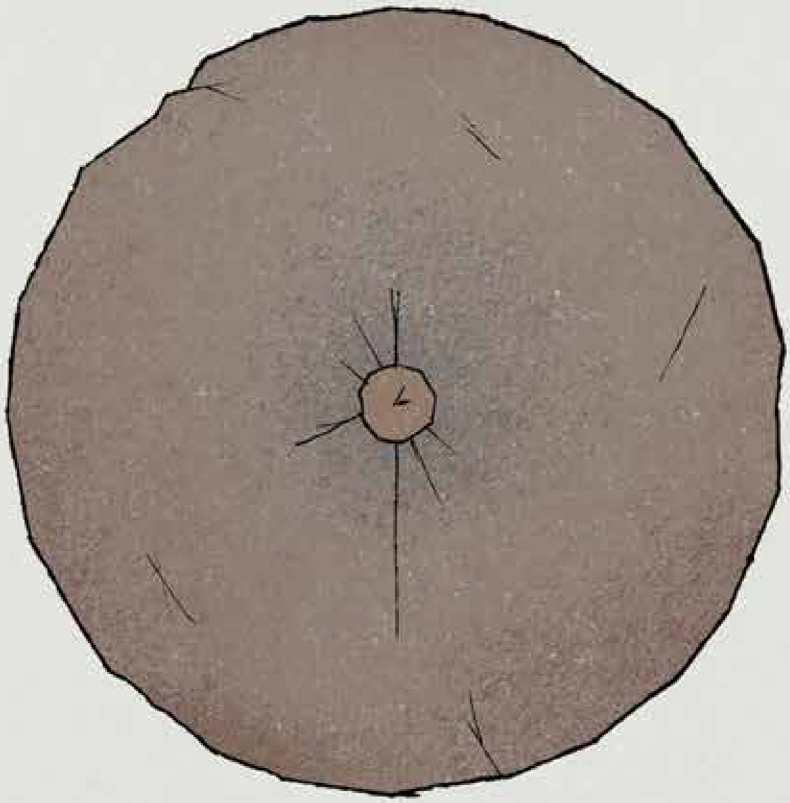
* The Annual Report on Corporate Governance and structure of share ownership included in volume B is a specific, integral section of the Directors'Report on Operations

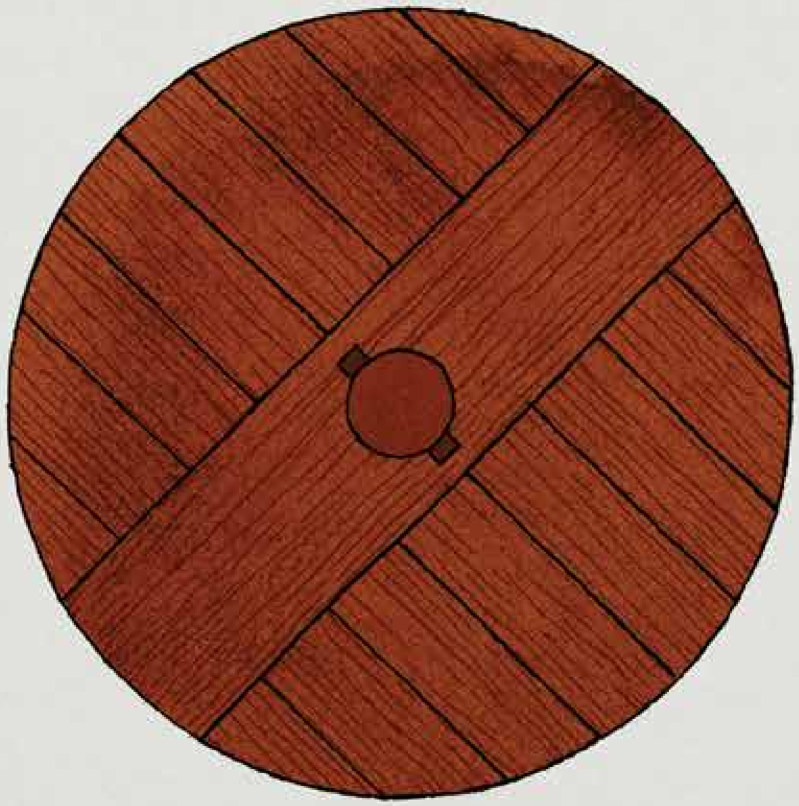
** This volume is a specific, integral section of the Directors'Report on Operations


S
GLE
RUM
2012

Dear Stakeholders,

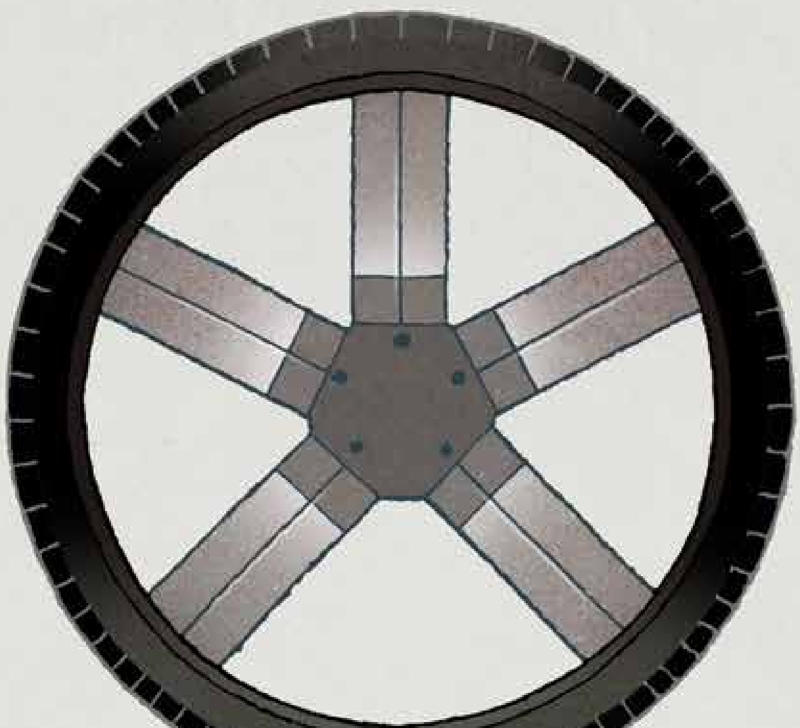
Last year we set ourselves ambitious targets and achieved them more quickly than forecast in our industrial plan. And we did it despite the intervening difficulties of the world economy, Europe's in particular, thanks to our ability to confront a world that is ever more global and in continuous change. A change which can also be a great opportunity, if one is able to broaden horizons following the evolution of the macro-economic scenario.





In 2011 we strengthened our presence in Romania and China, continued with the completion of our technology hub at Settimo Torinese, lay the foundations for our productive presence in a promising market like Russia and began the construction of a new factory in Mexico, an ideal bridge to the entire Nafta area. In 2012, there will be further geographic diversification as we take important steps in Indonesia.

We did many things in 2011, as can be seen from the positive economic data and the 2012-2014 industrial plan with vision to 2015. There are still many things to improve and goals to reach, confronting ever more interconnected economies and meeting new challenges every day. Like that of Formula 1 which meant not only a great return at the image level, but also additional know-how to transfer to our road products. It is an experience which will continue this year and also in 2013 and which will see us, as always, as protagonists in the development of new technologies and innovative ideas.



"Wherever the world goes, in fact,
it was almost always move on tyres"

In this way we also won the challenge of sustainability, giving life to production processes that are always more attentive to the environment and to the safety of our products and people, from employees to consumers. The commitment to improving our attention to sustainable growth is constant, as with corporate governance which sees the Board of Directors in a central role in the definition of strategic guidelines, the monitoring of management and the government of risk.

The value of our brand, which in 2011 reached almost 2.3 billion euro, reflects the passion and skill of our people, the strength of our technology, the capacity to communicate our values. And our determination to grow even more, also thanks to the trust of our stakeholders.

—Marco Tronchetti Provera,
Chairman and Ceo

Guillermo Martínez

HOW TO DRESS A QUEEN ?

Guillermo Martínez

Born in Bahía Blanca (Argentina) in 1962, Guillermo Martínez moved first to Buenos Aires in 1985, where he graduated in mathematics, then to Oxford, England. In 1982 he won the Premio del Fondo Nacional de las Artes with the book of short stories Vast Hell, followed by the publication of several novels, including The Oxford Murders, translated into 35 languages and on which a film was based. He is also the author of the essay Borges and Mathematics.

How to dress a queen?

Inspector Manfredi waved for them to show the man into his office. Although he was elderly, he walked in calmly, erect and with a lively twinkle in his eye.

'Mr. Rinaldi, you'll be wondering why we called you in,' said Manfredi, motioning him towards a chair. 'The thing is, we asked who knew about cars in the city, and several people mentioned your name.'

'Well, I do know a bit,' said Rinaldi, with proud modesty. 'I've been a taxi-driver all my life, and cars have always fascinated me.'

'I'll come straight to the point,' Manfredi said. 'We're involved in a tricky case, and thought you might be able to help us. The case is still being investigated, so I can only give you a brief outline. A certain gentleman (let's call him X) went into a classic car dealer's showroom. He asked to test drive a 1960s Ferrari coupé. He drove the car out to the ring road and, according to his testimony, on a bend he hit a huge puddle of early morning rainwater, which caused him to skid onto the verge. As ill-luck would have it, he knocked down a school-teacher who every morning hitched a lift into the city from that very spot.'

'But you think that in fact it was no accident,' said the elderly man, with a knowing smile.

'We investigated Mr. X's background. We learnt that his father, a well-known millionaire who is now very ill, had an illegitimate son.

Guillermo Martínez

¿Cómo se viste a una reina?

El inspector Manfredi dio una señal para que hicieran pasar al hombre a su despacho. Era casi un anciano, aunque entró erguido, sereno, y con un brillo vivaz en los ojos.

— Usted querrá saber, señor Rinaldi, para qué lo llamamos —dijo Manfredi, mientras le señalaba una silla—. Es que preguntamos quién sabía de autos en la ciudad y varios nos dijeron su nombre.

— Bueno, quizá un poco —dijo el hombre con una modestia satisfecha—: fui toda mi vida taxista y siempre me gustó la mecánica.

— Voy a ir al punto —dijo Manfredi—: tenemos un caso delicado y pensamos que usted podría ayudarnos. Por el secreto de la causa, sólo puedo darle unos datos mínimos. Ayer por la tarde se reportó una muerte como accidente de tránsito. Un cierto señor, llamémosle X, fue hasta una concesionaria de autos antiguos, pidió probar una coupé del Cavallino, del año 60, salió con el auto a las afueras, y —según declaró— pisó en una curva un gran charco de agua, de las lluvias de la mañana, y derrapó hacia la banquina, con tanta mala suerte que atropelló a un maestro que siempre hacía dedo en ese lugar para que lo acercaran a la ciudad.

— Pero usted no cree que haya sido en realidad un accidente —dijo el viejo con una sonrisa astuta.

— Investigamos un poco al señor X: nos enteramos de que su padre, que es un conocido millonario y está ahora muy enfermo, tuvo un hijo ilegítimo. Ese hijo

How to dress a queen?
by Guillermo Martínez

As chance would have it, that boy was the school-teacher who was run over. All this was meant to be a complete secret that no-one, not even Mr. X, was aware of. Yet we were able to discover it.'

'So this Mr. X could have somehow found it out as well,' Rinaldi said. 'And now, thanks to the accident, he's the only heir once more. I see where you are heading...do you know how fast the car was going?'

'There's a speed camera nearby, so we have already been able to check that he was going at 110 kilometres an hour, the maximum permitted.'

'Well then,' said the elderly man, as if confirming something to himself, 'in my opinion, you are right.'

'How can you say that so quickly?' said Manfredi, intrigued. 'With so little information, and without the technical report? What do you base your conclusion on?'

'In the first place, I am ruling out any problems with the steering or brakes. I know the car salesman, and all his cars are impeccable. That only leaves the tyres. Thanks to a simple deduction, I'm sure they must be Pirelli: I would wager that's the case. Am I right?'

Inspector Manfredi consulted the file, and nodded in astonishment. 'How did you know?' he asked.

'We're talking about the queen of coupés,' the old man said. 'And how do you dress a queen? In a flimsy cotton dress? Or in the kingdom's best fabrics?'

'I see, go on,' said Manfredi.

'The rest is elementary,' the old man continued. 'The tyres must be from the same date, because that's what collectors want: everything has to match.

II/III

era, casualmente, el maestro atropellado. Se supone que era un secreto absoluto y que nadie, ni el señor X, lo sabía. Pero en fin, nosotros pudimos averiguarlo.

— Por lo tanto, también este señor X pudo enterarse de algún modo —dijo Rinaldi—. Y ahora, gracias al accidente, es otra vez el único heredero. Ya veo lo que usted piensa... ¿Se sabe a qué velocidad iba el auto?

— Hay un radar muy cerca y ya lo verificamos: iba a ciento diez kilómetros, la velocidad máxima permitida.

— Entonces —dijo el viejo, como si asintiera lentamente para sí— creo que usted tiene razón.

— ¿Ya puede asegurarlo? —dijo Manfredi, intrigado—. ¿Con sólo estos datos, sin mirar el informe técnico? ¿Cuál sería su argumento?

— Descarto en principio un problema en la dirección o los frenos, porque conozco al dueño de la concesionaria y sus autos son todos impecables. Nos quedan entonces solamente los neumáticos. Por una simple deducción, estoy seguro de que tienen que ser Pirelli, me animaría a apostar sobre esto. ¿Es así?

El inspector Manfredi consultó las hojas del informe y asintió, asombrado.

— ¿Cómo lo supo? —dijo.

— Estamos hablando de la reina de las coupés —dijo el viejo—. ¿Y cómo se viste a una reina? ¿Con un vestidito de algodón? ¿O con las mejores telas del reino?

— Muy bien, adelante —dijo Manfredi.

— Es que el resto es elemental —prosiguió el viejo—: los neumáticos, seguramente, son de la misma época, And by the 1960s, Pirelli had introduced its Cinturato radial tyres to all sports cars. Fangio had tested them in Formula One, with a pioneering design that gave them incredible road holding. Therefore, with those tyres and at that speed, it's impossible for him to have skidded, however big the puddle was.'

'Benissimo,' cried Manfredi, 'you've been a great help.'

'Really, it was nothing,' said Rinaldi, getting to his feet. 'Now, if you don't mind, I have to go: I left my taxi double-parked.'

Translated by Nick Caistor

porque así les gusta a los coleccionistas: que todo haga juego. Pero ya en los 60 Pirelli había logrado llevar a todos los autos deportivos los radiales Cinturato, que Fangio había probado en la fórmula 1, con un dibujo pionero de agarre extraordinario. De manera que con estos neumáticos y a esa velocidad es imposible que hubiera resbalado, no importa qué tan grande fuera el charco...

— Benissimo —dijo Manfredi—: ha sido usted de una gran ayuda.

— No fue nada, realmente —dijo el viejo, poniéndose de pie—. Y ahora, si no le importa, tengo que irme: dejé mi taxi estacionado en doble fila.

Guillermo Martinez
Buenos Aires, 1/3/2012.

General information

23

GENERAL INFORMATION

CALL OF GENERAL MEETING

The ordinary shareholders of PIRELLI & C. Società per Azioni are called to the Ordinary Shareholders' Meeting in Milan, Viale Sarca n. 214:

- at 2:00 p.m., Thursday, May 10, 2012 on sole call; to discuss and resolve on the following

AGENDA

1. Annual Financial Report at December 31, 2011. Relevant and consequent resolutions.
2. Election of two members of the Board of Directors
3. Board of Statutory Auditors:

- appointment of standing and alternate members;
- appointment of Chairman;
- determination of members' fees.

4. Remuneration Policy: consultation.
5. Three-year (2012-2014) monetary incentive plan for PIRELLI Group management. Relevant and consequent resolutions.

Board of Directors [1]

Chairman and Chief Executive Officer	Marco Tronchetti Provera
Deputy Chairman	Vittorio Malacalza
Deputy Chairman	Alberto Pirelli
Independent Director	Carlo Acutis
Independent Director	Anna Maria Artoni
Director	Gilberto Benetton
Independent Director	Alberto Bombassei
Independent Director	Franco Bruni
Independent Director	Luigi Campiglio
Independent Director	Paolo Ferro-Luzzi
Independent Director	Pietro Guindani
Director	Giulia Maria Ligresti
Independent Director	Elisabetta Magistretti
Director	Massimo Moratti
Director	Renato Pagliaro
Director	Giovanni Perissinotto
Independent Director	Luigi Roth
Lead Indipendent Director	Carlo Secchi
Independent Director	Manuela Soffientini[2]
Director	Giuseppe Vita[3]
Secretary to the Board	Anna Chiara Svelto

Board of Statutory Auditors[4]

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

Internal Control, Risks and Corporate Governance Committee

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

Remuneration Committee

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

Nominations and Succession Committee

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

Strategies Committee[5]	
Chairman of the Committee	Marco Tronchetti Provera
Independent Director	Franco Bruni
General Counsel and Corporate Affairs	Francesco Chiappetta
General Manager	Francesco Gori
Deputy Chairman	Vittorio Malacalza
Director	Renato Pagliaro
Lead Indipendent Director	Carlo Secchi

General Manager	Francesco Gori

Independent Auditor[6]	Reconta Ernst & Young S.p.A.

Corporate Financial Reporting Manager[7]	Francesco Tanzi

1 Appointment: April 21, 2011. Expiry: Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2013. Professor Francesco Profumo, appointed Director of the Company on April 21, 2011, resigned from his position on November 16, 2011 following his acceptance of appointment as Minister of the Republic of Italy. Mr Enrico Tommaso Cucchiani resigned on December 16, 2011 after accepting other positions.
2 Director Soffientini was co-opted by the Board of Directors on March 1, 2012 as replacement for Director Profumo. Pursuant to Article 2386 Italian Civil Code, Director Soffientini's term expires at the Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2011.
3 Director Vita was co-opted by the Board of Directors on March 1, 2012 as replacement for Director Cucchiani. Pursuant to Article 2386 Italian Civil Code, Director Vita's term expires at the Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2011.
4 Appointment: April 21, 2009. Expiry: Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2011.
5 Prof. Profumo was a member of the Strategies Committee until his resignation.
6 Post conferred by the Shareholders' Meeting held on April 29, 2008 for the nine-year term 2008-2016.
7 Appointment: Board of Directors meeting held on April 21, 2011. Expiry: together with the current Board of Directors.

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

SELECTED ECONOMIC AND FINANCIAL DATA

(in millions of euro)

	2011	2010	2009 :	2008	2007
GROUP INCOME STATEMENT					
Net sales	**5,655**	**4,848**	**4,067**	**4,660**	**6,076**
Net sales (excluding DGAG - PRE) *				4,660	4,780
Gross operating profit	**807**	**629**	**453**	**252**	**573**
% of net sales	14.3%	13.0%	11.1%	5.4%	9.4%
Operating income	**582**	**408**	**250**	**43**	**364**
% of net sales - ROS	10.3%	8.4%	6.1%	0.9%	6.0%
Net income (loss) from continuing operations	**313**	**228**	**77**		
Net income (loss) from discontinued operations	-	(224)	(100)		
Prior period deferred tax assets - Italy	128	-	-		
Total net income (loss)	**441**	**4**	**(23)**	**(413)**	**324**
Net income attributable to owners of Pirelli & C. S.p.A.	**452**	**22**	**23**	**(348)**	**165**
Total net earnings (losses) per share attributable to owners of Pirelli & C. S.p.A. (in euro)	0.926	0.045	0.047 °°	(0.065)	0.031

	2011	2010	2009 :	2008	2007
TYRE INCOME STATEMENT					
Net sales	**5,602**	**4,772**	**3,993**	**4,100**	**4,162**
Gross operating profit	**858**	**661**	**501**	**341**	**549**
% of net sales	15.3%	13.9%	12.5%	8.3%	13.2%
Operating income	**644**	**453**	**309**	**151**	**358**
% of net sales - ROS	11.5%	9.5%	7.7%	3.7%	8.6%

	2011	2010	2009 :	2008	2007
GROUP BALANCE SHEET					
Non-current assets	3,558	3,164	3,596	3,665	3,815
Net working capital	399	303	427	600	551
% of net sales	7.1%	6.2%	10.5%	12.9%	11.5%
Total net working capital	155	117	222	418	298
% of net sales	2.7%	2.4%	5.5%	9.0%	6.2%
Net invested capital	3,713	3,281	3,818	4,083	4,113
Equity	2,192	2,028	2,495	2,374	3,804
Provisions	784	797	795	681	611
Net financial (liquidity)/debt position	737	456	529	1,028	(302)
Equity attributable to owners of Pirelli & C. S.p.A.	2,146	1,991	2,175	2,172	2,980
Equity per share attributable to owners of Pirelli & C. S.p.A. (in euro)	4.40	4.08	4.46 °°	0.40	0.56

	2011	2010	2009 :	2008	2007
OTHER GROUP INFORMATION					
Net operating cash flow	156	310	496	(147)	299
Depreciation and amortization	221	217	198	199	214
Capital expenditure - tangible	618	433	225	311	287
Capital expenditure/depreciation	2.80	2.00	1.14	1.56	1.34
Research and development expenses	170	150	137	156	173
% of net sales	3.0%	3.1%	3.4%	3.3%	3.6%
Headcount (at 12/31)	34,259	29,573	29,570	31,056	30,823
of whom temporary workers	2,649	2,426	2,245	2,913	3,642
Sales * per employee (in thousands of euro)	181	160	138	148	155
Operating income/Net invested capital ** - ROI	16.64%	11.49%	6.33%	1.05%	6.33%
Net income (loss)/Equity ** - ROE	20.89%	0.18%	(0.94%)	(13.37%)	7.63%
Net financial position/Equity - Gearing	0.34	0.22	0.21	0.43	n.s.

: Comparative income statement figures for 2009 related to Pirelli Real Estate and Pirelli Broadband Solutions business units, discontinued in 2010, have been reclassified to "net income (loss) from discontinued operations"

°° 2009 per share figures have been reclassified on a comparable basis after the reverse stock split pursuant to the Shareholders' Meeting resolution of July 15, 2010

* Excluding net sales for deconsolidation of DGAG real estate assets

** Average amounts

Directors' Report on Operations

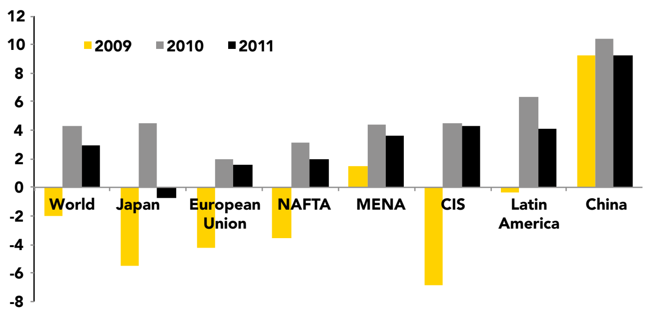
DIRECTORS' REPORT ON OPERATIONS

MACROECONOMIC AND MARKET SITUATION

THE GLOBAL ECONOMY

The global economy has withstood a number of shocks in 2011 that clearly stunted growth of a world economy still recovering from the global financial crisis of 2008-2009. The uprisings in the Middle East and North Africa destabilized governments in the region and disrupted economic growth and oil supply. On March 11, the earthquake in Japan disrupted not only the Japanese economy but the global manufacturing supply chain, particularly in the electronic and automotive sectors. Europe's sovereign debt crisis intensified throughout the year as tight fiscal policy across the region depressed consumer spending, constraining both economic growth and expectations for its recovery.

World GDP Growth, Annual % Change



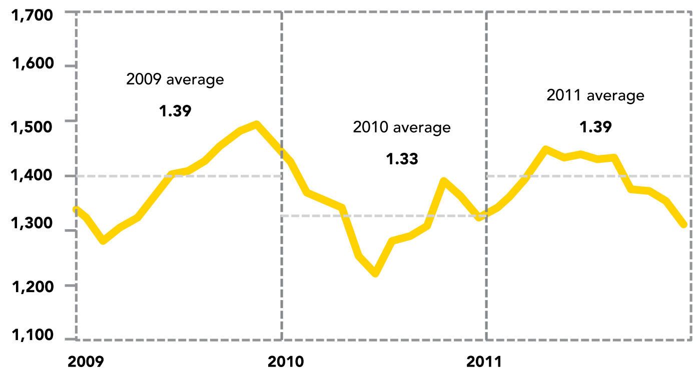
Source: IHS Global Insight, December 2011

The impact of these shocks has been to depress global growth to 3.0% in 2011 following a recovery of 4.3% in 2010. In the mature economies, growth edged upwards by only 1.5% in 2011, as sustained unemployment depressed real incomes in both Europe and the United States, and confidence was undermined by the debt crisis. The Japanese economy contracted instead by 0.7%.

Emerging market growth moderated but still remained robust in 2011 offering a key source of support for the global economy. The Asia-Pacific region expanded by 4.5% in 2011, led by a 9.2% rate of growth in China. Economic growth was 4.1% in Latin America led by a 7.8% expansion in Argentina, while growth in Brazil, after a rebound of 7.5% in 2010, slowed to 2.9% in 2011 as the lagged effects of tighter fiscal and monetary policy reined in economic activity.

With respect to exchange rates, the Euro was up 5% on the dollar on average in 2011 compared to 2010. It started off 2011 at 1.34 U.S. dollars per Euro and strengthened in the spring to 1.48 U.S. dollars only to slip in the fourth quarter as a combination of weaker European growth, a cut in the policy rate and continued turbulence related to the sovereign debt crisis weighed on the exchange rate.

€ / US $



In Asia, the Japanese yen continued its appreciation against the dollar in 2011, starting out the year at 82 yen per U.S. dollar and closing out 2011 at 77 yen per U.S. dollar. The Chinese renminbi appreciated by close to 5% with respect to the U.S. dollar during 2011.

The Brazilian Real appreciated steadily against the U.S. dollar for the first half of 2011 and hit a high of 1.54 against the U.S. dollar at the end of July. In September, market turbulence and a shift by the government to growth supporting policies produced a 14% depreciation in the Real and by end 2011, the exchange rate was trading at 1.86 Real per U.S. dollar. The Argentina currency averaged 4.13 pesos per U.S. dollar in 2011, an 8% depreciation with respect to its 2010 average exchange rate. Venezuela maintained its peg with the U.S. dollar in 2011.

Automotive market

LIGHT VEHICLE SALES

Light vehicle sales in western Europe registered a third successive year of market declines due to the contraction in private consumption. Sales fell by 1% in 2011 after falling 3% in 2010 and 9% in 2009. Nevertheless, not all segments of the light vehicle market performed the same. In western Europe, the premium segment grew by 4-5% in both 2010 and 2011. Sales of light vehicles in central and eastern Europe rose at double-digit rates in both 2010 and 2011, posting growth in all segments.

NAFTA sales rebounded in both 2010 and 2011 with sales growth of 9-11% in both years. South America also exhibited strong growth of 9% in 2011 and was stronger still in the premium segment.

Growth in Asia slowed considerably in 2011 to a 1% increase after two years of buoyant growth. Light vehicle sales plunged in Japan following the earthquake and sales in other Asian markets were also affected by supply chain issues. Chinese sales expanded by 4.5%, led by gains in the premium segment.

Sales in the Middle East and Africa were interrupted by the popular uprisings, particular in Tunisia and Egypt where light vehicle sales declined. The light vehicle market continued to expand rapidly in South Africa.

COMMERCIAL VEHICLE SALES

After a strong recovery in 2010, global sales of medium and heavy range vehicles rose by 4% in 2011. Sales in western Europe and NAFTA countries posted double-digit rates of growth, although volumes remained below their levels in 2007, prior to the global financial crisis. As in western Europe, sales in the truck segment grew rapidly in central and eastern Europe both in 2010 and 2011, although they have not yet fully recovered from the nearly 70% contraction in 2009.

Truck sales expanded by 4% on the South American market in 2011 leaving sales well above pre-crisis levels. Southeast Asian sales expanded steadily in 2011 while in China, after two years of double-digit rates of growth, truck segment sales dropped 9% in 2011 as incentives targeting investment which supported commercial vehicle sales in 2009 and 2010 came to an end. In Japan, sales recovered by 4% in 2011.

Tyre market

CONSUMER

The global market for tyres in the car segment was 1,342 million units in 2011, with an increase of 4% from 2010, when it had increased by 10%.

Growth in the premium segment was sustained, with a 15% increase in 2011.

In Europe, the demand for original equipment and replacement tyres grew at the same rate of 3% in 2011. In NAFTA countries, the original equipment tyre segment posted an increase of 10%, while the replacement tyre segment softened in the H2 2011 after a strong first half performance.

Growth in South America was 2% in the original equipment segment, while sales of replacement tyres remained steady at their 2010 levels.

After an expansion of more than 30% in both segments in China during 2010, sales there rose by only 2% in the original equipment segment, while sales of replacement tyres rose by 12%. In Japan, the collapse in automotive production produced a decline of 13% in tyre sales to the original equipment market in 2011, while the replacement tyre segment continued to expand at a pace of 8%.

INDUSTRIAL

The global radial truck tyre market reached an estimated 135 million units in 2011, an increase of 7% over 2010.

In Europe, sales to the original equipment market continued to be robust. On the other hand, the replacement market was flat in 2011 following a jump of close to 20% in 2010. NAFTA countries saw original equipment tyre sales rise 55% while the replacement market expanded by 3% in 2011.

In South America, original equipment sales were up 11% in 2011 after a 47% increase in 2010. After a boom year in 2010, when replacement tyre sales rose by 23%, sales fell by 1% in 2011. In Asia, tyre sales to the Chinese original equipment market contracted in 2011 as incentives which boosted sales in the previous two years came to an end. The replacement market rose slightly, by 1%. The Japanese original equipment market fell by 2% in 2011 while the replacement market continued its recovery posting a 7% increase in tyre sales.

TYRE SALES	CONSUMER MARKET	2009	2010	2011
Europe*	Original equipment	-19%	13%	3%
	Replacement	-4%	8%	3%
NAFTA	Original equipment	-32%	39%	10%
	Replacement	-3%	4%	-1%
South America**	Original equipment	-1%	13%	2%
	Replacement	7%	11%	1%
China	Original equipment	47%	31%	2%
	Replacement	20%	31%	12%
Japan	Original equipment	-32%	20%	-13%
	Replacement	-8%	9%	8%
TYRE SALES	**INDUSTRIAL MARKET**	**2009**	**2010**	**2011**
Europe*	Original equipment	-64%	57%	32%
	Replacement	-14%	18%	-1%
NAFTA	Original equipment	-36%	30%	55%
	Replacement	-13%	18%	3%
South America**	Original equipment	-25%	47%	11%
	Replacement	-9%	23%	-1%
China	Original equipment	28%	53%	-15%
	Replacement	16%	10%	1%
Japan	Original equipment	-49%	37%	-2%
	Replacement	-21%	14%	7%

* includes Turkey, excludes Russia.
** Argentina, Brazil and Venezuela.
Source: Pirelli estimates

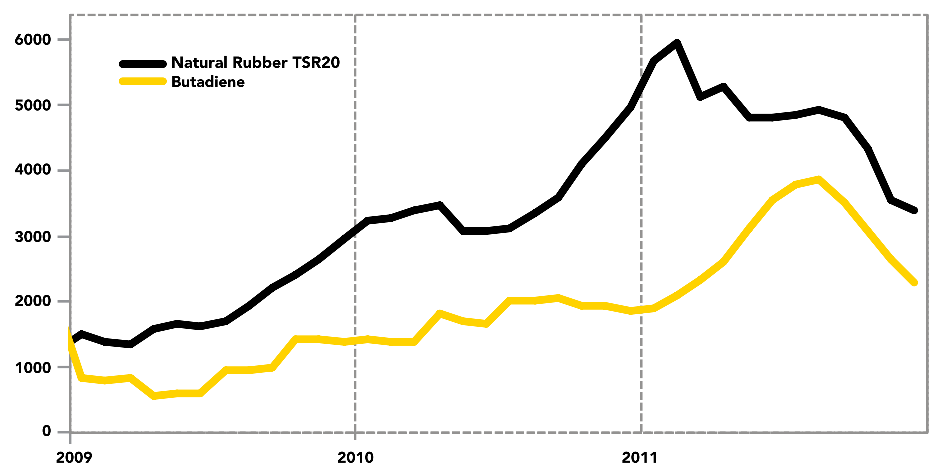
COMMODITIES

Natural rubber prices hit historic highs of over US$ 5500 per tonne in the first quarter of 2011, driven by a recovery of demand. Afterwards, the earthquake in Japan disrupted global automotive production, a major source of global rubber demand, with a consequent decline in natural and synthetic rubber prices. The general slowdown in economic growth in Europe, the United States and China exerted adding downward pressure on prices, which were also adversely affected by floods that damaged several car plants in Thailand during the second half of 2011. At the end of the year, natural rubber prices recovered to more moderate levels of around US$ 3200 per tonne.

Crude oil price rose at the beginning of 2011 in response to uprisings in the Middle East. Brent prices rose from US$98/bbl in January to US$123/bbl in April. The end of the conflict in Libya and concerns about the slowdown in global growth caused oil prices to fall back to US$108/bbl in December 2011.

Butadiene (the principal input for synthetic rubber) also increased during 2011 reaching its peak in the summer and experiencing a sudden drop in Q3 and Q4. By December, butadiene prices had dropped to euro 1650 per tonne (Europe contract, equivalent to US$2170 per tonne), similar to April 2011 levels.

Rubber and butadiene Prices, US$ per tonne



Source: CMAI, IHS Global Insight

SIGNIFICANT EVENTS DURING THE YEAR

On **January 13, 2011** PIRELLI & C. S.p.A. sold its equity investment in CyOptics Inc. (34.4% shareholding) for US$ 23.5 million, corresponding to its carrying value at December 31, 2010.

On **February 10, 2011** PIRELLI successfully concluded its placement of an unrated, 5.125% coupon bond issue maturing in February 2016 and worth a nominal euro 500 million with international institutional investors on the Eurobond market. The placement is one of the actions being taken to streamline the Group debt structure by lengthening the average duration of debt and diversifying funding sources. Of this issue, which received requests totalling more than nine times the amount offered, 93% was placed with foreign investors.

On **March 29, 2011** PIRELLI presented the Cinturato P1, the new high-tech "green" tyre designed for small and mid-sized vehicles, which guarantees lower fuel consumption, respect for the environment, and high performance wet and dry conditions. Cinturato P1 has been chosen as original equipment by BMW, including the "runflat" version. Cinturato P1 extends PIRELLI's green range, which was inaugurated four years ago with the Cinturato P4 and P6 for city cars and mid-sized vehicles and was then further enhanced with the P7 for medium and high-powered vehicles.

On **April 21, 2011** the PIRELLI Ordinary Shareholders' Meeting resolved to pay a dividend of euro 0.165 per ordinary share and euro 0.229 per savings share. The Shareholders' Meeting filled all 20 seats on the Board of Directors for three financial years (until approval of the Annual Financial Report at December 31, 2013). The majority of seats on the Board of Directors (11 positions) are held by independent directors.

The Extraordinary Shareholders' Meeting approved a voluntary reduction in share capital of euro 32,498,345.12, pursuant to Article 2445 Italian Civil Code, to be charged to equity. This reduction was effected to complete the assignment of shares in Prelios S.p.A. (formerly PIRELLI RE S.p.A.) made in 2010, and did not involve any decrease in equity. The amount of the reduction was allocated to equity in order to eliminate the negative reserve that had been generated upon conclusion of the assignment operation. The reduction was completed in August.

On **July 5, 2011**, in order to strengthen its business in China, PIRELLI acquired 15% of the company PIRELLI Tyre Co. Ltd from the minority shareholder for 256 million Renminbi, or about euro 28 million. The shareholding of PIRELLI consequently rose from 75% to 90%.

On **July 7, 2011** PIRELLI Ambiente, acting through its subsidiary Solar Utility S.p.A., acquired a 16.9% shareholding in GWM Renewable Energy II S.p.A., the vehicle that controls the renewable energy activities of the GWM Group. Solar Utility acquired this equity interest for a total investment of about euro 25 million, funded partly from the sale proceeds of its shareholding in GP Energia S.p.A., a joint venture established last year with GWM Renewable Energy, to which Solar Utility S.p.A. had contributed its own photovoltaic activities. The agreement is part of the project to simplify the equity investments of PIRELLI Ambiente and has enabled the latter to participate in an international project in the renewable energy sector.

On **July 25, 2011** PIRELLI, Russian Technologies and Sibur Holding signed an agreement that lists the assets to be transferred to the new joint venture between PIRELLI and Russian Technologies. This joint venture will be the principal entity responsible for management of the activities that can be converted back to PIRELLI standards in the car and light truck sector in Russia, pursuant to the memorandum of understanding (MOU) signed on November 26, 2010. The agreement concerns two production sites that will allow the joint venture to produce about 11 million units by 2014. These assets will be transferred in exchange for a total consideration of euro 222 million, with the obligation being split between the partners in proportion to their shareholdings and an outlay of euro 55 million in 2011 and euro 167 million in 2012.

The PIRELLI branded product may account for up to 50% of installed capacity. The joint venture will produce winter tyres for the replacement market, with a special focus on studdable tyres to meet demand in the Russian and CIS area markets. The joint venture will have a market share of about 20% in the premium segment. The forecast net sales for the joint venture is about euro 300 million in 2012, growing to over euro 500 million in 2014. That growth will be accomplished in part through investments of about euro 200 million in conversion and expansion of production capacity in 2012-2014. Following the start-up phase, profitability is expected to grow, with EBIT of 14% - 15% in 2014, the year when positive cash flow is forecast. As part of the agreements governing the joint venture between Russian Technologies and PIRELLI, PIRELLI may increase its shareholding from 50% to 75% with a three-year put and call option. The joint venture will be consolidated by PIRELLI at the time of the acquisition, partly in consequence of an operating agreement between the partners.

On **August 30, 2011** PIRELLI inaugurated the expansion of its tyre plant in Slatina, Romania. PIRELLI has already invested euro 300 million between 2005 and 2010 in the industrial centre, consisting of a car tyre factory and a steel cord production plant in Slatina, and a diesel engine particulate filter factory at Bumbesti Jiu-Gorj. This investment will top euro 450 million in 2014. As part of these investments, euro 160 million have been budgeted for the tyre plant expansion project – which will end in 2013 – aimed at increasing its production capacity and improving the overall competitiveness of PIRELLI's European industrial structure.

As a result of the additional investments, annual production at the Slatina car tyre factory will rise from 7 million units at the end of 2011 to over 10 million units when the project is completed. The Slatina tyre factory will become the biggest car tyre factory in the PIRELLI Group.

On **September 8, 2011** PIRELLI presented PZero Silver, the first highway tyre derived from Formula 1, of which PIRELLI is the exclusive supplier for the three-year period 2011-2013. The new tyre is the fruit of PIRELLI's accumulated technological experience in Grand Prix competition.

On **September 16, 2011**, coinciding with the 100th anniversary celebration of its truck sector operations, at Izmit, Turkey, PIRELLI presented three new lines of tyres conceived for use in critical winter conditions, long-distance transport and construction vehicles, respectively. The new tyres, which complete the Series 01, exploit patented late generation SATT technology. PIRELLI operates the Group's largest industrial centre in Turkey. This centre specialises not only in the production of tyres for medium-heavy vehicles but also for cars and motorsport, and the production of steel cord. Turkey, which is one of the most important countries for the PIRELLI Truck Division, represents one of the countries that has made the biggest contribution to affirmation of the "P Lunga" on international markets in the trucking sector.

On **September 20, 2011**, "PIRELLI Corso Venezia" was inaugurated in Milan. This is the first PIRELLI PZero flagship store, designed by architect Renato Montagner, creative director of the PZero collections. This project is aimed at supporting the core business of PIRELLI, which targets the premium and prestige segment, and which shares a constant commitment to research, innovation and technology with the tyres produced by the company.

On **October 13, 2011**, PIRELLI illustrated a project for reinforcing its presence in Argentina during a meeting held in Buenos Aires with Argentine President Cristina Fernández de Kirchner and the Minister of Industry, Débora Giorgi. This project envisages construction of a new radial truck tyre plant intended to readjust the Company's presence in South America. The project is still under evaluation and calls for making investments of about US$ 300 million, budgeted for an initial phase of development that will end by 2014. These investments are part of the overall investments planned for the commercial vehicle segment announced to the market last year when the Business Plan was presented.

On **October 28, 2011** PIRELLI announced the launch of a Level 1 American Depositary Receipt (ADR) programme for the United States market, designating JPMorgan as the depositary bank for management of the ADR. Launch of the programme, operative from November 2, 2011, addresses the aim of PIRELLI to diversify its shareholders by attracting a larger number of American investors. Each PIRELLI ADR (CUSIP 724256201) corresponds to one ordinary share of PIRELLI & C. S.p.A. traded on the Milan Stock Exchange.

On **November 7, 2011** PIRELLI and the Milan Polytechnic signed the JOINT LABS agreement, which aims to promote research and training in the tyre industry. The agreement, which has a three-year term (2011-2014), is concentrated on three areas of research: the Formula 1 tyre, innovative materials and the intelligent tyre (Cyber Tyre). The agreement also envisages training activities concentrated principally in Brazil, China and Mexico.

On **November 8, 2011** the PIRELLI & C. Board of Directors approved the Business Plan with 2015 vision and adjusted its 2012-2014 targets. PIRELLI aims to achieve world leadership in the Premium segment in 2015, in confirmation of its strategy of focus already set out in 2010. The targets set for the timeline of the plan, envisage in 2012 consolidated revenue of about euro 6.7 billion, with growth of 16% (+10% excluding the Russia project), and EBIT margin of between 11% and 12%. Forecast revenue for 2014 is euro 7.7 billion, with an EBIT margin between 15% and 16%.

On **November 16, 2011** Prof. Francesco Profumo resigned as member of the PIRELLI Board of Directors after accepting his appointment as Minister of the Republic of Italy.

On **December 14, 2011**, in accordance with the agreement initialled on July 25, 2011 by Sibur Holding, PIRELLI and Russian Technologies, transfer of the Kirov plant from Sibur Holding to the joint venture set up by PIRELLI and Russian Technologies was finalised. Such plant has a production capacity of about 7 million units.

On **December 16, 2011** Mr Enrico Tommaso Cucchiani resigned as Member of the PIRELLI Board of Directors following his appointment as Chief Executive Officer of Intesa SanPaolo.

On **December 23, 2011** PIRELLI acquired from the Camfin Group the remaining 49% of PIRELLI & C. Ambiente S.p.A., a company operating in the environment and sustainable development sectors, and of PIRELLI & C. Eco Technology S.p.A., a company specialised in the production of antiparticulate filters and low environmental impact fuel. Upon completion of the transaction, PIRELLI became the sole shareholder of the two companies (previously consolidated on its own financial statements). The two equity investments were transferred following a total outlay of euro 7 million by PIRELLI. The two equity investments were appraised with the assistance of two major investment banks, carried out on the basis of the 2012-2014 business plans approved by the companies. Transfer of the two equity investments was already envisaged by the shareholders' agreements between PIRELLI and Camfin as shareholders of the two companies, expiring in June 2012.

On **December 28, 2011** PIRELLI renewed until July 2017 the loan made to Prelios S.p.A. (formerly PIRELLI RE S.p.A.). The loan totals euro 160 million (up euro 10 million from the euro 150 million previously lent) and envisages full repayment on maturity. The loan renewal was executed in accordance with the covenants assumed in 2010 by PIRELLI & C. S.p.A. in favour of the financing banks of PIRELLI RE S.p.A. (now Prelios S.p.A.) in order to obtain the necessary authorisation from those banks to spin off PIRELLI RE from the PIRELLI Group.

GROUP PERFORMANCE AND RESULTS IN 2011 AND BUSINESS OUTLOOK IN 2012

In addition to the financial performance measures established by the International Financial Reporting Standards (IFRSs), this report presents alternative performance indicators that are derived from IFRSs. These performance indicators are used to facilitate the understanding of the Group operating performance. These indicators are: Gross Operating Profit, Non-current assets, Provisions, Net working capital, Other receivables and payables, Net financial (liquidity)/debt position. Please refer to the section "Alternative performance indicators" for a more analytical description of these indicators. Moreover, the 2010 comparative figures show that the activities related to Prelios S.p.A. (formerly PIRELLI RE) and Advanced Digital Broadcast Holdings S.A.. (formerly PIRELLI Broadband Solutions S.p.A.) are classified as discontinued operations, following their disposal during that year.

GROUP PERFORMANCE AND RESULTS IN 2011

In 2011 PIRELLI enjoyed significant growth, with results that have allowed the Group to meet the targets set in its 2011-2013 business plan a year early. That improvement was achieved in spite of the general softening in the macroeconomic situation beginning in Q3 2011, especially in Western economies, partly due to fears over the structure of sovereign debt in certain eurozone countries. This accomplishment attests to the effectiveness of PIRELLI's strategy to create value and focus on industrial activities, with 99% of its revenue being generated by the Tyre business.

Efforts were stepped up in the Tyre business to implement a strategy of continuous growth and focus in the premium segment, with the aim of becoming the leader in that market segment in 2015.

Both net sales and profitability benefited from the contribution made by the mix component, which is tied to the growth of the premium segment in the consumer business.

Significant capital expenditure was also made to increase the availability of satisfactory product.

Research and development played a key role in pursuit of the growth strategy: constant focus on and commitment to technological innovation are confirmed by research and development costs, an area where PIRELLI invested 7.2% of its earnings in the premium segment in 2011. During the year, total research and development expenses grew to euro 169.7 million, from euro 149.7 million in 2010, thus remaining stable at 3% of consolidated revenue, one of the highest levels in the sector. These investments are destined to create products that not only constantly improve performance but also improve safety, to the benefit of persons and the environment.

PIRELLI operates a research centre in Italy and 8 application centres around the world, staffed by over 1,200 employees. By focusing on technological innovation and its experience with Formula 1 racing, the Group has been able to update its product line continually and increase the number of patents that it holds, currently over 4,500.

In 2011 consolidated **net sales** grew 16.6% to euro 5,654.8 million, **operating income** surged by 42.7% to euro 581.9 million, and profitability, measured as the ratio of operating income to sales, rose by about 2 percentage points to 10.3%. **Net income from continuing operations** was euro 312.6 million, compared with euro 228.0 million in 2010 (figure shown on a comparable basis, before discontinued operations).

Total net income in 2011 was boosted by euro 128.1 million following the recognition of prior-period deferred tax assets in Italy upon changes in tax laws governing prior-period losses that now allow the possibility of carrying them forward for an unlimited period of time. Consequently, total net income totalled euro 440.7 million (euro 4.2 million in 2010).

The growth in production capacity, tied to the Group's business plan strategy of focusing on the global premium segment, involved a 43% increase in **capital expenditure** to euro 626 million. This impacted the **net financial (liquidity)/debt position**, which totalled a negative euro 737.1 million at December 31, 2011 as compared with euro 455.6 million at December 31, 2010. This figure includes an outlay of euro 55 million for the acquisition of plants in Russia and the pay-out of dividends for euro 83.5 million.

The results for the **Tyre** business in 2011 show growing activity and profitability. The figures confirm the effectiveness of PIRELLI's strategy: focus on sales to the premium segment in the consumer business (where sales grew 27% during the year, to euro 1,844 million and representing 50% of the total in the car segment), heavy localization of production activity in rapidly growing regions by the industrial business, and the Group's capacity to leverage prices in order to offset higher raw material costs.

Sales totalled euro 5,601.6 million (+17.4% compared with 2010), operating income was euro 643.9 million, and profitability was 11.5% (euro 453.1 million, compared with 9.5% in 2010).

Sales of winter products were particularly strong in the premium segment, growing by 56% from 2010, with a consequent increase in market share in Europe to about 8%. During 2011, measures continued to be implemented in view of streamlining production volumes in the standard segment, which is less profitable, leading to a 2% reduction in non-premium product volumes in the consumer business.

NET SALES

5655 MILLION +16,6%

INVESTMENTS

626 MILLION +43%

Consolidated financial highlights for the Group are illustrated as follows:

(in millions of euro)

	12/31/2011	12/31/2010
Net sales	**5,654,8**	**4,848,4**
Gross operating profit before restructuring expenses	834,6	653,7
% of net sales	14.8%	13.5%
Operating income before restructuring expenses	**609,7**	**432,5**
% of net sales	10.8%	8.9%
Restructuring expenses	(27,8)	(24,7)
Operating income	**581,9**	**407,8**
% of net sales	10.3%	8.4%
Net income (loss) from equity investments	(17,3)	23,4
Financial income/(expenses)	(89,5)	(65,8)
Pre-tax income (loss)	**475,1**	**365,4**
Income tax	(162,5)	(137,4)
Tax rate %	34.2%	37.6%
Net income (loss) from continuing operations	**312,6**	**228,0**
Net income (loss) from discontinued operations	-	(223,8)
Prior period deferred tax assets - Italy	128,1	-
Total net income (loss)	**440,7**	**4,2**
Net income attributable to owners of PIRELLI & C. S.p.A.	451,6	21,7
Total net earnings per share attributable to owners of PIRELLI & C. S.p.A. (in euro)	0,926	0,044
Non-current assets	**3,558,1**	**3,164,1**
Inventories	1,036,7	692,3
Trade receivables	745,2	676,7
Trade payables	(1,382,8)	(1,066,4)
Net working capital	**399,1**	**302,6**
% of net sales	7.1%	6.2%
Other receivables/other payables	(243,9)	(185,9)
Total net working capital	**155,2**	**116,7**
% of net sales	2.7%	2.4%
Net invested capital	**3,713,3**	**3,280,8**
Equity	**2,191,6**	**2,028,0**
Provisions	784,6	797,2
Net financial (liquidity)/debt position	**737,1**	**455,6**
Equity attributable to the owners of Pirelli & C. S.p.A.	**2,146,1**	**1,990,8**
Equity per share attributable to the owners of Pirelli & C. S.p.A. (in euro)	**4,398**	**4,080**
Capital expenditure (tangible and intangible assets)	**626,2**	**438,6**
Research and development expenses	**169,7**	**149,7**
% of net sales	3.0%	3.1%
Headcount (number at end of period)	**34,259**	**29,573**
Industrial sites (number)	**21**	**20**

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

(in millions of euro)

	Tyre		Other Businesses *		Total	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Net sales	**5,601.6**	**4,772.0**	**53.2**	**76.4**	**5,654.8**	**4,848.4**
Gross operating profit before restructuring expenses	875.5	684.3	(40.9)	(30.6)	834.6	653.7
Operating income before restructuring expenses	661.7	476.3	(52.0)	(43.8)	609.7	432.5
Restructuring expenses	(17.8)	(23.2)	(10.0)	(1.5)	(27.8)	(24.7)
Operating income (loss)	**643.9**	**453.1**	**(62.0)**	**(45.3)**	**581.9**	**407.8**
% of net sales	11.5%	9.5%			10.3%	8.4%
Net income (loss) from equity investments	(1.3)	0.3	(16.0)	23.1	(17.3)	23.4
Financial income/(expenses)	(90.1)	(66.4)	0.6	0.6	(89.5)	(65.8)
Pre-tax income (loss)	**552.5**	**387.0**	**(77.4)**	**(21.6)**	**475.1**	**365.4**
Income tax	(181.1)	(134.4)	18.6	(3.0)	(162.5)	(137.4)
tax rate %	32.8%	34.7%			34.2%	37.6%
Net income (loss) from continuing operations	**371.4**	**252.6**	**(58.8)**	**(24.6)**	**312.6**	**228.0**
Net income (loss) from discontinued operations			**-**	**(223.8)**	**-**	**(223.8)**
Prior period deferred tax assets - Italy	-	-	128.1	-	128.1	-
Net income (loss)	**371.4**	**252.6**	**69.3**	**(248.4)**	**440.7**	**4.2**
Net financial (liquidity)/debt position	**962.3**	**1,109.9**	**(225.2)**	**(654.3)**	**737.1**	**455.6**

* This item includes the Pirelli EcoTechnology Group, the Pirellli Ambiente Group, PZero S.r.l., all holding companies (including the parent), the other service companies and, for the item "net sales", elimination of intercompany transactions

NET SALES

In 2011 net sales grew 16.6% from the previous year to euro 5,654.8 million, with 99% of sales being generated by the Tyre business, which is the Group's core business.

OPERATING INCOME

Operating income rose by 42.7% to euro 581.9 million (10.3% of sales). The following table shows a constant rate of growth in every quarter of the year.

(in millions of euro)

	Q1		Q2		Q3		Q4		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Net sales	**1,400.9**	1,135.0	**1,388.4**	1,234.0	**1,476.5**	1,249.7	**1,389.0**	1,229.7	**5,654.8**	4,848.4
Gross operating profit before restructuring expenses	**203.4**	141.9	**207.5**	163.3	**220.2**	174.9	**203.5**	173.6	**834.6**	653.7
% of net sales	14.5%	12.5%	14.9%	13.2%	14.9%	14.0%	14.7%	14.1%	14.8%	13.5%
Net operating income (loss) before restructuring expenses	**146.5**	90.2	**151.3**	109.6	**163.3**	119.9	**148.6**	112.8	**609.7**	432.5
% of net sales	10.5%	7.9%	10.9%	8.9%	11.1%	9.6%	10.7%	9.2%	10.8%	8.9%
Operating income	**143.3**	87.6	**146.8**	104.3	**161.1**	115.4	**130.7**	100.5	**581.9**	407.8
% of net sales	10.2%	7.7%	10.6%	8.5%	10.9%	9.2%	9.4%	8.2%	10.3%	8.4%

Operating income was impacted by non-recurring charges of euro 27.8 million, including euro 17.9 million in the last quarter. Of this amount, euro 4.9 million resulted from the elimination of goodwill for the PIRELLI EcoTechnology anti-particulate filter activities. The remainder for restructuring charges mainly tied to streamlining of business units in Europe. Non-recurring charges in the previous year totalled euro 24.7 million.

EBIT

582 MILLION +43%

NET INCOME/(LOSS) FROM EQUITY INVESTMENTS

Net income/(loss) from equity investments was a negative euro 17.3 million and consists essentially of financial investments totalling euro 4 million, the Group's interest in the result of associates for euro 3 million, adjustment of the equity investment in RCS MediaGroup S.p.A. to a value of euro 1.02 per share (aggregate negative impact of euro 16.8 million), and transfer to the income statement of the negative accumulated reserve for euro 10.3 million related to the equity investment in Alitalia S.p.A. classified as available-for-sale financial assets.

The 2010 figure, which was a positive euro 23.4 million, included the result from disposal of the equity investment in Oclaro Inc. for euro 18.4 million.

NET INCOME

Net income from continuing operations at December 31, 2011 was up 37.1% to euro 312.6 million, compared with euro 228 million in 2010.

Changes in Italian tax regulations governing the use of losses imposed a limit equal to 80% of taxable income on the amount of losses that can be used to offset total taxable income in any one year; however, those tax amendments also extended indefinitely the period during which those losses can be used. These changes resulted in recognition of deferred tax assets carried forward with a non-recurring benefit of euro 128.1 million, which is shown separately after net income from continuing operations. Consequently, **total net income** was euro 440.7 million, compared with euro 4.2 million for the previous year. The result for the previous year reflected the negative impact from discontinued operations of the spin-off of real estate activities and disposal of access networks amounting to euro 223.8 million.

In 2011 the increase in **tax liabilities** stemmed exclusively from the improvement in results, while the tax rate fell to 34.2% from 37.6% in 2010, due to changes in the mix of countries that produce profits and release of prior-period provisions for certain units, whose impact totalled about 1.5 percentage points.

In 2011 **financial expenses** rose from euro 65.8 million to euro 89.5 million, due to growth in average indebtedness and an increase in the average cost of debt. This stemmed partly from issuance of the 2011-2016 bond, which improved the Group's financial structure by extending maturities and diversifying financing sources. The average cost of debt in 2011 was 5.5%.

The **total net income attributable to owners of PIRELLI & C. S.p.A.** at December 31, 2011 was a positive euro 451.6 million (0.926 euro per share), compared with euro 21.7 million at December 31, 2010 (euro 0.045 per share).

EQUITY

Consolidated **equity** rose from euro 2,028.0 million at December 31, 2010 to euro 2,191.6 million at December 31, 2011.

The change, whose detailed breakdown is shown in the table below, stemmed mainly from the net income for the period (positive euro 440.7 million), offset by pay-outs of euro 83.5 million for dividends and euro 62.0 million from the reduction in translation of assets denominated in foreign currencies. The final value was also impacted by the buy-back of minority shares in China and in the entities PIRELLI Ambiente S.p.A. and PIRELLI EcoTechnology S.p.A., as well as the fair value measurement of financial assets.

Equity attributable to owners of PIRELLI & C. S.p.A. at December 31, 2011 was euro 2,146.1 million (euro 4.398 per share), compared with euro 1,990.8 million at December 31, 2010 (euro 4,080 per share).

(in millions of euro)

	GROUP	NON-CONTROLLING INTERESTS	TOTAL
EQUITY AT 12/31/2010	**1,990.8**	**37.2**	**2,028.0**
Translation differences	(63.0)	1.4	(61.6)
Net income/(loss) for the year	451.6	(10.9)	440.7
Adjustment to fair value of other financial assets/ derivative instruments	(76.6)	-	(76.6)
Other changes to items recognised in equity	22.6	-	22.6
Net actuarial gains/(losses) on employee benefits	(80.6)	-	(80.6)
Dividends paid	(81.2)	(2.3)	(83.5)
Venezuela inflation effect	21.7	0.9	22.6
Acquisition of Pirelli Tyre Co. Ltd - China non-controlling interests	(10.2)	(17.8)	(28.0)
Transfer of non-controlling interests in environment products and services BU	(32.7)	25.7	(7.0)
Capital increases	-	9.9	9.9
Other changes	3.7	1.4	5.1
Total changes	**155.3**	**8.3**	**163.6**
Equity at 12/31/2011	**2,146.1**	**45.5**	**2,191.6**

The statement of reconciliation between the equity of the parent PIRELLI & C. S.p.A. and the consolidated equity attributable to the owners of the parent is presented below, pursuant to the Consob Notice of July 28, 2006.

(in millions of euro)

	SHARE CAPITAL	TREASURY RESERVES	NET INCOME	TOTAL
EQUITY OF PIRELLI & C. S.P.A. AT 12/31/2011	**1,343.3**	**124.8**	**272.5**	**1,740.6**
Net income for the year of consolidated companies (before consolidation adjustments)	-	-	344.5	344.5
Share capital and reserves of consolidated companies (before consolidation adjustments)	-	1,224.5	-	1,224.5
Consolidation adjustments:				
- carrying value of equity investments in consolidated companies	-	(1,162.6)	-	(1,162.6)
- intercompany dividends	-	232.2	(232.2)	-
- others	-	(67.6)	66.6	(1.0)
CONSOLIDATED EQUITY OF GROUP AT 12/31/2011	**1,343.3**	**351.3**	**451.4**	**2,146.0**

NET FINANCIAL (LIQUIDITY)/DEBT POSITION

The Group's net borrowings totalled euro 737.1 million at December 31, 2011, compared with net borrowings of euro 455.6 million at December 31, 2010.

(in millions of euro)

	12/31/2011	12/31/2010
Current borrowings from banks and other financial institution	369.5	247.5
Non-current borrowings from banks and other financial institution	1,408.6	899.5
Total gross debt	**1,778.1**	**1,147.0**
Cash on hand	(557.0)	(244.7)
Securities held for trading	(160.5)	(209.8)
Current financial receivables	(72.8)	(14.2)
Non-current financial receivables	(250.7)	(222.8)
of which Prelios	*(160.0)*	*(140.4)*
Total financial receivables, cash and cash equivalents	**(1,041.0)**	**(691.4)**
Net financial (liquidity)/debt position	**737.1**	**455.6**

The **operating cash flow** was a positive euro 156.4 million, with a significant increase in the last quarter, in spite of capital expenditure of euro 626.2 million (nearly three times depreciation and amortisation), earmarked mainly for supporting growth in the premium segment.

The **net cash flow** was a negative euro 281.5 million, which includes euro 55.0 million as the first instalment on payment for acquisition of the two production units in Russia and the payment of euro 83.5 million in dividends (including euro 81.1 million by the parent company). Other transactions that impacted net cash flow during the period included, on the one hand, the acquisition of an additional 15.0% equity interest in the Chinese subsidiary PIRELLI Tyre Co Ltd. (now 90% owned by the Group) for euro 28.0 million, the investment by PIRELLI Ambiente S.p.A. in GWM RE II S.p.A. for euro 19.9 million, and the acquisition of 49% of the environmental products and services business units (PIRELLI & C. Ambiente S.p.A. and PIRELLI & C. Eco Technology S.p.A.) from the Camfin Group for euro 6.8 million. On the other hand, they included disposal in the first quarter of the equity investments owned in CyOptics Inc. and Gruppo Banca Leonardo S.p.A. for euro 23.5 million in proceeds.

The following table summarises the changes in cash flow during 2011:

(in millions of euro)

	Q1		Q2		Q3		Q4		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Operating income (EBIT) before restructuring expenses	146.5	90.2	151.3	109.6	163.3	119.9	148.6	112.8	609.7	432.5
Amortisation and depreciation	56.9	51.7	56.2	53.7	56.9	55.0	54.9	60.8	224.9	221.2
Capital expenditures of property,plant and equipment and intangible assets	(96.9)	(50.2)	(137.2)	(85.2)	(162.1)	(91.5)	(230.0)	(211.7)	(626.2)	(438.6)
Change in working capital/ other	(313.5)	(143.2)	18.1	42.2	(100.6)	(18.0)	344.0	214.2	(52.0)	95.2
Operating cash flow	**(207.0)**	**51.5**	**88.4**	**120.3**	**(42.5)**	**65.4**	**317.5**	**176.1**	**156.4**	**310.3**
Financial income/(expenses)	(14.8)	(17.6)	(29.9)	(23.0)	(19.4)	(14.0)	(25.4)	(11.2)	(89.5)	(65.8)
Income tax	(47.9)	(30.4)	(39.6)	(39.9)	(51.3)	(40.2)	(23.7)	(26.9)	(162.5)	(137.4)
Net operating cash flow	**(269.7)**	**(99.5)**	**18.9**	**57.4**	**(113.2)**	**11.2**	**268.4**	**138.0**	**(95.6)**	**107.1**
Financial investments/ disinvestments	24.4	-	-	-	(16.4)	9.8	(7.0)	21.9	1.0	31.7
Acquisition of non-controlling interests (China)	-	-	-	-	(28.0)	-	-	-	(28.0)	-
Russia investment	-	-	-	-	-	-	(55.0)	-	(55.0)	-
Dividend paid by Pirelli & C. S.p.A.	-	-	(81.1)	(81.1)	-	-	-	-	(81.1)	(81.1)
Dividends paid to non-controlling interests	(0.7)	-	(1.7)	(4.0)	-	-	-	-	(2.4)	(4.0)
Cash Out for restructuring expenses	(2.8)	(34.0)	(5.7)	(9.9)	(1.9)	(7.4)	(6.5)	(2.0)	(16.9)	(53.3)
Net cash flow of discontinued operations	-	(26.1)	-	(5.8)	-	(37.9)	-	75.4	-	5.6
Foreign exchange differences/other	(8.4)	10.0	3.5	24.9	0.1	16.3	1.3	16.0	(3.5)	67.2
Net cash flow	**(257.2)**	**(149.6)**	**(66.1)**	**(18.5)**	**(159.4)**	**(8.0)**	**201.2**	**249.3**	**(281.5)**	**73.2**

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

(in millions of euro)

	TYRE		OTHER BUSINESS		CORPORATE		TOTAL	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Gross debt	1,798.2	1,613.6	130.7	83.3	641.3	123.0	1,778.1	1,147.0
of wich due to Corporate	*669.5*	*589.6*	*113.7*	*83.3*				
Financial receivables	(161.2)	(98.3)	(7.3)	(4.8)	(947.1)	(806.7)	(323.5)	(236.9)
of wich from Prelios S.p.A.					*(160.0)*	*(140.4)*	*(160.0)*	*(140.4)*
Cash, cash equivalents, securities held for trading	(674.7)	(405.4)	(4.2)	(6.6)	(38.6)	(42.5)	(717.5)	(454.5)
Net financial (liquidity)/ debt position	**962,3**	**1,109,9**	**119,2**	**71.9**	**(344.4)**	**(726.2)**	**737.1**	**455.6**

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

The **structure of gross debt**, which has an average maturity of about four years and of which more than 65% falls due beginning in 2015, is shown as follows:

(in millions of euro)

	FINANCIAL STATEMENTS 12/31/2011	MATURITY DATE				
		2012	2013	2014	2015	2016 and beyond
Use of committed credit dacilities	360.0	-	-	-	360.0	-
P.O. 5.125% - 2011/2016	500.0	-	-	-	-	500.0
EIB Loans	390.0	125.0	25.0	-	100.0	140.0
Other financing	528.1	250.6	75.0	126.1	22.2	54.2
Total gross debt	**1,778,1**	**375,6**	**100,0**	**126,1**	**482,2**	**694,2**
		21.1%	5.6%	7.1%	27.1%	39.1%

At December 31, 2011 the Group has euro 840 million as unused portion of committed credit facilities.

Employees

Group headcount was 34,259 at December 31, 2011, compared with 29,573 employees at December 31, 2010. Of this increase, 2,772 persons are accounted for by acquisition of the Kirov production unit in Russia. The following tables show the breakdown of headcount by geographical area and type:

GEOGRAPHICAL AREAS	12/31/2011		12/31/2010	
Europe:				
- Italy	3,629	10.6%	3,587	12.1%
- Rest of Europe	10,746	31.4%	7,714	26.1%
of which Russia	*2,850*		*39*	
Nafta	490	1.4%	285	1.0%
Central and South America	13,202	38.5%	12,522	42.3%
Middle East/Africa	3,296	9.6%	2,983	10.1%
Asia/Pacific	2,896	8.5%	2,482	8.4%
	34,259	**100.0%**	**29,573**	**100.0%**

TYPE	12/31/2011		12/31/2010	
Executives	326	1,0%	302	1.0%
White collar staff	6,109	17.8%	5,429	18.4%
Blue collar staff	25,175	73.5%	21,416	72.4%
Temps	2,649	7.7%	2,426	8.2%
	34,259	**100.0%**	**29,573**	**100.0%**

BUSINESS OUTLOOK IN 2012

In response to the general slowdown in tyre demand reflecting the current macroeconomic crisis, in 2012 PIRELLI will further intensify efforts to improve the mix in both in the car business and truck business beyond what was forecast last November upon presentation of the 2012-2014 Business Plan.

In the car business, premium volumes are estimated to rise by at least +20%, with volumes in the non-premium segment falling by 8% - 10% versus 2011. The aggregate estimate for car volumes in 2012 is reduced from the +3%, announced in November 2011 on presentation of the Business Plan, to +1% - 0%. In the truck business, which has been hit harder by the crisis, the aggregate volumes forecast for 2012 are expected to fall 2% - 4% in consequence of a cut in low mix volumes (conventional product -20% versus 2011), in contrast with a slightly positive change for higher value products (the forecast for radial tyres has changed from +3% last November to +2% - 0% now).

Consequently, the target of **total volumes** is reduced from +2% last November to -1% - 0%, while additional improvement in the mix towards higher value products boosts the price/mix target from +8% last November to +11% - +12%.

Aggregate **revenue** in 2012 is expected to be about euro 6.6 billion, up 17% from the euro 5.7 billion of 2011, with the sales target for Russia being confirmed at about euro 300 million.

In 2012 **EBIT** is forecast to rise by 12% or more, as compared with the previous target of 11%-12%.

At December 31, 2012 the **negative net financial (liquidity)/debt position** is expected to be less than euro 1 billion before dividends.

OPERATING PERFORMANCE

Tyre Total

(in millions of euro)

	12/31/2011	12/31/2010
Net sales	**5,601.6**	**4,772.0**
Gross operating profit before restructuring expenses	875.5	684.3
% of net sales	15.6%	14.3%
Operating income before restructuring expenses	661.7	476.3
% of net sales	11.8%	10.0%
Restructuring expenses	(17.8)	(23.2)
Operating income	**643.9**	**453.1**
% of net sales	11.5%	9.5%
Net income/(loss) from equity investments	(1.3)	0.3
Financial income/(expenses)	(90.1)	(66.4)
Pre-tax income/(loss)	**552.5**	**387.0**
Income tax	(181.1)	(134.4)
Tax rate %	32.8%	34.7%
Total net income/(loss)	**371.4**	**252.6**

Net financial (liquidity)/debt position	**962.3**	**1,109.9**
Operating cash flow	215.5	368.5
Capital espenditure (tangible and intangible assets)	617.8	405.0
Research and development expenses	169.0	146.3
% of net sales	3.0%	3.1%
Headcount (number at end of period)	33,596	28,865
of whom Kirov	*2,772*	-
Industrial sites (number)	20	19

NET SALES

Net sales in 2011 totalled euro 5,601.6 million, up 17.4% from the euro 4,772.0 million reported a year earlier.

The change on a comparable consolidation basis, before the 1.6% negative effect from consolidation translation differences, showed a 19.0% increase, mainly due to the price/mix component that reflects on the one hand the results of focusing on the premium segment, and on the other hand the capacity to recover the negative impact of higher raw material costs through product prices.

The premium segment confirmed its role as the driving force behind the growth in revenue, with net sales growing over the year by 27.3% to euro 1,844 million.

Sales were up in both business segments: Consumer with a positive change of 18.9% (including -1.4% translation differences) and Industrial, with a positive change of 13.9% (of which -2.2% translation differences).

When broken down by sales channels, 74.5% of sales refer to the replacement channel, while original equipment accounts for 25.5%.

PREMIUM SEGMENT—SALES

1844 MILLION

+27%

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

	Q1		Q2		Q3		Q4		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Volume	6.1%	17.4%	1.2%	7.5%	2.8%	1.8%	-3.9%	3.4%	1.4%	7.3%
of which Premium	*25.2%*		*21.7%*		*17.5%*		*8.3%*		*18.2%*	
Price/Mix	15.9%	1.4%	15.8%	10.1%	18.6%	12.3%	19.8%	11.3%	17.6%	8.9%
Change on a like-for-like basis	**22.0%**	**18.8%**	**17.0%**	**17.6%**	**21.4%**	**14.1%**	**15.9%**	**14.7%**	**19.0%**	**16.2%**
Translation effect	2.7%	1.0%	-3.7%	5.3%	-2.7%	4.2%	-2.5%	2.6%	-1.6%	3.3%
Total change	**24.7%**	**19.8%**	**13.3%**	**22.9%**	**18.7%**	**18.3%**	**13.4%**	**17.3%**	**17.4%**	**19.5%**

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

GEOGRAPHICAL AREA

	12/31/2011			12/31/2010
	euro/mln	yoy		
Italy	426.6	*4%*	8%	9%
Rest of Europe	1,844.1	*23%*	33%	31%
Nafta	561.3	*18%*	10%	10%
Central and South America	1,915.5	*17%*	34%	34%
Asia/Pacific	352.8	*23%*	6%	6%
Middle East/Africa	501.3	*8%*	9%	10%
TOTAL	**5,601.6**	**17%**	**100%**	**100%**

PRODUCT

	12/31/2011			12/31/2010
	euro/mln	yoy		
Car tyres	3,513.1	*20%*	63%	62%
Motovelo tyres	412.4	*14%*	7%	8%
Consumer	**3,925.5**	**19%**	**70%**	**70%**
Industrial vehicle tyres	1,554.8	*14%*	28%	28%
Steelcord	121.3	*13%*	2%	2%
Industrial	**1,676.1**	**14%**	**30%**	**30%**

OPERATING INCOME

Operating income at December 31, 2011 totalled euro 643.9 million, with a growth of 42.1% versus 2010. The ratio of operating income to sales also rose, to 11.5% from 9.5% at December 31, 2010. During the year, euro 17.8 million in **restructuring expenses** were registered, mainly due to continuous measures to improve the efficiency of operating units in Europe.

The changes in the principal indicators of earnings performance during each quarter are illustrated in the following table:

(in millions of euro)

	Q1		Q2		Q3		Q4		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Net sales	**1,384.5**	1,110.0	**1,376.4**	1,215.3	**1,464.8**	1,233.8	**1,375.9**	1,212,9	**5,601.6**	4,772.0
D yoy	*24.7%*	*19.8%*	*13.3%*	*22.9%*	*18.7%*	*18.3%*	*13.4%*	*17.3%*	*17.4%*	*19.5%*
Gross operating profit before restructuring expenses	**209.5**	146.4	**218.4**	177,5	**228.4**	173.0	**219.2**	187.4	**875.5**	684.3
% of net sales	*15.1%*	*13.2%*	*15.9%*	*14.6%*	*15.6%*	*14.0%*	*15.9%*	*15.5%*	*15.6%*	*14.3%*
Operating income before restructuring expenses	**155.6**	98,1	**164.6**	127,1	**174.1**	121.5	**167.4**	129.6	**661.7**	476.3
% of net sales	*11.2%*	*8.8%*	*12.0%*	*10.5%*	*11.9%*	*9.8%*	*12.2%*	*10.7%*	*11.8%*	*10.0%*
Operating income (loss)	**152.4**	95.5	**160.1**	121.8	**171.9**	117.0	**159.5**	118.8	**643.9**	453.1
% of net sales	*11.0%*	*8.6%*	*11.6%*	*10.0%*	*11.7%*	*9.5%*	*11.6%*	*9.8%*	*11.5%*	*9.5%*

The results were positively impacted by the price/mix component, partly in consequence of focusing on the premium segment, and the continuous efficiency gains in industrial activities. Of these efficiency gains, 31% were realised by actions related to raw materials (use of alternative raw materials, reduced consumption of materials, reduced waste and product weight), 58% came from expansion of production capacity in countries with competitive industrial costs, and the remaining 11% from improved labour productivity (streamlining of production processes, introduction of best practices at all sites, and new plants designed to optimise efficiency) and focus on general overhead and administrative costs.

These factors more than offset growth in the cost of raw materials, whose effects were accentuated beginning from Q2 2011 and had a total, final impact of about euro 512 million, as well as the unit cost of production factors.

In regard to the price/mix component, it must be emphasised that it managed to exceed growth in the cost of raw materials in each quarter.

The quarterly changes as compared with the previous year can be summarised as follows in the following breakdown:

(in millions of euro)

	Q1	Q2	Q3	Q4	TOTAL
2010 OPERATING INCOME	**95.5**	**121.8**	**117.0**	**118.8**	**453.1**
Foreign exchange effect	2.5	(5.5)	(4.2)	(3.2)	(10.4)
Prices/mix	128.1	154.3	177.4	200.3	660.1
Volumes	28.7	8.8	13.9	(13.1)	38.3
Cost of production factors (raw materials)	(81.8)	(129.7)	(135.2)	(165.0)	(511.7)
Cost of production factors (labour/energy/others)	(13.4)	(15.8)	(11.5)	(18.6)	(59.3)
Efficiency gains	15.6	22.1	17.3	38.9	93.9
Amortisation, depreciation and other	(22.2)	3.3	(5.1)	(1.5)	(25.5)
Restructuring expenses	(0.6)	0.8	2.3	2.9	5.4
Change	**56.9**	**38.3**	**54.9**	**40.7**	**190.8**
2011 OPERATING INCOME	**152.4**	**160.1**	**171.9**	**159.5**	**643.9**

CASH FLOW

In 2011, **operating cash flow** was positive euro 215.5 million, compared with euro 368.5 million in the previous year. Capital expenditure of euro 617.8 million impacted the 2011 figure, up 52% versus 2010.

Capital expenditure on property, plant and equipment totalled euro 611 million, up significantly versus the 2010 figure, which had totalled euro 402 million. During the year, PIRELLI developed growth projects in South America, Romania and China, completing construction on new plants in Mexico for the production of car tyres and in China for the production of radial motorcycle tyres. These are in addition to the capital expenditure on the other production sites, made to increase the production mix (i.e. new green performance products), improve the qualitative capability of plants, and optimise occupational health and safety and environmental management of factories.

In regard to the different segments of activity, capital expenditure in the consumer segment has been directed towards programmes to increase production capacity in Romania, China and Argentina, growth in the premium segment in Europe and South America, and completion of construction on the new plants in Mexico and China, for which production is scheduled to commence in H1 2012. In the industrial segment, investments have been concentrated in the consolidation of growth in Brazil and Egypt, while work has gone forward on the installation of machinery used to make products using SATT (Spiral Advanced Technology for Truck) technology derived from MIRS technology.

At December 31, 2011, installed production capacity was about 60.0 million units in the consumer segment and about 6.0 million units in the industrial segment, without considering the joint venture in Russia.

In 2011, the use of cash tied to the management of working capital increased due to the increase in absolute values resulting from the increase in net sales, while the ratio of working capital to net sales remained one of the best in the sector.

The following table illustrates the quarterly changes in cash flow:

(in millions of euro)

	Q1		Q2		Q3		Q4		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Operating income (EBIT) before restructuring expenses	**155.6**	**98.1**	**164.6**	**127.1**	**174.1**	**121.5**	**167.4**	**129.6**	**661.7**	**476.3**
Total amortisation and depreciation	53.9	48.3	53.8	50.4	54.3	51.5	51.8	57.8	213.8	208.0
Capital expenditures of property, plant and equipment and intangible assets	(94.5)	(47.6)	(133.8)	(84.5)	(160.3)	(88.1)	(229.2)	(184.8)	(617.8)	(405.0)
Change in working capital/ other	(291.6)	(132.2)	4.5	37.0	(99.7)	(9.9)	344.6	194.3	(42.2)	89.2
Operating cash flow	**(176.6)**	**(33.4)**	**89.1**	**130.0**	**(31.6)**	**75.0**	**334.6**	**196.9**	**215.5**	**368.5**
Financial expenses/income tax	(63.6)	(45.6)	(85.4)	(61.7)	(78.3)	(50.8)	(43.9)	(42.7)	(271.2)	(200.8)
Net operating cash flow	**(240.2)**	**(79.0)**	**3.7**	**68.3**	**(109.9)**	**24.2**	**290.7**	**154.2**	**(55.7)**	**167.7**
Dividends paid to non-controlling interests	(0.7)	-	(1.7)	(3.8)	-	-	-	-	(2.4)	(3.8)
Acquisition of non-controlling interests (China)	-	-	-	-	(28.0)	-	-	-	(28.0)	-
Russia investment	-	-	-	-	-	-	(55.0)	-	(55.0)	-
Cash out for restructuring expenses	(1.8)	(22.2)	(5.7)	(8.3)	(1.6)	(7.0)	(4.5)	(2.0)	(13.6)	(39.5)
Foreign exchange differences/other	(6.4)	6.0	18.8	9.4	8.4	(9.3)	(7.7)	13.5	13.1	19.6
Net cash flow before dividend payment to parent	**(249.1)**	**(95.2)**	**15.1**	**65.6**	**(131.1)**	**7.9**	**223.5**	**165.7**	**(141.6)**	**144.0**
Dividends paid to parent	-	-	(120.0)	(156.0)	-	-	(90.8)	(70.6)	(210.8)	(226.6)
Capital increase from parent	-	-	500.0	-	-	-		-	500.0	-
Net cash flow	**(249.1)**	**(95.2)**	**395.1**	**(90.4)**	**(131.1)**	**7.9**	**132.7**	**95.1**	**147.6**	**(82.6)**

Consumer Business

The following table illustrates the results for 2011 as compared with the corresponding periods of 2010:

(in millions of euro)

	Q1		Q2		Q3		Q4		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Net sales	983.3	780.9	958.9	835.8	1,024.3	847.1	959.0	836.5	3,925.5	3,300.3
D yoy	*25.9%*	*16.5%*	*14.7%*	*19.1%*	*20.9%*	*15.1%*	*14.6%*	*16.2%*	*18.9%*	*16.7%*
Gross operating profit before restructuring expenses	160.6	106.0	169.7	122.4	172.2	118.9	166.9	141.1	669.4	488.4
% of net sales	*16.3%*	*13.6%*	*17.7%*	*14.6%*	*16.8%*	*14.0%*	*17.4%*	*16.9%*	*17.1%*	*14.8%*
Operating income before restructuring expenses	119.7	69.5	128.6	84.7	131.1	80.5	127.1	99.9	506.5	334.6
% of net sales	*12.2%*	*8.9%*	*13.4%*	*10.1%*	*12.8%*	*9.5%*	*13.3%*	*11.9%*	*12.9%*	*10.1%*
Operating income	**116.8**	**67.0**	**124.3**	**80.3**	**129.0**	**77.2**	**120.5**	**92.5**	**490.6**	**317.0**
% of net sales	*11.9%*	*8.6%*	*13.0%*	*9.6%*	*12.6%*	*9.1%*	*12.6%*	*11.1%*	*12.5%*	*9.6%*

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

	Q1	Q2	CUMULATIVE AT JUNE	Q3	CUMULATIVE AT SEPTEMBER	Q4	ANNUAL TOTAL
EUROPE *							
Original Equipment	+7%	+0%	+5%	+3%	+4%	+1%	+3%
Replacement	+7%	+1%	+4%	+6%	+5%	-4%	+3%
NAFTA							
Original Equipment	+15%	+2%	+9%	+8%	+8%	+14%	+10%
Replacement	+7%	-5%	+1%	-2%	+0%	-4%	-1%
SOUTH AMERICA							
Original Equipment	+8%	+7%	+8%	+3%	+6%	-8%	+2%
Replacement	-2%	-1%	-2%	+3%	+0%	+3%	+1%

* excluding Russia

In 2011 **net sales** were euro 3,925.5 million, up 18.9% versus 2010. Excluding the translation effect, the change on a comparable consolidation basis was a positive 20.3% due to the 3.0% increase in volumes and the 17.3% increase in the price/mix ratio.

(milioni di euro)

	Q1		Q2		Q3		Q4		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Volume	9.0%	14.9%	2.6%	6.2%	4.3%	0.8%	-3.3%	4.2%	3.0%	6.4%
of which Premium	*25.2%*		*21.7%*		*17.5%*		*8.3%*		*18.2%*	
Price/Mix	14.6%	1.2%	16.2%	8.7%	18.4%	10.7%	19.7%	9.3%	17.3%	7.6%
Change on a like-for-like basis	23.6%	16.1%	18.8%	14.9%	22.7%	11.5%	16.4%	13.5%	20.3%	14.0%
Translation effect	2.3%	0.4%	-4.1%	4.2%	-1.8%	3.6%	-1.8%	2.7%	-1.4%	2.7%
Total change	**25.9%**	**16.5%**	**14.7%**	**19.1%**	**20.9%**	**15.1%**	**14.6%**	**16.2%**	**18.9%**	**16.7%**

Gross operating profit before restructuring expenses was euro 669.4 million, or 17.1% of sales (+37% versus 2010), while **operating income before restructuring expenses** reached euro 506.5 million, with a ratio of 12.9% to sales, as compared with euro 334.6 million in 2010 (10.1% of sales). **Operating income** totalled Euro 490.6 million (with ROS of 12.5%), up 55% versus 2010, when it totalled Euro 317.0 million (with ROS of 9.6%).

In 2011 PIRELLI supplied tyres to all 12 teams competing in Formula 1 races worldwide. A total of 24,000 PZero F1 tyres were used during the racing season, all of which were made at the Izmit, Turkey plant, with the exception of compounds produced in Italy at the new Settimo Torinese industrial site. This plant uses cutting-edge technology and sophisticated production machinery.

Ever since this supply contract was officially announced, the dedicated PIRELLI team has worked on a tight schedule with the team and drivers to satisfy as best as possible the requirement of a highly reliable and safe product subject to variable rates of wear and tear, in view of assuring the best possible spectator experience during competition.

The results have been an unqualified success. The 2011 season has even been defined in the international media as one of the most sensational in the recent history of F1.

Spectators also shared their appreciation for such exciting races. The 2011 racing season had a global audience for the 19 grand prix races of over 1.6 billion viewers, which when translated in terms of exposure meant over euro 300 million in value enhancement for the PIRELLI brand. Finally, F1 has represented an exclusive marketing and communication platform through which the Company has been able to engage all of its principal stakeholders worldwide.

The top single-seater racing championship has also made it possible to develop new research and development models that have been immediately applied to the design and production of highway tyres.

The technologies used for the design and production of compounds used in highway tyres have also benefited from major transfers from the know-how accumulated through work on Formula 1.

For example, this approach led to the creation of PZero Silver, the first road use tyre derived from F1 technology, with it being given its first public presentation at the Monza Grand Prix. It will be produced exclusively at the new Settimo Torinese industrial site.

So, this project has made a major contribution to reinforcing the brand especially in the premium segment, which most characterises the exclusive line-up of products offered by PIRELLI and on which the Company is placing its hopes to achieve top world leadership in 2015.

CAR BUSINESS

In 2011, the original equipment market showed a positive performance overall: in Europe +3%, in NAFTA +10%, in South America +2%, and in China +2%.

Most replacement markets also showed positive results (Europe +3%, South America +1%, China +12%), with the exception of NAFTA (-1%).

In 2011 net sales by PIRELLI, which totalled euro 3,513 million with an EBIT margin of 11.9%, were generated 74.5% by the replacement market and 25.5% by original equipment.

Overall, 50% of net sales were originated by premium products, which generated 80% of operating income.

Business results were driven by the excellent performance of winter products in Europe, where our products are increasingly appreciated (from the most classic products like Snowcontrol and Sottozero to Scorpion winter tyres for SUV), the acceleration given to the high-end product range both in South America and in Asia-Pacific, the locomotive effect of price increases applied in all geographical areas and the solid market share enjoyed by the Company in the premium original equipment segment.

In 2011 the business realised positive developments in both channels. In the original equipment channel, it progressively focused its market shares on premium customers, with whom we continue to grow in all geographical areas worldwide. During the year, premium segment sales increased by 25% against a 13% decrease in the standard segment. In the replacement channel, the Group is focused on the premium strategy, by exploiting the positive return on image from F1. Indeed, its market share in the premium segment volume has grown 28% worldwide.

MOTORCYCLE BUSINESS

In 2011 the original equipment channel contracted in Europe, although at different rates in the various segments, while it expanded significantly in South America.

The replacement channel generally performed well in the various geographical regions. In 2011, PIRELLI made 77% of its sales in the replacement channel and 23% in the original equipment channel. In 2011 net sales by PIRELLI totalled euro 412 million, with an EBIT margin of 17.7%.

In 2011 PIRELLI renewed its road use product line with the new Diablo Rosso II, which uses technology derived from the world Superbike championship series, and its off-road line with the introduction of two new products: the Scorpion 554 Mid Hard and the new Scorpion Extra X. The Metzeler brand rounded out the range of products offered with the Sportec M5 Interact (Supersport segment) and the Roadtec Z8 Interact (SportTouring segment).

Major accomplishments were also achieved in sports competition in 2011: many prestigious racing championships chose PIRELLI as their sole tyre supplier, including World Superbike, British Superbike (BSB), Canadian Superbike, and Brazilian Superbike. PIRELLI also came in first in most national races, including the Le Mans 24-hour Superbike class race, the Montmelò 24-hour Superbike class race, the CIV Superbike and Supersport class races.

In off-road competition, PIRELLI further distinguished itself by winning the 56th World MX championship by coming first in the MX1 and MX2 classes, and the World Rally Championship. Metzeler won the World Enduro Championship in the E3 class.

PIRELLI received repeated important recognition by being approved as original equipment supplier for, among others, the Ducati Panigale 1199 with the new Diablo Supercorsa and the MV Agusta F3 with the Diablo Rosso Corsa. Metzeler was approved as original equipment supplier for the Husqvarna Nuda 900 with Sportec M5 Interact and for the Honda Crosstourer 1200 with Roadtec Z8 Interact.

GEOGRAPHICAL AREAS

Europe

The region's macroeconomic situation was not favourable, but factors such as focus on the premium segment (where demand expanded at the brisk rate of +12%), the existence of a winter range of products that were extremely well received by the market, and product approvals received from many premium European carmakers, PIRELLI managed to increase its sales volumes and achieve double-digit profitability.

Nafta

Total volume on the consumer tyre market for the replacement channel slipped slightly, but the premium segment grew more than 10%, while the original equipment channel expanded by 10% after several years of contraction.

PIRELLI managed to improve its market share by exploiting its heavy focus on the premium segment and the positive stimulus given by approval as original equipment supplier.

South America

South America remains an important geographical area, both for production and sales, where PIRELLI is leader in spite of pressure on the lowest segment by brands imported from low-cost countries. In the car business, reinforcement of the Company's leadership has been accomplished with development plans in the premium segment and leadership in product approvals and supplies to all local carmakers.

In the motorcycle business, PIRELLI's consolidated historic leadership will allow it to be privileged partner of several European motorcycle makers that are beginning to produce locally to meet the growing demand for high-powered motorcycles throughout the region.

Apac

PIRELLI began making investments in high-end radial tyre production capacity in China. Its goal has been to have a local producer in a geographical region enjoying strong expansion and offer a radial product to mature markets as well. In the car business, notwithstanding the problems encountered in several markets due to macroeconomic problems (slowdown of growth in China during H2 2011 and natural disasters in Japan), PIRELLI still managed to grow (with net sales up by 30%) by focusing on the premium segment, making investments in the retail channel, and developing the original equipment channel with premium producers in China by using its own transplants.

Industrial Business

The following table illustrates the results for 2011 as compared with the corresponding periods of 2010:

(in millions of euro)

	Q1		Q2		Q3		Q4		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Net sales	401.2	329.1	417.5	379.5	440.5	386.7	416.9	376.4	1,676.1	1,471.7
D yoy	21.9%	28.4%	10.0%	32.0%	13.9%	26.1%	10.8%	19.7%	13.9%	26.3%
Gross operating profit before restructuring expenses	48.9	40.4	48.7	55.1	56.2	54.1	52.3	46.3	206.1	195.9
% of net sales	12.2%	12.3%	11.7%	14.5%	12.8%	14.0%	12.5%	12.3%	12.3%	13.3%
Operating income before restructuring expenses	35.9	28.6	36.0	42.4	43.0	41.0	40.3	29.7	155.2	141.7
% of net sales	8.9%	8.7%	8.6%	11.2%	9.8%	10.6%	9.7%	7.9%	9.3%	9.6%
Operating income	35.6	28.5	35.8	41.5	42.9	39.8	39.0	26.3	153.3	136.1
% of net sales	8.9%	8.7%	8.6%	10.9%	9.7%	10.3%	9.4%	7.0%	9.1%	9.2%

The following table shows the detailed breakdown of market performance:

	Q1	Q2	CUMULATIVE AT JUNE	Q3	CUMULATIVE AT SEPTEMBER	Q4	ANNUAL TOTAL
EUROPE *							
Original Equipment	+77%	+42%	+57%	+24%	+45%	+2%	+32%
Replacement	+16%	+11%	+14%	-9%	+5%	-18%	-1%
SOUTH AMERICA							
Original Equipment	+2%	+4%	+3%	+16%	+8%	+21%	+11%
Replacement	+10%	+3%	+6%	-6%	+2%	-9%	-1%

* excluding Russia

In 2011 **net sales** were euro 1,676.1 million, up 13.9% versus 2010. Excluding the translation effect, the change on a comparable consolidation basis was a positive 16.1% due to the 17.8% increase in the price/mix ratio.

	Q1		Q2		Q3		Q4		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Volume	-0.7%	24.1%	-1.9%	10.4%	-0.5%	4.2%	-5.4%	1.6%	-1.7%	9.4%
Price/Mix	19.0%	1.8%	14.9%	13.7%	19.0%	16.2%	20.1%	15.7%	17.8%	12.3%
Change on a like-for-like basis	18.3%	25.9%	13.0%	24.1%	18.5%	20.4%	14.7%	17.3%	16.1%	21.7%
Translation effect	3.6%	2.5%	-3.0%	7.9%	-4.6%	5.7%	-3.9%	2.4%	-2.2%	4.6%
Total change	21.9%	28.4%	10.0%	32.0%	13.9%	26.1%	10.8%	19.7%	13.9%	26.3%

Gross operating profit before restructuring expenses was euro 206.1 million, or 12.3% of sales (+5.2% from 2010), while **operating income before restructuring expenses** reached euro 155.2 million, with a ratio of 9.3% to sales, as compared with euro 141.7 million in 2010 (9.6% of sales). **Operating income** totalled euro 153.3 million (with ROS of 9.1%), up 12.6% versus 2010, when it totalled euro 136.1 million (with ROS of 9.2%).

Broken down by geographical area, net sales in the **original equipment** channel generally grew in 2011, with growth rates +32% in Europe, +55% in NAFTA, and +11% in South America. Net sales of original equipment fell only in China, by about 15%.

In the **replacement** channel instead, market growth rates were positive everywhere during the first two quarters of the year, but then slowed down sharply in the third quarter and even more so in the fourth quarter. In particular, Europe posted negative growth of -1% as compared with 2010, conditioned by the -18% contraction in the fourth quarter. South America turned in a negative performance of -1% (with about -9% in the fourth quarter), while NAFTA reported growth of +3% and China +1%.

TRUCK BUSINESS

The market performed well in H1 2011, especially for original equipment, but then slowed down at an increasing pace from the third quarter on, first in the replacement channel and then also the original equipment channel. This slowdown mainly affected Europe, Turkey and Latam, prompting production cutbacks to control inventories.

Overall production remained at about the same level as in 2010, with increased production of the All Steel Radial (+2.5%), which offset the reduction of Conventional tyre production. All of the foregoing took place against the backdrop of lower output in Egypt during the socio-political turmoil that took place in the first quarter.

The highlight for 2011 was marked by the launch in September of three new tyre lines in the winter, motorway and on/off segments, which together with extension of the regional and semitrailer range segment, completed the Series 01 that is based entirely on the patented SATT technology, which guarantees more extended product life, improved remanufacturing and precise driving.

The new products are distinguished by their lower rolling resistance, which improves fuel economy and lower CO_2 emissions, while shortening braking distances.

The new winter line went on sale in the fourth quarter, and the new H and G lines will go on sale in Q1 2012, beginning in Europe and Turkey, with a plan for steady expansion in other regions, aiming at global coverage by 2014. The Series 01 products added euro 80 million to net sales in 2011, or 7% of total all steel sales, with their contribution being expected to double in 2012.

PIRELLI supported the launch of these new lines, during the year that the Company celebrated its 100th anniversary in the truck business, with a series of advertising and promotional campaigns.

AGRICULTURAL BUSINESS

The agricultural business remains highly focused on South America, where the expansion of agricultural production in Brazil (where cultivated areas expanded by 4.3% in 2011 and harvested quantities grew continuously) and Argentina drives development.

In 2011 net sales rose by 14.7% versus 2010, with South America accounting for 79% of sales volumes.

Production is concentrated at the Brazilian plant at Santo Andrè, in the state of São Paulo, where radial technology has been developed and introduced to flank traditional technology, with steady expansion in the available product line to serve the replacement markets in the region, as well as original equipment for international markets.

Production of OTR tyres with textile radial technology has also begun in the new production department at Santo Andrè.

STEEL CORD BUSINESS

In 2011 the steel cord business continued growing steadily in both terms of its earnings and production capacity, especially in consequence of increased production in Romania, where capacity has risen to over 40,000 tonnes. Activity continues in China, where PIRELLI is a non-controlling partner in the development of a production plant at Yanzhou in Shandong Province. That plant has an initial annual production capacity of 16,000 tonnes of steel cord.

Research continues to be conducted on technological developments of steel cord to satisfy the needs of tyre makers by consolidating the advantage of vertical integration in the Tyre business. Specifically in regard to car tyres, development has been focused on obtaining improvements in rolling resistance, performance and lower costs, while development of truck tyres is concentrated instead on casing integrity and cost reductions.

In regard to the development of production processes, industrialisation and extension of the new semi-finished product process (patented by PIRELLI), will enable it to make specialty steel cords while also reducing environmental impact (reduced consumption of electricity).

GEOGRAPHICAL AREAS

Europe

Following introduction of the new Series 01 products, the truck business currently offers a product range that satisfies new European regulations governing eco-sustainability and safety, which will go into effect in 2012.

In spite of the deteriorating macroeconomic context during the last four months of the year, PIRELLI maintained its market share by improving its competitive position versus 2010.

South America

PIRELLI confirmed its leadership position in the original equipment channel, while it suffered in the replacement channel due to the pressure of imports from low-cost countries. In view of reinforcing its competitive position in the replacement channel, a plan of activities was drawn up, including investment in a new production plant in Argentina, focusing on fleets and truck dealers, and further development of the distribution and service network.

Mea

PIRELLI maintained its strong leadership position in Egypt during 2011, although sales suffered due to the market slowdown during the first quarter. At the same time, the Group further reinforced its position in Turkey. The increase in production capacity in Egypt and improvement of the product mix in Turkey will help reinforce the truck business in the region, and especially in GCC countries, by counting on steady stabilisation of the political and social situation in the area.

Apac

In 2011 PIRELLI revised its commercial activity, by focusing it more on fleets and offering tubeless products in response to the slowdown on the internal market, especially for original equipment. During the year, PIRELLI then reallocated a portion of its production capacity to other rapidly growing areas with a growing market trend.

RESEARCH AND DEVELOPMENT ACTIVITIES

The core of PIRELLI's growth strategy focused on the premium segment is its consolidated capacity to innovate products and processes.

Group R&D costs, which are fully expensed in the annual income statement, totalled Euro 170 million, with a 3% ratio to sales. Of this amount, euro 132 million refers to activity involving premium products, with R&D costs amounting to 7.2% of net sales of premium products.

PIRELLI aims to become world leader in the premium segment in 2015. To achieve that goal, it will focus on technological innovation to expand its product line, meeting the needs both of mature markets like Europe and those of rapidly developing countries.

PIRELLI operates a **research centre in Italy and eight application centres around the world**, staffed by over 1,200 employees. The amount of investments to be made in Research and Development over the next three years will remain at around 3% of sales, which is one of the highest rates in the sector. All of these factors will help increase the number of patents held by the Group (currently over 4,500), guarantee its ability to reduce the time needed to update its line of premium products approved as original equipment, and fully eliminate highly aromatic oils from its entire product line worldwide by 2013.

The exchange of know-how amongst the Group's various businesses, partnership with best-of-class suppliers and continuous collaboration with leading university research centres and major car makers provide the Group with the technology necessary to develop cutting-edge products, which are successfully tested in the most important motorsport disciplines. The experience in supplying Formula 1 tyres represents an important source of innovation. Traditionally focused on the development of new premium products (*UHP, winter, runflat, SUV* and motorcycle tyres), R&D activity has been complemented by increasing strategic attention to the reduction of environmental impact, through the exploitation of technological components and the most advanced know-how.

The Group has entered into numerous agreements and partnerships with suppliers and universities. Among the most important of these is the Joint Labs agreement with the Milan Polytechnic, which has been made to promote research and training in the tyre industry. PIRELLI aims to operate a network of research and development centres in every region around the world, to exploit solid ties at the local level. Its leadership in innovative materials is pursued through research in the field of polymers, fillers and chemistry, for the development of ever-more stable compounds, lighter structures and more impermeable liners.

Special attention is dedicated to green materials: the search for alternative sources is more and more necessary, both in view of cost savings and sustainability. The Group's Brazilian plants produce silica from rice husks, an ecological material that will account for about 30% of use in Latin America in 2015. The use of alternative sources will enable the Group to deal more flexibly with the possible scarcity of raw materials. The development of innovative production processes (like the new generation of *MIRS – Modular Integrated Robotized System* – a robotized process owned exclusively by PIRELLI, or extension of the *PTSM* – PIRELLI *Twin Screw Mixing* – process, which represents the evolution of the *CCM – Continuous Compound Mixing System*) is one of the Group's key tools for achieving a competitive advantage. For example, the robotized *Next Mirs* system allows reductions in CO_2 emissions and energy consumption, and improved product performance. The CCM compound production process and PTSM make it possible to reduce consumption per unit of product by about 20% and realise major ben-

Fig. 1

Fashion

efits for the uniformity of compounds, with a reduction of 30% in energy consumption as compared with traditional techniques.

Collaboration with the Turin Polytechnic was also deepened in 2011 for the development of certain important technologies, including: *Cyber Tyre, Next MIRS* and *TSM*. The innovations have been implemented at the new industrial site in Settimo Torinese, as part of a process to assure higher standards of factory efficiency and productivity ("green factory").

Cyber Tyre

Tyre electronics (like the microchip contained in the **Cyber Tyre**, which makes it possible to monitor changing road surface conditions by sending the vehicle key information for stability and safe driving), are the "spare tyre" in PIRELLI's premium innovation strategy. The first generation of ***TPMS (Tyre Pressure Monitoring System)*** and ***RFId (Radio Frequency Identification)*** devices will be introduced on the market in 2012, initially being offered for management of truck fleets. After having offered the ***K-Pressure™Optic*** system to the replacement market over the past several years, PIRELLI now offers to original equipment the most evolved system for measurement of tyre pressure and temperature, the Cyber™ Tyre "Lean", which can fully satisfy the new regulatory requirements in force in Europe since 2012. Consisting of a small sensor mounted on the tyre, it represents the first step towards a deep transformation of tyres into an active system, capable of transmitting useful data and information to the vehicle.

AWARDS AND PRIZES

PIRELLI received numerous awards and prizes in 2011. According to a study by Encircle Marketing, PIRELLI is the most highly recommended tyre brand in the United Kingdom. In February PIRELLI won the ***Toyota Regional Contribution Award*** as best supplier of tyres to this Japanese car maker in South America. In March, John Deere, one of the biggest makers of agricultural and construction equipment in the world, gave the PIRELLI the highest award in the sector.

In November it won recognition as "Best Tuning Cars & Best Brands." In December it won the Casco d'Oro in the "Special" category for its technological commitment to Formula 1. The monthly magazine *Quattroruote* named Maurizio Boiocchi, PIRELLI Director of Research and Development, as one of the ten persons who distinguished themselves in the automotive sector.

At the Geneva Car Show, PIRELLI presented the world première of the new Snowcontrol Serie 3 winter tyre, conceived to guarantee safety for small and medium-powered cars. PIRELLI was also a star at Frankfurt, where it dedicated major space to "green" performance with its Cinturato P1 in a "special edition," developed to equip an electric concept car that is the fruit of PIRELLI technological partnership with one of the world's leading automotive giants. At the Sema Show in Las Vegas, where it presented the P Zero Silver, PIRELLI won the prize for "Best Performance Tire" and the Excellence in Design Award from *Ford Motor Company*, which awards the design of products and how they are communicated. During the year, PIRELLI has received repeated recognition from the specialised press, which has awarded products like the Cinturato P7, the PZero, Scorpion Verde, and Winter Carving Edge.

PRODUCTS

Car

PIRELLI research and development activity created new green products for the car tyre segment in 2011. In March PIRELLI presented the **Cinturato P1**, the new "green" tyre designed for small and mid-sized vehicles, which guarantees lower fuel consumption, respect for the environment, and high performance on all surfaces. The Cinturato P1 has already been chosen by BMW as original equipment. Cinturato P1 expands the PIRELLI green product line, composed by the Cinturato P4, P6 and P7. With 20% of total sales worldwide, the Cinturato ecological line is already the most important in Group production and is destined to grow, in line with the further upgrading envisaged for "Green Performance." The P1 will also be made in Latin America and China, with characteristics and measurements tailored to local market requirements. The PZero Silver (which will go on sale in a limited edition beginning spring 2012) is the first ***Ultra High Performance*** tyre derived from Formula 1. It will be produced in Settimo Torinese, where all Formula 1 compounds are currently made, and then assembled at the Izmit Sports Centre in Turkey.

Winter Icecontrol has been available since mid-2011. PIRELLI developed this tyre specifically for the Scandinavian and Russian markets, where winters are extremely harsh and roads are typically covered by ice and compacted snow.

P7 Corsa Classic is the new tyre designed for historic car rallies, and equips cars like the Lancia Rally 037, Lancia Stratos, Lancia Delta S4, Fiat 131 Abarth, Porsche 911, Opel Ascona and Opel Manta.

In 2011 PIRELLI was approved for equipping vehicles produced by major car makers (Ferrari FF, Maserati Granturismo MC Stradale, Porsche Carrera 991, Boxster, Cayman and Panamera, Aston Martin V12 Vantage and the new DBS, Bentley GT, Lotus Exige, Jaguar XJ, Ford Mustang, new Daimler M-Class and S-Class, BMW series 1, 3 and 5, Audi A7, A6, A4, Q3 and RS4, Land Rover Evoque and the new Range Rover, Volvo C40), and also equips the Huayra supercar of Pagani Automobili, for which it has developed innovative solutions for the PZero. The Lamborghini Aventador is equipped with the P Zero Corsa ***(Ultra High Performance)***, the sportiest model in the PZero family.

FORMULA 1

For the three-year period 2011-2013, PIRELLI is the exclusive supplier of tyres to Formula 1, as well as to the GP2 Series World Championship. Its participation in these championships complement those that, since 2010, have also seen the Group play an active role in the GP3 Series and rally championships. The Group has been able to provide technically innovative solutions for Formula 1 teams in very little time. PIRELLI was designated exclusive supplier in June 2010. Its efficient research process allowed it to run the first tests in the Mugello just three months after being named exclusive supplier, in November the first tests were run with all teams in Abu Dhabi, and they were used competitively for the first time at the Australia Grand Prix in March 2011.

Over the season, about 24,000 tyres were used (50,000 including GP2 and GP3), with 10,200 kilograms of rubber placed on the track, 72 tyres for each race car, 6,000 kilometres run, over 1,000 overtakes, and more than 1,000 pit stops made. Two processes are involved in making a Formula 1 tyre – research and production – each of which are subject to continuous lab and track tests. PIRELLI supplies four slick versions for dry pavement (supersoft, soft, medium and hard) and two for wet pavement (intermediate and wet).

Here are all the numbers and characteristics of the tyres supplied to Formula 1:

- Over 100 constituent physical-chemical elements
- 18 structural components
- 5 hours of processing
- 8.5 kg approximate weight of a front tyre
- 9.5 kg approximate weight of a back tyre
- About 1,800 tyres supplied for every Grand Prix
- 30 laps average duration during race
- 450 km/h speed reached in indoor tests
- 260 km/h impact speed reached in running conditions on speed bumps
- 5 G of load in longitudinal acceleration, 4.5 G for vertical acceleration
- 150° C is the temperature to which tyre treads are subjected during thermal stress tests
- 18,000 km run during private tests

Tyre design has changed slightly for the 2012 season. The latest evolutions of PZero tyres feature innovations for the front and rear profiles and a completely new choice of compounds, with the exception of the supersoft compound, which remains unaltered. The new tyres have a more squared-off profile, designed to distribute consumption uniformly throughout the entire footprint, while the softer compounds have been modified to reduce the risk of blistering.

MOTORCYCLES

In 2011 PIRELLI launched the Diablo Supercorsa in the motorcycle segment, dedicated to professional racers. In 2012, it will be used in the SC (*Special Compound*) version SP race replica version (*Sport Production*), which is also suitable for daily use on the road. Ducati has already chosen the Diablo Supercorsa in its road version (SP) to equip the 1199 Panigale model. Other innovations for 2011 have been the Scorpion Rally, the Diablo Superbike and the Feelfree Wintec, the first tyre designed to allow drivers to use their scooters all year round. In 2011, PIRELLI started up production of radial tyres for motorcycles alongside the existing production of car and truck tyres at the Yanzhou factory, opened in 2005 in Shandong Province, China.

Already in 2012 the Chinese factory will be able to deliver 260,000 tyres, and in 2015, when it reaches full operating capacity, output will near one million units. PIRELLI has won repeated recognition in the motorcycle business, beginning with Ducati, which named it the "most innovative supplier" and gave it the annual Best Product Innovation Award.

INDUSTRIAL VEHICLES

In the truck sector, PIRELLI aims to increase mileage and fuel consumption efficiency, through improved rolling resistance in all segments. PIRELLI will also focus on the winter segment, which is growing rapidly in the industrial market. In 2011, the Group celebrated its 100th anniversary in the truck segment with a big event held in Turkey, where the company's biggest industrial centre is located. Three new tyre lines in the ***winter, highway*** and ***gravel*** segments were presented in 2011, completing the Series 01, conceived for use in critical winter conditions, long-distance transport and construction vehicles. All Series 01 tyres rank at the top of European market quality rankings in terms of high mileage, low rolling resistance and low environmental impact.

HIGHLIGHTS OF OTHER ACTIVITIES

The other businesses are comprised by PIRELLI & C. Eco Technology S.p.A., PIRELLI & C. Ambiente S.p.A., PZero S.r.l., and the Group holding and service companies, including the parent, PIRELLI & C. S.p.A.

(in millions of euro)

	PIRELLI ECO TECHNOLOGY		PIRELLI AMBIENTE		PZERO		OTHER		TOTAL OTHER ACTIVITIES	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Net sales	**43.3**	61.4	**1.6**	4.4	**9.7**	7.7	**(1.4)**	2.9	**53.2**	76.4
Operating income (loss) before restructuring expenses	**(12.2)**	(11.4)	**(8.6)**	(6.3)	**(11.8)**	(0.3)	**(19.4)**	(25.8)	**(52.0)**	(43.8)
Restructuring expenses	**(10.0)**	(1.5)	**-**	-	**-**	-	**-**	-	**(10.0)**	(1.5)
Operating income (loss)	**(22.2)**	**(12.9)**	**(8.6)**	**(6.3)**	**(11.8)**	**(0.3)**	**(19.4)**	**(25.8)**	**(62.0)**	**(45.3)**
Net income (loss)	**(24.6)**	**(14.9)**	**(6.8)**	**(6.0)**	**(12.2)**	**(0.4)**	**(15.2)**	**(3.3)**	**(58.8)**	**(24.6)**
Net financial (liquidity)/ debt position	**62.7**	38.0	**49.3**	30.1	**7.2**	3.8	**(344.4)**	(726.2)	**(225.5)**	(654.3)

At December 31, 2011 **net sales** totalled euro 53.2 million, compared with euro 76.4 million a year earlier, with the decrease being attributable to PIRELLI & C. Eco Technology.

The **operating loss** was euro 62.0 million, compared with a loss of euro 45.3 million in the same period of 2010.

For PIRELLI **Eco Technology** this result includes non-recurring charges connected with restructuring and the complete write-off of goodwill carried on the books for euro 10 million, compared with euro 1.5 million in the previous year.

PIRELLI **Ambiente** practically completed its reorganisation, which resulted in a series of one-off impacts on inventories and assets. This subsidiary is essentially a holding company now with an equity investment in renewable energy activity.

PZero is facing costs to reinforce its business model, which involves development of the retail channel. Its first single brand store was opened in Milan in September.

The residual amount, which includes the parent, compares favourably with 2010 due to the revision of royalties paid by PIRELLI Tyre for use of the company brand, which have risen from 0.7% to 1.3% of net sales, partly in consequence of the enhanced brand value.

The net financial (liquidity)/debt position was impacted by the capital increase by the parent in favour of PIRELLI Tyre S.p.A. for euro 500 million.

PARENT HIGHLIGHTS

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

(in millions of euro)

	12/31/2011	12/31/2010
Operating income/(loss)	**(23.8)**	**(39.6)**
Net financial income and net income from equity investments	150.8	229.5
Net income of continuing operations	144.4	191.0
Net income/(loss) of discontinued operations	-	(103.6)
Prior period deferred tax assets - Italy	128.1	-
Net income	**272.5**	**87.4**
Non-current financial assets	1,367.4	965.2
Equity	**1,740.6**	**1,584.6**
Net financial (liquidity)/debt position	**(200.7)**	**(597.0)**

The **operating loss** compares favourably with 2010 due to the revision of royalties paid by PIRELLI Tyre for use of the company brand, which have risen from 0.7% to 1.3% of net sales, partly in consequence of the enhanced brand value.

Net **financial income and net income from equity investments**, totalling euro 150.8 million, mainly include the euro 210.8 million dividends received from the subsidiary PIRELLI Tyre S.p.A., euro 27.4 million dividends from other subsidiaries, impairment of the equity investment in the subsidiary PIRELLI UK Ltd for euro 22.3 million, impairment of the equity investment in the subsidiary PIRELLI & C. Eco Technology S.p.A. for euro 35.6 million, impairment of the equity investment in the subsidiary PZero S.r.l. for euro 12.1 million, impairment of the equity investment in RCS MediaGroup S.p.A. for euro 18.0 million (which now has a book value of euro 1.02 per share compared with euro 1.48 in 2010). The negative reserve accumulated for euro 10.3 million against the equity investment in Alitalia S.p.A. (classified as an available-for-sale financial asset) was also transferred to the income statement.

Net income, totalling euro 272.5 million, includes the recognition of deferred tax assets on tax losses carried forward, with a non-recurring benefit of euro 128.1 million, due to changes in Italian tax regulations governing the use of losses. These new regulations now limit the use of losses to 80% of taxable income in any one year, while extending indefinitely the use of losses for this purpose.

The **net loss of discontinued operations in 2010** included the negative impact of assignment of former PIRELLI & C. Real Estate S.p.A. (now Prelios S.p.A.) shares (euro 119.7 million), which was partly offset by the net gain on disposal of PIRELLI Broadband Solutions S.p.A. (euro 16.1 million).

The increase in the value of **non-current financial assets** mainly includes the capital increase in favour of the subsidiary PIRELLI Tyre S.p.A. (euro 500 million), partly set off by the reduction tied to impairment of the equity investments held in RCS MediaGroup S.p.A. (euro 18.0 million), fair value adjustments (negative euro 42.0 million) and disposals of the equity investments in CyOptics Inc. and Gruppo Banca Leonardo S.p.A.

The following table summarises the carrying values of the principal non-current financial assets at December 31, 2011:

(in millions of euro)

	12/31/2011
EQUITY INVESTMENTS IN SUBSIDIARIES	
PIRELLI Tyre S.p.A.	**1,085.8**
PIRELLI & C. Eco Technology S.p.A.	-
PIRELLI Finance (Luxembourg) S.A. - Lussemburgo	13.8
PIRELLI Ltda - Brasile	9.7
PIRELLI & C. Ambiente S.p.A.	12.2
PIRELLI Labs S.p.A.	4.1
PIRELLI UK Ltd	11.1
PIRELLI Group Reinsurance Company S.A.	6.3
PZero S.r.l.	6.4
PIRELLI Servizi Amministrazione e Tesoreria S.p.A.	3.2
Other	2.9
Total equity investments in subsidiaries	**1,155.5**
EQUITY INVESTMENTS IN ASSOCIATES AND OTHER FINANCIAL ASSETS	
Mediobanca S.p.A.	69.4
RCS MediaGroup S.p.A.	39.9
Eurostazioni S.p.A.	52.9
Fin. Priv. S.r.l.	9.7
Anastasia - Real Estate Investment Trust	12.3
Alitalia S.p.A.	9.7
Advanced Digital Broadcast Holdings S.A.	1.5
Istituto Europeo di Oncologia S.r.l.	6.6
F.C. Internazionale Milano S.p.A.	6.0
Other	3.9
Total equity investments in associates and other financial assets	**211.9**
Total non-current financial assets	**1,367.4**

Equity rose from euro 1,584.6 million at December 31, 2010 to euro 1,740.6 million at December 31, 2011. The change is illustrated as follows:

(in millions of euro)

CHANGE IN EQUITY	
Equity at 12/31/2010	**1,584.6**
Net income	272.5
Dividends paid	(81.1)
Gains/(losses) recognised directly in Equity	(35.4)
Equity at 12/31/2011	**1,740.6**

The following table illustrates the breakdown of equity at December 31, 2011 and comparative figures for the year at December 31, 2010:

(in millions of euro)

	12/31/2011	12/31/2010
Share capital	**1,343.2**	**1,375.7**
Share premium reserve	-	229.4
Legal reserve	104.2	99.9
Business combinations reserve	12.4	22.5
Reserve from assignment of PIRELLI & C. Real Estate S.p.A. (now Prelios S.p.A.) shares	-	(32.5)
IAS transition reserve	-	(239.4)
IAS operating reserve	(19.6)	15.7
Retained earnings	27.9	25.9
Net income	**272.5**	**87.4**
	1,740.6	**1,584.6**

The **net financial (liquidity)/debt position**, which was a positive euro 200.7 million at December 31, 2011 compared with euro 597 million at December 31, 2010, was mainly impacted by the capital increases made in favour of the subsidiaries PIRELLI Tyre S.p.A. (euro 500 million) and PIRELLI UK Ltd (euro 54.7 million), the pay-out of dividends to shareholders (euro 81.1 million), offset by the collection of dividends from equity investments (euro 238.2 million) and sale of the equity investment in CyOptics Inc. (euro 17.5 million).

RISKS AND UNCERTAINTIES

The current macroeconomic situation, financial market volatility, complex management processes and continuous legislative and regulatory evolution force successful businesses to renew their ability to protect and maximise tangible and intangible sources of value that characterise their own business model. For these reasons, PIRELLI adopts a pro-active risk management system. It uses a systematic and organised process of identifying, analysing and assessing risk-prone areas that could compromise the attainment of strategic objectives, provides the Board of Directors and management with decision-making tools so that they can anticipate and manage the effects of these risks and, more in general, govern them, guided by the awareness that the assumption of risk is a fundamental part of business management.

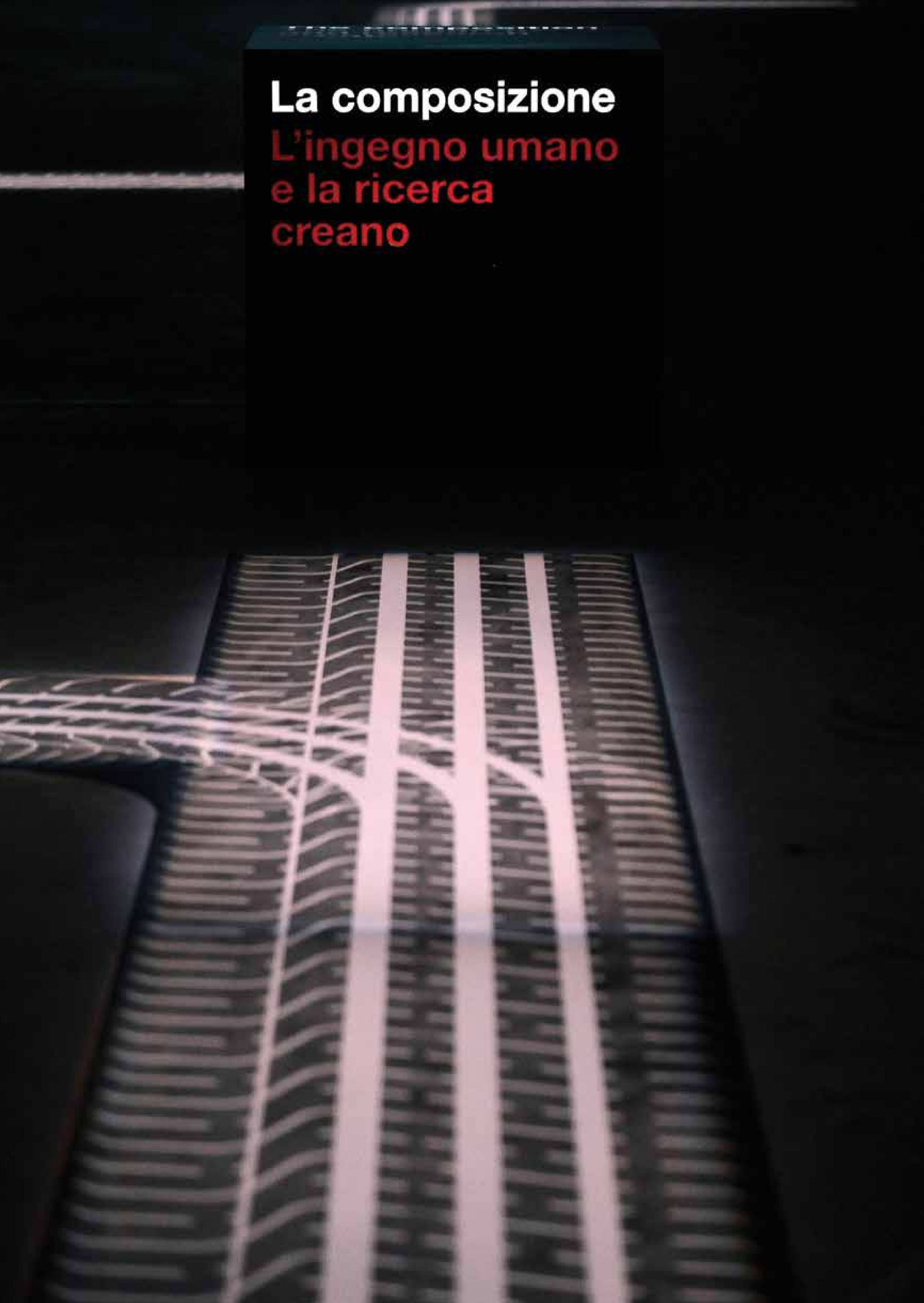
Reference is made to the Corporate Governance Report for details on the risk management system.

The PIRELLI Risk Model systematically assesses two categories of risks: strategic risks and cross business risks.

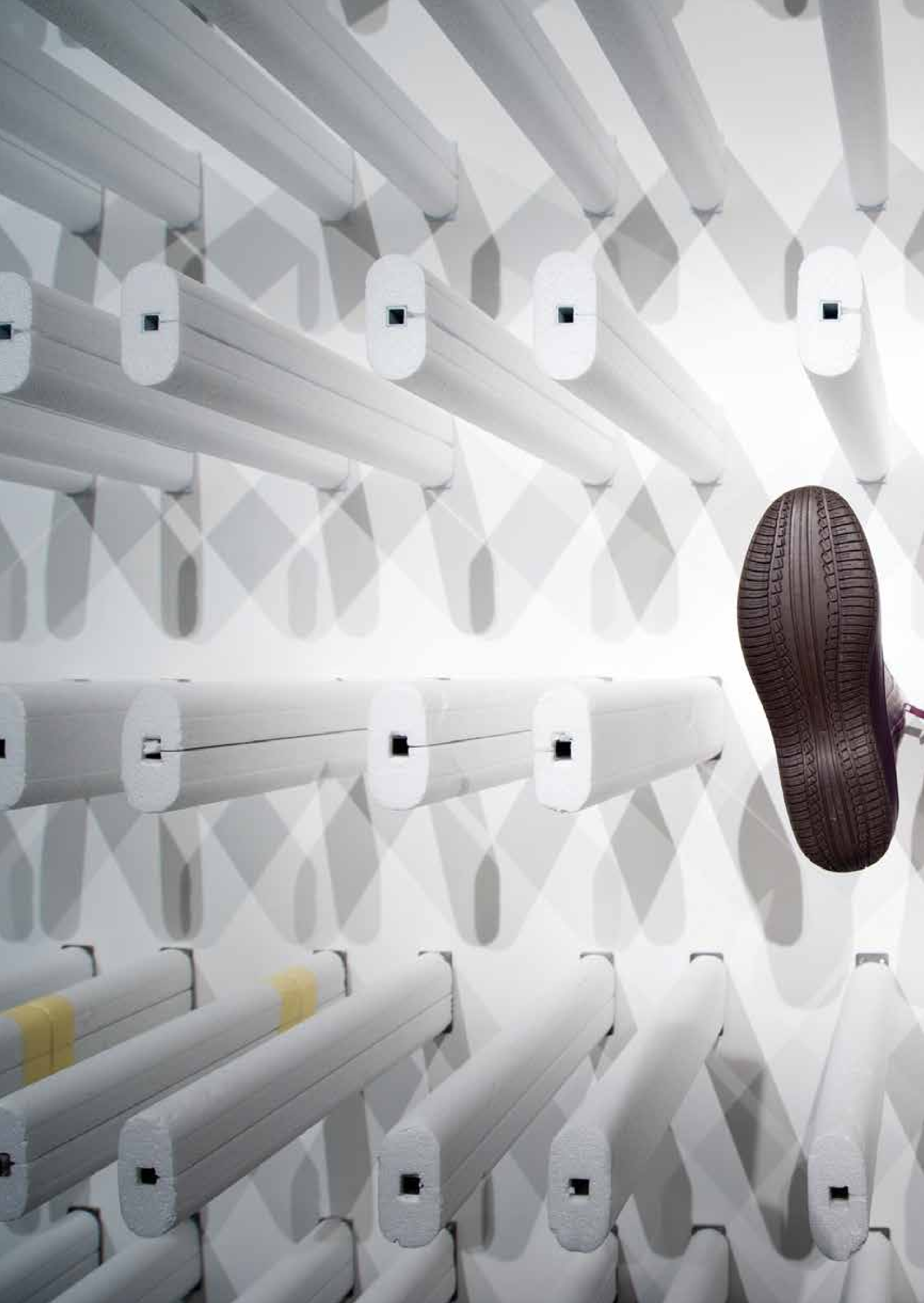
1. STRATEGIC RISKS

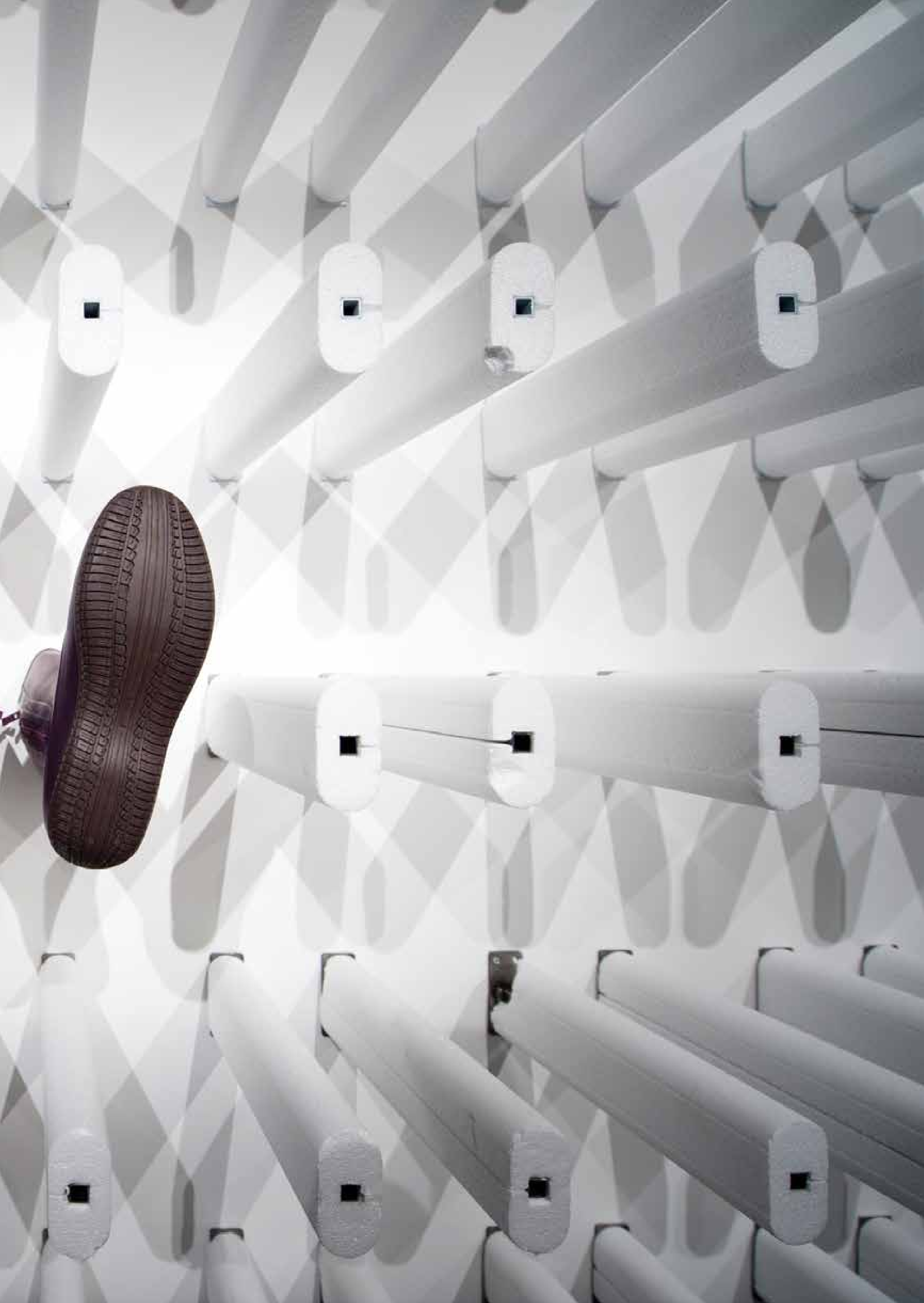
These are closely tied to the Group's objectives and consequent strategic choices. This category includes the exogenous risks stemming from evolution in the external context where the Group operates and the risks stemming from internal factors, such as financial risks, the risks connected with typical business processes and human resource/organisation risks.

La composizione
L'ingegno umano e la ricerca creano




DIABLO





From the backstage Pirelli Calendar 2012 (by Mario Sorrenti)
Backstage photos by Alessandro Scotti


P ZERO


PIRELLI


PIRELLI
RAYS
ZERO

GENERAL ECONOMIC RISKS

In line with the forecasts made by leading analysts, PIRELLI expects a general economic slowdown in 2012. In particular:

- SLOWDOWN BUT NOT RECESSION IN THE UNITED STATES
  The latest business cycle indicators point to slight growth from the recent past. This phenomenon seems to indicate that risks are decreasing, at least at the domestic level, and that the United States economy will probably avoid being drawn into a new recession over the next year.

- RECESSION IN THE EUROZONE
  Business cycle indicators, hard data and recent decisions taken by the ECB and national governments suggest that the eurozone is entering a new recession, which will be particularly acute in peripheral members of the monetary union.

- CONTINUED GROWTH IN APAC
  Even if a recession occurs in the Old Continent, economic growth in the Asian region should stay robust and confirm its global lead in terms of GDP growth. The recovery staged by the Japanese economy, stimulated by restocking after the tsunami, combined with growth in the Chinese economy that is at or in line with the target set in the twelfth five-year plan, should more than offset a contraction in demand for products by Europe.

- GROWTH IN SOUTH AMERICA
  Latam should maintain a reasonably vigorous growth rate – albeit slower than in 2011 – due to the lower exposure of emerging economies to a recession in the eurozone.

The tyre sector has expanded without interruption over the last several years. The downturn that occurred between 2008 and 2009, in consequence of the global economic crisis, has been more than offset by high growth in 2010 and 2011. The total number of cars on the road is growing steadily, driven by rapidly developing economies, and the demand for high-end vehicles, equipped with premium tyres (the segment in which PIRELLI has a leading position), is growing at even higher rates.

Against the backdrop of a macroeconomic slowdown, it should be noted that the tyre market is historically more profitable and less cyclical than the car market. Sales are driven by the replacement channel (which accounts for 74.5% of sales at PIRELLI) and are less vulnerable to possible contraction in the automotive sector and consequent demand in the original equipment channel. Even during the last recession, the global market for premium tyres (replacement channel) posted growth of +2.9% in 2008 and +6.8% in 2009 (source: Europool, RMA, Anip, CRIA). Furthermore, premium tyres are increasingly seen as products associated with sustainability and safety, areas dominated by PIRELLI with its cutting-edge know-how and technology. Finally, PIRELLI's major presence – as measured in terms of revenue – in rapidly developing economies, especially Latin America and in Russia from 2012, reduces the possible impact stemming from any slowdown in European countries.

However, if global macroeconomic conditions should deteriorate significantly, PIRELLI has prepared a contingency plan to deal with the change in context as flexibly as possible. If demand in the auto original equipment channel should fall more than 10%, if the truck business contracts more than 20%, and if distributors' inventories increase more than 10%, the contingency plan would aim to keep cash flow and profitability under control by adjusting planned investments within the flexible range of about 20%, by carefully managing working capital, by taking measures to improve internal efficiency and implementing a programme to reduce fixed costs.

COUNTRY RISK

PIRELLI implements a "local for local" strategy by setting up production sites in rapidly developing countries to serve local demand at competitive industrial and logistic costs. In the context of an economic slowdown, this strategy improves Group competitiveness in the face of resurgent trading blocs and growing protectionist measures (customs barriers or other measures such as technical prerequisites, product certification, and administrative costs connected with import procedures, etc.). The PIRELLI Group adopts this strategy for its operations in countries such as Argentina, Brazil, Mexico, Russia, China, Egypt, Turkey and Venezuela, where the general political and economic context and tax systems might prove unstable in future. The political or economic instability of these countries might have a negative impact on the Group's earnings and/or financial position. In particular, the revolution that took place in Egypt in 2011 partially interrupted production there for about 30 days. The local situation has gradually returned to normal, with full resumption of activity at the Alexandria factory and exports. In order to adopt prompt (or even preventive, when possible) measures to mitigate the possible impact stemming from changes in the local context, the Group constantly monitors the evolution of political, earnings, financial and safety risks associated with the countries where it operates.

Moreover, in situations where the production capacity of certain factories is underutilised, production can be reassigned to other Group plants.

RISKS ASSOCIATED WITH THE MARKETS WHERE THE GROUP OPERATES

Over the last several years, competition has increased on the markets where the Group operates, especially in Latin America, due to the entry of low-cost products from Asian countries in the lowest market segment. This phenomenon has been driven by the appreciation of local currencies.

PIRELLI generates more than 30% of its sales in Central and South America. In line with its strategy, it aims to seize the opportunities to create value resulting from the growth rates expected in the premium segment of the automotive market. PIRELLI's strengths are represented by its leadership on both the replacement and original equipment market, the broad and consolidated network of single-brand retail outlets, both in Brazil and Argentina, and its established brand, which is supported in part through its association with Formula 1.

RISKS ASSOCIATED WITH PRICE TRENDS AND AVAILABILITY OF RAW MATERIALS

In 2012 natural rubber, synthetic rubber and petroleum based raw materials (especially chemicals and carbon black) will remain an uncertain factor in the Group's cost structure, due to the sharp volatility witnessed over the past several months and their impact on the cost of finished products (about 43% of cost on sales).

The growth enjoyed in 2011 and a consistent price policy applied to all markets made it possible fully to recover commodity cost increases.

Considering the slowdown in advanced economies and the simultaneous robust growth of emerging economies, in 2012 PIRELLI expects that commodity prices will remain substantially stable at their 2011 prices. Two factors might alter these forecasts: on the one hand, a sharp slowdown in the Chinese economy might cause oil and natural rubber prices to fall, while on the other hand, possible conflicts or tensions in the Middle East might cause a marked increase in oil prices. Possible price scenarios are simulated for the principal raw materials acquired by the Group, in relation to historic volatility and/or the best information available on the market (e.g. forward prices). On the basis of various scenarios, increases in sale prices and/or various internal cost efficiency actions (use of alternative raw materials, reduction in product weight, process quality improvement and reduction of discard volumes) have been identified as necessary to guarantee forecast profit margins.

On the other hand, in the case of strategic raw materials – which are subject to possible scarcity – PIRELLI uses several suppliers for the individual type of raw material and makes long-term agreements in order to guarantee the volumes necessary for production and stabilise purchase prices.

FINANCIAL RISK

The Group is exposed to financial risks. These are principally associated with foreign exchange rates, raising funds on the market, fluctuations in interest rates, the ability of customers to honour their obligations to the Group, and the price of financial assets held as investments. Financial risk management is an integral part of Group business management and is handled directly by headquarters in accordance with guidelines issued by the Finance Department on the basis of general risk management strategies defined by the Managerial Risk Committee.

Exchange rate risk

The varied geographical distribution of PIRELLI production and commercial activities entails exposure to transaction and translation exchange rate risk.

Transaction exchange rate risk is generated by the commercial and financial transactions executed in currencies other than the functional currency due to exchange rate fluctuations between the time when the commercial or financial relationship is established and when the transaction is completed (collection or payment).

The Group aims to minimise the impact of transaction exchange rate risk on the income statement. To do so, Group procedures make the operating units responsible for collecting complete information about the assets and liabilities that are subject to transaction exchange rate risk. This risk is hedged with forward contracts made with the Group Treasury.

The items subject to exchange rate risk are mainly represented by receivables and payables denominated in foreign currency.

The Group Treasury is responsible for hedging the net position for each currency. In accordance with established guidelines and restrictions, it closes all risk positions by trading derivative hedging contracts on the market, which typically take the form of forward contracts.

Furthermore, as part of the annual and three-year planning process, the Group makes exchange rate forecasts by using the best information available on the market. The fluctuation in exchange rates between the time when the forecast is made and the time when the commercial or financial transaction is established represents the transaction exchange rate risk on future transactions with respect to the targets announced to the market. Group central management periodically monitors the opportunity to enter into and authorise hedges on future transactions.

Currency translation risk PIRELLI owns controlling interests in companies that prepare their financial statements in currencies other than the euro, which is used to prepare the consolidated financial statements. This exposes the Group to currency translation risk, which is generated by the conversion into euro of the assets and liabilities of subsidiaries whose functional currency is not the euro. The principal exposures to currency translation risk are constantly monitored, but it is not currently deemed necessary to adopt specific policies to hedge this exposure.

Liquidity risk

The principal instruments used by the Group to manage the risk of having insufficient resources to meet its financial and commercial obligations according to agreed terms and due dates are comprised by its annual and three-year financial and cash-pooling plans. These allow complete and fair detection and measurement of incoming and outgoing cash flows. The differences between plans and actual data are constantly analysed.

The Group has implemented a centralised cash pooling system for the management of collection and payment flows in compliance with various local currency and tax laws. Banking relationships are negotiated and managed centrally, in order to ensure coverage of short and medium-term financial needs at the lowest possible cost. The procurement of medium and long-term resources on the capital market is also streamlined through centralised management.

Prudent management of the risk described above requires maintaining an adequate level of cash equivalents and/or highly liquid short-term financial instruments, and the availability of funds through an adequate amount of committed credit facilities and/or recourse to the capital market.

A five-year revolving credit facility for euro 1.2 billion was obtained in November 2010. Euro 360 million of that facility had been used at December 2011. In February 2011, the placement of an unrated bond issue worth a nominal euro 500 million was successfully concluded with international institutional investors on the Eurobond market (5.125% coupon and maturity February 2016). Promptly seizing the best financing opportunities to provide continuous support for business growth in the face of volatile financial markets and restricted access to credit, the Board of Directors approved the issuance of non-convertible bonds up to a maximum nominal total of euro 800 million (or the same countervalue in other currencies), which could also be placed in several tranches on international markets. These bonds may also be issued by other Group companies and secured by PIRELLI & C. S.p.A. The bonds may be placed exclusively with professional investors.

Interest rate risk

Fluctuations in interest rates impact the market value of Group financial assets and liabilities and net financial expenses.

Group policy is to attempt to maintain the following ratio between fixed rate and variable rate exposures: 65% fixed and 35% variable.

The Group makes derivative contracts, typically interest rate swaps, in order to maintain this target ratio.

Price risk associated with financial assets

Group exposure to price risk is limited to the volatility of financial assets, such as listed and unlisted stocks and bonds, which represent 4.1% of total Group assets. Derivatives contracts that would limit the volatility of these assets are not normally made.

Credit risk

Credit risk represents Group exposure to contingent losses resulting from default by commercial and financial counterparties. To limit commercial counterparty default risk, the Group has implemented procedures to evaluate its customers' potential and financial solidity, monitor expected incoming cash flows and take credit recovery action if necessary. The aim of these procedures is to define customer credit limits. Further sales are suspended when those limits are exceeded. In certain cases customers are asked to provide guarantees. These mainly consist of standby letters of credit issued by parties with excellent credit or personal standing. Less frequently, mortgage guarantees may be requested. Another tool used to manage commercial credit risk is represented by insurance policies. The Group deals only with highly rated financial counterparties for the management of temporary surplus cash or for trading in derivatives.

PIRELLI does not hold public debt instruments of any European country and constantly monitors its net credit exposure to the banking system. The Group does not have significant concentrations of credit risk.

In relation to financial receivables, PIRELLI renewed the loan to Prelios S.p.A. (formerly PIRELLI RE) for euro 160 million in December 2011, with full repayment due in July 2017.

RISKS ASSOCIATED WITH ORDINARY PROCESSES

Environmental risks

The activities and products of the PIRELLI Group are subject to numerous environmental laws that vary from country to country. In any case, these laws share a common tendency to become increasingly restrictive over time, partly in response to the growing commitment by the international community to environmental sustainability. PIRELLI expects that stricter laws will be gradually introduced, regulating the various types of environmental impact that businesses might have (air pollution, waste output, soil contamination, water use, etc.). Consequently, the PIRELLI Group expects that it will have to continue to invest and/or to incur costs for what might become significant amounts. Reference is made to the Sustainability Report chapter "Environmental Dimension" for details on the process of managing and controlling environmental risks described above.

Employee health and safety risks

As part of operating its business, the PIRELLI Group bears liabilities and costs for the measures necessary to guarantee full compliance with its obligations under workplace health and safety protection laws. Specifically in Italy, the workplace health and safety law (Legislative Decree 81/08), as amended (Legislative Decree 106/09), has introduced new obligations impacting the management of activities at PIRELLI sites and the systems for allocating responsibility. Failure to comply with applicable laws and regulations results in the imposition of criminal and/or civil penalties on the persons responsible and, in certain cases where health and safety laws are violated, on the firms themselves, in accordance with a European standard of objective business liability that has also been received in Italian law (Legislative Decree 231/01). Reference is made to the Sustainability Report for details on the process of managing and controlling these risks.

Product defect risk

Like all other producers of goods for sale to the public, PIRELLI might be affected by product liability suits or by product recalls due to presumed defects in sold materials. Although no major events of this sort have occurred in recent years and notwithstanding insurance coverage against these risks, the PIRELLI brand might be negatively impacted should they ever occur. For this reason, the tyres made by PIRELLI are subjected to intensive quality tests before being released for sale, and the entire production process is subject to specific quality assurance procedures with constantly rising thresholds for safety and performance.

Litigation risks

In the course of operating its business, PIRELLI might be involved in legal actions, tax litigation, commercial lawsuits or labour lawsuits. The Group takes all measures necessary to prevent and attenuate any penalties that might result from these proceedings, including the accrual of provisions for liabilities detailed in the Explanatory Notes to the Consolidated Financial Statements (note 23).

Risks associated with human resources

The Group is exposed to the loss of human resources holding key positions or possessing critical know-how. To face this risk, PIRELLI has adopted compensation policies that are periodically revised according to changes in general macroeconomic conditions as well as on the basis of pay benchmarks. Moreover, long-term incentive plans and specific not-to-compete clauses (also aimed at retention) are also envisaged. Finally, specific management policies are adopted to motivate and keep talented employees.

2. CROSS BUSINESS RISKS

These are **risks** that might impact operating activities regardless of the context in which the Group operates. This category includes business interruption risks and information system risks.

Business interruption risks

The global scale of Group operations exposes it to a plethora of risks that might cause an interruption in business activities for an indefinite period of time, consequently impacting its operating capacity and financial results. Risks associated with natural or accidental events (fire, flood, earthquake, etc.), malicious acts (vandalism, sabotage, etc.), malfunctions in auxiliary plants or interruption of utilities may cause serious property damage and production losses, with a particular impact on production sites that have high volumes or specific (high-end) products. In **2010**, business interruption scenarios were assessed and measured (in terms of their impact, likelihood of occurrence and existing risk management system) for five production sites of material interest to Group strategies. In 2011 this analysis continued at another **seven production sites**. These analyses have confirmed that adequate protections against business interruption risk have been implemented, with a detailed series of safety measures and prevention systems.

However, specific business continuity plans are being analysed, prepared and adopted for all factories and will also be extended to the supply chain.

Risks associated with information systems and network infrastructure

Group operating activities rely increasingly on the proper, uninterrupted functioning of information systems and network infrastructure in support of business processes. Human error, access by unauthorised persons, vulnerable security systems, and/or system and network infrastructure breakdowns or malfunctions might negatively impact the performance of operating activities, cause the disclosure of critical, confidential corporate information, with consequent repercussions on the Group's corporate image and the risk of statutory and regulatory violations.

In 2010 the Group finished mapping the principal risks connected with the 10 most important information systems supporting core processes (production, purchasing, sales, and logistics). The risk was analysed on the basis of its impact on the Group if confidentiality were breached and according to the likelihood that the event occur in connection with the vulnerabilities existing in the system. Specific measures for further upgrades to physical, logical and infrastructure safety measures were implemented for the principal "vulnerabilities." Their implementation was constantly monitored in 2011 by the Managerial Risk Committee.

Implementation of the risk mitigation measures will be completed in 2012, and mapping of the risks facing other information systems (finance, human resources, etc.) will be undertaken.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

During "Sustainability Day" on **January 23, 2012**, PIRELLI signed the agreement with the Ministry of Environment and Protection of Territory and the Sea to reduce the climate impact of activities related to production and use of its tyres. The agreement envisages a commitment to reduce specific emissions of CO_2 by 15% and specific water uptake by over 50% by 2015.

The agreement proves the commitment made by PIRELLI, which uses its own technologies to develop production systems and products that can guarantee quality and safety for consumers and a reduction in environmental impact. These elements allow PIRELLI constantly to improve its efficiency, with major economic benefits, and to exploit an additional competitive advantage on international markets, especially those where these characteristics are imposed by law and appreciated by consumers. The agreement is one of the various actions taken by PIRELLI to limit environmental impact. In 2011, these actions led the Group to reduce its energy consumption by 6% versus 2010, accompanied by a 20% reduction in specific water uptake. In aggregate, the measures taken by PIRELLI since 2009 have allowed it to reduce its water consumption by 2 million cubic metres every year, with 5% less CO_2 emissions than in 2009.

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

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

This transaction follows the transfer by Sibur of the Kirov tyre plant last December.

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

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

ALTERNATIVE PERFORMANCE INDICATORS

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

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

- **Gross Operating Profit (EBITDA):** Gross operating profit is an intermediate economic measure deriving from operating income, but excluding depreciation and amortisation of property, plant and equipment and intangible assets;
- **Non-current assets:** this measure is the sum of "property, plant and equipment," "intangible assets," "investments in associates and joint ventures" and "other financial assets";
- **Provisions:** this measure is the sum of "provisions for liabilities and charges (current and non-current)," "provisions for employee benefits" and "provisions for deferred tax liabilities";
- **Net working capital:** this measure consists of all items not included in the two measures above, in "equity" and "net financial position/net borrowings";
- **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 consolidated financial statements" presents a table showing the items of the balance sheet used to calculate such measure.

OTHER INFORMATION

Information on ownership structure (pursuant to Art. 123 bis of the Consolidated Law on Finance-TUF)

The information pursuant to Article 123 bis of Legislative Decree 58 of February 24, 1998 can be found in the Report on Corporate Governance and the Structure of Share Ownership, included in Volume B of this Annual Financial Report and published in the Governance section of the Company website (***www.pirelli.com***).

Security Policy Document

In accordance with the provisions of Appendix B, paragraph 26 of Legislative Decree 196 of June 30, 2003, notice is given that PIRELLI & C. S.p.A. has updated its Security Policy Document for the year 2011.

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

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

At December 31, 2011, the Non-EU Companies that were directly or indirectly controlled by PIRELLI & C. S.p.A. and of material interest pursuant to Article 36 of the Market Regulation were PIRELLI Pneus Ltda (Brazil); PIRELLI Tire LLC (USA); PIRELLI Tyre Co. Ltd (China); Turk PIRELLI Lastikleri A.S. (Turkey); PIRELLI de Venezuela C.A. (Venezuela); PIRELLI Neumaticos S.A.I.C. (Argentina).

Also under the terms of the same regulations, the Company has in place specific and appropriate "Group Operating Rules" which ensure immediate, constant and full compliance with the provisions contained in the said Consob Regulations[1]. Under the terms of the said Operating Rules, the competent corporate functions of the parent precisely and periodically identify and disclose all Non-EU Companies of material interest under the Market Regulations, and – with the necessary and timely collaboration of the companies involved – guarantee collection of the data and information and verification of the circumstances as required by Article 36 of the Market Regulations, ensuring that the information and figures provided by the subsidiaries are available in the event of a request by Consob. Furthermore, a regular flow of information is provided in order to ensure that the Board of Statutory Auditors of the Company can carry out the required and appropriate audits. Finally, in keeping with the regulatory provisions, the above "Operating Rules" prescribe how the financial statements (the balance sheet and income statement) of material Non-EU Companies prepared for use in the 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 16197/2007 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, the only most significant transaction that occurred between January 1, 2011 and December 31, 2011, as defined in Article 3(1)(a) of that regulation, was the renewal until July 2017 of the loan in favour of Prelios S.p.A. (formerly PIRELLI RE). The loan totals euro 160 million (up euro 10 million from the euro 150 million previously lent) and envisages full repayment on maturity.

This loan was renewed in performance of the covenants agreed in 2010 by PIRELLI & C. in favour of the lending banks of PIRELLI RE (now Prelios Spa) in order to obtain the necessary authorisation from them to proceed with the demerger of PIRELLI RE from the PIRELLI Group, and as disclosed in the press release of May 4, 2010 and in the documentation provided to the public at the Extraordinary Shareholders' Meeting of July 15, 2010.

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

This transaction was unanimously approved by the Board of Directors, after receiving the unanimous favourable opinion of the Committee for Related Party Transactions, all of whose members are independent directors. The loan has to be classified as a related party transaction due to the relationship existing between PIRELLI and Prelios through Camfin which, pursuant to the Regulation, has "significant influence" over Prelios and is "most significant," insofar as it exceeds the thresholds identified pursuant to Article 4(1)(a) of the aforementioned Consob Regulation. The terms and conditions of the loan are set out in the transaction disclosure document that, pursuant to Article 5 of the aformentioned Regulation, was made available to the public at the Company head office and at Borsa Italiana S.p.A., and was also published on the Group website www.pirelli.com on December 30, 2011.

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

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

The information on related party transactions required pursuant to Consob Notice no. DEM/6064293 of July 28, 2006 is presented in the financial statements and in the Explanatory Note "Related party transactions" of the Annual Financial Report at December 31, 2011.

In the 2010 financial year, the Board of Directors approved the Procedure for Related Party Transactions in view of, inter alia, implementing the aforementioned Consob regulation. For more details on the Procedure for Related Party Transactions, please see the section Interests of Directors and Related Party Transactions in the Annual Report on Governance and Share Ownership.

REMUNERATION REPORT

* * *

Introduction

This Remuneration Report (**"Report"**) is broken down into two sections:

- Section I: Remuneration Policy for 2012 (**"2012 Policy"**) and
- Section II: Remuneration Statement for 2011 (**"2011 Statement"**).

The Report has been prepared pursuant to Article 123-ter of the Consolidated Finance Law and Article 84-*quater* of the Consob Issuers Regulation (as amended by Consob Resolution no. 18049 of December 23, 2011). It was drafted in light of the recommendations issued by the European Commission on April 30, 2009 in regard to the remuneration of directors at listed companies (2009/385/EC) and Article 6 of the Corporate Governance Code of Borsa Italiana S.p.A., as amended in December 2011, which has been adopted by PIRELLI.

The Report has also been adopted pursuant to Article 14 of the Procedure for Related Party Transactions approved by the Company Board of Directors on November 3, 2010.

The 2012 Policy sets out the principles and guidelines followed by PIRELLI to (i) determine and (ii) monitor the application of pay practices, as illustrated below, in regard to:

- Directors holding special offices, the General Managers and the Key Managers of PIRELLI & C.;
- the Senior Managers and Executives of the Group.

The 2011 Statement, a disclosure submitted to the Shareholders' Meeting, provides a comprehensive account of remuneration in 2011 that illustrates its consistency with the Remuneration Policy approved by the Company the previous year.

To facilitate comprehension and reading of this Report, a glossary of certain frequently used terms is provided as follows:

Directors holding special offices: the Directors of PIRELLI & C. that hold the position of Chairman and Chief Executive Officer and Deputy Chairman of PIRELLI & C.; these directors may also be delegated specific duties. The Directors holding special offices at other PIRELLI companies who are also Group executives (unless otherwise resolved by the Board of Directors of PIRELLI & C. qualifying them as "Key Managers") are Executives or Senior Managers for the purposes of this Policy and according to the position held.

Non Executive Directors: these are all Directors of PIRELLI & C. appointed by the Shareholders' Meeting of PIRELLI & C. The Directors at other PIRELLI companies who are also Group executives (unless otherwise resolved by the Board of Directors of PIRELLI & C. qualifying them as "Key Managers") are Executives or Senior Managers for the purposes of this Policy and according to the position held.

Target-based Annual Total Direct Compensation: the sum of the following components, regardless of whether they are paid by PIRELLI & C. or by other Group companies: (i) the gross annual fixed component of remuneration; (ii) the annual variable component that the beneficiary would receive if he or she achieves the targets; (iii) the medium-long term annualisation of the variable component (i.e. the LTI) that the beneficiary would receive on achievement of the annual and medium-long term targets.

Remuneration Committee: the Remuneration Committee of PIRELLI & C.

Board of Directors: the Board of Directors of PIRELLI & C.

General Managers: the persons appointed by the Board of Directors of PIRELLI & C. and having broad authority for management of business units. The General Managers at other PIRELLI companies (unless otherwise resolved by the Board of Directors of PIRELLI & C. qualifying them as "Key Managers") are Executives or Senior Managers for the purposes of this Policy and according to the position held.

Key Managers: the managers identified by the Board of Directors of PIRELLI & C. who have the authority or responsibility to plan and control the Company's activities or to take decisions which may affect the development or future prospects of the Company and, more in general, of PIRELLI.

Executives: executives of the PIRELLI companies in Italy or employees at the foreign companies of the Group having a position or role equivalent to that of an Italian executive.

PIRELLI ***Group or*** PIRELLI***:*** all the companies included in the scope of consolidation of PIRELLI & C. S.p.A..

Management**:** all the Directors holding special offices, the General Managers, the Key Managers, the senior managers and the executives.

MBO**:** the annual variable component of remuneration that is based on the achievement of pre-set business objectives, as illustrated below in section 5.

LTI Plan**:** the Long Term Incentive Cash Plan illustrated below in section 5.

GAS**:** the gross annual fixed component of remuneration of the employees of any PIRELLI Group company.

Senior Managers: the managers to whom report (i) the Directors holding special offices and who are assigned specific functions and (ii) the General Managers whose activities have a significant impact on business results.

Company: PIRELLI & C. S.p.A.

* * *

REMUNERATION POLICY FOR 2012

1. Principles and examination of risks

The new Policy has been prepared on the basis of Policy application experience last year. Therefore, its structure has been refined and its content expanded, by incorporating in it elements that had previously been contained in the application criteria, in view of facilitating full comprehension of the link existing between the structure of management remuneration and the creation of value over the medium-long term. The new Policy also reflects the recent regulatory provisions adopted by Consob in Resolution no. 18049 of November 23, 2011 and the adoption of a new Long Term Incentive Plan. PIRELLI has decided to terminate the existing plan for the three-year period 2011-2013 by proposing a new one for the three-year period 2012-2014 that is consistent with the Business Plan for that same period.

This new plan has been accompanied by adjustment of the compensation paid to Directors holding special offices, and particularly the Chairman and Chief Executive Office in the terms that will be illustrated below. Furthermore, the new Long Term Incentive Plan now includes non-financial objectives, in accordance with the Recommendations of the European Commission.

The Company defines and applies a Remuneration Policy targeting particularly attractive top management and Senior Managers, aiming at the top 25% of the employment market (as measured by the commonly used benchmark), and in line with market practise for the Executives, so as to attract, motivate and retain the resources having the professional skills necessary for successful pursuit of PIRELLI Group objectives.

The Policy is defined in such a way as to align Management interests with those of shareholders, pursuing the primary objective of creating sustainable value in the medium-long term through the creation of an effective and verifiable link between compensation, on the one hand, and individual and Group performance on the other.

The structure of Management remuneration, defined with the assistance of firms specialising in executive compensation and on the basis of international benchmarks, is composed of three principal elements:

- fixed component: for Directors holding special offices, the fixed component is set by the Board of Directors when they are appointed and for their entire term, in an aggregate annual amount, and thus including any fixed components for other positions that they hold at the PIRELLI Group. For the rest of Management, the fixed component is set when they are hired and may be periodically revised to take account of the performance, assumption of new responsibilities, and market salary trends for the type of position held by the individual;
- an annual variable component (MBO): this is a pre-determined percentage of the fixed component, with percentages that rise according to the position held and considering the benchmarks for each position, with the target ranging from a minimum of 20% for Executives to a maximum of 100% for the Directors holding a special office who have been assigned specific functions. According to the beneficiary, it is designed to reward the annual performance of the Group, the company and/or the business unit to which he or she belongs. A limit has been set for the maximum MBO that can be realised, which (i) for the Executives and Senior Managers is equal to double the attainable target bonus, (ii) for the Key Managers, it is 150% of the GAS, (iii) for the General Managers it is 200% of the GAS, and (iv) for the Directors holding special offices and assigned specific functions, it is 250% of the fixed component for the principal officer (in the case of Mr Tronchetti Provera, his position held at PIRELLI Tyre). Please refer to section 5, "MBO and LIT Plan" for a more detailed description of the function of the annual variable component.
- the medium-long term variable component (LTI Plan): this too is set as a percentage of the fixed component and is aimed at rewarding Group performance during the three-year period 2012-2014. Just like the MBO bonus, a limit is imposed on the maximum realisable amount for the LTI. The current LTI plan is based on two components: the "pure" LIT Bonus and the co-investment LTI Bonus (for a description of the function of the variable medium-long term component, please see section 5).

The variable remuneration of Management is based on short and medium-long term targets sent in the annual and three-year Business plans announced to the market. In this regard, note that the risk management process is now fully integrated in the strategic planning process. This guarantees that the objectives set for realisation of the variable bonus do not expose PIRELLI to managerial conduct inconsistent with an acceptable level of risk ("risk appetite") defined by the Board of Directors when it approves the Plans.

Management remuneration is then structured in such a way as to assure balance among its components.

In particular, major weight is given to the variable component (with the medium-long term component prevailing). If the set targets are met, this component represents:

- no less than 50% of the target-based annual total Direct Compensation for the Chairman and Chief Executive Officer, the General Managers and the Key Managers;
- no less than 40% of the target-based annual total direct compensation for Senior Managers, and
- no less than 30% of that parameter for Executives.

A significant portion of the annual variable remuneration for 2012 and 2013 (50% of the annual MBO) is deferred; of this 50%, half (i.e. 25% of the annual accrued MBO) is paid at the end of the three-year period 2012-2014, regardless of the accumulated results actually realised during the three-year period; payment of the other half, instead, is conditioned on achievement of the medium-long term objectives (please see section 5 for an analytical description of how the incentive mechanisms work).

The definition of a mix of targets, including non-financial targets, for the medium-long term variable portion avoids the preponderant weight of a single performance target. Moreover, the existence of targets for achieving a significant part of the LTI incentive based on accumulated financial parameters for the three-year period avoids conduct aimed solely at the realisation of short-term objectives to qualify for the annual bonus.

For the other components of remuneration (retirement bonuses-TFM, not-to-compete clauses, non-monetary benefits) granted to the various members of Management, please see the sections that describe the remuneration structure for each category.

2. Process for definition and implementation of the Policy and parties involved

Definition of the Policy is the result of a clear and transparent process in which the Remuneration Committee and the Board of Directors play a key role.

On motion by the Remuneration Committee, the Board of Directors adopts:

- the Policy and
- the "Criteria for Application of the General Remuneration Policy for Senior Managers and Executives" (**"Application Criteria"**).

The Policy is submitted by the Remunerations Committee to the Board of Directors for approval every year.

After reviewing and approving the Policy, the Board of Directors submits it to the advisory vote of the Shareholders' Meeting.

The Board of Statutory Auditors gives its own opinion on the Policy, particularly in the part concerning Directors holding special offices.

The Remuneration Committee, the Board of Statutory Auditors and the Board of Directors supervise its application. For this reason, the Senior Advisor for Human Resources reports on compliance with the Policy and its Application Criteria to the Remuneration Committee at least once annually, upon presentation of the Remuneration Statement.

The 2012 Policy – which has been approved by the Remuneration Committee, and then approved by the Board of Directors, after obtaining the favourable opinion of the Board of Directors at its meeting on March 12, 2012 – is submitted for examination and advisory vote by the Shareholders' Meeting.

For the sake of thoroughness, note that pursuant to applicable laws, the Board of Directors has the prerogative of adopting (or if envisaged by law, propose to the Shareholders' Meeting) incentive mechanisms involving the grant of financial instruments or stock options, which if approved are published at the latest in the annual Remuneration Statement (without prejudice to any other disclosure obligations imposed by applicable laws and regulations). At the date of this Report, the Company does not have any stock option plans in place.

3. Remuneration Committee

COMPOSITION

The Corporate Governance system adopted by PIRELLI & C. since 2000 envisages the establishment of a Remuneration Committee.

The Committee has four members, all of whom are independent, on the basis of the most rigorous approach recommended by the "new" Corporate Governance Code issued by Borsa Italiana in December 2011. The 2006 version of the Corporate Governance Code recommended that the Remuneration Committee be composed only of directors without executive authority, and of whom "only" the majority were to be independent.

The Remuneration Committee is appointed by the Board of Directors (which also appoints its Chairman), and its term lasts as long as the term of the Board of Directors.

The Remuneration Committee, all of whose members were appointed after appointment of the new Board of Directors on April 21, 2011, is composed of the following individuals:

- Carlo Acutis (Chairman);
- Anna Maria Artoni;
- Pietro Guindani;
- Luigi Roth.

Three members of the Committee (Carlo Acutis, Anna Maria Artoni and Pietro Guindani) have adequate experience in financial and remuneration matters, as determined by the Board of Directors when they were appointed.

The entire Board of Statutory Auditors may participate in the activities of the Remuneration Committee.

The Secretary of the Board of Directors acts as Secretary of the Remuneration Committee.

DUTIES OF THE REMUNERATION COMMITTEE

The Remuneration Committee has advisory, policy making and supervisory functions to assure definition and application within the Group of remuneration policies aimed, on the one hand, at attracting, motivating and retaining resources having the professional skills necessary to profitably pursue Group objectives and, on the other hand, aligning Management and shareholder interests.

In particular, the Remuneration Committee:

- assists the Board of Directors in defining the General Remuneration Policy of the Group and its Application Criteria;
- periodically assesses the adequacy, overall consistency and concrete application of the General Remuneration Policy and Application Criteria;
- makes proposals to the Board of Directors in regard to Directors holding special offices, the General Managers and the Key Managers and concerning:

- their remuneration, consistently with the General Remuneration Policy and Application Criteria;
- establishment of performance targets related to the variable component of their remuneration;
- the definition of any not-to-compete clauses;
- definition of any agreements for termination of the relationship, including on the basis of the principles set out in the General Remuneration Policy and the Application Criteria;

- assists the Board of Directors in examining proposals by the Shareholders' Meeting on adoption of share-based compensation plans;
- monitors application of the decisions taken by the Board of Directors, verifying in particular the effective achievement of established performance targets;
- examines and submits the Annual Remuneration Report to the Board of Directors; referring to the individual members of the Board of Directors, the Board of Statutory Auditors, the General Managers and the Key Managers, this Report:
    - adequately presents each item that composes remuneration;
    - analytically illustrates the compensation paid during the reference year for any reason and in any form by the Company and by its subsidiaries.

The Board of Directors then delegates the responsibilities of the Committee for Related Party Transactions established by Consob regulations to the Internal Control, Risks and Corporate Governance Committee, with the sole exception of issues concerning the remuneration of Directors and Manager with strategic responsibilities delegated to the Remuneration Committee.

FUNCTIONING

The Remuneration Committee meets whenever its Chairman deems appropriate, or on request by at least one of its members, the Chairman of the Board of Directors or, if designated, by the Chief Executive Officer and, in any event, as frequently as necessary for properly performing its duties.

The Remuneration Committee meetings are attended by the entire Board of Statutory Auditors[2] and – if deemed appropriate and on invitation by the Remuneration Committee – other representatives of the Company and/or the Group as well as the Independent Auditor. The Group General Counsel and Senior Advisor for Human Resources also attend all meetings.

In accordance with the recommendations of the Corporate Governance Code and best practices, the Directors holding special offices do not attend Remuneration Committee meetings.

The Remuneration Committee meetings are called with notices sent by, inter alia, the Secretary, as delegated by the Chairman of the Remuneration Committee.

The available documentation and information (or, at any rate, those that are necessary) are sent to all members of the Remuneration Committee sufficiently in advance of the meeting for them to express their opinions.

A majority of current members must be present for the Remuneration Committee meeting to have a quorum, and its decisions are approved by an absolute majority of the members who are present. Remuneration Committee meetings may be held by means of telecommunication systems and are regularly recorded in minutes by the Secretary and transcribed in the specific register of minutes.

The Remuneration Committee – which may avail itself of external consultants for performing its functions – possesses adequate financial resources for discharging its duties and has absolutely independent spending authority.

The Remuneration Committee may access material corporate information and functions to discharge its duties, availing itself of the Secretary's assistance for this purpose.

For a more detailed description of the activities performed in 2011 by the Remuneration Committee, please refer to the Report on Corporate Governance and Structure of Share Ownership for 2011.

4. Contents of the 2012 Policy

As previously mentioned, the Policy defines principles and guidelines that:

(i) the Board of Directors refers to for defining the remuneration:

- of Directors of PIRELLI & C. and, in particular, the Directors holding special offices;
- of the General Managers;
- of the Key Managers;

(ii) PIRELLI refers to for defining the remuneration of Senior Managers and Group Executives in general.

5. MBO and LTI Plan

The annual variable component (MBO) remunerates the beneficiary's performance on an annual basis.

The annual variable component is based on the achievement of a financial condition of access (the "on/off condition"), which in 2012 (as in the past) is linked to the net financial (liquidity)/debt position reported at the end of the financial year.

The bonus is instead calculated on the basis of different objectives according to the position held by the beneficiary.

The MBO targets for Directors holding special offices and who are assigned specific functions, for the General Managers and for Key Managers, are set by the Board of Directors on proposal by the Remuneration Committee, and are linked to the annual perform-

2 This circumstances characterises the corporate governance rules adopted by the Company and offers the entire Board of Statutory Auditors the possibility of directly monitoring Committee activities and performing its delegated supervisory functions more effectively.

ance of the Group. In 2012, as in the previous year, the target for these figures is based on the quantitative benchmark of annual profitability (Group PBIT).

With the support of the Remuneration Committee, the Board of Directors audits the fulfilment of these targets at the end of the financial year on the basis of full-year performance.

The MBOs of Senior Managers and Executives are defined instead by their hierarchical superiors in collaboration with the Group Human Resources and Organisation Department and with the Group Management Control Department. In contrast with the treatment of top management, these persons may be set targets linked to the operating performance of their specific unit/function as well as qualitative/ quantitative targets linked to specific parameters of individual performance.

The Group Human Resources Department audits the fulfilment of these targets at the end of the financial year on the basis of full-year performance.

A cap is set on the maximum bonus payable if the targets are exceeded, with this cap varying according to the position held and in relation to the benchmarks applicable to each individual.

In particular, in the case of MBOs granted to Directors holding special offices and who are assigned specific functions, the maximum bonus cannot be more than 2.5 times the gross annual fixed component for the principal executive position (in the case of Mr Tronchetti Provera, his position held at PIRELLI Tyre), while for the General Managers it cannot be more than 2 times greater than GAS. In the case of Key Managers, the maximum bonus cannot be more than 1.5 times greater than their GAS. Finally, the maximum bonus for Senior Managers and Executives cannot be more than 2 times greater than the target-based bonus.

Payment of 50% of the MBO that might be accrued in 2012 and 2013 is deferred, and part of it (50%) is conditioned on attainment of the targets set in the LTI Plan. Partly in view of furthering the attainment of medium-long term interests, since 2009 the Group has adopted a medium-long term incentive system based on achieve of the objectives set out in the three-year plan. In this context, the LTI Plan was extended in 2011 for the following three years to all members of management (except in specific cases, such as Internal Audit function managers). In March 2012, considering the launch of a "new" three-year Business Plan for 2012-2014 with significantly more challenging targets than the challenging ones already set in the 2011-2013 Business Plan, it was decided to terminate the 2011-2013 LTI Plan prematurely by proposing the simultaneous launch of a "new" LTI Plan linked to the objectives of the "new" Business Plan.

As in the past, the 2012-2014 LTI Plan is open to all of management and may also be extended to those who join Group management during the three-year period and/or assume the position of Executive for internal career growth. In this case, participation is conditioned on enrolment in the Plan for at least one whole financial year, and the bonus percentages are pro-rated according to the number of months of participation in the Plan.

The 2012-2014 LTI Plan is broken down into two components:

- the **"pure LTI Bonus"**: conditioned on fulfilment of the three-year targets and determined as a percentage of the gross annual fixed component/ GAS received by the beneficiary at the established Plan vesting date. This bonus percentage rises according to the position held and considering the benchmarks applicable to each individual.
  The maximum pure LTI Bonus cannot be more than 1.5 times the bonus that may be received if the targets are met.
  If the targets are missed, the beneficiary is not vested, not even on a pro-rated basis, for distribution of the pure LTI Bonus;

- the **"co-investment LTI Bonus"**: similarly to past Plans, this includes a mechanism for "co-investment" of a portion of the MBO. The participant in the LTI Plan "co-invests" 50% of his 2012 and 2013 MBO (hereinafter, the **"co-invested MBO"**). Given the operating rules of the LTI Plan, half of the "co-invested MBO" is not subject to additional performance targets, and may thus be qualified as "deferred MBO." Payment of the other half is conditioned instead on fulfilment of the three-year targets and is thus a variable medium-long term component. If the targets are met, in addition to return of the co-invested MBO, the Plan participant is entitled to it being increased by between 50% and 125%. The "co-invested MBO" supplemented is granted in the amount of 50% of what is "co-invested" on fulfilment of the three-year targets. The variation in the supplement (up to 125% of the co-invested MBO) is based instead on additional medium-long term targets (the supplement is referred to below as the **"LTI co-investment bonus"**).

Like the previous Plans, the 2012-2014 LTI Plan includes a financial access condition comprised by the net cash flow of the Group accumulated over the three-year period. Another condition for access to the pure LTI Bonus consists of attainment of the value creation target, which also qualifies the recipient for the 50% supplement of the co-invested MBO.

The 2012-2014 LTI Plan introduces several innovations from previous Plans in regard to the medium-long term objectives and the metrics used to measure them.

In particular:
The following two types of targets and related weights are established for the **pure LTI Bonus:**

- **"Target-based value creation objective"** that measures the capacity of the company to create value over the medium-long term considering the profitability of ordinary operations compared with the amount of invested capital and its cost. In particular, this target is equal to the difference between NOPAT (Net Operating Profit After Tax) and the weighted average cost of capital plus working capital.
  Fulfilment of the target-based value creation objective (determined by considering a cumulated EBIT for the three-year period corresponding to the amount set in the three-year Business Plan) qualifies the beneficiary to receive 100% of the pure LTI bonus.
  Two thirds of the difference between the target-based pure LTI bonus and the maximum LTI bonus will be determined by the improvement in the value creation result.
  The remaining one third of the difference between the pure LTI bonus and the maximum LTI bonus is determined on the basis of a Total Shareholder Return target calculated as performance of the PIRELLI stock compared with (i) the FTSE/MIB Index

Total Return, periodically calculated by FTSE and present on the database of Borsa Italiana and (ii) the index composed of selected peers in the tyre sector. The prospectus provided for the Shareholders' Meeting contains more detailed information on application of the Total Shareholder Return target.

For the **LTI co-investment bonus component:**

- fulfilment of the target-based value creation objective results in return of the co-invested MBO plus a supplement of 50%;
- the supplement of the co-invested MBO may reach a maximum of 125% on condition of satisfaction of two other objectives, unrelated to each other:
  - two thirds of the incremental difference between the supplement of 50% of the co-invested MBO and the supplement of 125% of the co-invested MBO are calculated in relation to improvement in the average return on sales target result for the three-year period 2012-2014 (**"ROS 2012-2014"**), which is the weighted average of the ratio between operating income net of restructuring expenses and consolidated net sales accumulated during the three-year period net of non-recurring transactions.
  - the remaining one third of the difference between the supplement of 50% of the co-invested MBO and the supplement of 125% of the co-invested MBO is calculated on the basis of a **Sustainability indicator** in relation to the position of **PIRELLI** in the following indices: (i) Dow Jones Sustainability Index, Autoparts and Tyre segment, and (ii) FTSE4Good Tyre.
- if the target-based value creation objective is not met, the LTI Plan participant is entitled to return of half of the co-invested MBO (return of the co-invested MBO not subject to performance conditions).

The costs for the entire LTI bonus are included in the Three-year Business Plan targets, so that the cost of the LTI plan is "self-financed" by fulfilment of the targets themselves.

The LTI Plan also promotes employee retention. If the individual's term in office and/or employment relationship should end for any reason before the end of the three-year period, the beneficiary's participation in the Plan terminates and consequently the pure LTI bonus will not be paid, not even on a pro-rated basis.

The portion of co-invested MBO not subject to performance conditions (i.e. deferred MBO) will be returned only if the Manager's employment relationship is terminated for no fault of his own (and thus including natural events and demerger of the Manager's company from the Group).

For the Directors holding special offices and assigned specific functions (which is the case of the Chairman and Chief Executive Officer, Mr Tronchetti Provera) who leave office upon expiry of their term or for no fault of their own (and thus including natural events), the co-invested MBO shall be returned with the 150% supplement while, as previously mentioned, the pure LTI bonus will not be paid, not even on a pro-rated basis.

6. Remuneration of Directors of Pirelli & C.

The Board of Directors is composed of:

(i) Directors holding special offices who may also be assigned specific functions;

(ii) Non Executive Directors.

The delegation of authority to Directors only in urgent situations is insufficient to qualify them as Directors assigned specific functions.

At December 31, 2011:

- the Directors holding special offices were the Chairman of the Board of Directors and Chief Executive Officer Marco Tronchetti Provera and the Deputy Chairmen Vittorio Malacalza and Alberto PIRELLI; the Chairman was also assigned specific functions (for more details, please refer to the Report on Corporate Governance and the Structure of Share Owners);
- the Non Executive Directors were: Carlo Acutis; Anna Maria Artoni; Gilberto Benetton; Alberto Bombassei; Franco Bruni; Luigi Campiglio; Pietro Guindani; Paolo Ferro-Luzzi; Giulia Maria Ligresti; Elisabetta Magistretti; Massimo Moratti; Renato Pagliaro; Giovanni Perissinotto; Luigi Roth; Carlo Secchi.

In 2011 the following Directors left office: (i) on April 21, 2011 (upon renewal of the Board of Directors after its term had expired): Prof. Carlo Angelici; Prof. Cristiano Antonelli; Mr Umberto Paolucci and Mr Giampiero Pesenti; on November 16, 2011: Prof. Francesco Profumo; (iii) on December 16, 2011: Mr Enrico Tommaso Cucchiani.

The April 21, 2011 PIRELLI Shareholders' Meeting that appointed the Board of Directors also approved compensation pursuant to Article 2389(1) Italian Civil Code in an aggregate amount for remuneration of the Directors, while delegating the Board of Directors the task of allocating it.

In particular, the Shareholders' Meeting approved aggregate gross annual compensation of euro 1.7 million, which was subsequently allocated by the Board of Directors as follows:

- to each Director: euro 50 thousand gross annual compensation;
- the Chairman of the Internal Control, Risks and Corporate Governance Committee: euro 40 thousand gross annual compensation;
- to the other members of the Internal Control, Risks and Corporate Governance Committee: euro 30 thousand gross annual compensation;
- to the Chairman of the Remuneration Committee: euro 25 thousand gross annual compensation;
- to the other members of the Remuneration Committee: euro 20 thousand gross annual compensation;
- to the members of the Strategies Committee: euro 25 thousand gross annual compensation, except for the Chairman and Chief Executive Officer, the General Manager and the Company managers assigned to it, for whom no compensation is envisaged;

- to the members of the Nominations and Succession Committee: euro 20 thousand gross annual compensation, except for the Chairman.

Annual gross compensation of euro 25 thousand was then allocated to the Director belonging to the Compliance Programme Supervisory Body.

In accordance with best practices, no variable compensation was granted to Non Executive Directors (as defined hereinabove).

Please refer to the 2011 Report for the aggregate compensation granted by the Shareholders' Meeting and its allocation during the previous term (and applied until April 21, 2011).

The Directors are also entitled to reimbursement of the expenses they incur on official business.

Also in accordance with best practices, the Company implements an insurance policy called D&O (Directors & Officers) Liability covering the third party liability of corporate bodies, General Managers, Key Managers, Senior Managers and Executives in the performance of their functions. The purpose of this policy is to indemnify PIRELLI for the cost of any compensatory damages deriving from the relevant provisions of the applicable national collective bargaining agreement and the laws and regulations governing appointed positions, with exclusion of wilful misconduct and gross negligence.

No insurance, social security or pension coverage other than mandatory coverage is envisaged for Non Executive Directors.

7. Remuneration of Directors holding special offices

At the time of their appointment or at the first meeting thereafter, the Remuneration Committee proposes the remuneration package for Directors holding special offices to the Board of Directors.

The remuneration package of Directors holding special offices and who have been assigned specific functions consists of the following elements:

- a gross annual fixed component;
- an annual variable component that is based on the achievement of pre-set business objectives (i.e. MBO), part of which (50%) is deferred; of this part, half is not subject to fulfilment of the LTI Plan targets (deferred MBO), the other part is instead subject to them (co-investment LTI)
- a variable medium-long term component (i.e. LTI).

At the time of their appointment, the fixed component for Directors holding special offices who have been assigned specific functions is approved by the Board of Directors for their entire term, in an aggregate annual amount that also takes the other positions they hold at the PIRELLI Group into account.

The remuneration package of Directors holding special offices and who have been assigned specific functions is determined on the basis of the following criteria:

- the fixed component represents no more than 50% of the target-based annual total direct compensation;
- the (annual) target-based MBO is a pre-determined percentage of the fixed salary for their principal executive position (in the case of Mr Tronchetti Provera, the position he holds at PIRELLI Tyre), which is generally not less than 100% of that compensation. In any case, the maximum bonus cannot be more than 2.5 times of that compensation;
- the medium-long term, variable, target-based, annualised component (LTI) represents at least 50% of the aggregate variable component (target-based MBO and target-based LTI Bonus). The "pure LTI Bonus" is also subject to a cap, in the amount of 1.5 times the target-based bonus.

In 2012, the structure of the remuneration paid to the Chairman and Chief Executive Officer (Mr Marco Tronchetti Provera) was modified following his waiver of a significant portion (about 20%) of the gross annual fixed salary set for the positions he holds, while attributing greater weight to the variable components.

In particular, the fixed component was adjusted until the end of his term as follows:

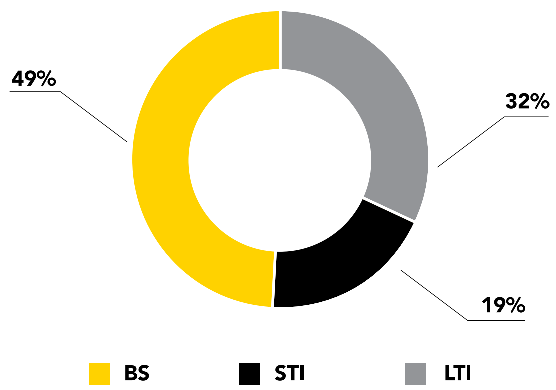
- for the position held at PIRELLI & C., a fixed gross salary of euro 900 thousand was set, in addition to his compensation as member of the Board of Directors (euro 50 thousand gross);
- for the position held at PIRELLI Tyre S.p.A., he was granted a fixed gross salary of euro 2 million and variable compensation, based on the criteria described above.

In regard to the impact of the various components of the compensation package, if the annual targets envisaged by the MBO 2012, 2013 and 2014 and the targets set by the 2012-2014 LTI Plan were fulfilled, the structure of the target-based annual total direct compensation of the Chairman and Chief Executive Officer during the three-year period would be as follows:

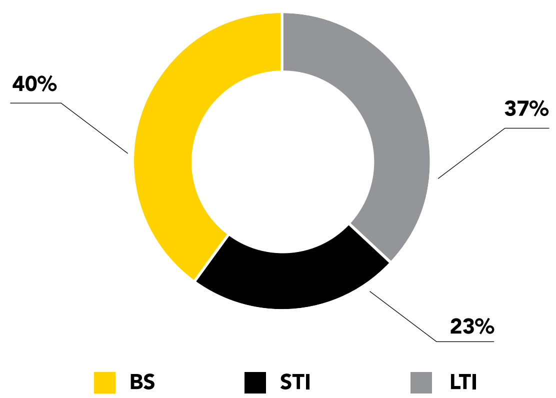
- fixed component: 40%;
- total variable component: 60% of which:
  - annual (MBO) 23% of the annual total direct compensation (equal to about 38% of the total variable component);
  - medium-long term (co-investment LTI Bonus and pure LTI Bonus) 37% of the annual total direct compensation (equal to about 62% of the total variable component).

The following graphic shows the comparison between the breakdown of the target-based annual total direct compensation over the three-year period before and after modification of the remuneration package described above.

ANNUAL TOTAL DIRECT COMPENSATION TARGET 2011 - 2013



ANNUAL TOTAL DIRECT COMPENSATION TARGET 2012 - 2014



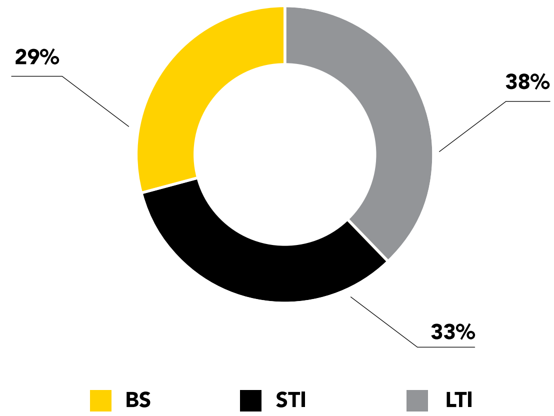
Key:
BS: fixed component;
STI: annual variable component;
LTI: medium-long term variable component

If both the annual and three-year maximum targets are achieved, the structure of the annual total direct compensation during the three-year period would be as follows:

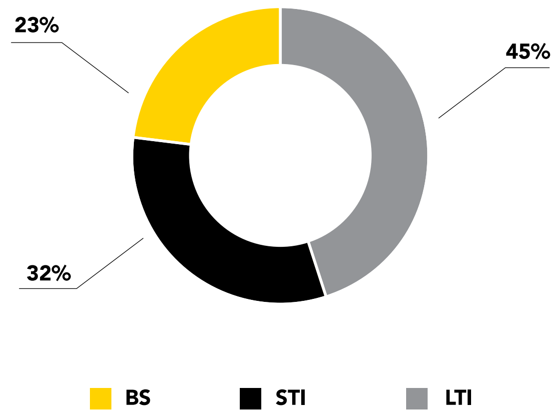
- fixed component: 23%;
- total variable component: 77% of which:
  - variable component based on annual results (MBO) equal to 32% of the annual total direct compensation (equal to about 41% of the total variable component);
  - variable long-term component (co-investment LTI Bonus and pure LTI Bonus) equal to 45% of the annual total direct compensation (equal to about 59% of the total variable component).

The following graphic shows the comparison between the breakdown over the three-year period of the target-based annual total direct compensation in the event of fulfilment of both the annual and three-year targets before and after modification of the remuneration package described above.

ANNUAL TOTAL DIRECT COMPENSATION MASSIMO 2011 - 2013



ANNUAL TOTAL DIRECT COMPENSATION MASSIMO 2012 - 2014



Key:
BS: fixed component;
STI: annual variable component;
LTI: medium-long term variable component

For more details in regard to the incentive plans, please refer to section 5 "MBO and LTI Plan."

For the Directors holding special offices and assigned specific functions (at December 31, 2011, the Chairman and Chief Executive Officer, Mr Marco Tronchetti Provera), if they are not bound by managerial employment relationships, the Board of Directors has envisaged, analogously to what is guaranteed by law and/or the National Collective Bargaining Agreement in favour of the Group's Italian managers:

- a Retirement Bonus ("Trattamento di Fine Mandato" - TFM) pursuant to Article 17(1)(c) of the Consolidated Income Tax Law ("T.U.I.R.") no. 917/1986 with characteristics similar to those of the Employee Benefit Obligations ("Trattamento di Fine Rapporto" – TFR) pursuant to Article 2120 Italian Civil Code, granted by law to the Italian managers of the Group and including the contributions to be paid by the employer which would be due to social security institutions or funds in the case of a management contract with the Group.
- a policy (i) against personal accidents they might suffer while performing their official duties and (ii) accidents unrelated to work with the premiums charged to the Company; for the latter accidents, the associated social security and tax charges are paid by the Company;

- benefits for permanent disability and death due to disease;
- additional benefits typical of their office and currently granted within the Group to Key Managers and/or to Senior Managers (company car).

If the Director holds special offices but has not been assigned specific functions (at December 31, 2011, this was the case of the Deputy Chairmen Vittorio Malacalza and Mr Alberto Pirelli), their remuneration as Directors consists solely of the annual fixed component. If the Director holding a special office is also an Executive (Mr Alberto Pirelli), his remuneration is determined on the basis of the criteria envisaged in the Policy according to the position held. This part too is subject to examination by the Remuneration Committee and the Board of Directors.

No insurance, social security or pension coverage other than mandatory coverage is envisaged for Directors holding special offices who have not been assigned specific functions.

According to Group policy, discretionary bonuses are not paid to Directors holding special offices. On proposal by the Remuneration Committee, the Board of Directors may grant bonuses to these individuals in relation to specific transactions that are deemed exceptional in terms of their strategic importance and impact on the results of the Company and/or the Group. The Directors holding special offices have not been granted bonuses of this type during the past three years.

The Remuneration Committee and the Board of Directors analyse the position, composition and competitiveness of the remuneration paid to directors holding special offices. They perform these analyses with the assistance of independent firms specialising in executive compensation. Within the typical limits of benchmark analyses, these firms use methods designed for thorough assessment of the complexity of roles in organisational terms, the specific functions assigned to them, and the impact of individuals on final business results.

In particular, different parameters (sector, geography, dimensions, etc.) are used to define the annually updated panel of benchmark companies.

The benchmark sampling used to revise the remuneration of the Chairman and Chief Executive Officer of PIRELLI & C. in 2012 was comprised of eight companies in the auto parts and tyre segment, on the one hand, and by 27 European "large cap" companies, on the other hand.

8. The Board of Statutory Auditors

The Shareholders' Meeting sets a fixed annual amount for remuneration of the Board of Statutory Auditors.

After appointing the current Statutory Auditor assigned to the Compliance Programme Supervisory Body, the Board of Directors set his gross annual compensation in the amount of euro 25 thousand.

The Statutory Auditors are also entitled to reimbursement of the expenses they incur on official business.

In accordance with best practices, the Company implements an insurance policy called D&O (Directors & Officers) Liability covering the third party liability of corporate bodies, General Managers, Key Managers, Senior Managers and Executives in the performance of their functions. The purpose of this policy is to indemnify PIRELLI for the cost of any compensatory damages deriving from the relevant provisions of the applicable national collective bargaining agreement and the laws and regulations governing appointed positions, with exclusion of wilful misconduct and gross negligence.

9. General Managers and Key Managers;

At December 31, 2011, PIRELLI & C. had a General Manager (Mr Francesco Gori) and three Key Managers (Mr Francesco Chiappetta; Mr Francesco Tanzi; Mr Maurizio Sala).

The remuneration of the General Managers and Key Managers is composed of the following elements:

- a gross annual fixed component;
- an annual variable component that is based on the achievement of pre-set business objectives (i.e. MBO), part of which (50%) is deferred; of this part, half is not subject to fulfilment of the LTI Plan targets (deferred MBO), the other part is instead subject to them (co-investment LTI);
- a variable medium-long term component (i.e. LTI).
- benefits typically granted to PIRELLI Executives.

Furthermore, the following is envisaged for the General Managers and Key Managers (analogously to what is provided for Senior Managers and Executives):

- supplemental retirement plans that obligate the employer company to pay an amount equal to 4% of the gross annual remuneration received to a pension fund, up to a maximum gross amount of euro 150 thousand;
- Supplemental health and life insurance in addition to what is prescribed by the National Collective Bargaining Agreement for Companies that Produce Goods and Services.

The fixed component for General Managers and Executives with strategic responsibilities is determined when they are hired and periodically revised according to their performance, as resolved by the Board of Directors on proposal by the Remuneration Committee.

When determining the remuneration of its individual members, the Board of Directors considers the following criteria:

- the fixed component represents no more than 50% of the target-based annual total direct compensation;
- the annual MBO incentive for General Managers is a pre-set, weighted, target-based percentage of the GAS in an amount of no less than 90% of that compensation and, for Key Managers, no less than 40% of their gross annual remuneration. A cap is set on the annual MBO that can be received, and once again is a pre-set percentage of GAS. This is 200% in the case of the General Manager and 150% in the case of Key Managers.
- The annualised, target-based variable medium-long term component (LTI) accounts for no less than 50% of the aggregate variable component (target-based

MBO and target-based LTI). The "pure LTI Bonus" is also subject to a cap, in the amount of 1.5 times the target-based bonus.

The fixed component payable to the General Manager currently totals euro 1.25 million gross (including the compensation received as Chief Executive Officer of PIRELLI Tyre S.p.A.) in addition to payment of the annual instalment under the not-to-compete clause owed to him, in the amount of euro 200,000 in 2012.

In regard to the impact of the various components of the General Manager's compensation package, if the annual targets envisaged by the MBO 2012, 2013 and 2014 and the targets set by the 2012-2014 LTI Plan were fulfilled, the structure of the target-based annual total direct compensation during the three-year period would be as follows:

- fixed component: 37%;
- total variable component: 63% of which:
  - annual (MBO) 23% of the annual total direct compensation (equal to about 37% of the total variable component);
  - medium-long term (co-investment LTI Bonus and pure LTI Bonus) 40% of the annual total direct compensation (equal to about 63% of the total variable component).

If both the annual and three-year maximum targets are achieved, the structure of the annual total direct compensation during the three-year period would be as follows:

- fixed component: 22%;
- total variable component: 78% of which:
  - variable component based on annual results (MBO) equal to 30% of the annual total direct compensation (equal to about 38% of the total variable component);
  - variable long-term component (co-investment LTI Bonus and pure LTI Bonus) equal to 48% of the annual total direct compensation (equal to about 62% of the total variable component).

Key Managers:

1) For Mr Francesco Chiappetta: the fixed component is currently set in the aggregate gross amount of euro 800 thousand.

In regard to the impact of the various components of his compensation package, if the annual targets envisaged by the MBO 2012, 2013 and 2014 and the targets set by the 2012-2014 LTI Plan were fulfilled, the structure of the target-based annual total direct compensation during the three-year period would be as follows:

- fixed component: 41%;
- total variable component: 59% of which:
  - annual (MBO) 14% of the annual total direct compensation (equal to about 23% of the total variable component);
  - medium-long term (co-investment LTI Bonus and pure LTI Bonus) 46% of the annual total direct compensation (equal to about 77% of the total variable component).

If both the annual and three-year maximum targets are achieved, the structure of the annual total direct compensation during the three-year period would be as follows:

- fixed component: 22%;
- total variable component: 78% of which:
  - variable component based on annual results (MBO) equal to 27% of the annual total direct compensation (equal to about 34% of the total variable component);
  - variable long-term component (co-investment LTI Bonus and pure LTI Bonus) equal to 51% of the annual total direct compensation (equal to about 66% of the total variable component).

2) For Mr Francesco Tanzi: the fixed component is currently set in the aggregate gross amount of euro 500 thousand.

In regard to the impact of the various components of his compensation package, if the annual targets envisaged by the MBO 2012, 2013 and 2014 and the targets set by the 2012-2014 LTI Plan were fulfilled, the structure of the target-based annual total direct compensation during the three-year period would be as follows:

- fixed component: 47%;
- total variable component: 53% of which:
  - annual (MBO) 16% of the annual total direct compensation (equal to about 29% of the total variable component);
  - medium-long term (co-investment LTI Bonus and pure LTI Bonus) 38% of the annual total direct compensation (equal to about 71% of the total variable component).

If both the annual and three-year maximum targets are achieved, the structure of the annual total direct compensation during the three-year period would be as follows:

- fixed component: 24%;
- total variable component: 76% of which:
  - variable component based on annual results (MBO) equal to 30% of the annual total direct compensation (equal to about 40% of the total variable component);
  - variable long-term component (co-investment LTI Bonus and pure LTI Bonus) equal to 45% of the annual total direct compensation (equal to about 60% of the total variable component).

3) For Mr Maurizio Sala: the fixed component is currently set in the aggregate gross amount of euro 450 thousand.

In regard to the impact of the various components of his compensation package, if the annual targets envisaged by the MBO 2012, 2013 and 2014 and the targets set by the 2012-2014 LTI Plan were fulfilled, the structure of the target-based annual total direct compensation during the three-year period would be as follows:

- fixed component: 47%;
- total variable component: 53% of which:
  - annual (MBO) 16% of the annual total direct compensation (equal to about 29% of the total variable component);
  - medium-long term (co-investment LTI Bonus and pure LTI Bonus) 38% of the annual total direct compensation (equal to about 71% of the total variable component).

If both the annual and three-year maximum targets are achieved, the structure of the annual total direct compensation during the three-year period would be as follows:

- fixed component: 24%;
- total variable component: 76% of which:
  - variable component based on annual results (MBO) equal to 30% of the annual total direct compensation (equal to about 40% of the total variable component);
  - variable long-term component (co-investment LTI Bonus and pure LTI Bonus) equal to 45% of the annual total direct compensation (equal to about 60% of the total variable component).

Group policy does not allow awarding discretionary bonuses to the General Managers and Key Managers. On proposal by the Remuneration Committee, the Board of Directors may grant bonuses to these individuals in relation to specific transactions that are exceptional in terms of their strategic importance and impact on the results of the Company and/or the Group. The General Managers and Key Managers have not been granted bonuses of this type during the past three years.

The process for definition of the remuneration of General Managers is analogous to that illustrated for the Directors holding special offices.

In regard to the Key Managers, the Remuneration Committee assesses the consistency of their remuneration with the Policy.

The remuneration of General Managers and Key Managers is also analysed with the assistance of independent firms specialising in executive compensation. Definition of this remuneration is revised annually and published on occasion of the annual Remuneration Statement.

In particular, different parameters (sector, geography, dimensions, etc.) are used to define the annually updated panel of benchmark companies.

In March 2012 the same two panels used for the Chairman and Chief Executive Officer were used for the General Manager, while the benchmark market used in regard to Key Managers includes 222 companies in the following European countries: Belgium, France, Germany, Italy, Spain, Netherlands and the United Kingdom.

Senior Managers and Executives

The remuneration of Senior Managers and Executives in general is composed of the following elements:

- a gross annual fixed component (i.e. GAS);
- an annual variable component that is based on the achievement of pre-set business objectives (i.e. MBO), part of which (50%) is deferred; of this part, half is not subject to fulfilment of the LTI Plan targets (deferred MBO), the other part is instead subject to them (co-investment LTI);
- a variable medium-long term component (i.e. LTI).
- benefits recognised by business practice (e.g. company car and, in the case of foreign assignments, contribution to housing costs and contribution to children's school expenses).

Furthermore, the Executives and Senior Managers are entitled to:

- supplemental retirement plans that obligate the employer company to pay an amount equal to 4% of the gross annual remuneration received to a pension fund, up to a maximum gross amount of euro 150 thousand;
- Supplemental health and life insurance in addition to what is prescribed by the National Collective Bargaining Agreement for Companies that Produce Goods and Services.

The PIRELLI Group considers the following criteria when determining the gross remuneration and individual components of remuneration of Senior Managers and Executives:

- a. fixed component: (i) for Senior Managers, its weight is generally not more than 60% of the target-based annual total direct compensation, and (ii) for Executives, its weight is generally not more than 70% of the target-based annual total direct compensation;
- b. a target-based MBO (annual) incentive generally representing no less than 40% of GAS for Senior Managers and no less than 20% for Executives.
- c. The annualised, target-based variable medium-long term component (LTI) accounts for no less than 50% of the aggregate variable component (target-based MBO and target-based LTI).

In regard to all Senior Managers, the impact of the various components of their compensation packages during the three-year period would be as follows if the annual targets envisaged by the MBO 2012, 2013 and 2014 and the targets set by the 2012-2014 LTI Plan were fulfilled:

- fixed component: 47%;
- total variable component: 53% of which:
  - annual (MBO) 15% of the annual total direct compensation (equal to about 29% of the total variable component);
  - medium-long term (co-investment LTI Bonus and pure LTI Bonus) 38% of the annual total direct compensation (equal to about 71% of the total variable component).

If both the annual and three-year maximum targets are achieved, the structure of the annual total direct compensation during the three-year period would be as follows:

- fixed component: 32%;
- total variable component: 68% of which:
  - variable component based on annual results (MBO) equal to 21% of the annual total direct compensation (equal to about 31% of the total variable component);

- variable long-term component (co-investment LTI Bonus and pure LTI Bonus) equal to 47% of the annual total direct compensation (equal to about 69% of the total variable component).

In regard to all Executives, the impact of the various components of their compensation packages during the three-year period would be as follows if the annual targets envisaged by the MBO 2012, 2013 and 2014 and the targets set by the 2012-2014 LTI Plan were fulfilled:

- fixed component: 68%;
- total variable component: 32% of which:
  - annual (MBO) 12% of the annual total direct compensation (equal to about 38% of the total variable component);
  - medium-long term (co-investment LTI Bonus and pure LTI Bonus) 20% of the annual total direct compensation (equal to about 62% of the total variable component).

If both the annual and three-year maximum targets are achieved, the structure of the annual total direct compensation during the three-year period would be as follows:

- fixed component: 52%;
- total variable component: 48% of which:
  - variable component based on annual results (MBO) equal to 18% of the annual total direct compensation (equal to about 38% of the total variable component);
  - variable long-term component (co-investment LTI Bonus and pure LTI Bonus) equal to 30% of the annual total direct compensation (equal to about 62% of the total variable component).

The Group may grant one-off bonuses according to operating requirements or the achievement of specific, extraordinary targets. It may also offer them share-based incentives or stock options in schemes that might be adopted by the Group. In regard to this last-mentioned possibility, the Company does not have any share-based incentive programmes in place at the date of this Report.

The remuneration of Executives and Senior Managers is also analysed with the assistance of independent firms specialising in executive compensation. Inter alia, this analysis considers the position held by the individual manager and the country where he or she is assigned.

N.B.: In accordance with best practices and as proposed by the Internal Control, Risks and Corporate Governance Committee, the Board of Directors envisages that the fixed component have a greater weight than the variable component for the Compliance Officer. However, the Compliance Officer (and, generally speaking, the managers of the Internal Audit function) are not included in the LIT Incentive Plan, but benefit only from the annual incentive plan linked to largely to qualitative objectives subject to review by the Internal Control, Risks and Corporate Governance Committee and the Board of Directors, on proposal by the Director assigned to supervise the internal control system.

11. Allowances in the event of resignation, dismissal or termination

PIRELLI Group policy prohibits making agreements with Directors, General Managers, Key Managers, Senior Managers and Executives that regulate ex ante the economic issues arising in the case of early termination of their relationship by the Company or the individual employee (i.e. "golden parachutes").

Agreements made when an existing relationship with the Group is terminated without cause are not considered golden parachutes. In these cases, PIRELLI prefers to seek agreements for consensual termination of the relationship. Without prejudice to statutory and/or contractual obligations, agreements made for termination of an employment relationship with the Group are based on applicable benchmarks and within the limits defined by case law and custom in the country where the agreement is made.

The Company defines internally the criteria which the other companies of the Group must also follow for management of the agreements on the early termination of relationships with managers and/or Directors holding special offices.

PIRELLI does not envisage the payment of allowances or extraordinary compensation for termination of Directors holding special offices, who are assigned specific functions, and who do not have a managerial work relationship with the Group. Payment of a specific allowance may be granted, subject to prior review by the delegated corporate bodies, in the following cases:

- termination by the Company without cause;
- termination by the Director with cause: for example, in the case of substantial changes in his role or assigned duties, and/or in the event of a hostile tender offer.

In these cases, the allowance amounts to three times the employee's gross annual compensation, with this meaning the sum of all gross annual fixed salaries for the offices held, the average annual MBO paid while in office, and retirement bonuses (TFM) on these amounts.

12. Not-to-compete clauses

The Group may enter into not-to-compete clauses with its General Managers, Key Managers and for especially important professional roles of Senior Managers and Executives that envisage the payment of a GAS-related consideration according to the duration and scope of the obligation resulting from the agreement itself.
The obligation refers to the merchandise sector in which the Group operates at the time the agreement is made and its territorial scope. The scope of the obligation varies according to the worker's role at the time of execution of the agreement and may cover, as in the case of the General Directors, all countries where the Group operates.

13. Other information

Pursuant to Consob Resolution no. 18049 of December 23, 2011, notice is given that:

- the Company did not avail itself of the assistance of external advisors and/or experts in preparing the 2012 Policy;

- **PIRELLI does not have any stock option plans in place.**
- **PIRELLI did not refer to specific remuneration policies of other companies when defining the 2012 Policy. The criteria used to select the benchmarks are indicated in regard to the structure of remuneration for each person.**

Model Format no. 7-bis adopted with Consob Resolution no. 18049 of December 23, 2011 envisages that the section of the remuneration report envisaged in Article 123-ter referring to the members of the boards of directors, the general managers and the other Key Managers, at least contain the information envisaged in the previous mentioned model format. The following table indicates the required information and the part of the report where they are found:

INFORMATION REQUIRED UNDER MODEL FORMAT 7-BIS	SECTIONS THAT SPECIFICALLY CONTAIN THE REQUIRED INFORMATION
a) bodies or persons involved in the preparation and approval of the remuneration policy, specifying their roles, and the bodies or persons responsible for proper implementation of this policy.	2. Process for definition and implementation of the Policy and parties involved 3. Remuneration Committee
b) any action by a remuneration committee or another committee with delegated authority in this regard, describing its composition (distinguishing between non-executive directors and independent directors), responsibilities and operating procedures;	2. Process for definition and implementation of the Policy and parties involved 3. Remuneration Committee
c) the name of any independent experts who might have participated in preparation of the remuneration policy;	13. Other information
d) the aims pursued by the remuneration policy, its fundamental principles, and any changes in the remuneration policy from the previous financial year;	1. Principles and examination of risks
e) description of the policies governing fixed and variable components of remuneration, particularly in regard to indication of their weight in relation to aggregate remuneration and distinguishing between short and long-term variable components;	The structure of remuneration for different individuals is described in the sections indicating the different fixed/variable and short-term variable/medium-long term variable weights. 6. Remuneration of Directors of Pirelli & C. 7. Remuneration of Directors holding special offices 8. The Board of Statutory Auditors 9. General Managers and Key Managers 10. Senior Managers and Executives The following section illustrates how the variable components of remuneration work: 5. MBO and LTI Plan
f) the policy applied to non-monetary benefits;	Sections for the individual positions 6. Remuneration of Directors of Pirelli & C. 7. Remuneration of Directors holding special offices 9. General Managers and Key Managers 10. *Senior Managers and Executives*
g) in reference to the variable components, a description of the performance targets according to which they are assigned, distinguishing between short-term and medium-long term variable components, and information about the link between the change in results and the change in remuneration;	5. MBO and LTI Plan
h) the criteria used for assessing performance targets according to the grant of shares, options, other financial instruments or other variable components of remuneration;	5. MBO and LTI Plan
i) information intended to illustrate the consistency of the remuneration policy with pursuit of the company's long-term interests and the risk management policy, if such exists;	1. Principles and examination of risks 5. MBO and LTI Plan And for the individual positions 6. Remuneration of Directors of Pirelli & C. 7. Remuneration of Directors holding special offices 8. The Board of Statutory Auditors 9. General Managers and Key Managers 10. Senior Managers and Executives
j) the vesting period, any deferred payment systems, with indication of the deferral periods and criteria used to determine these periods and, if envisaged, the mechanisms for ex post correction;	Pirelli does not have any stock option plans in place. In regard to the mechanisms for deferral of variable monetary components, see Section: 5. MBO and LTI Plan
k) information on any clauses governing the retention of financial instruments after purchase, with indication of the retention period and criteria used to determine these periods;	Pirelli does not have any stock option plans in place.
l) the policy governing treatment upon expiry of term in office or termination of the employment relationship, specifying what circumstances establish the right and any link between this treatment and company performance;	11. Allowances in the event of resignation, dismissal or termination 12. Not-to-compete clauses
m) information about any insurance, social security or pension coverage other than mandatory plans;	Sections for the individual positions 6. Remuneration of Directors of Pirelli & C. 7. Remuneration of Directors holding special offices 8. The Board of Statutory Auditors 9. General Managers and Key Managers 10. Senior Managers and Executives
n) the remuneration policy that might be applied in reference to: (i) independent directors, (ii) participation on committees and (iii) holding special offices (chairman, deputy chairman, etc.);	6. Remuneration of Directors of Pirelli & C.
o) whether the remuneration policy was defined by using the remuneration policies of other benchmark companies, and if so, the criteria used to choose these companies	13. Other information

REMUNERATION STATEMENT FOR 2011

1. Principles

The Remuneration statement for 2011 illustrates the remuneration Policy applied by the PIRELLI Group in 2011 and presents a final accounting of remuneration as broken down by the different types of beneficiaries, without prejudice to the disclosure obligations imposed by other applicable provisions of law or regulation.

2. The Table: Compensation paid to members of the Board of Directors and Board of Statutory Auditors, the General Managers and other Key Managers.

NAME AND SURNAME	OFFICE	PERIOD DURING WHICH OFFICE WAS HELD	EXPIRY OF TERM OF OFFICE	FIXED COMPENSATION	COMPENSATION FOR PARTICIPATION ON COMMITTEES	VARIABLE NON-EQUITY COMPENSATION		NON-MONETARY BENEFITS	OTHER COMPENSATION	TOTAL	FAIR VALUE OF EQUITY COMPENSATION	RETIREMENT OR EMPLOYMENT TERMINATION INDEMNITY
						BONUS AND OTHER INCENTIVES	PROFIT-SHARING					
Marco Tronchetti Provera	Chairman and CEO	01/01/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	3,600,439 (1)		18,671,840		4,531		22,276,810		
Vittorio Malacalza	Deputy Chairman	01/01/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	282,767 (2)	31,315 (3)					314,082		
Alberto Pirelli	Deputy Chairman	01/01/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	973,436 (4)		1,710,925 (5)		5,251 (5)		2,689,612		
Carlo Acutis	Director	01/01/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000 (6)	17,397 (7)					67,397		
Carlo Angelici	Director	01/01/2011 – 21/04/2011	April 21, 2011	15,205 (6)	7,299 (8)					22,504		
Cristiano Antonelli	Director	01/01/2011 – 21/04/2011	April 21, 2011	15,205 (6)	7,299 (8)					22,504		
Anna Maria Artoni	Director	21/04/2011 – 12/31/2012	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	34,795 (6)	13,918 (9)					48,713		
Gilberto Benetton	Director	01/01/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000 (6)						50,000		
Alberto Bombassei	Director	01/01/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000 (6)	6,082 (9)					56,082		
Franco Bruni	Director	01/01/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000(6)	45,572 (10)					95,572		
Luigi Campiglio	Director	01/01/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000 (6)	13,918 (11)					63,918		
Enrico Tommaso Cucchiani	Director	01/01/2011 – 16/12/2011	December 16, 2011	47,945 (6)						47,945		

NAME AND SURNAME	OFFICE	PERIOD DURING WHICH OFFICE WAS HELD	EXPIRY OF TERM OF OFFICE	FIXED COMPENSATION	COMPENSATION FOR PARTICIPATION ON COMMITTEES	VARIABLE NON-EQUITY COMPENSATION		NON-MONETARY BENEFITS	OTHER COMPENSATION	TOTAL	FAIR VALUE OF EQUITY COMPENSATION	RETIREMENT OR EMPLOYMENT TERMINATION INDEMNITY
						BONUS AND OTHER INCENTIVES	**PROFIT-SHARING**					
Paolo Ferro Luzzi	Director	21/04/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	34,795 (6)	20,877 (8)					55,672		
Pietro Guindani	Director	21/04/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	34,795 (6)	13,918 (9)					48,713		
Giulia Maria Ligresti	Director	01/01/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000 (6)						50,000		
Elisabetta Magistretti	Director	21/04/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	34,795 (6)	20,877 (8)					55,672		
Massimo Moratti	Director	01/01/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000 (6)						50,000		
Renato Pagliaro	Director	01/01/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000 (12)	17,397 (13)					67,397 (12)		
Umberto Paolucci	Director	01/01/2011 – 21/04/ 2011	April 21, 2011	15,205 (6)	6,082 (9)					21,287		
Giampiero Pesenti	Director	01/01/2011 – 21/04/ 2011	April 21, 2011	15,205 (6)	6,082 (9)					21,287		
Francesco Profumo	Director	21/04/2011 – 16/11/2011	November 16, 2011	28,630 (6)	14,315 (20)					42,945		
Giovanni Perissinotto	Director	01/01/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000 (6) (12)						50,000 (12)		
Luigi Roth	Director	01/01/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000 (6)	56,011 (14)					106,011		
Carlo Secchi	Director	01/01/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2013	50,000 (6)	74,490 (15)					124,490		
Francesco Gori	General Manager	01/01/2011 – 12/31/2011		1,222,778 (16)		9,079,126 (17)		8,052 (17)	200,000 (18)	10,509,956		
	3 Key Managers	01/01/2011 – 12/31/2011		1,738,462 (21)		10,935,690 (23)		17,116 (22)		12,691,268		
Enrico Laghi	Chairman of the Board of Statutory Auditors	01/01/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2011	62,000								
Paolo Gualtieri	Statutory Auditor	01/01/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2011	41,500								
Paolo Domenico Sfameni	Statutory Auditor	01/01/2011 – 12/31/2011	Shareholders' Meeting held to approve the Annual Financial Report at December 31, 2011	41,500	21,959 (19)					63,459		
(I) Compensation in company that prepares the Annual Financial Report				5,498,042	394,808	27,460,012	-	17,873	-	33,370,735	-	-
(II) Compensation from subsidiaries and associates				3,291,415	-	12,937,569	-	17,077	200,000	16,446,061	-	-
(III) Total				**8,789,457**	**394,808**	**40,397,581**	**-**	**34,950**	**200,000**	**49,816,796**	**-**	**-**

1 Of which: euro 50 thousand as Director of Pirelli & C. S.p.A.; euro 2,475,439 as Chairman and Chief Executive Officer of Pirelli & C. S.p.A. (from the date he was appointed, the compensation for this office was reduced from euro 2,476,423 to euro 2,475,000 per annum); euro 1,075,000 as Chairman of Pirelli Tyre S.p.A.;

2 Of which: euro 50 thousand as Director of Pirelli & C. S.p.A.; euro 208,767 as Deputy Chairman of Pirelli & C. (from the date he was appointed, the compensation for this office was granted at the meeting held on April 21, 2011 and set in the amount of euro 300,000 per annum); euro 12 thousand as member of the Board of Directors of RCS Mediagroup S.p.A. and euro 12 thousand as member of the Executive Committee of RCS Mediagroup S.p.A.;

3 Of which: euro 17,397 thousand as member of the Strategies Committee; euro 13,918 as member of the Nominations and Successions Committee;

4 Of which: euro 50 thousand as Director of Pirelli & C. S.p.A.; euro 392,261 as Deputy Chairman of Pirelli & C. S.p.A. (from the date he was appointed, the compensation for this office was reduced from euro 599,226 to euro 300,000 per annum); euro 100,000 as Deputy Chairman of Pirelli Tyre S.p.A.; (from the date he was appointed, the compensation for this office was set at euro 150,000 per annum); euro 431,175 as Senior Manager of Pirelli Tyre S.p.A.; (the gross annual remuneration as manager was increased from euro 368,424 to euro 450,000 beginning April 2011).;

5 As Senior Manager of Pirelli Tyre S.p.A.;

6 As Director of Pirelli & C.;

7 As Chairman of the Remuneration Committee;

8 As Member of the Internal Control, Risks and Corporate Governance Committee;

9 As Member of the Remuneration Committee;

10 Of which euro 28,175 as Member of the Internal Control, Risks and Corporate Governance Committee and euro 17,397 as Member of the Strategies Committee;

11 As Member of the Nominations and Succession Committee;

12 Emoluments charged to the assigned company;

13 As Member of the Strategies Committee; Emoluments charged to the assigned company;

14 Of which euro 28,175 as Member of the Internal Control, Risks and Corporate Governance Committee; euro 13,918 as Member of the Remuneration Committee and euro 13,918 as Member of the Nominations and Succession Committee;

15 Of which euro 35,134 as Chairman of the Internal Control, Risks and Corporate Governance Committee; and euro 17,397 as Member of the Strategies Committee and euro 21,959 as Chairman of the Compliance Programme Supervisory Body;

16 Of which: euro 1,050,000 as General Manager and euro 172,778 as Chief Executive Officer of Pirelli Tyre S.p.A. (from the date he was appointed, the compensation for this office was raised from euro 100,000 to euro 200,000 per annum).

17 As General Manager of Pirelli Tyre;

18 Annual instalment under not-to-compete clause;

19 As member of the Compliance Programme Supervisory Body;

20 As Member of the Strategies Committee;

21 Of which euro 438,462 from Pirelli Tyre;

22 Of which euro 3,774 from Pirelli Tyre;

23 Of which euro 2,147,518 from Pirelli Tyre.

Fig. 2

Experience


S
GLE
RUM
2012

3. Cash incentive plans in favour of members of the Board of Directors, General Managers and other Key Managers

For a description of the cash incentive plans, please refer to section 5 of the Remuneration Policy. Following the November 2011 revision that considerably tightened the targets set in the three-year Plan, it was decided to terminate the 2011-2013 LTI Plan prematurely through payment of the entire MBO 2011 that had been earned.

SURNAME AND NAME	OFFICE	PLAN	BONUS FOR CURRENT YEAR			BONUS FOR PREVIOUS YEARS			OTHER BONUSES
			PAYABLE / PAID	DEFERRED	DEFERRAL PERIOD	NO LONGER PAYABLE	PAYABLE / PAID	STILL DEFERRED	
Marco Tronchetti Provera	Chairman and Chief Executive Officer	MBO 2011	4,530,000						
		2009-2011 LTI Plan	10,235,651 (1)				3,906,189 (3)		
		2011-2013 LTI Plan	-	-					
Alberto Pirelli	Deputy Chairman	MBO 2011	263,880 (2)						
		2009-2011 LTI Plan	1,254,509 (2) (4)				192,536 (2) (3)		
		2011-2013 LTI Plan	-	-					
Francesco Gori	General Manager	MBO 2011	1,952,100 (2)						
		2009-2011 LTI Plan	5,617,276 (2) (5)				1,509,750 (2) (3)		
		2011-2013 LTI Plan	-	-					
Key Managers		MBO 2011	2,434,450 (6)						
		2009-2011 LTI Plan	7,193,733 (7) (8)				1,307,507 (3) (9)		
		2011-2013 LTI Plan	-	-					
(I) Compensation in company that prepares the Annual Financial Report		MBO 2011	6,336,850				-		
		2009-2011 LTI Plan	16,172,148				4,951,014		
		2011-2013 LTI Plan	-				-		
(II) Compensation from subsidiaries and associates		MBO 2011	2,843,580				-		
		2009-2011 LTI Plan	8,129,021				1,964,968		
		2011-2013 LTI Plan	-				-		
(III) Total			**33,481,599**				**6,915,982**	_	

1 of which euro 6,329,462 as pure LTI 2009-2011 and euro 3,906,189 as supplement of "co-invested" portions of MBO 2009 and 2010
2 from Pirelli Tyre S.p.A.
3 accrued portions of MBO 2009 and 2010
4 of which euro 1,061,973 as pure LTI 2009-2011 and euro 192,536 as supplement of "co-invested" portions of MBO 2009 and 2010
5 of which euro 4,107,526 as pure LTI 2009-2011 and euro 1,509,750 as supplement of "co-invested" portions of MBO 2009 and 2010
6 of which euro 627,600 from Pirelli Tyre S.p.A.
7 of which euro 5,534,451 as pure LTI 2009-2011 and euro 1,659,282 as supplement of "co-invested" portions of MBO
8 of which euro 1,257,236 from Pirelli Tyre S.p.A.
9 of which euro 262,682 from Pirelli Tyre S.p.A.

4. The Tables prepared for corporate governance disclosure of top management compensation received in three-year period 2009-2011

The following tables prepared for corporate governance disclosure regarding the Chairman and Chief Executive Officer of PIRELLI & C. S.p.A., the General Manager, the Deputy Chairman of PIRELLI & C. S.p.A. (Mr. Alberto Pirelli) and the Key Managers show the total emoluments received in the three-year period 2009-2011, with indication for each year of the amount allocable to the individual year and how much was actually received.

The tables show that the operating rules of the 2009-2011 LTI caused a significant portion of the total emoluments paid in 2011 to refer to previous years.

Moreover, the last column shows the percentage weight of the individual components of remuneration against the total emoluments received, while showing that for each beneficiary the variable component generally prevailed over the fixed component.

Marco Tronchetti Provera

	2009	2010	2011	Total	% incidence of various components
Fixed fee					
Board Member of Pirelli & C. S.p.A.	50,000	50,000	50,000	150,000	
Chairman and Managing Director of Pirelli & C. S.p.A.	2,508,000	2,439,826	2,475,439*	7,423,265	
Chairman of Pirelli Tyre S.p.A.	1,150,000**	1,075,000	1,075,000	3,300,000	
Total fixed fee	**3,708,000**	**3,564,826**	**3,600,439**	**10,873,265**	**33%**
MBO actually received	**1,521,000**	**2,385,189**	**4,530,000**	**8,436,189**	**25%**
Net LTI premium					
"accrued"	2,109,821	2,109,821	2,109,821	6,329,462	
received	-	-	**6,329,462**	**6,329,462**	
Deferred MBO + LTI premium from coinvestment					
"accrued"	3,042,000	4,770,378	-	7,812,378	
received	-	-	**7,812,378**	**7,812,378**	
Total LTI					
"accrued"	5,151,821	6,880,199	2,109,821	14,141,840	
received	-	0	**14,141,840**	**14,141,840**	**42%**
Non-monetary benefits	-	-	**4,531**	**4,531**	
TOTAL					
"accrued"	10,380,821	12,830,214	10,244,791	33,455,825	
received	**5,229,000**	**5,950,015**	**22,276,810*** **	**33,455,825**	**100%**

* the fee for this office was reduced from € 2,476,423 to € 2,475,000 per year, effective from the date of the appointment

** N.B.: € 435,000 were also received from Pirelli& C. Real Estate S.p.A.

*** 54% accrued in previous years

Francesco Gori

	2009	2010	2011	Total	% incidence of various components
Fixed fee					
Board Member of Pirelli & C. S.p.A.	950,000	1,050,000	1,050,000	3,050,000	
Chairman and Managing Director of Pirelli & C. S.p.A.	100,000	100,000	172,778*	372,778	
Total fixed fee	**1,050,000**	**1,150,000**	**1,222,778**	**3,422,778**	**23%**
MBO actually received	**608,500**	**901,250**	**1,952,100**	**3,461,850**	**24%**
Net LTI premium					
"accrued"	1,369,175	1,369,175	1,369,175	4,107,526	
received	-	-	**4,107,526**	**4,107,526**	
Deferred MBO + LTI premium from coinvestment					
"accrued"	1,217,000	1,802,500	-	3,019,500	
received	-	-	**3,019,500**	**3,019,500**	
Total LTI					
"accrued"	2,586,175	3,171,675	1,369,175	7,127,026	
received	-	-	**7,127,026**	**7,127,026**	**49%**
Non-monetary benefits	6,792	7,753	8,052	22,597	
Others fees (non-competition agreement)	**200,000**	**200,000**	**200,000**	**600,000**	**4%**
TOTAL					
"accrued"	4,451,467	5,430,678	4,752,105	14,634,251	
received	**1,865,292**	**2,259,003**	**10,509,956****	**14,634,251**	**100%**

* the fee for this office was increased from € 100,000 to € 200,000 per year, effective from the date of the appointment
** 57% accrued in previous years

Alberto Pirelli

	2009	2010	2011	Total	% incidence of various components ****
Fixed fee					
Board Member of Pirelli & C. S.p.A.	50,000	50,000	50,000	150,000	
Deputy Chairman of Pirelli & C. S.p.A.	590,000	590,000	392,261*	1,572,261	
Deputy Chairman of Pirelli Tyre S.p.A.	-	-	100,000**	100,000	
Senior Manager of Pirelli Tyre S.p.A.	368,424	368,424	431,175	1,168,023	
Total fixed fee	**1,008,424**	**1,008,424**	**973,436**	**2,990,284**	**61%**
MBO actually received	**82,011**	**110,525**	**263,880**	**456,416**	**9%**
Net LTI premium					
"accrued"	353,991	353,991	353,991	1,061,973	
received	-	-	**1,061,973**	**1,061,973**	
Deferred MBO + LTI premium from coinvestment					
"accrued"	164,022	221,050	-	385,072	
received	-	-	**385,072**	**385,072**	
Total LTI					
"accrued"	518,013	575,041	353,991	1,447,045	
received	-	-	**1,447,045**	**1,447,045**	**29%**
Non-monetary benefits	**5,634**	**5,312**	**5,251**	**16,197**	
TOTAL					
"accrued"	1,614,082	1,699,302	1,596,558	4,909,942	
received	**1,096,069**	**1,124,261**	**2,689,612*****	**4,909,942**	**100%**

* the fee for this office was reduced from € 599,226 to € 300,000 per year, effective from the date of the appointment
** the fee for this office was fixed at € 150,000 per year, effective from the date of the appointment
*** 41% accrued in previous years
**** only the annual gross fee as Senior Manager was considered to be fixed

Francesco Chiappetta

	2009	2010	2011	Total	% incidence of various components
Fixed fee	**800,000**	**800,000**	**800,000**	**2,400,000**	**26%**
MBO actually received	**258,075**	**484,625**	**1,103,300**	**1,846,000**	**20%**
Net LTI premium					
"accrued"	1,152,990	1,152,990	1,152,990	3,458,969	
received	-	0	**3,458,969**	**3,458,969**	
Deferred MBO + LTI premium from coinvestment					
"accrued"	516,150	969,250	-	1,485,400	
received	-	-	**1,485,400**	**1,485,400**	
Total LTI					
"accrued"	1,669,140	2,122,240	1,152,990	4,944,369	
received	**-**	**-**	**4,944,369**	**4,944,369**	**54%**
Non-monetary benefits	**450**	**4,123**	**5,158**	**9,731**	
TOTAL					
"accrued"	2,727,665	3,410,988	3,061,448	9,200,100	
received	**1,058,525**	**1,288,748**	**6,852,827***	**9,200,100**	**100%**

* 55% accrued in previous years

Maurizio Sala

	2009	2010	2011	Total	% incidence of various components
Fixed fee	**345,035**	**400,000**	**438,462**	**1,183,497**	**33%**
MBO actually received	**102,682**	**160,000**	**627,600**	**890,282**	**25%**
Net LTI premium					
"accrued"	331,518	331,518	331,518	994,554	
received	-	-	**994,554**	**994,554**	
Deferred MBO + LTI premium from coinvestment					
"accrued"	205,364	320,000	-	525,364	
received	-	-	**525,364**	**525,364**	
Total LTI					
"accrued"	536,882	651,518	331,518	1,519,918	
received	-	-	**1,519,918**	**1,519,918**	**42%**
Non-monetary benefits	**3,441**	**2,902**	**3,774**	**10,117**	
TOTAL					
"accrued"	988,040	1,214,420	1,401,354	3,603,814	
received	**451,158**	**562,902**	**2,589,754***	**3,603,814**	**100%**

* 46% accrued in previous years

Francesco Tanzi

	2009	2010	2011	Total	% incidence of various components
Fixed fee	**125,000**	**500,000**	**500,000**	**1,125,000**	**26%**
MBO actually received	**68,800**	**302,125**	**703,550**	**1,074,475**	**25%**
Net LTI premium					
"accrued"	360,309	360,309	360,309	1,080,928	
received	-	-	**1,080,928**	**1,080,928**	
Deferred MBO + LTI premium from coinvestment					
"accrued"	-	604,250	351,775	956,025	
received	-	-	**956,025**	**956,025**	
Total LTI					
"accrued"	360,309	964,559	712,084	2,036,953	
received	-	-	**2,036,953**	**2,036,953**	**48%**
Non-monetary benefits	**450**	**3,733**	**8,184**	**12,367**	
TOTAL					
"accrued"	554,559	1,770,417	1,923,818	4,248,795	
received	**194,250**	**805,858**	**3,248,687***	**4,248,795**	**100%**

* 41% accrued in previous year

5. Table containing information about the equity investments owned by members of the Board of Directors, the Board of Statutory Auditors, the General Managers and the other Key Managers.

The following table discloses any equity investments that might be held by members of the Board of Directors, the Board of Statutory Auditors, the General Manager and the Key Managers of PIRELLI & C. S.p.A. with listed shares and in its subsidiaries.

In particular, the number of shares broken down by class of stock and in reference to each investee company is shown next to the name of the members of the Board of Directors, Board of Statutory Auditors and General Managers, and cumulatively for the other Key Managers:

- owned at the end of the previous financial year;
- acquired during the reference year;
- sold during the reference year;
- owned at the end of the reference year.

The title, terms and conditions of ownership are also specified.

All persons who, during the reference year, were members of the Board of Directors and Board of Statutory Auditors, General Manager or Manager with strategic responsibilities for even just a fraction of a year are included.

SURNAME AND NAME	OFFICE	INVESTEE COMPANY	NO. SHARES OWNED AT 12/31/2010	NO. SHARES ACQUIRED/ SUBSCRIBED	NO. SHARES SOLD	NO. SHARES OWNED AT 12/31/2011
Tronchetti Provera Marco	Chairman and Chief Executive Officer	Pirelli & C.	1,251	_	_	1,251
		Pirelli & C. (indirect ownership)	124,500,500 (1)	_	_	124,500,500
		Pirelli & C. (indirect ownership)	110,673 (2)	_	_	110,673
		Pirelli & C. Ambiente S.p.A. (indirect ownership)	2,240,280 (2)	_	2,240,280	_
		Pirelli & C. Eco Technology S.p.A. (indirect ownership)	8,726,900 (2)	_	8,726,900	_
Pirelli Alberto	Deputy Chairman	Pirelli & C.	131,629	_	_	131,629
Moratti Massimo	Director	Pirelli & C.	1,050,129	_	1,050,129	_
		Pirelli & C. (indirect ownership)	3,402,521 (3)	_	1,050,129	2,343,392 (3)
		Pirelli & C. (indirect ownership)	1,221,413 (4)	_	1,221,413	_
Roth Luigi	Director	Pirelli & C.	4,000 (5)	_	_	4,000 (5)

1 Shares held through Camfin S.p.A.
2 Shares held through Cam Partecipazioni S.p.A.
3 Shares held through CMC S.p.A.
4 Shares held in trust by Istifid S.p.A.
5 Shares owned by spouse

RESOLUTIONS

MOTION FOR APPROVAL OF THE ANNUAL FINANCIAL REPORT AND ALLOCATION OF NET INCOME

Shareholders,

The financial year at December 31, 2011 closed with net income of euro 272,474,107.

The Board of Directors proposes to distribute a dividend, net of the required allocation to the legal reserve and gross of the required withholding taxes, of:

- euro 0.27 for each ordinary share;
- euro 0.34 for each savings share.

If you agree with our proposals, we ask you to pass the following

Resolutions

"The Shareholders' Meeting:

- having examined the Annual Financial Report at December 31, 2011;
- having taken note of the report of the Board of Statutory Auditors;
- having taken note of the report of the independent auditors;

Resolves

a) to approve the financial statements of the Company for the year ended December 31, 2011, as presented by the Board of Directors, in their entirety and their individual captions, with the provisions proposed, which show a net income of euro 272,474,107;

b) to allocate the 2011 net income of euro 272,474,107 as follows:

5% to the legal reserve	euro 13,623,705
to the shareholders:	
euro 0.27 (*) to each of the 475,388,592 (**) ordinary shares, for a total of	euro 128,354,920
euro 0.34 (*) to each of the 11,842,969 (***) savings shares, for a total of	euro 4,026,610
the remainder to retained earnings	euro 126,468,872

* Before the required withholding taxes.
** Net of the 351,590 ordinary shares currently held by the Company.
*** Net of the 408,342 savings shares currently held by the Company.

c) to authorise the directors, if the dividends specified at sub-indent b) above are paid prior to the sale of the treasury shares, to draw the amount of the dividend related to those shares from retained earnings and to allocate to that item the balance of the rounding that may result from the dividend payment operation;

The dividend for 2011 will be collectible from May 24, 2012, with coupon detachment date on May 21, 2012."

APPOINTMENT OF TWO MEMBERS OF THE BOARD OF DIRECTORS

Shareholders,

The Ordinary Shareholders' Meeting held on April 21, 2011 renewed the Company Board of Directors, setting the number of Directors' seats at 20 and establishing a term of three years for the Board of Directors. Consequently, it will expire at the Shareholders' Meeting called to approve the Annual Financial Report of the Company at December 31, 2013.

Following adoption of the voting list mechanism, the non-controlling interests were able to appoint four Directors pursuant to the Company Bylaws.

Two Directors resigned from their positions in 2011. In particular:

- on November 16, 2011, Prof. Francesco Profumo (independent director elected on the list submitted by non-controlling interests) resigned after accepting his appointment as Minister of the Republic of Italy;
- on December 16, 2011, Mr Enrico Tommaso Cucchiani (Director without executive authority elected from the majority shareholder list) resigned after accepting a position at the Intesa Sanpaolo Group.

Following this resignation, at the meeting held on March 1, 2012, and pursuant to Article 10.12 of the Company Bylaws and Article 2386 paragraph 1 Italian Civil Code, the Board of Directors resolved, with approval by the Board of Statutory Auditors, to co-opt the following Directors: (i) Mr Giuseppe Vita, in replacement of Mr Enrico Tommaso Cucchiani, and (ii) on motion by the Nominations and Successions Committee, Mrs Manuela Soffientini, in replacement of Prof. Francesco Profumo. In regard to the latter appointment, although it had no obligation to do so under the law or the Corporate Governance Code, the Nominations and Successions Committee decided that it was appropriate to consult with Assogestioni in choosing the candidates to propose to the Board of Directors, insofar as Prof. Profumo had been drawn from the non-controlling interests list submitted by a group of Italian asset management companies and certain institutional investors specifically sponsored by Assogestioni.

Consistently with PIRELLI's commitment to keep its corporate governance system in compliance with best Italian and international practices at all times, the Nominations and Successions Committee proposal to appoint Mrs Manuela Soffientini was also justified in view of increasing the number of women serving on the Board of Directors.

Following her co-optation, 20% of the seats on the Board of Directors are held by women, and thus immediately in compliance with the provisions of Law 120 of July 12, 2011. By amending the clauses of the Consolidated Finance Law (Legislative Decree 58 of 1998, or "TUF") that govern the composition of management bodies (Art. 147-ter) and supervisory bodies (Art. 148), it requires that at least one fifth of the seats in company bodies be held by the least represented gender on first-time application of the law. This is in spite of the fact that the new provisions will apply beginning with the first renewal of the management and supervisory bodies one year or later after the date on which the law enters into force. Therefore, these provisions shall apply to the PIRELLI Board of Directors beginning with its renewal scheduled for the Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2013.

At the same meeting, the Board of Directors found that the new Directors satisfied the prerequisites imposed by applicable law for assuming their position, as well as satisfaction by Mrs Soffientini of the prerequisites for independence envisaged in TUF (Art. 147-ter (4) and Art. 148(3) of Legislative Decree 58/98) and the Corporate Governance Code of Borsa Italiana.

Pursuant to Article 2386(1) Italian Civil Code, the terms of Directors Vita and Soffientini will expire with that of the current Board of Directors.

In the specific case, the voting list procedure does not apply since the entire Board of Directors is not being renewed. Therefore, as envisaged in Article 10.11 of the Company Bylaws, whenever Directors are appointed without applying the voting list procedure, the Shareholders' Meeting shall resolve with the majorities provided by law.

The term of Directors who are appointed in this way shall expire with that of the current Board of Directors, and thus on the date of the Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2013.

Finally, it should be recalled that each member of the Board of Directors is entitled to gross annual compensation of euro 50 thousand for their position, in addition to any other emoluments established by the Board of Directors if they participate on Board of Directors committees.

Motion by the Board of Directors

On the basis of the foregoing, the Board of Directors proposes that you appoint Manuela Soffientini and Giuseppe Vita as Directors of the Company.

Their curricula vitae are available on the Company website www.pirelli.com.

***

The Shareholders may also submit additional nominations of candidates for the Board of Directors during the Shareholders' Meeting.

BOARD OF STATUTORY AUDITORS

- appointment of standing and alternate members;
- appointment of Chairman;
- determination of members' fees.

Shareholders,

The term of the Board of Statutory Auditors of PIRELLI & C. S.p.A., appointed by the Shareholders' Meeting on April 21, 2009 for the three-year period 2009-2011, will expire upon approval of the Annual Financial Report at December 31, 2011.

The current members of the Board of Statutory Auditors are: Mr Enrico Laghi (Chairman); Prof. Paolo Gualtieri and Prof. Paolo Domenico Sfameni (standing Statutory Auditors); Mr Franco Ghiringhelli and Mr Luigi Guerra (Alternate Auditors).

Therefore, the Shareholders' Meeting is asked, pursuant to applicable laws and regulations and Article 16 of the Company Bylaws (copied in full at the end of this report) to:

- appoint three standing Statutory Auditors and two Alternate Auditors;
- appoint the Chairman of the Board of Statutory Auditors, if it is not possible to select him by applying the voting list mechanism;
- determine the fees for members of the Board of Statutory Auditors.

The standing and alternate Statutory Auditors shall be elected by using the voting list mechanism.

Those entitled to submit lists are shareholders who, either singly or together with other shareholders, represent at least 1.5% of the share capital and are entitled to vote at the Ordinary Shareholders' Meeting (maximum threshold envisaged by the Company Bylaws and identical to the threshold established by Consob in Resolution no. 18083 of January 25, 2012).

The candidate lists – signed by the Shareholders that submit them, with indication of their identity and aggregate percentage of shareholding of Company common stock – must be filed at the Company head office at least twenty-five days before the date scheduled for the Shareholders' Meeting.

The Shareholders may file the candidate lists by sending them and the related supporting documents to the following certified e-mail address: assemblea@pec.pirelli.it.

If just one list has been submitted by the aforementioned deadline, or only lists that are related to each other pursuant to applicable laws and regulations, additional lists may be submitted up to the third day after that date; in this case, the threshold of 1.5% previously indicated for submission of lists is reduced to 0.75%.

Pursuant to applicable regulations, ownership of the aggregate shareholding must be certified either before or after submission of the lists, but no later than 21 days before the date of the Shareholders' Meeting.

The candidate lists must be broken down into two separate sections: the first section contains the names of the candidates (marked by a progressive number) for the position of Statutory Auditor, while the second section contains the names of the candidates (marked by a progressive number) for the position of Alternate Auditor. The first candidate listed in each section must be entered in the Register of Statutory Auditors who have at least three years of experience as statutory auditors of accounts.

Each list must be accompanied by the documents required pursuant to Article 16 of the Company Bylaws, and by applicable laws and regulations.

In particular, each list must be filed together with the individual candidates' acceptance of their candidacy and statements in which they certify, under their own responsibility, that they are not ineligible or incompatible, and that they satisfy the prerequisites for assuming the position. Together with their statements, a curriculum vitae for each candidate must be filed, containing detailed disclosure of their personal and professional characteristics and indication of the management and supervisory positions held at other companies.

Pursuant to the Corporate Governance Code of Listed Companies, which has been adopted by the Company, it must be possible to qualify the chosen Statutory Auditors as independent on the basis of, inter alia, the criteria set out in the Corporate Governance Code in regard to Directors. Therefore, those who are entitled and wish to submit candidate lists are asked to take account of those criteria when they choose their candidates.

Each shareholder may submit or participate in the submission of just one list, and each candidate may appear on just one list, on penalty of disqualification.

The lists that are submitted without complying with the provisions set out in Article 16 of the Company Bylaws shall be considered as not submitted.

If just one list is submitted, the Shareholders' Meeting shall vote on it and, if the list receives a relative majority of votes, the candidates included in the respective sections of the list are elected as standing Statutory Auditors and Alternate Auditors. In this case, the Chairman of the Board of Statutory Auditors shall be the person indicated at the top of that list.

Instead, if two or more lists are submitted, the members of the Board of Statutory Auditors shall be elected as follows:

- two standing Statutory Auditors and one Alternate Auditor shall be elected from the list that received the greatest number of votes (the "majority list"), in the order that they are named on that list;
- the remaining standing Statutory Auditor and the other Alternate Auditor shall be elected from the list that received the highest number of votes at the Shareholders' Meeting after the first list (the "minority list"); if several lists have received the same number of votes, these lists will be subject to a new round of voting by all qualified voters present at the Shareholders' Meeting, with the candidates on the list that receives a simple majority of the votes being elected.

If two lists are submitted, the Chairman of the Board of Statutory Auditors shall be the standing Statutory Auditor named as the first candidate on the minority list.

Also note that Law 120 of July 12, 2011 amended the clauses of the Consolidated Finance Law (Legislative Decree 58/1998, or "TUF") governing the composition of management bodies (Art. 147-ter) and supervisory bodies (Art. 148), and consequently established that when it comes into full force, at least one third of the seats in the company bodies be held by the least represented gender and, upon first-time application, at least one fifth of the seats be held by the least represented gender. The new clauses will be applied beginning with the first renewal of the management and supervisory bodies one year after the law enters into force; therefore, beginning with the shareholders' meetings called to resolve on renewal of the company bodies after August 12, 2012).

Moreover, upon first-time application (i.e. upon the first renewal after the law enters into force), at least one fifth (and not one third) of the Director and Statutory Auditor seats shall be reserved for the least represented gender.

On the basis of the foregoing considerations, the Board of Directors asks the shareholders who wish to submit lists for election of members to the Board of Statutory Auditors to take the aforementioned provisions into account, even if they are not yet applicable to this renewal.

The Company shall provide the public with the lists of the candidates that might be submitted, together with the information required pursuant to applicable laws and regulations, at its own head office and at Borsa Italiana S.p.A., and by publication on the website www.pirelli.com.

The Shareholders that wish to submit lists for appointment of members to the Board of Statutory Auditors are asked to review the specific documentation published on the Company website www.pirelli.com and, in particular, the recommendations set out in Consob Notice no. DEM/9017893 of February 26, 2009.

In addition to appointment of the Board of Statutory Auditors, it is also necessary to resolve on allocation of the annual fee payable to members of the Board of Statutory Auditors, which is currently set in the amount of euro 62 thousand for the Chairman of the Board of Statutory Auditors and euro 42.5 thousand for each of the standing Statutory Auditors. The Board of Statutory Auditors member assigned to the Company Compliance Programme Supervisory Body is currently entitled to additional compensation of euro 25 thousand.

When determining the fees to be paid to members of the Board of Statutory Auditors, we also ask that you consider the additional duties assigned to this body by Legislative Decree 39 of January 2, 2010, entitled "Implementation of Directive 2006/43/EC, regarding statutory audits of the annual accounts and consolidated accounts, in amendment to Directives 78/660/EEC and 83/349/EEC, and which abrogates Directive 84/253/EEC" and the circumstance that pursuant to the recently amended Article 6 subsection 4-bis of Legislative Decree 231 of 8 June 2011, entitled "Regulation of the administrative liability of legal entities, companies and associations, whether or not they are legal entities, pursuant to Article 11 of Law 300 of September 29, 2000", the Board of Statutory Auditors may be assigned the functions of Compliance Programme Supervisory Body as envisaged in the cited legislative decree.

On the basis of all the foregoing, the Board of Directors, pursuant to and in compliance with the provisions of the applicable Company Bylaws, the law and regulations, we ask you to submit lists of candidates to be elected as members of the Board of Statutory Auditors and proposals concerning determination of their fees, and resolve on:

- appointment of the members of the Board of Statutory Auditors (three standing Statutory Auditors and two Alternate Auditors) by voting on any candidate lists that might have been submitted;
- appointment of the Chairman of the Board of Statutory Auditors, although he or she may not be chosen pursuant to the Company Bylaws;
- determination of the fees owed to members of the Board of Statutory Auditors.

Bylaws - Article 16

16.1 The Board of Statutory Auditors shall be composed of three standing and two alternate auditors, who must be in possession of the requisites established under applicable laws and regulations; to this end, it shall be borne in mind that the fields and sectors of business closely connected with those of the Company are those stated in the Company's purpose, with particular reference to companies or corporations operating in the financial, industrial, banking, insurance and real estate sectors and in the services field in general.

16.2 The ordinary shareholders' meeting shall elect the Board of Statutory Auditors and determine its remuneration. The minority shareholders shall be entitled to appoint one standing auditor and one alternate auditor.

16.3 The Board of Statutory Auditors shall be appointed in compliance with applicable laws and regulations and with the exception of the provisions of paragraph 17 of this article 16, on the basis of slates presented by the shareholders in which candidates are listed by consecutive number.

16.4 Each slate shall contain a number of candidates which does not exceed the number of members to be appointed.

16.5 Shareholders who, alone or together with other shareholders, represent at least 1,5 percent of the shares with voting rights in the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa for the submission of slates for the appointment of the Board of Directors shall be entitled to submit slates.

16.6 Each shareholder may present or take part in the presentation of only one slate.

16.7 The slates of candidates, which must be undersigned by the parties submitting them, shall be filed in the Company's registered office at least

twenty five days prior to the date set for the shareholders' meeting to be held on first or single call that is required to decide upon the appointment of the members of the Board of Statutory Auditors, except for those cases in which the law and/or the regulation provide an extension of the deadline. They are made available to the public at the registered office, on the Company website and in the other ways specified by Commissione Nazionale per la Società e la Borsa regulations at least 21 days before the date of the general meeting.
Without limitation to any further documentation required by applicable rules, including any regulatory provisions, a personal and professional curriculum including also the offices held in management and supervisory bodies of other companies, of the individuals standing for election must accompany the slates together with the statements in which the individual candidates agree to:

- their nomination
- declare, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet the requisites prescribed by law, by these and by regulation for the position.

Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.

16.8 Any slates submitted without complying with the foregoing provisions shall be disregarded.

16.9 Each candidate may appear on only one slate, on pain of ineligibility.

16.10 The slates shall be divided into two sections: one for candidates for the position of standing Auditor and one for candidates for the position of alternate Auditor. The first candidate listed in each section must be selected from among the persons enrolled in the Register of Auditors who have worked on statutory audits for a period of no less than three years.

16.11 Each person entitled to vote may vote for only one slate.

16.12 The Board of Statutory Auditors shall be elected as specified below:

- a) two standing members and one alternate member shall be chosen from the slate which obtains the highest number of votes (known as the majority slate), in the consecutive order in which they are listed thereon;
- b) the remaining standing member and the other alternate member shall be chosen from the slate which obtains the highest number of votes cast by the shareholders after the first slate (known as the minority slate), in the consecutive order in which they are listed thereon; if several slates obtain the same number of votes, a new vote between said slates will be cast by all those entitled to vote attending the meeting, and the candidates on the slate which obtains the simple majority of the votes will be elected.

16.13 The chair of the Board of Statutory Auditors shall pertain to the standing member listed as the first candidate on the minority slate.

16.14 The position of a standing auditor which falls vacant due to his/her death, forfeiture or resignation shall be filled by the alternate auditor chosen from the same slate as the former. In the event of the replacement of the Chairman of the Board of Statutory Auditors, the chair shall pertain to the candidate listed in the same slate of the former Chairman, following the order contained in the list; if it proves impossible to effect substitutions and replacements under the foregoing procedures, a shareholders' meeting shall be called to complete the Board of Statutory Auditors which shall adopt resolutions by relative majority vote.

16.15 When the shareholders' meeting is required, pursuant to the provisions of the foregoing paragraph or to the law, to appoint the standing and/or alternate members needed to complete the Board of Statutory Auditors, it shall proceed as follows: if auditors elected from the majority slate have to be replaced, the appointment shall be made by relative majority vote without slate constraints; if, however, auditors elected from the minority slate have to be replaced, the shareholders' meeting shall replace them by relative majority vote, selecting them where possible from amongst the candidates listed on the slate on which the auditor to be replaced appeared and in any event in accordance with the principle of necessary representation of minorities to which this By Laws ensure the right to take part to the appointment of the Board of Statutory Auditors.
The principle of necessary representation of minorities shall be considered complied with in the event of the appointment of Statutory Auditors nominated before in the minority slate or in slates different other than the one which obtained the highest number of votes in the context of the appointment of the Board of Statutory Auditors.

16.16 In case only one slate has been presented, the shareholders' meeting shall vote on it; if the slate obtains the relative majority of the share capital, the candidates listed in the respective section shall be appointed to the office of standing auditors and alternate auditors; the candidate listed at the first place in the slate shall be appointed as Chairman of the Board of Statutory Auditors.

16.17 When appointing auditors who, for whatsoever reason, were not appointed under the procedures established herein, the shareholders' meeting shall vote on the basis of the majorities required by law.

16.18 Outgoing members of the Board of Statutory Auditors may be re-elected to office.

16.19 Meetings of the Board of Statutory Auditors may, if the Chairman or whoever acts in his/her stead verifies the necessity, be attended by means of telecommunications systems that permit all attendees to participate in the discussion and obtain information on an equal basis.

REMUNERATION POLICY: CONSULTATION

Shareholders,

Pursuant to the combined provisions of Article 123-ter, paragraph 6 and 3 of the Consolidated Finance Law ("TUF"), we have called you to submit the first section of the Remuneration Report for advisory vote by you. This Report illustrates the PIRELLI policy governing remuneration of the members of the Board of Directors, the General Managers, Key Managers, Senior Managers and Executives of PIRELLI.

In this regard, we remind you that the Remuneration Policy had been submitted for your vote last year, although the Company had no obligation to do so.

The new Policy that is being submitted for your vote this year has been prepared on the basis of the Policy application experience last year. Therefore, its structure has been refined and its content expanded, by incorporating in it elements that had previously been contained in the application criteria, in view of facilitating full comprehension of the link existing between the structure of management remuneration and the creation of value over the medium-long term.

The new Policy also reflects the recent regulatory provisions adopted by Consob in Resolution no. 18049 of November 23, 2011 and the adoption of a new Long Term Incentive Plan. PIRELLI has decided to terminate the existing plan for the three-year period 2011-2013 by proposing a new one for the three-year period 2012-2014 that is consistent with the Business Plan for that same period.

This new plan has been accompanied by adjustment of the compensation paid to Directors holding special offices, and particularly the Chairman and Chief Executive Officer in the terms that will be illustrated in the Policy. Furthermore, the new Long Term Incentive Plan now includes non-financial objectives, in accordance with the Recommendations of the European Commission.

Therefore, as envisaged in Article 123-ter TUF, the Remuneration Report that we are submitting to you is broken down into two distinct sections:

I. the first section illustrates:

- the PIRELLI Remuneration Policy for Directors, General Managers, Key Managers and, more generally, the PIRELLI Remuneration Policy for all of management;
- the procedures used for adoption and implementation of this Policy;

II. the second section, regarding specific members of the Board of Directors and Board of Statutory Auditors, the General Managers and, as a corporate governance disclosure since the conditions imposed by the Consob Regulation do not apply, for Managers with strategic responsibility:

- provides an adequate representation of each item that composes remuneration, including the treatment envisaged in the event of expiration of the position or termination of the employment relationship, highlighting its consistency with the Policy approved during the previous year;
- accounts for the compensation paid in 2011 for any reason and in any form by the Company and by its subsidiaries or associates, highlighting any components of that compensation related to activities performed in years prior to the reference year, while also highlighting the compensation to be paid in one or more subsequent years in exchange for the activity performed during the reference year, possibly by indicating an estimate of the components that cannot be objectively quantified in the reference year.

As envisaged by the Consolidated Finance Law, we request that you express your opinion by voting on the first section of the Remuneration Report.

THREE-YEAR (2012-2014) CASH INCENTIVE PLAN FOR THE GROUP MANAGEMENT OF PIRELLI. INHERENT AND CONSEQUENT RESOLUTIONS.

Shareholders,

At its meeting on March 12, 2012, on motion by the Remuneration Committee and with the favourable opinion of the Board of Statutory Auditors, the Board of Directors approved the new three-year (2012-2014) cash Incentive Plan for PIRELLI Group Management (the "**LTI Plan**") – reflecting the new, challenging targets for the three-year period 2012-2014 set out in the Business Plan presented to the financial community on November 9, 2011. The LTI Plan is submitted for approval to the Shareholders' Meeting pursuant to Article 114-bis of Legislative Decree 58/1998 ("**TUF**") insofar as it envisages, inter alia, that a portion of the bonus be determined on the basis of a total shareholder return target calculated as performance of the PIRELLI stock compared with the FTSE/MIB Index Total Return, periodically calculated by FTSE and present on the database of Borsa Italiana, and an index composed of selected peers in the tyre sector.

In this document, we present the principal information concerning the LTI Plan, while a more analytical description of that plan can be found in the Disclosure Document prepared pursuant to Article 84-bis (1) of Consob Resolution no. 11971 of May 14, 1999, as amended (the "**Issuers Regulation**"), which is also available to the public at the head office of PIRELLI & C. S.p.A. (in Milan, Via Piero e Alberto Pirelli 25), on its website www.pirelli.com and at Borsa Italiana S.p.A. (in Milan, Piazza degli Affari n. 6).

****

Reasons for Adoption of the Plan[3]

In accordance with the best national and international practices, the 2012 Remuneration Policy adopted by PIRELLI (the **"2012 Policy"**) is designed to attract, motivate and retain resources possessing the professional qualifications necessary for profitably pursuing PIRELLI Group objectives.

The 2012 Policy and the LTI Plan (which is an integral part of that policy) are defined in such a way as to align Management interests with those of shareholders, pursuing the primary objective of creating sustainable value in the medium-long term through the creation of an effective and verifiable link between compensation, on the one hand, and individual and PIRELLI Group performance on the other.

The 2012 Policy has been prepared on the basis of Policy application experience last year. Therefore, its structure has been refined and its content expanded, by incorporating in it elements that had previously been contained in the application criteria, in view of facilitating full comprehension of the link existing between the structure of management remuneration and the creation of value over the medium-long term. The 2012 Policy also reflects the recent regulatory provisions adopted by Consob in Resolution no. 18049 of December 23, 2011.

Recipients of the Plan[4]

The LTI Plan is open to PIRELLI Management (comprised of Executive Directors of PIRELLI & C. and all Group Executives) and may also be extended to those who during the three-year period join Group Management or assume an Executive position. In these cases, inclusion in the Plan is conditioned on enrolment in the LTI Plan for at least one whole financial year, and the bonus percentages are pro-rated according to the number of months of participation in the Plan.

Participants in the LTI Plan include, inter alia, the Chairman and Chief Executive Officer of PIRELLI & C., Marco Tronchetti Provera, the Deputy Chairman, Alberto Pirelli, the General Manager Francesco Gori, the Key Managers Francesco Chiappetta (General Counsel and Chief of Corporate and Institutional Affairs), Maurizio Sala (Chief Management Control) and Francesco Tanzi (Chief Financial Officer and Corporate Financial Reporting Manager).

3 Information required pursuant to Article 114-bis (1)(a) TUF.

4 Information required pursuant to Article 114-bis (1)(b) and (b-bis) TUF.

Performance Targets and calculation of Bonus[5]

Insofar as the Management remuneration structure is broken down into three parts:

- fixed component;
- an annual variable component (MBO): a percentage of the fixed component is established, with percentages that rise according to the position held and considering the benchmarks for each position, with the target ranging from a minimum of 20% for Executives (managers at the Italian companies of PIRELLI or employees of foreign companies controlled by the Group holding a position equivalent to that of an Italian manager) to a maximum of 100% for the Directors holding a special office who have been assigned specific functions. According to the beneficiary, it is designed to reward the annual performance of the Group, the Group company, and the company and/or the business unit to which he or she belongs. A limit is imposed on the maximum possible MBO bonus, which (i) for the Executives and Senior Managers (who report directly to the Chairman and Chief Executive Officer and the General Manager of PIRELLI & C., and whose activity has a significant impact on business results), is double the possible target-based bonus, (ii) for the Key Managers, is equal to 150% of the gross annual fixed component of remuneration ("GAS"), (iii) for the General Managers, it is 200% of the GAS and (iv) for the Directors holding special offices and assigned specific functions, is equal to 250% of the fixed component for the principal operating office (in the case of Mr Tronchetti Provera, his position held at PIRELLI Tyre S.p.A.). Payment of 50% of the MBO that might be accrued in 2012 and 2013 is deferred, and part of it (50%) is conditioned on attainment of the targets set in the LTI Plan:
- the medium-long term variable component (LTI Plan): this too is set as a percentage of the fixed component and is aimed at rewarding Group performance during the three-year period 2012-2014. Just like the MBO bonus, a limit is imposed on the maximum realisable amount for the LTI.

The LTI Plan is a cash incentive plan and does not envisage the grant of shares or stock options. It is composed of the:

(I) **"pure LTI Bonus"**: conditioned on fulfilment of the three-year targets and determined as a percentage of the gross annual fixed component/GAS received by the beneficiary at the date on which participation in the Plan was decided. This bonus percentage rises according to the position held and considering the benchmarks applicable to each individual.
The maximum pure LTI Bonus cannot be more than 1.5 times the bonus that may be received if the targets are met.
If the targets are missed, the beneficiary is not vested, not even on a pro-rated basis, for distribution of the pure LTI Bonus;

(II) **"co-investment LTI Bonus"**: which includes a mechanism for "co-investment" of part of the MBO. The participant in the LTI Plan "co-invests" 50% of his 2012 and 2013 MBO (hereinafter, the **"co-invested MBO"**).
Given the operating rules of the LTI Plan, half of the "co-invested MBO" is not subject to additional performance targets, and may thus be qualified as **"deferred MBO."**
Payment of the other half is conditioned instead on fulfilment of the three-year targets and is thus a variable medium-long term component. If the targets are met, in addition to return of the co-invested MBO, the Plan participant is entitled to it being increased by between 50% and 125%. The co-invested MBO supplement is granted in the amount of 50% of what is "co-invested" on fulfilment of the three-year targets. The variation in the supplement (up to 125% of the co-invested MBO) is based instead on additional medium-long term targets.
The deferred MBO will be returned to participants in the LTI Plan whose employment relationship is terminated (during the three-year period 2012-2014 before closure of the LTI Plan) for no fault of their own (and thus including natural events).
For the Directors holding special offices and assigned specific functions at the Company (which is the case of the Chairman and Chief Executive Officer, Mr Tronchetti Provera) who leave office upon expiry of their term or for no fault of their own (and thus including natural events) before closure of the LTI Plan, the co-invested MBO shall be returned with the 150% supplement while the pure LTI Bonus will not be paid, not even on a pro-rated basis.
The 2012-2014 LTI Plan includes a financial access condition comprised by the net cash flow of the Group accumulated over the three-year period. Another condition for access to the pure LTI Bonus consists of attainment of the value creation target, which in addition to recognition of 100% of the pure LTI Bonus also qualifies the recipient for the 50% supplement of the co-invested MBO.
The following two types of targets and related weights are established for the pure LTI Bonus:

- "Target-based value creation objective" that measures the capacity of the company to create value over the medium-long term considering the profitability of ordinary operations compared with the amount of invested capital and its cost. In particular, this target is equal to the difference between NOPAT (Net Operating Profit After Tax) and the weighted average cost of capital plus working capital. Fulfilment of the target-based value creation objective (determined by considering a cumulated EBIT for the three-year period corresponding to the amount set in the Three-year Business Plan) qualifies the beneficiary to receive 100% of the pure LTI Bonus. Two thirds of the difference between the target-based pure LTI Bonus and the maximum LTI Bonus will be determined by achievement of the value creation result. The remaining one third of the difference between the pure LTI bonus and the maximum LTI bonus is determined by achievement of the total shareholder return ("TSR") target calculated as performance of the PIRELLI stock compared with (i) the FTSE/MIB Index Total Return, periodically calculated by FTSE and present on the database of Borsa Italiana and (ii) an index composed of selected peers in the tyre sector.

5 Information required pursuant to Article 114-bis (1)(c) TUF.

For the LTI co-investment bonus component:

- fulfilment of the value creation target level qualifies the employee for return of the co-invested MBO plus a supplement of 50%;
- the supplement of the co-invested MBO may reach a maximum of 125% on condition of satisfaction of two other objectives, unrelated to each other:
  - 1) two thirds of the incremental difference between the supplement of 50% of the co-invested MBO and the supplement of 125% of the co-invested MBO are calculated in relation to improvement in the average return on sales target result for the three-year period 2012-2014 ("ROS 2012-2014"), which is the weighted average of the ratio between operating income net of restructuring expenses and consolidated net sales accumulated during the three-year period net of non-recurring transactions;
  - 2) the remaining one third of the difference between the supplement of 50% of the co-invested MBO and the supplement of 125% of the co-invested MBO is calculated on the basis of a Sustainability indicator in relation to the position of PIRELLI in the following indices: (i) Dow Jones Sustainability Index, Autoparts and Tyre segment, and (ii) FTSE4Good Tyre.

If the access condition and/or target-based value creation objective are not met, the LTI Plan participant is entitled to return of half of the co-invested MBO (return of the co-invested MBO not subject to performance conditions).

Bonus payment period

If the targets are met, the payment date of the medium-long term bonus (pure LTI Bonus and co-investment LTI Bonus; the **"Payment Date"**) in favour of the LTI Plan participants is scheduled to take place no later than April 2015, on condition that their term and/or employment relationship has not terminated for any reason at December 31, 2014.

Please refer to the Disclosure Document for a description of the effects of termination of the employment relationship or expiry of one's term in office.

Duration of Plan and Amendments

The 2012-2014 Plan terminates on the Payment Date. Please refer to the Disclosure Document in regard to existing procedures for carrying out any revision of the LTI Plan.

Special incentive fund for worker participation in businesses[6]

The Plan does not receive any support from the Special Incentive Fund for worker participation in businesses, pursuant to Article 4(112) of Law 350 of December 24, 2003.

****

The LTI Plan must be considered "particularly material" insofar as it applies, inter alia, to the Chairman and Chief Executive Officer of PIRELLI & C. and the Key Managers by virtue of their regular access to insider information and authority to take decisions that can impact the evolution and future prospects of the Group.

Considering that the LTI Plan is a cash incentive plan, insofar as it does not involve the grant of shares or stock options, but only a cash incentive that is partially based on the performance of PIRELLI & C. common stock in reference to benchmark companies, the Disclosure Document prepared pursuant to applicable laws and regulations does not contain the information required for mechanisms that consider the granting of shares or stock options.

****

Shareholders,

on the basis of the foregoing presentation, we ask that you:

1. approve – pursuant to Article 114-bis of Legislative Decree 58 of February 24, 1998, as amended – adoption of a three-year incentive plan for 2012-2014 (the LTI Plan) for PIRELLI Group Management, partially based on financial instruments, in the terms illustrated in this Report and as better illustrated in the Disclosure Document (prepared pursuant to Article 84-bis (1) of the Issuers Regulation). The LTI Plan envisages that, inter alia, the remaining one third of the difference between the target-based pure LTI Bonus and the maximum LTI Bonus be determined on the basis of a total shareholder return target calculated as performance of PIRELLI stock compared with the FTSE/MIB Index Total Return, periodically calculated by FTSE and present on the database of Borsa Italiana and an index composed of selected peers in the tyre sector;

2. grant the Board of Directors – and for it, the Chairman – all power as necessary for full, complete implementation of the LTI Plan.

6 Information required pursuant to Article 114-bis (1)(d) TUF.

William Least Heat-Moon

WHERE TIRES HAVE TAKEN US

William Least Heat-Moon

William Trogdon, who writes under the name of William Least Heat-Moon, was born of English-Irish-Osage ancestry in Kansas City, Missouri. He holds a bachelor's degree in photojournalism and a doctorate in English from the University of Missouri. He lives near Columbia, Missouri, on an old tobacco farm he's returning to forest. He is the author of the classic books Blue Highways, PrairyErth, River-Horse, and Roads to Quoz. His latest work, Here There Elsewhere, will be published in early 2013.

Where Tires Have Taken Us

Americans, to be sure, have never had by any definition a national religion. Instead, what we have is a communal belief, a secular doctrine that redemptions and regenerations of many sorts proceed from roadways. The very act of putting rubber to pavement for a long-distance journey is often a quest for a renewed and rebuilt life, for salvation from past errors, a try at finding new fulfillments and new people and places in some new land lying at the end of a road.

My recurring notion that the blue field of the American flag would be more historically symbolic with not fifty stars but half-a-hundred tires is a nutty conceit, but nevertheless it's a jest expressing a significant fact of contemporary American culture.

While it remains true that feet and hooves and steel rails have fundamentally helped construct the infrastructure of the United States, it is vulcanized, treaded tires that have carried the life into the grand structures to create the united in our national name.

012 11:50 973-442-0090

DRAFT 2

Pirelli

Americans, to be sure, have never had, by any definition, a national religion. Indeed, what we have is a ~~national~~ commercial belief that salvation of many sorts proceeds from wandering. The very act of getting ready to prepare for a long-distance journey is often a quest for a renewal and a rebuilt life, ~~salvation~~ transformation from past errors, a try to find new fulfillment and new people and places in some new land lying at the end of a road. blue field of the

My recurring notion that the American flag would be more historically symbolic with not fifty stars but half-a-hundred tires in a ~~field~~ but nevertheless a ~~fit~~ nutty conceit expressing a significant fact of enduring American culture.

While it's true that feet, and hooves and steel rails have fundamentally helped build the infrastructure of the United States, it is vulcanized ~~&~~ tread tires that have wheeled the life into it.

Heat Moon
10 May '12

: Wheeled by wheels
(unifying)
• cult
• secular doctrine

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET (in thousand of euro)

		12/31/2011		12/31/2010	
			of which related parties		of which related parties
10	Property, plant and equipment	2,356,616		1,977,106	
11	Intangible assets	934,299		848,761	
12	Investments in associates	140,114		152,927	
13	Other financial assets	127,037		185,267	
14	Deferred tax assets	198,748		69,642	
16	Other receivables	347,870	161,013	315,531	140,419
17	Tax receivables	10,156		10,755	
	Non-current assets	**4,114,840**		**3,559,989**	
18	Inventories	1,036,675		692,259	
15	Trade receivables	745,238	7,915	676,681	8,067
16	Other receivables	281,737	28,484	174,982	9,335
19	Securities held for trading	160,503		209,770	
20	Cash and cash equivalents	556,983		244,725	
17	Tax receivables	29,484		25,235	
28	Derivative financial instruments	70,346		35,159	
	Current assets	**2,880,966**		**2,058,811**	
	Total assets	**6,995,806**		**5,618,800**	

21.1	Equity attributable to owners of the parents:	2,146,099		1,990,831	
	- Share capital	1,343,285		1,375,733	
	- Reserves	351,206		593,346	
	- Net income	451,608		21,752	
21.2	Equity attributable to non controlling interests	45,479		37,152	
	- Reserves	56,436		54,675	
	- Net income	(10,957)		(17,523)	
21	**Total Equity**	**2,191,578**		**2,027,983**	
25	Borrowing from banks and other financial institutions	1,402,497		894,711	
27	Other payables	53,980		41,664	
23	Provisions for liabilities and charges	156,898		165,732	
14	Provisions for deferred tax liabilities	21,298		33,733	
24	Employee benefit obligations	481,736		481,724	
22	Tax payables	4,817		5,547	
	Non current liabilities	**2,121,226**		**1,623,111**	
25	Borrowing from banks and other financial institutions	369,451	286	247,515	77
26	Trade payables	1,382,772	6,432	1,066,361	5,434
27	Other payables	626,811	42,521	403,373	1,174
23	Provisions for liabilities and charges	124,671		115,984	
22	Tax payables	75,385		64,559	
28	Derivative financial instruments	103,912		69,914	
	Current liabilities	**2,683,002**		**1,967,706**	
	Total liabilites and equity	**6,995,806**		**5,618,800**	

For a description of the items reflecting related party transactions, please refer to note 43 of the Explanatory Notes.

CONSOLIDATED INCOME STATEMENT (in thousands of euro)

		2011		2010	
			of which related parties		of which related parties
30	Revenue from sales and services	5,654,793	10,873	4,848,418	5,597
31	Other income	140,354	3,200	154,333	1,798
	Change in inventories of work in progress, semifinished and finished products	160,011		34,404	
	Raw materials and consumables (net of change in inventories)	(2,448,937)		(1,904,980)	
32	Personnel expense	(1,123,507)	(13,274)	(1,063,648)	(5,334)
	- *of which non-recurring events*	(16,054)		(18,192)	
33	Amortisation, depreciation and impairment	(230,917)		(228,598)	
	- *of which non recurring events*	(4,860)		(6,500)	
34	Other costs	(1,574,011)	(32,892)	(1,443,082)	(22,959)
	- *of which non recurring events*	(6,861)			
	Additions to property, plant & equipment for internal work	4,080		10,916	
	Operating income	**581,866**		**407,763**	
35	Net income (loss) from equity investments	(17,318)		23,457	
	- *share of net income of associates and joint ventures*	2,903	2,903	256	256
	- *gains on equity investments*	3,847		23,831	
	- *losses on equity investments*	(28,298)		(6,465)	
	- *dividends*	4,230		5,835	
36	Financial income	56,673	7,623	33,764	1,134
37	Financial expenses	(146,113)	(436)	(99,557)	
	Net income (loss) before income taxes	**475,108**		**365,427**	
38	Income taxes	(34,457)		(137,358)	
	- *of which non-recurring events*	128,092			
	Net income (loss) from continuing operations	**440,651**		**228,069**	
39	Net income (loss) from discontinued operations	-		(223,840)	
	Net income (loss)	**440,651**		**4,229**	
	Attributable to				
	Owners of the Parent	451,608		21,752	
	Non-controlling interests	(10,957)		(17,523)	
40	**Earning (losses) per share (euro/shares) basic earnings per share**				
	- continuing operations	0,926		0,480	
	- discontinued operations	-		(0,435)	
		0,926		**0,045**	

For a description of the items reflecting related party transactions, please refer to note 43 of the Explanatory Notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in thousands of euro)

		12/31/2011		
		GROSS	INCOME TAXES	NET
A	**Net income (loss)**			**440,651**
	Other components recognised in Equity:			
	(Gains) losses on other financial assets transferred to income statement, previously recognised in Equity	9,738	-	9,738
	(Gains) losses on cash flow hedges transferred to income statement, previously recognised in Equity	3,820	(884)	2,936
B	**(Gains) losses transferred to income statement previously recognised directly in Equity**	**13,558**	**(884)**	**12,674**
	Exchange differences from translation of foreign financial statements	(61,617)	-	(61,617)
	Fair value adjustment of other financial assets	(45,085)	-	(45,085)
	Net actuarial gains (losses) on employee benefits	(80,647)	6,917	(73,729)
	Fair value adjustment of derivatives designated as cash flow hedges	(31,465)	3,199	(28,266)
	Share of other components recognised in Equity related to associates and joint ventures	(150)	-	(150)
C	**Income (loss) recognised directly in Equity**	**(218,964)**	**10,116**	**(208,848)**
B+C	**Total other components recognised in Equity**	**(205,406)**	**9,232**	**(196,174)**
A+B+C	**Total comprehensive income (loss)**			**244,477**
	Attributable to:			
	- Owners of the parents			254,074
	- Non-controlling interests			(9,597)

(in thousands of euro)

		12/31/2010		
		GROSS	INCOME TAXES	NET
A	**NET INCOME (LOSS)**			**4.229**
	Other components recognised in Equity			
	(Gains) losses on discontinued operations transferred to income statement, previously recognised in Equity	38,854	(1,335)	37,519
	(Gains) losses on other financial assets transferred to income statement, previously recognised in Equity	(8,656)	-	(8,656)
	(Gains) losses on cash flow hedges transferred to income statement, previously recognised directly in Equity	5,683	(1,508)	4,175
B	**(Gains) losses transferred to income statement previously recognised directly in Equity**	**35,881**	**(2,843)**	**33,038**
	Exchange differences from translation of foreign financial statements	104,666	-	104,666
	Fair value adjustment of other financial assets	(33,678)	-	(33,678)
	Net actuarial gains (losses) on employee benefits	(21,618)	3,053	(18,565)
	Fair value adjustment of derivatives designated as cash flow hedges	(8,893)	2,967	(5,926)
	Share of other components recognised in Equity related to associates and joint ventures	(561)	-	(561)
	Other components recognised in Equity related to discontinued operations	2,691	(368)	2,324
C	**Income (loss) recognised directly in Equity in the period**	**42,607**	**5,652**	**48,259**
B+C	**Total other components recognised in Equity**	**78,488**	**2,809**	**81,297**
A+B+C	**Total comprehensive income (loss)**			**85,526**
	Attributable to:			
	- Owners of the Parent			96,524
	- Non - controlling interests			(10,998)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (in thousands of euro)

	ATTRIBUTABLE TO OWNERS OF THE PARENT					NON CONTROLLING INTERESTS	TOTAL
	SHARE CAPITAL	TRANSLATION RESERVE	TOTAL IAS* RESERVES	OTHER RESERVES/ RETAINED EARNINGS	TOTAL ATTRIBUTABLE TO OWNERS OF THE PARENT		
Total a 12/31/2009	**1,554,269**	**25,234**	**(346,227)**	**941,747**	**2,175,023**	**319,648**	**2,494,671**
Total other components of continuing operations recognised in Equity	-	101,358	(63,204)	-	38,154	3,301	41,455
Total other components of discontinued operations recognised in Equity	-	835	35,736	-	36,571	3,272	39,843
Net income (loss) from continuing operations	-	-	-	233,821	233,821	(5,752)	228,069
Net income (loss) from discontinued operations				(212,069)	(212,069)	(11,771)	(223,840)
Total gains (losses)	**-**	**102,193**	**(27,469)**	**21,752**	**96,476**	**(10,950)**	**85,526**
Redutcion for spin off PIRELLI & C, RE	(178,814)	-	(3,976)	(32,498)	(215,288)	(274,831)	(490,119)
Dividends paid	-	-	-	(81,114)	(81,114)	(3,968)	(85,082)
Venezuela inflation effect	-	-	-	15,017	15,017	558	15,575
Capital increases	-	-	-	-	-	4,794	4,794
Other	278	-	(1,238)	1,676	716	1,900	2,616
Total al 12/31/2010	**1,375,733**	**127,427**	**(378,909)**	**866,580**	**1,990,831**	**37,152**	**2,027,983**
Total other components recognised in Equity	-	(62,981)	(134,552)	-	(197,533)	1,359	(196,174)
Net income (loss)	-	-	-	451,608	451,608	(10,957)	440,651
Total gains (losses)	**-**	**(62,981)**	**(134,552)**	**451,608**	**254,075**	**(9,598)**	**244,477**
Capital increases (decreases)	(32,448)	-	-	32,448	-	9,880	9,880
Puchase of non-controlling interests in PIRELLI Tyre Co Ltd-China				(10,228)	(10,228)	(17,796)	(28,024)
Transfer of non-controlling interests in environment products and services BU				(32,749)	(32,749)	25,766	(6,983)
Dividends paid				(81,151)	(81,151)	(2,393)	(83,544)
Venezuela inflation effect				21,711	21,711	853	22,564
Altro			(33)	3,643	3,610	1,615	5,225
Totale al 12/31/2011	**1,343,285**	**64,446**	**(513,494)**	**1,251,862**	**2,146,099**	**45,479**	**2,191,578**

(in thousands of euro)

	Breakdown of IAS Reserves*					
	RESERVE FOR FAIR VALUE ADJUSTMENT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS	RESERVE FOR CASH FLOW HEDGES	RESERVE FOR ACTUARIAL GAINS/LOSSES	RESERVE FOR EQUITY SETTLED STOCK OPTIONS	RESERVE FOR DEFERRED TAXES	TOTAL IAS RESERVE
Balance at 12/31/2009	**57,755**	**(60,778)**	**(383,893)**	**3,500**	**37,189**	**(346,227)**
Total other components of continuing operations recognised in Equity	(42,334)	(3,771)	(21,608)	-	4,509	(63,204)
Total other components of discontinued operations recognised in Equity	710	37,288	(765)	-	(1,497)	35,736
Other changes in discontinued operations	-	-	380	(3,500)	(856)	(3,976)
Other changes in continuing operations	-	(248)	(3)	-	(987)	(1,238)
Balance at 12/31/2010	**16,131**	**(27,509)**	**(405,889)**	**-**	**38,359**	**(378,909)**
Totale other components recognised in Equity	(35,347)	(27,795)	(80,640)	-	9,230	(134,552)
Other	-	-	(33)	-	-	(33)
Balance at 12/31/2011	**(19,216)**	**(55,304)**	**(486,562)**	**-**	**47,589**	**(513,494)**

CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands of euro)

		2011		2010	
			of which related parties		of which related parties
	Net income (loss) from continuing operations before taxes	475,108		365,427	
	Amortisation, depreciation, impairment losses and reversals of property, plant and equipment and intangible assets	230,917		228,598	
	Reversal of financial expenses	146,113		99,557	
	Reversal of financial income	(56,673)		(33,764)	
	Reversal of dividends	(4,230)		(5,835)	
	Gains (losses) on equity investments	24,451		(17,366)	
	Share of net income from associates	(2,903)		(256)	
	Income taxes	(162,549)		(137,358)	
	Change in inventories	(350,834)		(109,919)	
	Change in trade receivables	(82,995)		49,471	
	Change in trade payables	326,824		78,488	
	Change in other receivables/payables	125,945		51,046	
	Change in provisions for employee benefits and other provisions	(85,798)		41,947	
	Other changes	4,597		18,052	
A	**Net cash flows provided by (used in) operating activities**	**587,974**		**628,088**	
	Purchase of property, plant and equipment	(617,786)		(433,069)	(17,901)
	Disposal of property, plant and equipment	6,035		17,954	
	Purchase of intangible assets	(8,424)		(4,828)	
	Disposals of intangible assets	102		2,832	
	Disposals (Acquisition) of equity investments in subsidiaries	(90,007)	(6,983)	-	
	Disposals (Acquisition) of equity investments in associates and joint ventures	(3,983)		(16,904)	
	Disposals/(Acquisition) of other financial assets	7,444	(638)	(23,516)	(1,117)
	Dividends received	4,230		5,835	
B	**Net cash flows provided by (used in) investing activities**	**(702,389)**		**(451,696)**	
	Increase (reduction) in Equity	9,880		4,794	
	Change in financial payables	631,051	(1,100)	(186,448)	
	Change in financial receivables	(37,327)		(235,416)	
	Financial income (expenses)	(89,440)		(65,793)	
	Dividends paid	(83,544)		(85,082)	
C	**Net cash flows provided by (used in) financing activities**	**430,620**		**(567,945)**	
	Net cash flows provided by (used in) operating activities	-		(8,025)	
	Net cash flows provided by (used in) investing activities	-		(1,020)	
	Net cash flows provided by (used in) financing activities	-		11,275	
D	**Net cash flows provided by (used in) discontinued operations**	**-**		**2,230**	
E	**Total cash flows provided (used) during the year (A+B+C+D)**	**316,204**		**(389,323)**	
F	**Cash and cash equivalents at beginning of year**	**226,770**		**610,779**	
G	**Exchange differences on translation of cash and cash equivalents**	**(531)**		**5,314**	
H	**Cash and cash equivalents at end of year (E+F+G) (°)**	**542,443**		**226,770**	
(°)	**of which:**				
	cash and cash equivalents	556,983		244,725	
	bank overdrafts	(14,540)		(17,955)	

The Statement of Cash Flows shows transactions with related parties only if they cannot be directly inferred from the other financial statements.

For a description of the items reflecting related party transactions, please refer to note 43 of the Explanatory Notes.

EXPLANATORY NOTES

1. GENERAL INFORMATION

PIRELLI & C. S.p.A. is a corporation organised under the laws of the Republic of Italy.
Founded in 1872 and listed on the Italian Stock Exchange, Pirelli & C. S.p.A. is a holding company that manages, coordinates and finances the operations of its subsidiaries.

At the reporting date, the Group's operations are principally represented by the investment in PIRELLI Tyre S.p.A. – a company operating in the tyre sector – with a 100% stake in its share capital. Other assets are represented by investments in:

- PIRELLI & C. Eco Technology S.p.A. – a company active in the field of emission reducing technologies – 100% stake in share capital;
- PIRELLI & C. Ambiente S.p.A. – a company operating in the field of renewable sources of energy – 100% stake in share capital.

The head office of the company is located in Milan, Italy.

Pursuant to Article 5(2) of Italian Legislative Decree 38 of February 28, 2005, these financial statements have been prepared using the euro as the functional currency, and all amounts have been rounded to the nearest thousand euro unless indicated otherwise.

The consolidated financial statements are audited by Reconta Ernst & Young S.p.A., pursuant to Article 159 of Italian Legislative Decree 58 of February 24, 1998, the Consob recommendation of February 20, 1997, and the shareholders' meeting resolution of April 29, 2008, which engaged this accounting firm for the period 2008-2016.

On March 12, 2012, the consolidated financial statements have been authorised for issue by the Board of Directors.

2. BASIS OF PRESENTATION

FINANCIAL STATEMENT FORMATS

The Company 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 consolidated financial statements at December 31, 2011 consist of the Balance Sheet, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Explanatory Notes, and are accompanied by the Directors' Report on Operations.

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

The Group has opted to present the components of profit or loss for the year in a schedule 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 includes the amounts of transactions with the equity holders and the movements that occurred during the period in retained earnings.

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

SCOPE OF CONSOLIDATION

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

All companies and entities whose financial and operating policies are subject to control by the Group are considered subsidiaries. This condition is normally satisfied when the Group owns more than half of the voting rights, unless it is clearly demonstrated that such ownership does not constitute control.

Subsidiaries are also considered to be those companies in which the Group has the power to control their financial and operating policies through agreements with other shareholders, even if it owns half or less of the voting rights. The financial statements of subsidiaries are included in the consolidated financial statements beginning on the date when control is acquired until the time when control is lost. Non-controlling interests in equity and net income (loss) are separately indicated on the consolidated Balance Sheet and Income Statement.

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

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

The main change in the scope of consolidation that occurred in 2011 refers to acquisition of the companies OJSC Kirov Tyre Plant and LLC Amtel-Russian Tyres (Russia). Please see the note below on "Business Combinations."

CONSOLIDATION POLICIES

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

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

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

The consolidation policies may be summarised as follows:

- subsidiaries are consolidated on a line-by-line basis, according to which:
  - the assets, liabilities, revenue, and costs on the financial statements of subsidiaries are recognised in their full amounts, regardless of the percentage of ownership;
  - the carrying amount of investments is eliminated against the underlying share of equity;
  - the financial and operating transactions between companies consolidated on a line-by-line basis, including dividends distributed within the Group, are eliminated;

- the non-controlling interest in equity and in income (loss) is presented separately on the Balance Sheet and Income Statement;
- investments in associates and joint ventures are accounted for by the equity method, on the basis of which the carrying amount of the investments is adjusted by:
  - the investor's share of the post-acquisition results of the associate or joint venture;
  - the allocable amount of profits and losses recognised directly in the equity of the associate or joint venture, in accordance with the reference accounting standards;
  - dividends paid by the associate or joint venture;
  - when the Group's share of the associate's/joint venture's losses exceeds the carrying amount of the investment in the financial statements, the carrying amount of the investment is eliminated and the share of any further losses is recognised in the "Provisions for liabilities and charges," to the extent that the Group has a contractual or implicit obligation to cover the losses;
- the profits resulting from sales made by subsidiaries to joint ventures or associates are eliminated in proportion to the percentage equity interest in the acquiring entity. Upon disposal of the equity investment with consequent loss of control, the gain or loss from that disposal reflects the corresponding residual value of goodwill.

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

3. ACCOUNTING POLICIES

3.1 Adopted accounting standards

Pursuant to Regulation 1606 issued by the European Parliament and the European Council in July 2002, the consolidated financial statements of the Pirelli & C. Group have been prepared in accordance with the current International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union at December 31, 2011, as well as the measures issued in implementation of Article 9 of Legislative Decree 38/2005. The term "IFRSs" also refers to all revised International Accounting Standards ("IAS") and all interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), formerly known as the Standing Interpretations Committee ("SIC").

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

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

Business combinations

Business acquisitions are accounted for by using the acquisition method.

When a controlling interest in a company is acquired, goodwill is initially recognised at cost and calculated as the difference between:

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

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

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

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

Contingent consideration, i.e. the obligations of the acquirer to transfer additional assets or shares to the seller if certain future events occur or specific conditions are fulfilled, should be measured at fair value at the acquisition date and recognised as a portion of the consideration transferred in exchange for the acquisition itself. Subsequent changes in the fair value of these agreements are normally recognised in the Income Statement.

Intangible assets

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

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

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

GOODWILL

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

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

TRADEMARKS AND LICENSES

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

SOFTWARE

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

RESEARCH AND DEVELOPMENT

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

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

Trademarks and licences	**5 years**
Software	**from 2 to 3 years**

Property, plant and equipment

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

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

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

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

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

The applied depreciation rates are illustrated as follows:

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

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

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

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

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

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

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

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

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

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

Impairment of assets

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

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

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

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

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

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

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

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

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

An impairment loss recognised for goodwill on the interim financial statements may not be reversed in the subsequent annual period.

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

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

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

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

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

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

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

Available-for-sale financial assets

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

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

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

When a reduction in fair value has been recognised directly in equity and there is objective evidence that the asset was impaired, the losses recognised up to that time in equity are recycled to the Income Statement. A prolonged (meaning more than 12 months) or significant (meaning more than one-third) reduction in the fair value of equity instruments as compared with their cost is considered an indicator of impairment.

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

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

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

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

Inventories

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

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

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

Construction contracts

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

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

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

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

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

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

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

Receivables

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

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

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

Impairment losses on receivables are calculated according to counterparty default risk, which is determined by considering available information on the solvency of the counterparty and historic data. The carrying amount of receivables is reduced indirectly by accruing provisions. Individual material positions that are objectively found to be partially or entirely uncollectable are impaired individually. The amount of the impairment loss reflects the estimate of future recoverable flows and the applicable date of collection, recovery costs and expenses, and the fair value of guarantees, if any.

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

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

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

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

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

Payables

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

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

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

Payables are derecognised when the specific contractual obligation is extinguished.

Financial assets carried at fair value through profit or loss

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

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

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

Cash and cash equivalents

Cash and cash equivalents include bank deposits, postal deposits, cash and cash equivalents on hand.

Provisions for other liabilities and charges

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

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

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

Employee benefit obligations

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

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

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

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

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

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

Derivative financial instruments designated as hedging instruments

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

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

These derivative instruments are measured at fair value. The following accounting treatment is applied according to the type of hedge:

- Fair value hedge – if a derivative financial instrument is designated as a hedge against exposure to changes in the fair value of an asset or liability attributable to a specific risk, the gain or loss resulting from subsequent changes in fair value of the hedging instrument is recognised in the Income Statement. For the portion attributable to the hedged risk, the gain or loss on the hedged item modifies the carrying value of that item (basis adjustment), and is also recognised in the income statement;
- Cash flow hedge – if a derivative financial instrument is designated as a hedge against exposure to the variable cash flow of an asset or liability recognised in the balance sheet or a highly probable future transaction, the effective portion of the change in fair value of the hedging instrument is recognised directly in equity, while the ineffective portion is immediately recognised in the Income Statement. The amounts recognised directly in equity are reversed to the Income Statement in the year when the hedged item produces an effect in the Income Statement.

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

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

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

Determination of the fair value of financial instruments

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

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

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

Income taxes

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

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

Deferred tax assets on tax loss carry-forwards, as well as on temporary differences, are only recognised when there is a likelihood of future recovery.

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

The deferred tax liabilities related to equity investments in subsidiaries, associates and joint ventures are not recognised if the parent can control the reversal of the temporary differences and if it is probable that such reversal will not arise in the foreseeable future.

Deferred taxes are not discounted.

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

Equity

TREASURY SHARES

Treasury shares are recognised as a reduction in equity. If they are sold, reissued or cancelled, the resulting gains or losses are recognised in equity.

COSTS OF EQUITY TRANSACTIONS

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

Recognition of revenue

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

SALES OF PRODUCTS

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

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

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

PROVISION OF SERVICES

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

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

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

INTEREST INCOME

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

ROYALTY INCOME

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

DIVIDEND INCOME

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

Earnings (losses) per share

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

Operating segments

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

Accounting policies for hyperinflationary countries

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

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

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

Non-current assets held for sale and disposal groups

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

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

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

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

Discontinued operations

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

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

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

The foregoing information is also presented for the comparative period.

3.2 Accounting standards and interpretations endorsed and in force from January 1, 2011

AMENDMENTS TO IAS 32 – FINANCIAL INSTRUMENTS: PRESENTATION – CLASSIFICATION OF RIGHTS ISSUES

The amendments address the issue of options, warrants, and similar rights that are denominated in a currency other than the issuer's functional currency. Previously, these rights issues were recognised as derivative financial liabilities. Now, if certain conditions are satisfied, these rights issues may be classified as equity instruments, regardless of the currency in which the exercise price is denominated.

Application of this interpretation has no impact on the Group financial statements.

AMENDMENTS TO REVISED IFRS 1 – FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS – LIMITED EXEMPTIONS FROM THE COMPARATIVE DISCLOSURE REQUIRED UNDER IFRS 7 UPON FIRST-TIME ADOPTION

This amendment grants an exemption from having to provide the additional comparative disclosure data required under IFRS 7 regarding the measurement of fair value and liquidity risk upon first-time adoption of IFRSs.

There is no impact on the consolidated financial statements.

REVISED IAS 24 – RELATED PARTY DISCLOSURES

The revised IAS 24 simplifies the disclosures requirements regarding related parties when state-controlled entities are involved and provides a new, simplified and more coherent definition of related parties.

There is no significant impact on the disclosures provided by the Group following application of this standard.

AMENDMENTS TO IFRIC 14 – PREPAYMENTS OF A MINIMUM FUNDING REQUIREMENT

The amendments to IFRIC 14 govern the rare case where an entity that is subject to minimum funding requirements for defined benefit plans makes prepayments to guarantee compliance with these requirements. The benefits resulting from prepayments may be recognised as assets.

These amendments are not applicable to the Group.

IFRIC 19 – EXTINGUISHING FINANCIAL LIABILITIES WITH EQUITY INSTRUMENTS

This interpretation provides guidelines on how to account for the extinguishing of a financial liability through the issue of equity instruments (debt for equity swap), i.e. when an entity renegotiates the terms of a debt with its lender, which agrees to receive shares in the entity or other equity instruments to settle the debt in full or in part.

This interpretation clarifies that:

the shares issued are part of the consideration paid to extinguish the financial liability;

the shares issued are carried at fair value. If the fair value cannot be determined reliably, the equity instruments issued must be measured in such a way as to reflect the fair value of the liability that is extinguished;

the difference between the carrying amount of the financial liability being extinguished and the initial value of the shares issued must be recognised by the entity in the income statement for the period.

Application of this interpretation has no impact on the consolidated financial statements.

"IMPROVEMENTS" TO IFRSS (ISSUED BY THE IASB IN MAY 2010)

As part of the project begun in 2008, the IASB has issued a series of amendments to seven current standards.

The following table summarises the standards and issues addressed by these amendments:

IFRS	SUBJECT OF THE AMENDMENT
IFRS 3 – BUSINESS COMBINATIONS	• Transitory provisions regarding contingent consideration for business combinations completed before 01/01/2010 • Measurement of non-controlling interests at the acquisition date • Impact of business combinations on accounting of share-based payments
IFRS 7 – FINANCIAL INSTRUMENTS: DISCLOSURES	Clarification in regard to the disclosures to be published for each class of financial assets
IAS 1 – PRESENTATION OF FINANCIAL STATEMENTS	Clarifications regarding the schedule of changes in equity
IAS 27 – CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS	Transitory provisions for amendments to certain standards resulting from the changes introduced by IAS 27 (2008): • IAS 21 – Effects of changes in foreign exchange rates: accounting of translation differences accumulated in equity following total or partial sale of an investment in a foreign entity • Investments in Associates / IAS 31 – Interests in Joint Ventures: accounting treatment if significant influence or joint control are lost
IAS 34 – INTERIM FINANCIAL REPORTING	Disclosures required by IFRS 7 – Financial Instruments: Disclosures and their applicability to interim financial statementsedi
IFRIC 13 – CUSTOMER LOYALTY PROGRAMMES	Fair value of award credits

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

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

Pursuant to IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, the new standards and/or interpretations that have been issued but are not yet in force or not yet endorsed by the European Union, and which are therefore not applicable, are mentioned and described briefly as follows.
None of these standards and interpretations has been early adopted by the Group.

AMENDMENTS TO IFRS 7 – FINANCIAL INSTRUMENTS: DISCLOSURES – TRANSFER OF FINANCIAL ASSETS

These amendments seek to improve financial statement disclosures and consequently improve the transparency and comparability of transactions involving the transfer of financial assets (e.g. securitisations), including the possible effects of risks for which the transferor remains liable. These amendments were endorsed by the European Union in November 2011 (EC Regulation 1205/2011) and are applicable from January 1, 2012. They will have no impact on the Group consolidated financial statements.

IFRS 9 – FINANCIAL INSTRUMENTS (ISSUED IN NOVEMBER 2009 AND OCTOBER 2010) AND AMENDMENTS (ISSUED IN DECEMBER 2011)

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

The second phase of the project, concerning the impairment of financial instruments, and the third phase, concerning hedge accounting, led to the issuance of two Exposure Drafts in November 2009 and December 2010, respectively. A new Exposure Draft on the impairment of financial instruments is to be issued in the first half of 2012, as well as the new standard on hedge accounting..

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

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

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

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

AMENDMENTS TO IAS 12 – INCOME TAXES – DEFERRED TAXES: RECOVERY OF UNDERLYING ASSETS

IAS 12 requires measurement of deferred taxes related to an asset or liability according to whether the book value of the asset is recovered through use or through sale. In the case of assets carried at fair value pursuant to IAS 40 – Investment Property, determining whether recovery is realised through use or sale might be difficult and subjective. These changes offer a practical solution to the problem, by allowing one to assume that investment property will be recovered entirely through sale. Consequently, SIC 21 – Income Taxes - Recovery of Revalued Non-Depreciable Assets is no longer applicable to investment property carried at fair value. The guidelines of SIC 21 that are still applicable have been incorporated in the amended version of IAS 12, and SIC 21 will consequently be abrogated. These amendments, which are expected to come into force effective July 1, 2012, have not yet been endorsed by the European Union and are not applicable to the Group.

AMENDMENTS TO IFRS 1 – FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS – SEVERE HYPERINFLATION AND REMOVAL OF FIXED DATES FOR FIRST-TIME ADOPTERS

The amendments that have been introduced concern:

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

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

IFRS 11 – JOINT ARRANGEMENTS

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

- joint operations: these are agreements that give the parties of the agreement, which have joint control of the initiative, rights to the individual activity and obligations for the individual liabilities related to the agreement. In the case of joint operations, the assets, liabilities, costs and revenue of the agreement must be recognised on the basis of the applicable accounting standards;
- joint ventures: a joint venture exists when the parties, which have joint control of the venture, do not have rights or obligations in relation to the

individual assets or liabilities covered by the agreement, but only in relation to the net assets or net income (loss) of the venture. Joint ventures must be consolidated with the equity method, while IAS 31 allowed the option of choosing between proportional consolidation and consolidation according to the equity method.

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

IFRS 12 – DISCLOSURE OF INTERESTS IN OTHER ENTITIES

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

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

IFRS 13 – FAIR VALUE MEASUREMENT

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

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

AMENDMENTS TO IAS 1 – PRESENTATION OF FINANCIAL STATEMENTS – PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

The principal amendments to IAS 1concern the new way to present items of other Comprehensive Income: the items presented in the Statement of Comprehensive Income will have to be grouped between those that may be recycled in future to the income statement and those for which this possibility is not envisaged.

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

These amendments, which will come into force effective July 1, 2012, have not yet been endorsed by the European Union. Future application of these amendments will not have a material impact on the consolidated financial statements.

IAS 19 – EMPLOYEE BENEFITS

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

defined benefit plans: actuarial gains/losses (renamed "remeasurements") must be immediately and fully recognised in the Statement of Comprehensive Income. The option that allowed not recognising actuarial gains/losses if they fell within a certain "corridor" and deferring them instead if they did they did fall outside this "corridor" ("corridor approach");

other long-term benefits (e.g.. jubilee awards): actuarial gains/losses (renamed "remeasurements") will have to be recognised in the Comprehensive Statement of Income. Immediate recognition in the income statement will no longer be allowed;

elimination of the "expected return on plan assets" and "interest expense," which will be replaced by a new quantity called "net interest," calculated by applying the discount rate now used only for the gross liability to the net liability (i.e. the gross liability net of plan assets);

request for additional disclosures to be included in the explanatory notes to the financial statements for an improved illustration of the risks stemming from defined benefit plans;

termination benefits: according to the new standard, the factor that determines the timing for recognition in the financial statements is the fact that the entity may not withdraw the offered benefit, i.e. it is irrevocable. Accordingly, termination benefits can essentially be of two types:

- benefits connected with a broader restructuring plan, where the entity may not withdraw the offer and the employee has no alternative to accepting it; in this case, the offer is considered irrevocable when the layoff plan is notified to the affected persons;
- individual benefits that the business may theoretically withdraw at its discretion until acceptance by the employee: in this case, the offer becomes irrevocable when the employee accepts it.

This standard, which will come into force on January 1, 2013, has not been endorsed yet by the European Union. In regard to the foreseeable impact on the consolidated financial statements, it should be noted that elimination of the corridor approach will have no impact since the Group already does not use this option. The other impacts are being analysed.

IFRS 10 – CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

IAS 27 – SEPARATE FINANCIAL STATEMENTS

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

IAS 28 – INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

AMENDMENTS TO IFRS 7 – FINANCIAL INSTRUMENTS: DISCLOSURES – OFFSETTING FINANCIAL ASSETS AND LIABILITIES

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

AMENDMENTS TO IFRS 7 – FINANCIAL INSTRUMENTS: DISCLOSURES – FIRST-TIME APPLICATION OF IFRS 9

These amendments introduce the obligation of providing additional quantitative information upon transition to IFRS 9 to clarify the effects of first-time adoption of IFRS 9 on the classification and measurement of financial instruments. These amendments, which will come into force effective January 1, 2015, have not yet been endorsed by the European Union. The impact of future application of these amendments cannot be quantified at this time.

AMENDMENTS TO IFRS 32 – FINANCIAL INSTRUMENTS: PRESENTATION – OFFSETTING FINANCIAL ASSETS AND LIABILITIES

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

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

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

4. FINANCIAL RISK MANAGEMENT POLICIES

The Group is exposed to financial risks. These are principally associated with foreign exchange rates, fluctuations in interest rates, the price of financial assets held as investments, the ability of customers to honour their obligations to the Group (credit risk), and raising funds on the market (liquidity risk).

Financial risk management is an integral part of managing the Group's business. It is carried out centrally in accordance with guidelines issued by the Finance Department on the basis of general risk management strategies defined by the Managerial Risk Committee.

Types of financial risks

EXCHANGE RATE RISK

The varied geographical distribution of Group production and commercial activities entails exposure to transaction exchange rate risk and currency translation risk.

A) TRANSACTION EXCHANGE RATE RISK

This risk is generated by the commercial and financial transactions of the individual companies that are executed in currencies other than the functional currency. Exchange rate fluctuations between the time when the commercial or financial relationship is established and when the transaction is completed (collection or payment) may generate foreign exchange gains or losses.

Fig. 3

Technology


TECHNO
LOGY
GLERUM
2012

The Group aims to minimise the impact of transaction exchange rate risk on the income statement. To do so, Group procedures make the operating units responsible for collecting complete information about the assets and liabilities that are subject to transaction exchange rate risk. This risk is hedged with forward contracts made with the Group Treasury.

The items subject to exchange rate risk are mainly represented by receivables and payables denominated in foreign currency.

The Group Treasury is responsible for hedging the net position for each currency. In accordance with established guidelines and restrictions, it closes all risk positions by trading derivative hedging contracts on the market, which typically take the form of forward contracts.

The Group has decided not to opt for hedge accounting pursuant to IAS 39, insofar as representation of the effects of the transaction exchange risk hedging strategy in the income statement and equity is substantially guaranteed even without adopting hedge accounting.

Furthermore, as part of the annual and three-year planning process, the Group makes exchange rate forecasts according to these time horizons by using the best information available on the market. The fluctuation in exchange rates between the time when the forecast is made and the time when the commercial or financial transaction is established represents the transaction exchange rate risk on future transactions.

In accordance with established policy, the Group monitors the opportunity to hedge future transactions, with each hedge being authorised by the Finance Department on a case-by-case basis. Hedge accounting in accordance with IAS 39 is used when the conditions for doing so are satisfied.

B) TRANSLATION EXCHANGE RATE RISK

The Group owns controlling interests in companies that prepare their financial statements in currencies other than the euro, which is the Group presentation currency. This exposes the Group to translation exchange rate risk, which is generated by the conversion of assets and liabilities of those subsidiaries into euro.

The principal exposures to translation exchange rate risk are constantly monitored, but the Group has no policy to hedge this exposure.

About 27% of total consolidated net equity at December 31, 2011 was expressed in euro (about 35% at December 31, 2010). The most important currencies for the Group other than the euro are the Brazilian Real (22%; 25% at December 31, 2010), the Turkish Lira (8%; 10% at December 31, 2010), the Chinese Renminbi (9%; 6% at December 31, 2010), and the Romanian Leu (8%; 8% at December 31, 2010).

The tables below shows the effects on consolidated equity deriving from a hypothetical appreciation/depreciation of the above currencies against the euro, with all other conditions being equal:

(in thousands of euro)

	APPRECIATION OF 10%		DEPRECIATION OF 10%	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Brazilian real	52,474	55,967	(42,933)	(45,791)
Turkish lira	19,929	22,989	(16,305)	(18,809)
Chinese renminbi	21,640	12,800	(17,705)	(10,473)
Romanian leu	20,185	17,867	(16.515)	(14,618)
Total out of consolidated equity	**114,228**	**109,623**	**(93,458)**	**(89,691)**

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or the future cash flows of a financial asset or liability will change due to fluctuations in market interest rates.

Group policy is to attempt to maintain the following ratio between fixed rate and variable rate exposures: 65% fixed and 35% variable.

The Group makes derivative contracts, typically interest rate swaps with hedging objective in order to maintain this target ratio. For such derivatives hedge accounting is adopted when the conditions set by IAS 39 are met.

The table below shows the effects on net income (loss) and direct effects on equity deriving from an increase or decrease of 0.50% in the level of interest rates of all currencies to which the Group is exposed – all other conditions being equal:

(in thousands of euro)

	+0.50%		-0.50%	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
IMPACT ON NET INCOME (LOSS):				
- Companies consolidated line-by-line	(2,914)	(388)	2,760	388
TOTAL	**(2,914)**	**(388)**	**2,760**	**388**
DIRECT IMPACT ON EQUITY:				
- Companies consolidated line-by-line	7,373	8,488	(12,785)	(15,502)
TOTAL	**7,373**	**8,488**	**(12,785)**	**(15,502)**

PRICE RISK ASSOCIATED WITH FINANCIAL ASSETS

The Group's exposure to price risk is limited to the volatility of financial assets such as listed and unlisted equities and bonds, for approximately 4.1% of total consolidated assets at December 31, 2011 (7% at December 31, 2010). Such assets are classified as available-for-sale financial assets or financial assets held for trading.

Derivatives contracts that would limit the volatility of these assets are not normally made.

The available-for-sale financial assets, represented by listed equity instruments, total euro 82,202 thousand (euro 131,412 thousand at December 31, 2010) and represent 28.6% of all financial assets subject to price risk (33.2% at December 31, 2010). A 1% change in the aforementioned listed securities, all else being equal, would entail a change of euro 797 thousand (euro 1,306 thousand at December 31, 2010) in the Group's equity.

CREDIT RISK

Credit risk represents Group exposure to contingent losses resulting from default by commercial and financial counterparties.

The Group is exposed to credit risk as part of its operating activities and financing activities.

To limit commercial counterparty default risk, the Group has implemented procedures to evaluate its customers' potential and financial solidity, monitor expected incoming cash flows and take credit recovery action if necessary.

The aim of these procedures is to define customer credit limits. Further sales are suspended when those limits are exceeded.

In some cases customers are asked to provide guarantees. These are mainly bank guarantees, issued by parties with the highest credit standing, or personal guarantees. Less frequently, mortgage guarantees may be requested.

Insurance policies are another instrument used to manage commercial credit risk. These policies aim to prevent the risk of non-payment through careful selection of covered customers in collaboration with the insurance company, which undertakes to indemnify the Group in the event of customer insolvency.

The Group deals only with highly rated financial counterparties for the management of temporary surplus cash or for trading in derivatives (with the exception of the euro 160 million loan granted to Prelios S.p.A. as part of the demerger of Pirelli RE from the Pirelli Group, and renewed in 2011 with a due date of July 2017) and constantly monitors its exposure to individual counterparties. The Group does not hold public debt instruments of any European country and constantly monitors its net credit exposure to the banking system.

The Group does not have significant concentrations of credit risk.

The disclosure related to the maximum credit exposure, which is represented by the gross receivables, is included in note 15 "Trade receivables" and note 16 "Other receivables."

LIQUIDITY RISK

Liquidity risk represents the risk that the Company's available financial resources be insufficient to meet its financial and commercial obligations pursuant to the contractual terms and conditions.

The principal instruments used by the Group to manage liquidity risk are comprised by its annual and three-year financial plans and cash-pooling plans. These allow complete and fair monitoring and measurement of incoming and outgoing cash flows. The differences between the plans and the actual figures are constantly analysed.

The Group has implemented a centralised cash pooling system for the management of collection and payment flows in compliance with various local currency and tax laws. Banking relationships are negotiated and managed centrally, in order to ensure coverage of short and medium-term financial needs at the lowest possible cost. The procurement of medium and long-term resources on the capital market is also streamlined through centralised management.

Prudent management of the risk described above requires maintaining an adequate level of cash equivalents and/or highly liquid short-term financial instruments, and the availability of funds through an adequate amount of committed credit facilities and/or recourse to the capital market.

At December 31, 2011 the Group had, besides cash and securities held for trading of euro 717,486 thousand, unused committed credit facilities of euro 840,000 thousand (euro 1,220,000 thousand at December 31, 2010), with the following maturities:

(in thousands of euro)

	12/31/2011	12/31/2010
2011	-	20,000
2015	840,000	1,200,000
	840,000	**1,220,000**

The change from December 31, 2010 is due to use of euro 360,000 thousand of the syndicated credit facility that totals euro 1,200,000 thousand (granted to Pirelli & C. S.p.A., Pirelli Tyre S.p.A. and Pirelli International Limited), which was not used last year.

The maturities of financial liabilities at December 31, 2011 can be broken down as follows:

(in thousands of euro)

	WITHIN 1 YEAR	1 TO 2 YEARS	2 TO 5 YEARS	OVER 5 YEARS	TOTAL
Trade payables	1,382,772	-	-	-	1,382,772
Other payables	626,811	1,120	48,385	4,475	680,791
Financial instruments	103,912	-	-	-	103,912
Borrowing from banks and other financial institutions	369,451	100,631	1,227,373	74,493	1,771,948
	2,482,946	**101,751**	**1,275,758**	**78,968**	**3,939,423**

The use of the syndicated credit facility (granted to Pirelli & C. S.p.A., Pirelli Tyre S.p.A. and Pirelli International Limited) of Euro 360,000 thousand at December 31, 2011 has been classified under non-current borrowings from banks and other financial institutions due in 2015 (from 2 to 5 years). See note 25.

The maturities of financial liabilities at December 31, 2010 can be broken down as follows:

(in thousands of euro)

	WITHIN 1 YEAR	1 TO 2 YEARS	2 TO 5 YEARS	OVER 5 YEARS	TOTAL
Trade payables	1,066,361	-	-	-	1,066,361
Other payables	403,373	3,243	34,773	3,648	445,037
Financial instruments	69,914	-	-	-	69,914
Borrowing from banks and other financial institutions	247,515	146,833	624,967	122,911	1,142,226
	1,787,163	**150,076**	**659,740**	**126,559**	**2,723,538**

ADDITIONAL INFORMATION: CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES

The table below shows the carrying amounts for each class of financial asset and liability identified by IAS 39:

(in thousands of euro)

	NOTE	CARRYING AMOUNT AT 12/31/2011	CARRYING AMOUNT AT 12/31/2010
FINANCIAL ASSETS			
Financial assets carried at *fair value* through profit or loss			
Securities held for trading	19	160,503	209,770
Current derivative financial instruments	28	62,281	33,454
Loans and receivables			
Non-current other receivables	16	347,870	315,531
Current trade receivables	15	745,238	676,681
Current other receivables	16	281,737	174,982
Cash and cash equivalents	20	556,983	244,725
Available-for-sale financial assets			
Non-current other financial assets	13	127,037	185,267
Hedging financial instruments			
Current derivative financial instruments	28	8,065	1,705
		2,289,714	**1,842,115**

FINANCIAL LIABILITIES			
Financial liabilities carried at fair value trough profit or loss			
Current derivative financial instruments	28	51,795	41,896
Financial liabilities carried at amortised cost			
Non-current borrowings from banks and other financial institutions	25	1,402,497	894,711
Non-current other payables	27	53,980	41,664
Current borrowings from banks and other financial institutions	25	369,451	247,515
Current trade payables	26	1,382,772	1,066,361
Current other payables	27	626,811	403,373
Hedging financial instruments			
Current derivative financial instruments	28	52,117	28,018
		3,939,423	**2,723,538**

ADDITIONAL INFORMATION: FAIR VALUE HIERARCHY

The classification of financial instruments carried at fair value on the basis of a hierarchy of levels pursuant to IFRS 7 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 sub-indent, and that are observable on the market either directly (as in the case of prices) or indirectly (because they are derived from prices);
- Level 3 – inputs that are not based on observable market data.

The following table shows assets and liabilities carried at fair value at December 31, 2011, divided into the three levels defined above:

2011 (in thousands of euro)

	NOTE	CARRYING AMOUNT AT 12/31/2011	LEVEL 1	LEVEL 2	LEVEL 3
FINANCIAL ASSETS					
Financial assets carried at *fair value* through profit or loss:					
Securities held for trading	19	160,503	832	159,671	-
Current derivative financial instruments	28	62,281	-	62,281	-
Hedging financial instruments:					
Current derivative financial instruments	28	8,065	-	8,065	-
Available-for-sale financial assets:					
Equities		114,664	71,229	10,943	32,492
Investments funds		12,373	30	12,343	-
	13	127,037	71,259	23,286	32,492
TOTAL ASSETS		**357,886**	**72,091**	**253,303**	**32,492**
FINANCIAL LIABILITIES					
Financial liabilities carried at *fair value* through profit or loss:					
Current derivative financial instruments	28	(51,795)	-	(51,795)	-
Hedging financial instruments:					
Current derivative financial instruments	28	(52,117)	-	(52,117)	-
TOTAL LIABILITIES		**(103,912)**	**-**	**(103,912)**	**-**

The situation at December 31, 2010 was as follows:

2010 (in thousands of euro)

	NOTE	CARRYNG AMOUNT AT 12/31/2010	LEVEL 1	LEVEL 2	LEVEL 3
FINANCIAL ASSETS					
Financial assets carried at *fair value* through profit or loss:					
Securities held for trading	19	209,770	11,910	197,860	-
Current derivative financial instruments	28	33,454	-	33,454	-
Hedging financial instruments:					
Current derivative financial instruments	28	1,705	-	1,705	-
Available-for-sale financial assets:					
Equities		171,969	115,724	15,641	40,604
Investments funds		13,298	48	13,250	-
	13	185,267	115,772	28,891	40,604
TOTAL ASSETS		**430,196**	**127,682**	**261,910**	**40,604**
FINANCIAL LIABILITIES					
Financial liabilities carried at *fair value* through profit or loss:					
Current derivative financial instruments	28	(41,896)	-	(41,896)	-
Hedging financial instruments:					
Current derivative financial instruments	28	(28,018)	-	(28,018)	-
TOTAL LIABILITIES		**(69,914)**	**-**	**(69,914)**	**-**

During 2011, there were no transfers from level 1 to level 2 or vice-versa.
The following table shows the changes that occurred in level 3 during 2011:

(in thousands of euro)

	12/31/2011	12/31/2010
Opening balance	40,604	51,167
Discontinued operations	-	(2,781)
Increases / Subscription of capital	1,824	1,848
Disposals	(5,274)	-
Impairment	(11,449)	(5,743)
Fair value adjustment through Equity	(3,341)	(4,087)
(Gains) losses transferred to income statement upon disposal or upon impairment, previously recognised in Equity	10,300	-
Other changes	(172)	200
Closing balance	**32,492**	**40,604**

The **disposals** refer mainly to the equity investment in Gruppo Banca Leonardo S.p.A. for euro 5,155 thousand.

Impairment refers mainly to reclassification in the income statement of the loss on the equity investment in Alitalia S.p.A. (euro 10,300 thousand) that was previously recognised in equity, as stated in the following item "(gains) losses transferred to income statement".

The fair value **adjustment through equity** refers mainly to Alitalia S.p.A. (euro 3,105 thousand).

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

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

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

- 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. CAPITAL MANAGEMENT POLICIES

The Group's objective is to maximise the return on net invested capital while maintaining the ability to operate over time, ensuring adequate returns for its shareholders and benefits for the other stakeholders, with a sustainable financial structure.

In order to achieve these objectives, as well as pursue satisfactory earnings results and generate cash flows, the Group may adjust its dividend policy and the configuration of the Company's capital.

The main indicators used by the Group to manage its capital are:

- 1) R.O.I. (Return on Investments) - Ratio between operating income and average net invested capital: the indicator represents the capacity of business results to remunerate net invested capital, construed as the sum of non-current assets and net working capital. The Group's objective is for this ratio to be greater than the weighted average cost of capital (WACC);
- 2) Gearing: this is calculated as the ratio between net financial position and equity. It is an indicator of the sustainability of the ratio between debt and equity, which takes into account the market situation and trend in the cost of capital and debt at different times;
- 3) R.O.E (Return on equity): this is calculated as the ratio between net income and average book value of equity. It is an indicator representing the Group's ability to remunerate its shareholders. The objective is for the indicator to be higher than the rate of return on a risk-free investment, correlated to the nature of the operated businesses.

The figures for 2011 and 2010 are shown below:

(in thousands of euro)

	2011	2010
R.O.I. (operating income / average net invested capital)	16.64%	11.49%
Gearing	0.34	0.22
R.O.E. (Return on Equity)	20.89%	0.18%

The respective changes in R.O.I. and R.O.E. from 2010 stem mainly from the increase in operating income and net income in 2011 from 2010. The net income for 2011 benefited from the recognition of deferred tax carried forward by the parent PIRELLI & C. S.p.A.

6. ESTIMATES AND ASSUMPTIONS

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

In this context it is important to note that the situation caused by the current economic and financial crisis has entailed making extremely uncertain assumptions about future performance. Therefore, it cannot be ruled out that next year's results will be different from those estimated and that adjustments to the carrying value of the relevant items might be necessary, including significant adjustments, which obviously cannot be estimated or foreseen at this time. Such estimates affect the carrying amounts of certain assets and liabilities, costs and revenues, and also disclosures relating to contingent assets/liabilities at the reporting date.

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 and to the recognition/measurement of provisions, pension schemes and other post-employment benefits and are based on data that reflect the current state of available knowledge.

Estimates entailing greater subjectivity and having a particularly material impact

What follows is a brief description of the accounting policies that, more than others, require management to exercise greater subjectivity in the calculation of estimates, and for which a change in the conditions underlying the assumptions used could have a material impact on the Consolidated Financial Statements, or for which there is a risk that material adjustments to the carrying amount of assets and liabilities may emerge in the year subsequent to the reference period.

GOODWILL

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

If the recoverable amount proves to be less than the carrying amount of the cash generating units, the goodwill allocated to them must be impaired. Determination of the recoverable amount of the cash generating units entails using estimates that depend on subjective assessments and on factors that can change over time, with consequent and possibly material effects on the measurements made by management.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

In accordance with the reference accounting standards, non-current assets are tested to ascertain whether there has been an impairment loss, which must be recognised through impairment, when there are signs that difficulties are to be expected for recovery of their net carrying amount through use. Testing whether these symptoms exist requires that the directors use subjective assessments based on information available from both internal and external sources, and on historical experience. Moreover, if it is determined that a potential impairment loss may be generated, this loss is calculated using appropriate measurement techniques.

The proper identification of elements indicating the existence of a potential impairment loss, and the estimates for calculating the amount of such losses, depend on subjective assessments and factors that may vary over time, affecting the assessments and estimates made by management.

PENSION PLANS AND OTHER POST-EMPLOYMENT BENEFITS

Group companies have set up pension plans, healthcare plans and other defined benefit plans for their employees, mainly in the United States, the United Kingdom and Italy.

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

Demographic actuarial assumptions regard essentially the rates of mortality, disability and resignations.

The Group has identified discounting rates deemed to be balanced, considering the context.

DEFERRED TAXES ASSETS

Deferred tax assets are accounted for on the basis of expected future taxable earnings. The measurement of future earnings to account for deferred taxes depends on factors that may change over time and materially impact the measurement of deferred tax assets.

The determination of such deferred taxes reflects budget figures and plans consistent with those used for the impairment tests and described in the previous paragraph in relation to the recoverable amount of non-current assets. Moreover, it is believed that the deferred taxes recognised adequately cover the risk of further worsening in the plan assumptions, considering that the recognised net deferred tax assets refer to temporary differences or tax losses for which a significant amount can be recovered over a very long period of time (without limit for the deferred tax assets on tax losses carried forward from the Italian tax consolidation of Pirelli & C. S.p.A., recognised at December 31, 2011 in the amount of euro 128,092 thousand, following amendments to tax laws governing the use of such losses, which represent 64% of all deferred tax assets), and thus compatible with a situation where emergence from the financial crisis and economic recovery will extend beyond the implicit time horizon of the aforementioned plans.

PROVISIONS FOR LIABILITIES AND CHARGES

Provisions are set aside against contingent legal and fiscal liabilities, representing the risk of losing lawsuits. The amount of provisions recognised in relation to these liabilities represents the best estimate at the reporting date made by management for lawsuits and tax claims regarding a vast range of issues which are subject to the jurisdiction of various countries. Such an estimate entails making assumptions that depend on factors that may change over time and which could therefore have a material impact with respect to the current estimates made by management for preparation of the Consolidated Financial Statements.

7. BUSINESS COMBINATIONS

On July 25, 2011 Pirelli Tyre S.p.A., Russian Technologies and Fleming Family & Partners Asset Management Holdings Limited signed a joint-venture agreement to form a NewCo (E-Volution Tyre B.V.) whose shareholdings are as follows: Pirelli Tyre S.p.A. 50%, Russian Technologies 25% + 1 share, Fleming Family & Partners 25% - 1 share.

According to the clauses of the joint venture agreement and Pirelli's role as lead shareholder in the venture (with that role also being stipulated in the joint venture agreement), the company E-Volution Tyre B.V. is subject to the form of control envisaged in IAS 27 (Consolidated and Separate Financial Statements). Therefore, it has been consolidated on a line-by-line basis in the financial statements at December 31, 2011, even though its shareholding does not exceed 50%.

The joint venture agreements also envisage that Pirelli may increase its shareholding from 50% to 75% by means of a three-year put and call option on the present and possible future capital contributions made by the shareholder Fleming Family & Partners.

Also on July 25, 2011, Pirelli Tyre S.p.A. and Russian Technologies, on the one side, and Sibur Holding, on the other, signed a framework agreement that identifies the assets to be transferred to the joint venture. This joint venture will be the principal entity responsible for management of the activities that can be converted back to Pirelli standards in the car and light truck sector in Russia, pursuant to the memorandum of understanding (MOU) signed on November 26, 2010. The agreement concerns two production sites (Kirov and Voronezh) that will allow the joint venture to produce about 11 million units by 2014. These assets will be transferred in exchange for a total consideration of euro 222 million (before any adjustments), with the obligation being split between the partners in proportion to their shareholdings and an outlay of euro 55 million in 2011 and euro 167 million in 2012.

In accordance with the agreement signed on July 25, 2011, on December 14, 2011, the company E-Volution Tyre LLC, which is the newly incorporated Russian holding company and 100% owned by E-Volution Tyre B.V., acquired the first of the two production sites covered by the agreement (Kirov), through the purchase from Sibur Holding of 100% of the companies OJSC Kirov Tyre Plant and LLC Amtel-Russian Tyres (the legal entity that owns the intellectual property). The Kirov plant currently has a production capacity of over 7 million units in the car and light truck segment.

The acquisition has led to the recognition of goodwill for euro 86,127 thousand, calculated on a provisional basis as shown below:

(in thousands of euro)

	Total outlay	122,000
	Financial receivable towards the acquired company OJSC Kirov	(27,357)
	Estimated price adjustment	(9,140)
	Earn out	10,000
A	**Total consideration**	**95,503**
	Property, plant and equipment	18,090
	Intangible assets	155
	Work in progress and other assets	474
	Deferred tax assets	86
	Inventories	14,264
	Trade receivables	5,930
	Other receivables	1,687
	Cash and cash equivalents	1,766
		42,452
	Trade payables	(2,535)
	Other payables	(713)
	Provision for deferred tax liabilities	(56)
	Financial payables	(29,772)
		(33,076)
B	**Total acquired net identifiable assets**	**9,376**
A-B	**Goodwill**	**86,127**

Since the acquisition was completed on December 14, 2011, and thus shortly before approval of these financial statements, the value of the acquired net assets indicated above, euro 9,376 thousand, must be considered provisional. Pursuant to IFRS 3 (Business Combinations), purchase price allocation to the fair value of the acquired assets and liabilities, and consequent determination of the final value of the goodwill resulting from the acquisition must be completed no more than 12 months after the acquisition (December 14, 2012).

Subsequent to acquisition of the Voronezh plant and in any case not after March 31, 2012, it is expected that the price will be modified in accordance with the provisions of the agreement, mainly in consequence of any changes in the value of the components of net invested capital or if the amount of financial debt differs from what has been authorised. The best estimate of the price adjustment at the annual report approval date is that the price will be reduced by euro 9,140 thousand.

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

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

On the basis of the various market scenarios that have been elaborated, the estimated value of the earn out at December 31, 2011 is euro 10 million.

The costs related to the deal and incurred during the year total euro 6,502 thousand, have been allocated to the income statement under "other costs" and mainly refer to various types of consultancy services that were necessary for best appraisal of the acquired site, and to determine the financial sustainability of the investment.

8. ACQUISITION OF NON-CONTROLLING INTERESTS IN SUBSIDIARIES

On July 5, 2011 Pirelli Tyre S.p.A. paid euro 28,024 thousand to acquire 15% of the company Pirelli Tyre Co. Ltd (head office in China), increasing its shareholding from 75% to 90%. The carrying value of non-controlling interests at the acquisition date was euro 17,796 thousand. The difference between the price paid and the acquired equity, amounting to euro 10,228 thousand, was recognised as a reduction in the equity attributable to owners of the parent company.

On December 23, 2011 the Camfin Group received euro 6,983 thousand in exchange for transferring to Pirelli & C. S.p.A. 49% of the environmental products and services business unit (Pirelli & C. Ambiente S.p.A. and Pirelli & C. Eco Technology S.p.A.), which consequently increased its share of ownership from 51% to 100%. The carrying value of non-controlling interests at the transfer date was a negative euro 25,766 thousand. The difference between the price paid and the transferred equity, amounting to euro 32,749 thousand, was recognised as a reduction in the equity attributable to owners of the parent company.

The following table shows the effects on equity of the transactions described above:

(in thousands of euro)

	2011		
	PIRELLI TYRE CO LTD	ENVIRONMENT PRODUCTS AND SERVICES BU	TOTAL
Non-controlling interest's share of Equity at date of acquisition/transfer	17,796	(25,766)	(7,970)
Price paid	(28,024)	(6,983)	(35,007)
Impact on Equity attributable to owners of Parent Company	**(10,228)**	**(32,749)**	**(42,977)**

9. OPERATING SEGMENTS

The Tyre segment is the only operating segment for which separate information has been reported at December 31, 2011. There was no change from December 31, 2010.

The structure of the operating segments reflects the organisation of the Group's internal reporting.

Segment results for 2011 are as follows:

(in thousands of euro)

	TYRE	OTHER ACTIVITIES	ELIMINATIONS AND ADJUSTMENTS	TOTAL 2011
Sales to third parties	5,600,259	54,534	-	5,654,793
Sales to Group companies	1,380	16,734	(18,114)	-
Total net sales	**5,601,639**	**71,268**	**(18,114)**	**5,654,793**
Gross operating profit °	**857,731**	**(50,930)**	**-**	**806,801**
Depreciation and amortisation	(213,808)	(11,127)	-	(224,935)
Operating income (loss)	**643,923**	**(62,057)**	**-**	**581,866**
Net income (loss) from equity investments	(1,303)	160,670	(176,685)	(17,318)
Financial income (expenses)	(90,074)	634	-	(89,440)
Net income (loss) before income taxes	**552,546**	**99,247**	**(176,685)**	**475,108**
Income taxes	(181,166)	146,708	-	(34,457)
Net income (loss) from continuing operations	**371,380**	**245,955**	**(176,685)**	**440,651**
Net income (loss) from discontinued operations				**-**
Net income (loss)				**440,651**
° of which impairment of property, plant and equipment and intangible assets	(222)	(5,760)	-	(5,982)

Segment results for 2010 are as follows:

(in thousands of euro)

	TYRE	OTHER ACTIVITIES	ELIMINATIONS AND ADJUSTMENTS	TOTAL 2010
Sales to third parties	4,771,141	77,277	-	4,848,418
Sales to Group companies	860	17,529	(18,389)	-
Total net sales	**4,772,001**	**94,806**	**(18,389)**	**4,848,418**
Gross operating profit (°)	**661,135**	**(32,144)**	**-**	**628,991**
Depreciation and amortisation	(208,039)	(13,189)	-	(221,228)
Operating income (loss)	**453,096**	**(45,333)**	**-**	**407,763**
Net income (loss) from equity investments	277	244,506	(221,326)	23,457
Financial income (expenses)	(66,392)	599	-	(65,793)
Net income (loss) before income taxes	**386,981**	**199,772**	**(221,326)**	**365,427**
Income taxes	(134,429)	(2,929)	-	(137,358)
Net income (loss) from continuing operations	**252,552**	**196,843**	**(221,326)**	**228,069**
Net income (loss) from discontinued operations				**(223,840)**
Net income (loss)				**4,229**
(°) of which impairment of property, plant and equipment and intangible assets	(7,369)	-	-	(7,369)

Please refer to note 39 for a breakdown of the result of discontinued operations in 2010.

The **assets, liabilities and capital expenditure broken down by segment at December 31, 2010** are as follows:

(in thousands of euro)

	TYRE	OTHER ACTIVITIES	ELIMINATIONS AND ADJUSTMENTS	TOTAL 12/31/2011
Segment assets	5,061,992	2,813,601	(2,607,970)	5,267,623
Investments in associates	11,708	120,450	7,955	140,113
Total allocated assets	**5,073,700**	**2,934,051**	**(2,600,015)**	**5,407,736**
Unallocated assets				1,588,070
Total assets				**6,995,806**
Segment liabilities	2,517,772	321,611	(79,350)	2,760,033
Unallocated liabilities				2,044,195
Total liabilities				**4,804,228**
Purchase of property, plant and equipment	**611,069**	**6,717**	**-**	**617,786**
Purchase of intangible assets	**92,461**	**1,699**	**-**	**94,160**

The **assets, liabilities and capital expenditure broken down by segment at December 31, 2010** are as follows:

(in thousands of euro)

	TYRE	OTHER ACTIVITIES	ELIMINATIONS AND ADJUSTMENTS	TOTAL 12/31/2010
Segment assets	4,127,756	274,010	(42,596)	4,359,170
Investments in associates	13,590	133,494	5,843	152,927
Total allocated assets	**4,141,346**	**407,504**	**(36,753)**	**4,512,097**
Unallocated assets				1,106,703
Total assets				**5,618,800**
Segment liabilities	1,954,560	271,044	(22,696)	2,202,908
Unallocated liabilities				1,387,909
Total liabilities				**3,590,817**
Purchase of property, plant and equipment	**402,091**	**30,978**	**-**	**433,069**
Purchase of intangible assets	**2,948**	**1,880**	**-**	**4,828**

Segment assets consist mainly of property, plant and equipment and intangible assets, leased assets, inventories, trade receivables and other receivables. Financial receivables, cash equivalents, other financial assets, securities held for trading and both current and deferred tax assets are excluded.

Segment liabilities mainly comprise trade payables and other payables, advances from customers and provisions for contingent liabilities and employee benefits. Financial payables and both current and deferred tax liabilities are excluded.

The **purchase of property, plant and equipment** relates mainly to completion of the new plants in Mexico and China, to increase the production mix, improve the qualitative capability of plants and improve occupational health and safety and environmental management at the factories.

The **purchase of intangible assets** mainly consists of goodwill (determined on a provisional basis) resulting from acquisition of the company OJSC Kirov Tyre Plant and LLC Amtel-Russian Tyres, with head office in Russia.

Net sales by geographical area are shown below. They are allocated on the basis of the country in which the customer is resident.

(in thousands of euro)

	2011		2010	
Europe:				
- Italy	479,838	8.49%	485,450	10.01%
- Rest of Europe	1,844,080	32.61%	1,503,531	31.01%
Nafta	561,320	9.93%	477,394	9.85%
Central and South America	1,915,467	33.87%	1,632,044	33.66%
Asia/Pacific	352,815	6.24%	286,922	5.92%
Middle East/Africa	501,273	8.86%	463,077	9.55%
	5,654,793	**100.00%**	**4,848,418**	**100.00%**

Non-current assets by geographical area are shown below. They are allocated on the basis of the country where these assets are located.

(in thousands of euro)

	12/31/2011		12/31/2010	
Europe:				
- Italy	437,500	13.29%	395,275	13.99%
- Rest of Europe	622,837	18.93%	535,884	18.96%
Nafta	163,728	4.98%	58,191	2.06%
Central and South America	628,540	19.10%	589,762	20.87%
Asia/Pacific	310,560	9.44%	216,597	7.66%
Middle East/Africa	212,428	6.45%	195,697	6.93%
Non-current assets not allocated	915,321	27.81%	834,461	29.53%
	3,290,915	**100.00%**	**2,825,867**	**100.00%**

The non-current assets shown in the table above consist of property, plant and equipment and intangible assets, excluding goodwill. The unallocated non-current assets pertain to goodwill (see note 11).

10. PROPERTY, PLANT AND EQUIPMENT

At December 31, 2011 the breakdown and changes are as follows:

(in thousands of euro)

	12/31/2011			12/31/2010		
	GROSS AMOUNT	ACCUMULATED DEPRECIATION	NET AMOUNT	GROSS AMOUNT	ACCUMULATED DEPRECIATION	NET AMOUNT
Land	93,647	-	93,647	86,826	-	86,826
Buildings	970,824	(391,114)	579,710	822,873	(369,371)	453,502
Plant and machinery	3,322,727	(1,891,612)	1,431,115	3,142,269	(1,911,773)	1,230,496
Industrial and commercial equipment	650,694	(499,602)	151,092	645,340	(510,293)	135,047
Other assets	272,422	(171,370)	101,052	216,489	(145,254)	71,235
	5,310,314	**(2,953,698)**	**2,356,616**	**4,913,797**	**(2,936,691)**	**1,977,106**

GROSS AMOUNT (in thousands of euro)

	12/31/2010	HYPERINFL. EFFECT	RUSSIA ACQUIS.	TRANSLAT. DIFF.	INCREASE	DECREASE	RECLAS.	OTHER	12/31/2011
Land	86,826	-	965	(2,191)	3,048	(306)	4,509	796	93,647
Buildings	822,873	8,684	2,937	(18,243)	123,392	(920)	16,233	15,868	970,824
Plant and machinery	3,142,269	9,419	16,680	(112,168)	357,650	(66,198)	5,293	(30,218)	3,322,727
Industrial and commercial equipment	645,340	2,669	452	(28,612)	40,220	(22,919)	15,539	(1,995)	650,694
Other assets	216,489	8,822	506	(4,989)	93,476	(3,943)	(41,574)	3,635	272,422
	4,913,797	**29,594**	**21,540**	**(166,203)**	**617,786**	**(94,286)**	**-**	**(11,914)**	**5,310,314**

ACCUMULATED DEPRECIATION (in thousands of euro)

	12/31/2010	HYPERINFL. EFFECT	RUSSIA ACQUIS.	TRANS. DIFF.	RECLAS.	DECR.	DEPREC.	OTHER	12/31/2011
Buildings	(369,371)	(7,501)	(285)	10,518	(21)	1,047	(25,245)	(256)	(391,114)
Plant and machinery	(1,911,773)	(7,072)	(2,556)	77,849	19,159	61,041	(141,173)	12,913	(1,891,612)
Industrial and commercial equipment	(510,293)	(2,402)	(54)	23,425	11,623	19,942	(44,327)	2,484	(499,602)
Other assets	(145,254)	(1,594)	(159)	3,784	(30,761)	6,222	(10,632)	7,024	(171,370)
	(2,936,691)	**(18,569)**	**(3,054)**	**115,576**	**-**	**88,251**	**(221,377)**	**22,167**	**(2,953,698)**

NET AMOUNT (in thousands of euro)

	12/31/2010	HYPERINFL. EFFECT	RUSSIA ACQUIS.	TRANS. DIFF.	INCR.	DECR.	RECLAS.	DEPREC.	OTHER	12/31/2011
Land	86,826	-	965	(2,191)	3,048	(306)	4,509	-	796	93,647
Buildings	453,502	1,183	2,652	(7,725)	123,392	127	16,212	(25,245)	15,613	579,710
Plant and machinery	1,230,496	2,347	14,124	(34,319)	357,650	(5,157)	24,452	(141,173)	(17,305)	1,431,115
Industrial and commercial equipment	135,047	267	398	(5,187)	40,220	(2,977)	27,162	(44,327)	489	151,092
Other assets	71,235	7,228	347	(1,205)	93,476	2,279	(72,335)	(10,632)	10,659	101,052
	1,977,106	**11,025**	**18,486**	**(50,627)**	**617,786**	**(6,035)**	**-**	**(221,377)**	**10,252**	**2,356,616**

The changes at December 31, 2010 were as follows:

GROSS AMOUNT (in thousands of euro)

	12/31/2009	DISCONT. OPERAT.	CHANGE IN SCOPE	HYPERINFL. EFFECT	TRANS. DIFF.	INCR.	DECR.	RECLAS.	OTHER	12/31/2010
Land	87,458	(1,530)	-	-	2,851	2,558	(4,869)	279	79	86,826
Buildings	735,295	(15,286)	(23,579)	6,454	29,283	85,298	1,430	3,582	396	822,873
Plant and machinery	2,791,177	(3,081)	2,196	6,903	140,070	266,813	(44,253)	(10,686)	(6,871)	3,142,269
Industrial and commercial equipment	598,038	(4,745)	(4,767)	2,073	30,802	37,596	(24,478)	15,311	(4,490)	645,340
Other assets	230,698	(26,223)	1,374	256	7,154	40,804	(25,548)	(8,487)	(3,539)	216,489
	4,442,666	**(50,865)**	**(24,776)**	**15,686**	**210,160**	**433,069**	**(97,718)**	**-**	**(14,425)**	**4,913,798**

ACCUMULATED DEPRECIATION (in thousands of euro)

	12/31/2009	DISCONT. OPERAT.	CHANGE IN SCOPE	HYPERINFL. EFFECT	TRANS. DIFF.	RECLAS.	DECR.	DEPREC.	OTHER	12/31/2010
Buildings	(337,542)	7,751	982	(5,513)	(14,299)	(248)	1,577	(22,785)	706	(369,371)
Plant and machinery	(1,731,094)	2,193	(873)	(5,003)	(76,998)	(1,246)	36,429	(140,018)	4,837	(1,911,773)
Industrial and commercial equipment	(471,172)	2,952	2,881	(1,714)	(24,751)	4,752	16,880	(43,860)	3,739	(510,293)
Other assets	(175,467)	17,747	(886)	(224)	(5,760)	(3,258)	24,879	(10,200)	7,915	(145,254)
	(2,715,275)	**30,643**	**2,104**	**(12,454)**	**(121,808)**	**-**	**79,765**	**(216,863)**	**17,197**	**(2,936,691)**

NET AMOUNT (in thousands of euro)

	12/31/2009	DISCONT. OPERAT.	CHANGE IN SCOPE	HYPERINFL. EFFECT	TRANS. DIFF.	INCR.	DECR.	RECLAS.	DEPREC.	OTHER	12/31/2010
Land	87,458	(1,530)	-	-	2,851	2,558	(4,869)	279	-	79	86,826
Buildings	397,753	(7,535)	(22,597)	941	14,984	85,298	3,007	3,334	(22,785)	1,102	453,502
Plant and machinery	1,060,083	(888)	1,323	1,900	63,072	266,813	(7,824)	(11,932)	(140,018)	(2,034)	1,230,496
Industrial and commercial equipment	126,866	(1,793)	(1,886)	359	6,051	37,596	(7,598)	20,063	(43,860)	(751)	135,047
Other assets	55,231	(8,476)	488	32	1,394	40,804	(669)	(11,745)	(10,200)	4,376	71,235
	1,727,391	**(20,222)**	**(22,672)**	**3,232**	**88,352**	**433,069**	**(17,953)**	**-**	**(216,863)**	**2,772**	**1,977,106**

The **increases** in 2011 mainly involved the Tyre segment and were mainly dedicated to growth projects in South America, Romania and China, completing construction of new car tyre plants in Mexico and radial motorcycle tyres in China. These are in addition to the capital expenditure on the other production sites, made to increase the production mix, improve the qualitative capability of plants, and optimise occupational health and safety and environmental management of factories.

The ratio of increases of property, plant and equipment to depreciation in 2011 was 2.80 (in 2010 the ratio was 2).

Construction in progress at December 31, 2011, included in the individual categories of property, plant and equipment, totalled euro 373,611 thousand (euro 220,361 thousand at December 31, 2010).

The impairment losses for 2011, included in the "gross amount – decrease" column in the above table, totalled euro 1,122 thousand (euro 7,369 thousand at December 31, 2010). They are accounted for in the income statement under the item "Amortisation, depreciation and impairment" (note 33).

In regard to restrictions on the ownership of assets, note that:

- the subsidiary Pirelli Tyres Alexandria Co. posted the value of plant and machinery totalling euro 6,900 thousand (euro 8,206 thousand at December 31, 2010) as collateral for loans granted by the National Bank of Egypt;
- the subsidiary Pirelli Pneus Ltda. pledged its machinery and land as collateral for a total of euro 55,760 thousand (euro 62,403 thousand at December 31, 2010) against bank loans granted by BNDES (Banco Nacional de Desenvolvimento) and litigation with the national social security institution INSS (Instituto nacional de seguridade social) .
- the subsidiary Pirelli Neumaticos SAIC pledged its own land and buildings for a total of euro 12,839 thousand as collateral for a loan granted by Banco de la Nacion Argentina.

No borrowing costs were capitalised on property, plant and equipment.

10.1. Finance Leases

The value of land, buildings, plant, machinery and other assets for which the Group has entered into a financial leasing agreement is included in the respective categories of property, plant, and equipment.
The breakdown is shown as follows:

(in thousands of euro)

	12/31/2011			12/31/2010		
	COST	ACCUMULATED DEPRECIATION	NET AMOUNT	COST	ACCUMULATED DEPRECIATION	NET AMOUNT
Leased land	10,348	-	10,348	10,184	-	10,184
Leased buildings	56,344	(10,492)	45,852	46,158	(8,338)	37,820
Other leased assets	464	(93)	371	454	(115)	339
Leased plant and machinery	98	(98)	-	95	(95)	-
	67,254	**(10,683)**	**56,571**	**56,891**	**(8,548)**	**48,343**

The value of leased land and leased buildings mainly refers to:

- the lease made by Pirelli & C. S.p.A. with a pool of banks (SG LEASING S.p.A. and UniCredit Leasing S.p.A.) for the building that hosts the structures and buildings of the Tyre Segment in Italy. The agreement, in place since May 2000, has a term of 13 years and includes a purchase option on expiry. The lease instalments are indexed to 3-month Euribor. The net carrying amount of the building is euro 35,962 thousand (euro 36,925 thousand at December 31, 2010) and the carrying amount for the land is euro 10,348 thousand (euro 10,184 thousand at December 31, 2010);
- three agreements made by Solar Utility S.p.A. and UBI Leasing S.p.A. in place since August 2011;
- an agreement made between Solar Utility S.p.A. and Leasint S.p.A. in place since December 2011. The object of these lease agreements are properties consisting of photovoltaic plants. The agreements have a term of 18 years and include a purchase option on expiry. The lease instalments are indexed to 3-month Euribor. The agreement with Leasint S.p.A. commits Pirelli to maintain its equity investment in Solar Utility S.p.A. for the entire duration of the lease agreement. In the event of default on this clause, Pirelli jointly guarantees with Solar Utility S.p.A. all obligations resulting from the lease agreement.

The increase in leased buildings from the previous year is related to the aforementioned agreements made by Solar Utility S.p.A. in 2011.
The payables for finance leases are included in financial payables (note 25). The change in finance lease payables from the previous year stems from the change in finance lease agreements in effect at December 31, 2011 as compared with the previous year.

The minimum payments due (or the payments required of the lessee during the remaining term of the lease) can be broken down as follows:

(in thousands of euro)

	12/31/2011	12/31/2010
up to 1 year	4,253	4,537
from 1 to 5 years	16,204	16,835
over 5 years	7,586	370
Total	**28,043**	**21,742**
Future financial expenses	(4,941)	(2,276)
Amount of leasing payables (note 25)	**23,102**	**19,466**

The table below shows the amount of financial lease payables broken down by due date:

(in thousands of euro)

	12/31/2011	12/31/2010
up to 1 year	3,152	3,234
from 1 to 5 years	14,384	15,963
over 5 years	5,566	269
Total (note 25)	**23,102**	**19,466**

11. INTANGIBLE ASSETS

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

(in thousands of euro)

	12/312010	TRANS. DIFF.	CHANGE IN SCOPE	INCR.	DECR.	AMORTIS.	IMPAIRMENT	OTHER.	12/31/2011
Patents and intellectual property rights	161	-	-	-	-	(130)	-	-	31
Concessions/licenses/ trademarks	7,634	526	159	316	(51)	(554)	-	(132)	7,898
Goodwill	834,461	(490)	-	86,127	-	-	(4,860)	84	915,321
Application software	3,550	(29)	3	6,811	(4)	(2,138)	-	183	8,376
Other intangible assets	2,955	394	-	906	(48)	(735)	-	(801)	2,672
	848,761	**400**	**163**	**94,160**	**(102)**	**(3,558)**	**(4,860)**	**(665)**	**934,299**

The changes in 2010 were as follows:

(in thousands of euro)

	12/31/2009	TRANS. DIFF.	DISC. OPERATIONS	INCR.	DECR.	AMORTIS.	OTHER	12/31/2010
Patents and intellecutal property rights	292	-	-	-	-	(131)	-	161
Concessions/licences/ trademarks	19,601	638	(12,099)	167	-	(926)	253	7,634
Goodwill	1,017,855	71	(181,038)	-	(2,372)	-	(55)	834,461
Application software	7,779	26	(3,731)	2,039	(2)	(2,654)	93	3,550
Other intangible assets	1,947	24	(55)	2,622	(458)	(655)	(470)	2,955
	1,047,474	**759**	**(196,923)**	**4,828**	**(2,832)**	**(4,366)**	**(179)**	**848,761**

In regard to "**goodwill**":

- the **increases** in 2011 are related to acquisition of the companies OJSC Kirov Tyre Plant and LLC Amtel-Russian Tyres, with head office in Russia: please refer to the section "Business combinations" for more information;
- **impairment** refers to the goodwill allocated to the cash generating unit Eco Technology, and to the operating segment "Other activities," recognised in the income statement at "Amortisation, depreciation and impairment," and commented on below..

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

(in thousands of euro)

OPERATING SEGMENTS	CASH GENERATING UNIT	12/31/2011	12/31/2010	RECOVERABLE AMOUNT
Tyre	Consumer	517,165	517,174	Value in use
Tyre	Industrial	312,420	312,427	Value in use
Tyre	Unallocated goodwill - Russia acquisition	85,736	-	-
Other	Eco Technology	-	4,860	Value in use
		915,321	**834,461**	

The goodwill deriving from the acquisition in Russia, euro 85,736 thousand (at the exchange rates in effect on December 31, 2011), has not been allocated to any CGU for the time being, insofar as its value at December 31, 2011 is provisional. It will be defined in 2012, as indicated in the preceding section "Business combinations."

Goodwill was tested for impairment at December 31, 2011, relying on independent appraisals. This involved estimating the recoverable amount of the CGU and comparing it with the net carrying amount of the relevant assets, including goodwill.

Value in use corresponds to the discounted value of the future cash flows that are expected to be associated with the CGU, using a rate that reflects the specific risks of the single CGU at the measurement date.

In applying this method management uses numerous assumptions, including estimates of future sales increases, operating cash flows, the rate of growth of terminal values and the weighted average cost of capital (discount rate).

In regard to the Consumer and Industrial CGU, the forecast cash flows refer to the "2012-2014 Business Plan" announced to the financial community on November 9, 2011, and cover a two-year period (2012 and 2013). It was decided to use a two-year time horizon considering the divergence in the 2014 financial year between the value of certain variables forecast by management in the Business Plan and consensus data accepted by leading financial analysts.

In regard to the Eco Technology CGU, the cash flows refer to the "2012-2014 Strategic Plan of the Environmental Products and Services Business Unit" approved by the Pirelli Eco Technology Board of Directors on November 7, 2011, and use a time horizon of three years (2012, 2013 and 2014).

The calculation also factored in the hypothetical flow deriving from the disposal of CGU at the end of the explicit period (assumed to be the discounted value of the perpetual return of the flow generated in the last year of the projection).

The discount rates, defined as the average cost of capital net of taxes, applied to prospective cash flows, and the used growth factors are shown in the following table:

(in thousands of euro)

OPERATING SEGMENT	CASH GENERATING UNIT	2011			2010		
		DISCOUNT RATE (WACC)	GROWTH RATE (G)	WACC - G	DISCOUNT RATE (WACC)	GROWTH RATE (G)	WACC - G
Tyre	Consumer	9.61%	-	9.61%	8.06%	-	8.06%
Tyre	Industrial	9.61%	-	9.61%	8.06%	-	8.06%
Other	Eco Technology	8.60%	0.60%	8.00%	9.80%	2.00%	7.80%

On the basis of these tests, no impairment loss was revealed in regard to the Consumer and Industrial CGU, while the goodwill allocated to the Eco Technology CGU was impaired entirely (euro 4,860 thousand).

A sensitivity analysis of the results for the Consumer and Industrial CGU was also carried out. In all cases the values in use remain higher than the carrying amounts even assuming a change in key parameters such as:

- a change in discount rates by 50 basis points;
- a change in the growth rate by 50 basis points.

The increase in the item **"software application"**, amounting to euro 6,811 thousand, refers principally to the Digital Innovation system, for which two macro-initiatives were undertaken in the knowledge management area: the Group intranet that gives access not only to corporate information but also useful work tools (e.g. applications, KPI, alerts, etc.) and the enterprise search engine.

12. INVESTMENTS IN ASSOCIATES

Equity investments in associates amounted to euro 140,114 thousand compared with euro 152,927 thousand at December 31, 2010.

The following changes occurred during the year:

(in thousands of euro)

	12/31/2011	12/31/2010
Opening balance	**152,927**	**593,237**
Discontinued operations	-	(458,055)
Increase	29,198	16,904
Distribution of dividends	(2,302)	(2,288)
Impairment	(16,816)	(529)
Reversals of impairment	-	3,956
Disposals and ilquidation	(25,215)	-
Share of net income (loss)	2,903	256
Share of other components recognised in Equity	(150)	(561)
Other	(431)	7
Closing balance	**140,114**	**152,927**

The following table shows in detail the changes in equity investments in **associates:**

(in thousands of euro)

	12/31/2010	INCREASES	DISTR, OF DIVIDENDS	IMPAIRMENT	DISPOSALS AND LIQUIDATION	SHARE OF NET INCOME (LOSS)	COMPONENTS RECOGNISED IN EQUITY	OTHER	12/31/2011
Eurostazioni S.p.A.	**58,798**	-	(1,884)	-	-	3,968	-	10	**60,892**
CyOptics Inc.	**17,535**	-	-	-	(17,535)	-	-	-	-
RCS MediaGroup S.p.A.	**57,851**	-	-	(16,816)	-	(1,015)	(150)	-	**39,870**
Sino Italian Wire Tech. Co Ltd	**12,579**	-	-	-	-	(1,635)	-	-	**10,944**
GWM Renewable Energy II S.p.A.	-	25,416	-	-	-	1,265	-	-	**26,681**
GP Energia S.r.l.	**3,920**	3,760	-	-	(7,680)	-	-	-	-
other companies	**2,244**	22	(418)	-	-	320	-	(441)	**1,727**
Associates	**152,927**	**29,198**	**(2,302)**	**(16,816)**	**(25,215)**	**2,903**	**(150)**	**(431)**	**140,114**

(in thousands of euro)

	12/31/2009	DISC. OPERATIONS	INCREASES	DISTR. OF DIVIDENDS	IMPAIRMENT	REVERSAL OF IMPAIRMENT	SHARE OF NET INCOME (LOSS)	COMP. RECOGNISED IN EQUITY	OTHER	12/31/2010
Associates of PIRELLI RE	**150,693**	**(150,693)**	-	-	-	-	-	-	-	-
Eurostazioni S.p.A.	**57,757**	-	-	(1,523)	-	-	2,564	-	-	**58,798**
CyOptics Inc.	**13,579**	-	-	-	-	3,956	-	-	-	**17,535**
RCS MediaGroup S.p.A.	**61,901**	-	-	-	(514)	-	(2,975)	(561)	-	**57,851**
Sino Italian Wire Tech. Co Ltd	-	-	12,984	-	-	-	(405)	-	-	**12,579**
GP Energia S.r.l.	-	-	3,920	-	-	-	-	-	-	**3,920**
Other companies	**1,945**	-	-	(765)	(15)	-	1,072	-	7	**2,244**
Associates	**285,875**	**(150,693)**	**16,904**	**(2,288)**	**(529)**	**3,956**	**256**	**(561)**	**7**	**152,927**

The equity investment in the company RCS MediaGroup S.p.A (5.3% of the voting shares) is owned by PIRELLI & C. S.p.A., one of the major shareholders. It is represented on the Board of Directors and is a party to the shareholders' agreement, which aims to ensure the stability of the shareholding structure and coherent strategies in the management of the RCS Group (the parties to the agreement hold shares representing 63.5% of the share capital).

In order to consolidate this equity investment with the equity method, the last published accounts were used, as set out in the interim financial report at September 30, 2011 (similarly to what has been done for the financial statements at December 31, 2010, which considered the last published accounts, as set out in the interim financial report at September 30, 2010).

The decrease in the share price of this stock from December 31, 2010 and the worsening in flows of the consensus result versus those set out in the Plan are impairment indicators. Consequently, the equity investment was tested for impairment and adjusted to its value in use (euro 1.02 per share). Its value in use was determined on the basis of an independent appraisal. This resulted in an impairment loss of Euro 16,816 thousand that, in addition to the euro 1,015 thousand share of loss of the associate, resulted in a euro 17,831 thousand charge to the income statement.

The fair value attributable to the equity investment in the associate RCS MediaGroup S.p.A., which is listed on the Milan Stock Exchange, calculated using the reference price at December 31, 2011 (euro 0.68 per share), was euro 26.6 million (euro 40.7 million in 2010, using the reference price of euro 1.04 per share at December 31, 2010).

The item **increases** refer mainly to acquisition of an equity interest in GWM Renewable Energy II S.p.A. (GWM RE II), the vehicle that controls the renewable energy assets of the GWM Group, with a 16.87% shareholding. This was acquired through an aggregate outlay of euro 25,416 thousand. This was made in part through reinvestment of the proceeds from sale of its own equity investment in GP Energia S.p.A. for euro 7,680 thousand, a joint venture that was set up last year with the GWM Group to which PIRELLI, through its subsidiary Solar Utility S.p.A., had contributed its assets in the photovoltaic business. This equity investment is classified as an associate insofar as the Group exercises significant influence over it through, inter alia, assignment of some PIRELLI managers to it.

The item **disposals and liquidations** refers to the equity investment in CyOptics Inc. sold in January 2011 (euro 17,535 thousand) and to the equity investment in GP Energia mentioned hereinabove (euro 7,680 thousand).

In regard to the column "**Share of net income (loss)**," see the comments made below at note 35.1 "share of net income (loss) of associates and joint ventures."

The highlights for the principal associates are illustrated as follows:

(in thousands of euro)

	12/31/2011
Non-current assets	2,874,312
Current assets	1,100,012
Non-current liabilities	1,467,380
Current liabilities	1,090,049
Revenues from sales and services	1,554,861
Production costs	(1,572,799)
Net income (loss)	(30,755)

(in thousands of euro)

	12/31/2010
Non-current assets	2,480,481
Current assets	1,089,953
Non-current liabilities	1,187,200
Current liabilities	1,153,154
Revenues from sales and services	1,644,700
Production costs	(1,642,062)
Net income (loss)	733

13. OTHER FINANCIAL ASSETS

These amounted to euro 127,037 thousand, compared with euro 185,267 thousand at December 31, 2010.

The following changes took place during the year:

(in thousands of euro)

	12/31/2011	12/31/2010
Opening balance	**185,267**	**221,351**
Discontinued operations	-	(10,552)
Increases	1,825	23,516
Decreases	(9,273)	(1,478)
Impairment	(11,449)	(5,881)
(Gains) losses transferred to income statement for disposal or impairment losses, previously recognised in Equity	9,739	(8,656)
Fair value adjustment through Equity	(45,085)	(33,342)
Fair value adjustment through Income Statement	(3,917)	-
Reclassification	-	388
Other	(70)	(79)
Closing balance	**127,037**	**185,267**

The other financial assets include:

(in thousands of euro)

	12/31/2011	12/31/2010
Listed stock		
Mediobanca S,p,A,	69,496	105,330
Prelios S.p.A. (formerly PIRELLI & C. Real Estate S.p.A.)	47	251
Advanced Digital Broadcast Holdings SA	1,560	9,805
Other companies	156	386
	71,259	**115,772**
Unlisted stock		
Alitalia S.p.A.	9,700	12,805
Fin. Priv. S.r.l. (az. Mediobanca)	9,728	14,399
Fondo Anastasia	12,343	13,250
Gruppo Banca Leonardo S.p.A.	-	5,155
Istituto Europeo di Oncologia S.r.l.	6,653	7,177
F.C. Internazionale Milano S.p.A.	6,017	6,017
Tlcom I LP	1,399	1,482
Equinox Two SCA	4,353	3,566
Other companies	5,585	5,644
	55,778	**69,495**
	127,037	**185,267**

The **increases** relate mainly to the capital increase related to the equity investment in F.C. Internazionale S.p.A. (euro 638 thousand) and in Equinox Two SCA (euro 787 thousand).

The **decreases** mainly refer to the equity investment in Gruppo Banca Leonardo S.p.A. for euro 5,155 thousand and in Advanced Digital Broadcast Holdings S.A. for euro 3,750 thousand.

The **impairments** refer principally to the equity investment in Alitalia S.p.A. (euro 10,300 thousand), F.C. Internazionale S.p.A. (euro 638 thousand) and Tiglio I S.r.l (euro 178 thousand).

The **(gains) losses transferred to income statement** refer to reclassification to the income statement of losses for euro 10,300 thousand related to Alitalia S.p.A. (see above) and profits of euro 421 thousand for the equity investment in Advanced Digital Broadcast Holdings S.A.

The **fair value adjustments through equity**, totalling a negative euro 45,085 thousand, mainly refers to Mediobanca S.p.A. (euro 35,834 thousand), Fin.Priv. S.r.l. (euro 4,671 thousand), Alitalia S.p.A. (euro 3,105 thousand) and Istituto Europeo di Oncologia S.r.l (euro 525 thousand).

The **fair value adjustment through income statement** refers to the negative value of the equity investment in Advanced Digital Broadcast Holdings S.A. recognised in the income statement, insofar as PIRELLI holds a put option on that equity investment, for which fair value hedge accounting was adopted. This loss was offset by the positive fair value measurement of this put option for euro 3,917 thousand (see note 28 "Derivative financial instruments" and note 35.3 "Losses from equity investments"), and thus with a net impact of zero.

The fair value of listed financial assets corresponds to their stock market price at December 31, 2011.

The fair value of unlisted financial assets and real estate investment funds was determined by making estimates on the basis of the best information available.

14. DEFERRED TAX ASSETS AND PROVISION FOR DEFERRED TAX LIABILITIES

This item is broken down as follows:

(in thousands of euro)

	12/31/2011	12/31/2010
Deferred tax assets	198,748	69,642
Provision for deferred tax liabilities	(21,298)	(33,733)
	177,450	**35,909**

The increase in deferred tax assets from December 31, 2010 stems almost entirely (euro 128,092 thousand) from the deferred taxes recognised by the parent company Pirelli & C. S.p.A. for residual tax losses carried forward under the tax consolidation programme, following the amendment to tax law governing the use of losses that, on the one hand, limited their use to 80% of taxable income every year but, on the other hand, extended the period for use of those losses indefinitely.

In particular, most of the prior period tax losses carried forward by the parent company, which underlie these deferred tax assets, would have expired at December 31, 2012 without this change in tax law.

Deferred tax assets and liabilities have been recognised on the balance sheet if they satisfied the applicable conditions and considering the offsets made for each legal entity. They are broken down as follows, gross of offsets:

(in thousands of euro)

	12/31/2011	12/31/2010
Deferred tax assets	**299,992**	**170,799**
- of which recoverable in 12 months	70,985	56,889
- of which recoverable after 12 months	229,007	113,910
Provision for deferred tax liabilities	**(122,542)**	**(134,890)**
- of which recoverable in 12 months	(1,328)	(4,448)
- of which recoverable after 12 months	(121,214)	(130,442)
	177,450	**35,909**

The tax effect of temporary differences and of tax losses carried forward which make up the item at December 31, 2011 and at December 31, 2010 is shown in the following table:

(in thousands of euro)

	12/31/2011	12/31/2010
Deferred tax assets:		
Provisions for future liabilities and charges	26,739	30,204
Provisions for employee benefits	39,893	38,236
Stocks	14,195	11,727
Tax losses carried forward	156,958	43,649
Amortisation and depreciation	3,765	865
Trade receivables and other receivables	4,499	5,800
Trade payables and other payables	42,534	31,602
Derivatives	9,618	7,565
Other	1,791	1,151
Total	**299,992**	**170,799**
Provision for deferred tax liabilities:		
Amortisation and depreciation	(113,980)	(123,971)
Other	(8,562)	(10,919)
Total	**(122.542)**	**(134.890)**

At December 31, 2011 unrecognised deferred tax assets relating to temporary differences amounted to euro 139,645 thousand (euro 139,228 thousand at December 31, 2010), and those relating to tax losses amounted to euro 172,515 thousand (euro 318,556 thousand at December 31, 2010).

These amounts refer to situations where recovery is not probable at this time.

Tax losses broken down by maturities, against which no deferred tax assets were recognised, are shown below:

(in thousands of euro)

Year of expiry	12/31/2011	12/31/2010
2011	-	86
2012	-	495,421
2013	-	43,548
2014	285	8,378
2015	1,437	7,031
2016	3,799	4,129
2017	3,989	2,433
2018	1,162	1,162
2019	1,239	1,239
2020	3,254	-
2021	9,565	-
2022	6,491	20,305
2023	4,235	-
2024	10,631	343
2025	12,690	12,690
2026	1,477	-
with no expiry	524,769	515,953
	585,023	**1,112,718**

The tax effect of gains and losses recognised directly in equity was a positive euro 9,232 thousand (a positive euro 2,810 thousand at December 31, 2010), and is shown in the Statement of Comprehensive Income. These changes were mainly due to the tax effects associated with actuarial gains/losses on employee benefits and to the adjustment to fair value of derivatives in cash flow hedges.

15. TRADE RECEIVABLES

Trade receivables may be broken down as follows:

(in thousands of euro)

	12/31/2011			12/31/2010		
	TOTAL	NON-CURRENT	CURRENT	TOTAL	NON-CURRENT	CURRENT
Customers	813,173	-	813,173	739,855	-	739,855
Receivable for contract work	207	-	207	207	-	207
	813,380	**-**	**813,380**	**740,062**	**-**	**740,062**
Provision for bad debts	(68,142)	-	(68,142)	(63,381)	-	(63,381)
	745,238	**-**	**745,238**	**676,681**	**-**	**676,681**

Gross trade receivables totalled euro 813,380 thousand (euro 740,062 thousand at December 31, 2010), and of these euro 119,089 thousand were past due (euro 102,075 thousand at December 31, 2010).

Receivables past due and not yet due were impaired in accordance with the Group accounting policies described in the section on adopted accounting standards.

Impaired receivables include both significant single positions subject to individual impairment and positions sharing similar credit risk characteristics that have been grouped together and impaired on a collective basis.

The change in the provision for bad debts is shown below:

(in thousands of euro)

	12/31/2011	12/31/2010
Opening balance	**63,381**	**77,874**
Discontinued operations	-	(18,361)
Translation differences	(1,403)	2,101
Accruals	20,667	12,995
Utilisation / releases	(14,581)	(11,322)
Other	78	94
Closing balance	**68,142**	**63,381**

Accruals to the provision for bad debts are recognised in the income statement at the item "Other costs" (note 34).

For trade receivables, the carrying amount is considered approximate to the fair value.

16. OTHER RECEIVABLES

Other receivables may be broken down as follows:

(in thousands of euro)

	12/31/2011			12/31/2010		
	TOTAL	NON-CURRENT	CURRENT	TOTAL	NON-CURRENT	CURRENT
Financial receivables	303,271	250,734	52,537	236,023	222,757	13,266
Trade and other accrued income and prepaid expenses	12,575	333	12,242	11,002	338	10,664
Receivables from employees	10,257	2,096	8,161	8,799	2,091	6,708
Receivables from social security and welfare institutions	2,575	-	2,575	7,061	-	7,061
Receivables from tax authorities not related to income taxes	129,868	8,527	121,341	88,653	8,929	79,724
Other receivables	171,135	86,180	84,955	139,147	81,416	57,731
	629,681	**347,870**	**281,811**	**490,685**	**315,531**	**175,154**
Provision for bad debts	(74)	-	(74)	(172)	-	(172)
	629,607	**347,870**	**281,737**	**490,513**	**315,531**	**174,982**

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

Non-current financial receivables (euro 250,734 thousand) refer primarily:

- renewal until July 2017 of the loan to Prelios S.p.A. (formerly Pirelli RE) for euro 160 million, euro 10 million more than the euro 150 million previously lent, and envisages full repayment on maturity. The loan is subject to a variable rate (6-month Euribor + 7%). The loan renewal was executed in accordance with the covenants assumed in 2010 by Pirelli & C. S.p.A. in favour of the financing banks of Pirelli RE (now Prelios S.p.A.) in order to obtain the necessary authorisation from those banks to spin off Pirelli RE from the Pirelli Group. This transaction was unanimously approved by the Board of Directors, after receiving the unanimous favourable opinion of the Committee for Related Party Transactions, all of whose members are independent directors. The loan has to be classified as a related party transaction due to the relationship existing between Pirelli and Prelios through Camfin which has "significant influence" over Prelios;
- to euro 81,332 thousand deposited to guarantee tax and legal disputes in relation to the subsidiary Pirelli Pneus Ltda (Brazil), remunerated at market rates.

The **receivables from tax authorities not related to income taxes** refer mainly to receivables for VAT and similar taxes.

Non-current other receivables (euro 86,180 thousand) refer mainly to amounts deposited as security in lawsuits and tax litigation involving the Brazilian unit Pirelli Pneus Ltda (euro 73,493 thousand) and to a receivable of euro 7,600 thousand relating to a cash grant paid in connection with the execution of an equity partnership agreement.

The **current other receivables** (euro 84,955 thousand) mainly consist of advances of euro 50,399 thousand for the purchase of machinery and a receivable from shareholders for euro 5,013 thousand (China).

17. TAX RECEIVABLES

Tax receivables refer to income taxes and amount to euro 39,640 thousand (including euro 10,156 thousand in non-current assets), compared with euro 35,990 thousand at December 31, 2010 (including 10,755 thousand in non-current assets). They mainly refer to receivables for income taxes of the various subsidiaries (mainly referable to tax prepayments for the year), corporate income tax (IRPEG) for previous years paid by Pirelli & C. S.p.A, and receivables for taxes paid in previous years by the Brazilian and German units.

18. INVENTORIES

Inventories can be broken down as follows:

(in thousands of euro)

	12/31/2011	12/31/2010
Tyre	1,019,034	682,048
Others	17,641	10,211
	1,036,675	**692,259**

(in thousands of euro)

	12/31/2011	12/31/2010
Raw and auxiliary materials and consumables	305,540	200,793
Sundry materials	1,746	1,787
Work in progress and semi-finished products	96,048	64,628
Finished products	614,441	415,672
Goods for resale	9,997	3,723
Advances to suppliers	8,903	5,656
	1,036,675	**692,259**

The increase in inventories from December 31, 2010 is the direct consequence of changes in commodities prices on international markets, which caused purchase costs to rise more than 25%. Another part of the increase is due to the slowdown in sales volumes during the last quarter (-3.9%) and a stock streamlining policy aimed at improved satisfaction of demand. This new policy is scheduled to be implemented in Q1 2012, especially in the premium product segment.

Impairment losses on inventories recognised in 2011 totalled euro 5,097 thousand (euro 6,525 thousand at December 31, 2010). The reversal of previous impairments totals euro 7,268 thousand (euro 10,077 thousand at December 31, 2010).

Inventories were not subject to any collateral pledges.

19. SECURITIES HELD FOR TRADING

Securities held for trading amounted to euro 160,503 thousand (euro 209,770 thousand at December 31, 2010) and consisted of:

- unlisted floating-rate bonds for euro 158,318 thousand;
- unlisted fixed-rate bonds for euro 1,130 thousand;
- equities for euro 1,020 thousand, including euro 832 thousand in listed stock;
- other securities for euro 35 thousand.

The fair value of listed financial assets corresponds to their stock market price at December 31, 2011.

The fair value of unlisted financial instruments was estimated using the best information available.

The changes in fair value are recognised in the income statement at "Financial expenses" (note 37).

20. CASH AND CASH EQUIVALENTS

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

In the statement of cash flows, the balance of cash and cash equivalents was indicated net of bank overdrafts of euro 14,540 thousand at December 31, 2011 and euro 17,955 thousand at December 31, 2010.

21. EQUITY

21.1 Equity attributable to owners of the Parent

The **equity attributable to owners of the Parent** rose from euro 1,990,831 thousand at December 31, 2010 to euro 2,146,099 thousand at December 31, 2011.

The net increase was mainly accounted for by the net income for the period (positive euro 451,608 thousand) and the effect resulting from application of inflation accounting in Venezuela, for a positive euro 21,711 thousand, offset by the decrease tied to dividends paid (euro 81,151 thousand), the balance of exchange differences tied to conversion into euro of the financial statements of subsidiaries whose functional currency is not the euro (negative euro 62,981 thousand), the effects of transfer of non-controlling interests (49%) of the Environmental Products and Services BU (reduction of euro 32,749 thousand; in this regard, please see the note "Acquisition of non-controlling interests in subsidiaries"), the fair value adjustment of derivative financial instruments in cash flow hedge (reduction of euro 31,465 thousand) and available-for-sale investments (reduction of euro 45,085 thousand) and actuarial losses on pension funds (euro 80,640 thousand).

The subscribed and paid-up **share capital** at December 31, 2011 (including treasury shares) is represented by 475,740,182 ordinary shares and 12,251,311 savings shares, without par value and having normal entitlements, for a total of euro 1,345,381 thousand.

The share capital is presented net of the value of treasury shares (351,590 ordinary shares, representing 0.07% of ordinary shares, and 408,342 savings shares, representing 3.33% of savings shares), for a net total of euro 1,343,285 thousand.
The total of treasury shares represents 0.16% of share capital.

The share capital decreased from December 31, 2010 after the Shareholders' Meeting on April 21, 2011 resolved on the voluntary reduction for euro 32,498 thousand pursuant to Article 2445 Italian Civil Code, to be charged to equity. This reduction was executed to complete the assignment of Prelios S.p.A. shares carried out in 2010. It does not reduce the equity attributable to owners of the Parent since the amount of the reduction was allocated to eliminate the negative equity reserve created upon conclusion of the share assignment.

The **equity per share** was euro 4.398, compared with euro 4.080 at December 31, 2010.

21.2 Equity attributable to non-controlling interests

The **equity attributable to non-controlling interests** rose from euro 37,152 thousand at December 31, 2010 to euro 45,479 thousand at December 31, 2011. The change is mainly due to the result for the period (negative euro 10,957 thousand), the transfer by the Camfin Group of the remaining 49% of the Environmental Products and Services BU (positive impact of euro 25,766 thousand), and the acquisition of an additional 15% of Pirelli Tyre Co Ltd. (China) from the minority shareholder (reduction of euro 17,796 thousand).

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

	12/31/2011	13/31/2010
Drahtcord Saar Gmbh & Co. K.G. (Germany)	50.00%	50.00%
Euro Driver Car S.L. (Spain)	46.58%	47.18%
Yanzhou Hixih Ecotech Environment CO. Ltd (China)	40.00%	40.00%
Driver Italia S.p.A. (Italy)	27.55%	27.46%
E-VOLUTION Tyre B.V. (Netherlands)	25.00%	-
S.C. Cord Romania S.R.L (Romania)	20.00%	20.00%
Alexandria Tire Co. S.A.E. (Egypt)	10.90%	10.90%
PIRELLI Tyre Co. Ltd (China)	10.00%	25.00%
PIRELLI de Venezuela C.A. (Venezuela)	3.78%	3.78%
PIRELLI & C. Eco Technology S.p.A. (Italy)	-	49.00%
PIRELLI & C. Ambiente S.p.A. (Italy)	-	49.00%

22. TAX PAYABLES

Tax payables mainly refer to national and regional income taxes in various countries and total euro 80,202 thousand (including euro 4,817 thousand in non-current liabilities at the Brazilian units), compared with euro 70,106 thousand at December 31, 2010 (including euro 5,547 thousand in non-current liabilities).

23. PROVISIONS FOR LIABILITIES AND CHARGES

The changes that occurred during the period are shown below:

PROVISIONS FOR LIABILITIES AND CHARGES - NON-CURRENT PORTION (in thousands of euro)

Opening balance at 12/31/2010	**165,732**
Translation differences	(9,551)
Increases	7,896
Utilisation / releases	(7,181)
Other	2
Closing balance at 12/31/2011	**156,898**

PROVISIONS FOR LIABILITIES AND CHARGES - CURRENT PORTION (in thousands of euro)

Opening balance at 12/31/2010	**115,984**
Translation differences	(173)
Increases	39,425
Utilisation / releases	(32,243)
Other	1,678
Closing balance at 12/31/2011	**124,671**

At December 31, 2011 the **provisions for liabilities and charges – non-current portion** refer mainly to:

- tax litigation and contingent tax liabilities concerning the subsidiary Pirelli Pneus Ltda in Brazil (euro 58,639 thousand) and the parent company Pirelli & C. S.p.A (euro 26,610 thousand);
- labour lawsuits (euro 44,800 thousand);
- guarantees offered upon disposal of Pirelli assets in the former Cables and Energy and Telecommunications Systems segments to Goldman Sachs Capital Partner in July 2005 (euro 10,000 thousand);
- site clean-up work related to disused tracts of land (euro 7,683 thousand).

Increases in the non-current portion mainly concern adjustments related to the needs to cover labour lawsuits and site clean-up work related to disused tracts of land (euro 5,936 thousand of the parent Pirelli & C. S.p.A. and euro 1,896 thousand of the Tyre Business).

The **provisions for liabilities and charges – current portion** mainly include amounts set aside for:

- industrial risks and claims (euro 34,170 thousand);
- site clean-up work related to disused tracts of land (euro 9,057 thousand);
- reorganisation and closure of business units (euro 9,555 thousand);
- litigation for occupational diseases (euro 10,017 thousand);
- product warranties (euro 14,109 thousand);
- labour lawsuits (euro 8,867 thousand);
- tax litigation (euro 4,826 thousand).

Increases in the current portion mainly concerned the Italian based units (euro 14,988 thousand) for litigation over occupational diseases and site clean-up work related to disused tracts of land connected with the construction of the new Settimo Torinese production centre, product warranties and corporate reorganisation projects, product warranties in the United States (euro 5,305 thousand), site clean-up work and product warranties in Germany (euro 4,054 thousand), and for product warranties and claims in the United Kingdom (euro 1,620 thousand).

Utilisation of the current portion related mainly to closure of the disputes for occupational diseases and product warranties of the Italian based units (euro 11,718 thousand), and to product warranties and disputes in the United States, China and Germany (euro 12,705 thousand).

24. EMPLOYEE BENEFIT OBLIGATIONS

This item includes:

(in thousands of euro)

	12/31/2011	12/31/2010
Pension funds:		
- funded	266,404	216,762
- unfunded	85,014	85,819
Employees' leaving indemnity (Italian companies)	40,484	44,470
Healthcare plans	21,270	19,768
Other benefits	68,563	114,905
	481,736	**481,724**

PENSION FUNDS

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

(in thousands of euro)

	12/31/2011					
	GERMANY	TOTAL UNFUNDED PENSION FUNDS	USA	UK	OTHER COUNTRIES	TOTAL FUNDED PENSION FUNDS
Funded funds						
Present value of funded liabilities	-	-	146,441	925,581	3,586	1,075,608
Fair value of plan assets	-	-	(85,788)	(720,465)	(2,951)	(809,204)
Unfunded funds						
Present value of unfunded liabilities	85,014	85,014	-	-	-	-
Net liabilities recognised	**85,014**	**85,014**	**60,653**	**205,116**	**635**	**266,404**
of which:						
- Tyre	85,014	**85,014**	60,653	121,003	635	182,291
- Other	-	-	-	84,113	-	84,113

The following table shows a breakdown of pension funds at December 31, 2010:

(in thousands of euro)

	12/31/2010					
	GERMANY	TOTAL UNFUNDED PENSION FUNDS	USA	UK	OTHER COUNTRIES	TOTAL FUNDED PENSION FUNDS
Funded funds						
Present value of funded liabilities	-	-	133,851	868,573	3,351	1,005,775
Fair value of plan assets	-	-	(81,878)	(704,434)	(2,701)	(789,013)
Unfunded funds						
Present value of unfunded liabilities	85,819	85,819	-	-	-	-
Net liabilities recognised	**85,819**	**85,819**	**51,973**	**164,139**	**650**	**216,762**
of which:						
- Tyre	85,819	**85,819**	51,973	90,641	650	**143,264**
- Other	-	-	-	73,498	-	**73,498**

The characteristics of the principal pension funds existing at December 31, 2011 are described as follows:

- Germany – Tyre Business: this is an unfunded defined-benefit plan based on the final salary. It provides a supplementary pension in addition to the state pension. The plan was closed in October 1982; consequently the members of the plan are employees whose employment began prior to that date;
- USA – Tyre Business: this is a funded defined-benefit plan based on the final salary. It provides a supplementary pension in addition to the state pension and is administered by a trust. The plan was closed in 2001 and frozen in 2003 for employees who were transferred to a defined-contribution scheme. All members of the plan are retired;
- UK: these are funded defined-benefit plans based on the final salary. They provide a supplementary pension in addition to the state pension and are administered in trusts. The plans were closed in 2001. The Tyre Business plan was frozen in 2010 for employees hired before 2001, who were transferred to a defined-contribution plan. The plan operated by the subsidiary Pirelli UK Ltd, which includes the employees in the Cables and Systems segment sold in 2005, had already been frozen at the time of the sale in 2005.

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

(in thousands of euro)

	12/31/2011	12/31/2010
Opening balance	1,091,594	1,000,797
Translation differences	33,114	34,245
Discontinued operations	-	(8,142)
Movements through Income Statement:		
- current service cost	1,006	2,128
- interest cost	55,869	56,820
- curtailment/settlement	-	(1,049)
Actuarial (gains) losses recognised in Equity	35,024	60,478
Employee contributions	26	317
Benefits paid	(55,752)	(53,442)
Other	(259)	(558)
Closing balance	**1,160,622**	**1,091,594**

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

(in thousands of euro)

	12/31/2011	12/31/2010
Opening balance	(789,013)	(686,119)
Translation differences	(26,346)	(25,116)
Movements through Income Statement:		
- expected return on plan assets	(51,302)	(48,864)
Actuarial (gains) losses recognised in Equity	44,667	(39,665)
Employer contributions	(36,737)	(22,829)
Employee contributions	(26)	(13,916)
Benefits paid	49,294	46,937
Other	259	559
Closing balance	**(809,204)**	**(789,013)**

The assumptions used to calculate the expected return on the pension plan assets are based on the expected returns of the underlying assets (shares, bonds and deposits). The expected return is derived from the general average of the returns expected from the assets for each separately identified investment class, with reference to an effective or objective composition of the assets.

The expected return of each investment class is derived from the market returns available at the reporting date. In particular, the expected return on stock is derived from a risk-free rate of return with the addition of an adequate risk premium.

The following table shows a breakdown of the composition for funded pension plan assets:

(in %)

	12/31/2011			12/31/2010		
	UK	USA	OTHER COUNTRIES	UK	USA	OTHER COUNTRIES
Shares	10%	70%	-	63%	70%	-
Bonds	14%	25%	-	27%	25%	-
Deposits	19%	-	-	2%	-	-
Balanced funds	56%	-	-	-	-	-
Other	1%	5%	100%	8%	5%	100%
	100%	**100%**	**100%**	**100%**	**100%**	**100%**

In the United Kingdom, the investment strategy has been modified by adopting a new governance system, called fiduciary management. This aims to guarantee higher professional standards and faster reaction to financial market dynamics, as part of a mandate that defines management limits, especially in terms of risk management. Consequently a portfolio of financial instruments was defined with the aim of exact replication of pension liability dynamics in terms of related cash flows. This approach has already reduced the risks related to interest rates and inflation rates by one third. These risks will be further reduced by increasing the degree of their coverage gradually as financial market conditions allow, in view of progressive de-risking.

The actual return of pension plan assets was as follows:

(in thousands of euro)

	USA	UK	OTHER COUNTRIES	TOTAL
Actual return 2011 - (Gains) losses	(2,694)	(5,564)	(166)	(8,424)
Actual return 2010 - (Gains) losses	(6,961)	(81,399)	(290)	(88,650)

The pension fund costs expensed to income are as follows:

(in thousands of euro)

	2011	2010
Current service cost	1,006	2,128
Interest cost	55,869	56,820
Expected return on plan assets	(51,302)	(48,864)
Curtailment	-	(1,049)
	5,573	**9,035**

The amounts expensed to the income statement are included in the item "Personnel Expense" (note 32).

The contributions expected to be paid into the pension funds during 2012 total euro 36,232 thousand.

EMPLOYEES' LEAVING INDEMNITIES (TFR) – ITALIAN COMPANIES

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

(in thousands of euro)

	12/31/2011	12/31/2010
Opening balance	**44,470**	**51,454**
Discontinued operations	-	(5,538)
Movements through Income Statement	2,165	2,341
Curtailment	-	371
Actuarial (gains) losses recognised in Equity	(166)	314
Payments/advances	(5,690)	(4,621)
Other	(295)	149
Closing balance	**40,484**	**44,470**
of which:		
- Tyre	34,792	34,767
- Other	5,692	9,703

The changes recognised in the income statement for 2011 relate only to interest costs accrued on employees' leaving indemnities at December 31, 2010. Following the reform introduced in the 2007 Italian Budget Act, employees' leaving indemnities were transformed into a defined-contribution plan.

The amounts expensed to the income statement are included in the item "Personnel Expenses" (note 32).

HEALTHCARE PLANS

Healthcare plans are broken down as follows:

(in thousands of euro)

	USA
Liabilities recognised at 12/31/2011	21,270
Liabilities recognised at 12/31/2010	19,768

The healthcare plan existing in the United States (Tyre Business) covers both white and blue collars, both active and retired.

The plan is divided into two components "pre-Medicare" and "post-Medicare"; the latter is reserved for participants more than 65 years old.

Contributions are paid by both the employer and the employees.

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

(in thousands of euro)

	12/31/2011	12/31/2010
Opening balance	**19,768**	**17,899**
Translation differences	716	1,390
Movements through Income Statement:		
- current service cost	4	5
- interest cost	925	1,070
Actuarial (gains) losses recognised in Equity	1,019	448
Benefits paid	(1,162)	(1,044)
Closing balance	**21,270**	**19,768**

The effect of an increase or decrease of one percentage point in the projected healthcare cost trend rates is as follows:

(in thousands of euro)

	1% INCREASE		1% DECREASE	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Effect on current service cost and interest cost	33	38	(32)	(36)
Effect on liabilities recognised in the balance sheet	765	711	(742)	(692)

The healthcare plan costs expensed to income are as follows:

(in thousands of euro)

	2011	2010
Current service costs	4	5
Interest cost	925	1,070
	929	**1,075**

The amounts expensed to the income statement are included in the item "Personnel Expense" (note 32).

Production


S
GLE
RUM
2012

ADDITIONAL INFORMATION REGARDING POST-EMPLOYMENT BENEFITS

Net actuarial losses accrued in 2011 and recognised directly in equity totalled euro 80,647 thousand (at December 31, 2010 net actuarial losses totalled euro 21,618 thousand).

The cumulative amount of net losses at December 31, 2011, euro 486,590 thousand, including euro 486,562 thousand attributable to the owners of the parent (at December 31, 2010 net losses totalled euro 405,911 thousand, including euro 405,889 thousand attributable to the owners of the parent), is broken down as follows:

(in thousands of euro)

	CUMULATIVE 12/31/2011					
	ITALY	GERMANY	USA	UK	OTHER CONTRIES	TOTAL
Pension funds	-	(10,267)	(102,845)	(368,267)	(10,471)	(491,850)
Healthcare plans	-	-	(10,708)	-	-	(10,708)
Employees' leaving indemnity	15,968	-	-	-	-	15,968
Total actuarial gains (losses) recognised in Equity	**15,968**	**(10,267)**	**(113,553)**	**(368,267)**	**(10,471)**	**(486,590)**

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

The breakdown by country at December 31, 2010, which also included the amount determined upon transition to IFRS, was as follows:

(in thousands of euro)

	CUMULATIVE 12/31/2010					
	ITALY	GERMANY	USA	UK	OTHER COUNTRIES	TOTAL
Pension funds	-	(8,924)	(85,461)	(307,234)	(10,404)	(412,023)
Healthcare plans	-	-	(9,689)	-	-	(9,689)
Employees' leaving indemnity	15,801	-	-	-	-	15,801
Total actuarial gains (losses) recognised in Equity	**15,801**	**(8,924)**	**(95,150)**	**(307,234)**	**(10,404)**	**(405,911)**

The principal actuarial assumptions used at December 31, 2011 and for determining the projected cost for 2012 are as follows:

DECEMBER 31 2011

	ITALY	GERMANY	NETHERLANDS	UK	USA
Discount rate	4.60%	4.60%	4.60%	4.80%	4.60%
Inflation rate	2.00%	2.00%	2.00%	3.00%	-
Expected return on plan assets	-	-	4.60%	5.77%	7.10%
Expected rate of wage and salary increase	-	2.50%	2.00%	3.00% - 4.00%	-
Healthcare cost trend rates - initial	-	-	-	-	7.50%
Healthcare cost trend rates - final	-	-	-	-	4.50%

The principal actuarial assumptions used at December 31, 2010 and for determining the projected cost for 2012 are as follows:

DECEMBER 31 2010

	ITALY	GERMANY	NETHERLANDS	UK	USA
Discount rate	4.75%	4.75%	4.75%	5.40%	5.10%
Inflation rate	2.00%	2.00%	2.00%	3.30%	-
Expected return on plan asset	-	-	4.75%	6.56%	7.25%
Expected rate of wage and salary increases	-	2.50%	2.00%	3.30% - 4.30%	-
Healthcare cost trend rates - initial	-	-	-	-	8.00%
Healthcare cost trend rates - final	-	-	-	-	4.50%

The discount rates are used to measure the obligation and the financial component of the net present cost. The Group selected these rates on the basis of the yield curve of fixed-income securities (corporate bonds) of major companies (with AA+ ratings) at the valuation date of the plans.

The healthcare cost trend rate represents the projected increase in expenses for medical assistance. This rate is determined on the basis of the specific experience of the segment and of various trends, including the specific inflation projections in the healthcare sector.

The initial rate used represents a short-term trend based on recent experience and on prevailing market conditions. The final rate used is a long-term assumption which takes into account, among other factors, inflation in healthcare costs on the basis of the general inflation trend, incremental medical inflation, technologies, new drugs, the average age of the population and a different mix of medical services.

The expected rates of return on the assets reflect the estimates of the trend in average long-term rates of the pension plan assets for the entire duration of the obligation. The expected return is defined for each asset class (equities, bonds, cash, and real estate) and is net of the projected administrative costs.

The historical trend and the correlation of the returns, estimates of future trends and other significant financial factors are analysed to ensure that they are reasonable and consistent.

The adjustments based on past experience, in relation to defined benefit plans, are as follows::

(in thousands of euro)

	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007
Experience adjustments on plan liabilities - (gains) losses	(14,842)	19,295	942	(9,553)	16,097
Experience adjustments on plan assets - (gains) losses	36,985	(39,786)	(56,158)	224,875	(744)

The adjustments of liabilities represent the change of the actuarial liability not deriving from modifications of the actuarial assumptions. They normally include changes in the demographic and compensation structure. Changes to the plan rules (past service costs) are excluded from the past experience.

The adjustments of the assets represent the difference between the actual return on plan assets and the expected return at the beginning of the year.

OTHER BENEFITS

Other benefits are broken down as follows:

(in thousands of euro)

	12/31/2011	12/31/2010
Long-term bonus plans	7,659	57,847
Jubilee awards	14,633	13,249
Benefits similar to employees' leaving indemnity - non-Italian companies	25,374	23,840
Other long-term benefits	20,898	19,969
	68,564	**114,905**

The **long-term bonus plans for management,** amounting to Euro 7,659 thousand (Euro 57,847 thousand at December 31, 2010) reflects the amount accrued for 2011, approved by the Board of Directors of PIRELLI & C. S.p.A. on November 3, 2010 for 2011-2013 and earmarked for all Group executives. The decrease from December 31, 2010 stems from reclassification of the bonus plan (for 2009-2011) approved by the Board of Directors of PIRELLI & C. S.p.A. on April 21, 2009 and reserved for about 90 senior managers, as current payables to employees insofar as their right was vested.

25. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

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

(in thousands of euro)

	12/31/2011			12/31/2010		
	TOTAL	NON CURRENT	CURRENT	TOTAL	NON CURRENT	CURRENT
Bonds	499,662	499,662	-	-	-	-
Borrowings from banks	1,209,064	875,080	333,984	1,098,898	868,960	229,938
Borrowings from other financial institutions	7,959	7,216	743	10,039	8,982	1,057
Financial lease payables	23,102	19,950	3,152	19,466	16,232	3,234
Financial accrued expenses and deferred income	31,671	589	31,082	9,037	537	8,500
Other financial payables	490	-	490	4,786	-	4,786
	1,771,948	**1,402,497**	**369,451**	**1,142,226**	**894,711**	**247,515**

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

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

The carrying value of the bond at December 31, 2011 was determined as follows:

(in thousands of euro)

	12/31/2011
Nominal value	500,000
Transaction costs	(5,296)
Amortisation of effective interest rate	816
Adjustment for fair value hedge accounting	4,142
	499,662

Borrowings from banks refer mainly to:

- five loans granted by the European Investment Bank (EIB) in favour of Pirelli & C. S.p.A. and Pirelli Tyre S.p.A. for research and development projects and in favour of S.C. Pirelli Tyres Romania S.r.l. for local industrial investments. These loans total Euro 400,000 thousand, with utilisation of euro 390,000 thousand, of which euro 125,000 thousand classified as current bank borrowings and 265,000 thousand classified as non-current bank borrowings;
- euro 360,000 thousand for utilisation of the syndicated facility, granted to Pirelli & C. S.p.A., Pirelli Tyre S.p.A. and Pirelli International Limited for a total amount of euro 1,200,000 thousand, subscribed on November 30, 2010 and having a maturity of five years. These utilisations were classified as non-current bank borrowings due in 2015 (between 2 and 5 years).

At December 31, 2011 the Group had, besides cash and financial assets held for trading of euro 717,486 thousand, unused committed credit facilities of euro 840,000 thousand (euro 1,220,000 thousand at December 31, 2010), with the following maturities:

(in thousands of euro)

	12/31/2011	12/31/2010
2011	-	20,000
2015	840,000	1,200,000
	840,000	**1,200,000**

Please see note 10.1 "Finance leases" in regard to **finance lease payables.** The increase in finance lease payables from the previous year stems from the change in finance lease agreements in effect at December 31, 2011 as compared with the previous year.

Financial accrued expenses and deferred income, totalling euro 31,671 thousand, mainly include euro 21,974 thousand for the interest accrued but not yet paid on the bond.

Financial payables backed by secured guarantees (pledges and mortgages) totalled euro 26,738 thousand (euro 16,593 thousand at December 31, 2010).

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

Current payables include the portion of non-current financial payables, totalling euro 284,900 thousand (euro 150,000 thousand at December 31, 2010), that will be settled within one year.

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

(in thousands of euro)

	12/31/2011		12/31/2010	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Bonds	499,662	481,370	-	-
Borrowings from banks	875,080	879,864	868,960	875,733
Other non-current financial payables	27,755	27,755	27,751	27,751
	1,402,497	**1,388,989**	**894,711**	**901,484**

At December 31, 2011, the breakdown of payables by interest rate and by currency of origin of the debt is as follows:

2011 (in thousands in euro)

	FIXED RATE		FLOATING RATE		TOTAL
EUR	131,693		11,730		143,423
BRL (Brazil Real)	131,200		9,759		140,959
CNY (Chinese Renminbi)	19,616		-		19,616
RON (Romanian Leu)	296		24,643		24,939
TRY (Turkish Lira)	30,755		-		30,755
Other currencies	9,759		-		9,759
Current payables	**323,319**	**88%**	**46,132**	**12%**	**369,451**
EUR	861,350		222,550		1,083,900
USD	5,308		-		5,308
BRL (Brazil Real)	19,530		104,564		124,094
CNY (Chinese Renminbi)	-		113,277		113,277
RON (Romanian Leu)	-		65,101		65,101
ARS (Argentinian Pesos)	10,817		-		10,817
Non-current payables	**897,005**	**64%**	**505,492**	**36%**	**1,402,497**
	1,220,324	**69%**	**551,624**	**31%**	**1,771,948**

The situation at December 31, 2010 was as follows:

2010 (in thousands of euro)

	FIXED RATE		FLOATING RATE		TOTAL
EUR	17,307		53,201		70,508
BRL (Brazil Real)	93,617		-		93,617
CNY (Chinese Renminbi)	30,681		31,861		62,542
Other currencies	20,848		-		20,848
Current payables	**162,453**	**66%**	**85,062**	**34%**	**247,515**
EUR	579,862		120,696		700,558
USD	6,705		-		6,705
BRL (Brazil Real)	8,306		48,038		56,344
CNY (Chinese Renminbi)	-		61,049		61,049
RON	-		70,055		70,055
Non-current payables	**594,873**	**66%**	**299,838**	**34%**	**894,771**
	757,326	**66%**	**384,900**	**34%**	**1,142,226**

The value of fixed-rate payables indicated above includes those established by contract as fixed-rate payables and those established by contract as floating-rate payables to offset which hedging derivatives have been put in place.

The Group's exposure to fluctuations in interest rates on financial payables, both in terms of the type of rate and their resetting date, are summarised below:

(in thousands of euro)

	12/31/2011			12/31/2010		
	Total	Fixed rate	Floating rate	Totale	Fixed rate	Floating rate
Up to 6 months	686,448	244,824	441,624	476,220	96,305	379,915
From 6 to 12 months	87,818	87,818	-	68,646	68,646	-
From 1 to 5 years	979,010	869,010	110,000	596,148	591,163	4,985
More than 5 years	18,672	18,672	-	1,212	1,212	-
	1,771,948	**1,220,324**	**551,624**	**1,142,226**	**757,326**	**384,900**

The average cost of debt in 2011 was 5.5% (4.42% in 2010).

In regard to the financial covenants and negative pledge clauses on utilised credit facilities (included in bank borrowings), the revolving credit line granted to PIRELLI & C. S.p.A., Pirelli Tyre S.p.A. and Pirelli International Limited for a total of euro 1,200,000 thousand, used for euro 360,000 thousand, envisages just one financial covenant: a certain ratio must be maintained between consolidated net indebtedness and gross operating profit. This parameter was fully satisfied at December 31, 2011. In regard to the negative pledges, the credit facility provides for a commitment not to grant secured guarantees, above a threshold defined as the greater of euro 100,000 thousand and 3% of Total Assets (as defined in the consolidated financial statements of PIRELLI & C. S.p.A.), with the exception of secured guarantees on the existing debt or debt to replace it, to be granted pursuant to law, relating to export finance, project finance and subsidised finance.

The other outstanding financial payables do not contain financial covenants.

26. TRADE PAYABLES

Trade payables may be broken down as follows:

	12/31/2011			12/31/2010		
	Total	Non-current	Current	Total	Non-current	Current
Suppliers	1,365,402	-	1,365,402	1,054,661	-	1,054,661
Notes payable	17,370	-	17,370	11,700	-	11,700
	1,382,772	**-**	**1,382,772**	**1,066,361**	**-**	**1,066,361**

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

27. OTHER PAYABLES

Other payables may be broken down as follows:

	12/31/2011			12/31/2010		
	Total	Non-current	Current	Total	Non-current	Current
Trade and other accrued liabilities and deferred income	87,554	16,829	70,725	85,180	6,930	78,250
Tax payables	66,434	13,972	52,462	70,811	17,171	53,640
Payables to employees	210,060	101	209,959	127,411	74	127,337
Payables to social security and welfare institutions	69,273	16,588	52,685	50,252	11,130	39,122
Dividends payable	408	-	408	1,125	-	1,125
Other payables	247,062	6,490	240,572	110,258	6,359	103,899
	680,791	**53,980**	**626,811**	**445,037**	**41,664**	**403,373**

Current payables to employees (euro 209,959 thousand; euro 127,337 thousand at December 31, 2010) include the amounts payable to employees and euro 77,136 thousand for the 2009-2011 longterm bonus plan, including euro 20,106 thousand as the provision for the year included in "Personnel expense" (note 32). In 2010 this payable, which totalled euro 57,847 thousand, was classified in "Employee benefit obligations – other benefits" since the bonus was not yet vested.

Other current payables (euro 240,572 thousand) include:

- payables for the purchase of property, plant and equipment totalling euro 121,197 thousand (euro 48,131 at December 31, 2010). The increase from the previous period closely matches the growth in capital expenditure by the Group, mainly at companies in China, Mexico, Turkey and Brazil;
- payable of euro 57,860 thousand to Sibur Holding for the remaining portion of the price for the purchase of the Russian companies OJSC Kirov Tyre Plant and LLC Amtel-Russian Tyres in December 2011;
- payable for the contingent consideration ("earn out") to be paid to Sibur Holding for the acquisition of the aforementioned companies in Russia, estimated to be euro 10,000 thousand;
- payables of euro 8,266 thousand for income withholding tax owed by the Tyre Business;
- euro 5,918 thousand for advances from customers;
- payables of euro 4,427 thousand to agents, professionals and consultants;
- euro 1,678 thousand for advances paid by the European Union to the Tyre Business for research projects.

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

28. DERIVATIVE FINANCIAL INSTRUMENTS

This item includes the fair value of derivative financial instruments outstanding at December 31, 2011. They are broken down as follows:

(in thousands of euro)

	12/31/2011		12/31/2010	
	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT ASSETS	CURRENT LIABILITIES
HEDGE ACCOUNTING NOT ADOPTED				
Foreign currency derivatives - commercial transactions	46,161	(45,036)	32,538	(37,086)
Foreign currency derivatives - included in net financial position	16,120	(6,138)	915	(4,810)
Interest rate derivatives	-	(621)	-	-
HEDGE ACCOUNTING ADOPTED				
- cash flow hedge:				
Foreign currency derivatives - commercial transactions	-	-	1,706	-
Interest rate derivatives	-	(42,288)	-	(28,018)
Other derivatives	-	(9,829)	-	-
- fair value hedge				
Interest rate derivatives - included in net financial position	4,142	-	-	-
Other derivatives	3,923		-	-
	70,346	**(103,912)**	**35,159**	**(69,914)**
- Total derivatives included in net financial position	20,262	(6,138)	915	(4,810)

DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH HEDGE ACCOUNTING HAS NOT BEEN ADOPTED

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

The value of **interest rate derivatives**, recognised under current liabilities for euro 621 thousand, corresponds to the fair value measurement of "plain vanilla" interest rate swaps made on a notional amount of euro 375 million maturing in February 2012, initially made to hedge against the rise in interest rates associated with the syndicated revolving variable rate credit facility of euro 675 million stipulated in February 2007 by Pirelli Tyre S.p.A. and PIRELLI International Limited and in anticipation of new variable rate financing having similar characteristics to replace the syndicated credit line on maturity, for which hedge accounting was adopted.

Following issuance of the fixed rate bond for euro 500 million in February 2011 and simultaneous reimbursement of the utilised portion of the aforementioned syndicated credit facility for euro 380 million, on February 28, 2011, hedge accounting was interrupted for all existing derivatives insofar as the conditions envisaged in IAS 39 no longer existed. At December 31, 2010 the fair value of these derivatives was a negative euro 6,340 thousand and was included in the value of cash flow hedge interest rate derivatives (totalling euro 28,018 thousand). Beginning on the date when hedge accounting was interrupted, the positive change in fair value, euro 3,474 thousand, was recognised in the income statement. The cash flow hedge reserve accumulated at the date that hedge accounting was interrupted, amounting to a negative euro 4,095 thousand, was frozen and transferred to the income statement in the period when the future transaction impacts the income statement. The total amount reclassified in the income statement for the period was a negative 3,587 thousand.

DERIVATIVE FINANCIAL INSTRUMENTS FOR WHICH HEDGE ACCOUNTING HAS BEEN ADOPTED

Cash flow hedge

The value of **interest rate derivatives**, recognised under current liabilities for euro 42,288 thousand, consists mainly of:

- euro 613 thousand for the fair value measurement of four "plain vanilla" interest rate swaps on a notional amount of euro 100 million, which envisage the payment of an average fixed interest rate of 1.338% on a quarterly basis and collection of a variable 3-month Euribor interest rate on a quarterly basis with the same frequency of payment of the coupon on the financing. These derivatives were made to hedge against a rise in interest rates on a euro 100 million loan at a variable 3-month Euribor rate with a spread of 0.328% granted by the European Investment Bank (EIB) in favour of Pirelli Tyre S.p.A. for research and development projects. Euro 613 thousand was recognised in equity for the period;
- euro 41,567 thousand for the fair value measurement of 12 "plain vanilla" interest rate swaps on a notional amount of euro 575 million forward start beginning February 2012 and maturing February 2015, which envisage the payment of an average fixed interest rate of 3.384% per annum and collection of a variable 1-month Euribor interest rate on a monthly basis. These derivatives had initially been made to hedge against the rise in interest rates associated with the variable rate revolving syndicated credit facility of euro 675 million subscribed in February 2007 by Pirelli Tyre S.p.A. and Pirelli International Limited or in anticipation of new variable rate financing with similar characteristics replacing the syndicated credit facility on maturity, for which hedge accounting had been adopted. At December 31, 2010, the fair value of these derivatives was a negative euro 21,768 thousand. Following issuance of the fixed rate bond for euro 500 million in February 2011 and simultaneous reimbursement of the utilised portion of the aforementioned syndicated credit facility for euro 380 million, on February 28, 2011, hedge accounting was interrupted for all existing derivatives insofar as the conditions envisaged in IAS 39 no longer existed.
  On July 1, 2011 hedge accounting was resumed for these derivatives on the basis of the new variable rate payables included in the 2011-2014 three-year plan.
  The change in fair value between the date that hedge accounting was interrupted and the date it was resumed – negative euro 2,341 thousand – was charged to the income statement. The cash flow hedge reserve accumulated at the date when hedge accounting was interrupted, amounting to a negative euro 14,291 thousand, was frozen and transferred to the income statement beginning February 2012 until February 2015, i.e. the period when the future transaction will impact the income statement.
  The amount recognised in equity during the period for the effective part was negative euro 24,646 thousand, while the portion recognised in the income statement for the ineffective part was a negative euro 288 thousand.

The value of **other derivatives** (current liabilities of euro 9,829 thousand) reflects the fair value of purchased natural rubber futures contracts. The purpose of this hedge, made beginning in May 2011, is to limit exposure to the economic effects resulting from a change in natural rubber prices, and consequently stabilise the cost of future supplies on a limited portion of the total requirements forecast in the period May 2011 – June 2012. The net amount that was recognised in equity during the period was a negative euro 13,791 thousand, of which euro 18,130 thousand for losses recognised in the period and euro 4,339 thousand for reclassification in the income statement, as an adjustment to natural rubber purchases, to losses previously recognised in equity and related to purchases made during the year.

Fair value hedge

The value of **interest rate derivatives** (current assets for euro 4,142 thousand) corresponds to the fair value of 5 interest rate swaps on a notional amount of euro 125 million, made to hedge the risk of changes in the fair value of a portion of the fixed rate bond issued by Pirelli & C. S.p.A. in February 2011 for euro 500 million (see note 25 "Borrowings from banks and other financial institutions"). These derivatives envisage the collection of a fixed rate of 5.125% per annum with the same frequency of payment as the coupon on the bond, which also pays interest at a rate of 5.125%, and payment of a variable 6-month Euribor rate with an average spread of 2.38%. Fair value hedge accounting was adopted for these derivative financial instruments, according to which the positive change in fair value of the derivative instrument is recognised in the income statement and is offset by a loss on the bond attributable to the risk hedged for the same amount, recognised in the income statement under financial expenses and that adjusted the carrying amount of the bond ("basis adjustment").

The value of **other derivatives** (current assets for euro 3,923 thousand) reflects the fair value of the put option held by Pirelli & C. S.p.A. on the shares of Advanced Digital Broadcast Holdings S.A., classified as available-for-sale financial assets, to hedge against the risk of a fall in the market value of the shares held. Fair value hedge accounting was adopted for these derivative financial instruments, whereby the positive change in the fair value of the derivative instrument (euro 3,923 thousand) is recognised in the income statement and offsets the negative fair value of the available-for-sale financial assets (euro 3,917 thousand) recognised in the income statement for the portion attributable to the hedged risk. Also see note 35.3 "Losses from equity investments."

29. COMMITMENTS AND CONTINGENCIES

Commitments for purchase of property, plant and equipment

The commitments to purchase property, plant and equipment relate mainly to the Tyre Business and amount to euro 154.8 million (euro 197.8 million at December 31, 2010), mostly regarding companies in Russia, Romania, Brazil, Germany, Italy and Mexico.

Commitments for purchase of equity interests/fund units

These refer to commitments by Pirelli Finance (Luxembourg) S.A. to subscribe units of the company Equinox Two S.c.a., a private equity company specialised in investments in listed and unlisted companies with high growth potential, for a maximum countervalue of euro 5,100 thousand.

Guarantees given on the sale of Olimpia

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

The current tax litigation can be summarised as follows.

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

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

The Company appealed against this tax assessment, claiming that the ascertained taxable income was manifestly non-existent.

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

The Agenzia delle Entrate subsequently appealed this decision.

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

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

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

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

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

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

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

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

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

This assessment, just like the ones that preceded it, is absolutely unfounded. Therefore, the Company lodged an appeal against it too before the Tax Court of first instance, which ruled in favour of the Company just as it had done before. The Agenzia delle Entrate lodged an appeal against such decision to the Trial Tax Court. The Company has filed its own counter-arguments against that appeal. The Regional Tax Court appeal hearing is scheduled for May 30, 2012.

Other contingencies

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

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

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

30. REVENUE FROM SALES AND SERVICES

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

(in thousands of euro)

	2011	2010
Tyre	5,520,629	4,717,111
Other business	46,168	47,712
Elimination	(633)	(451)
Revenue from sales of goods	**5,566,164**	**4,764,372**
Tyre	81,011	54,890
Other business	25,099	47,094
Elimination	(17,481)	(17,938)
Revenue from services	**88,629**	**84,046**
	5,654,793	**4,848,418**

31. OTHER INCOME

The item amounts to euro 140,354 thousand, compared with euro 154,333 thousand in 2010, and mainly consists of income from sports activities largely generated by participation in Formula 1, royalties, compensation, insurance indemnities and other minor items.

32. PERSONNEL EXPENSE

This item is broken down as follows:

(in migliaia di euro)

	2011	2010
Wages and salaries	841,479	790,250
Social security and welfare contributions	180,117	165,518
Expenses for employees' leaving indemnity and similar costs (*)	32,102	36,491
Expenses for defined contribution pension funds	17,721	16,543
Expenses for defined benefit pension funds	5,573	9,035
Expenses for defined benefit healthcare plans	929	1,075
Expenses for jubilee awards	2,333	1,041
Expenses for defined contribution healthcare plans	33,556	30,715
Other costs	9,697	12,980
	1,123,507	**1,063,648**

* Includes Italian and foreign companies

The item "wages and salaries" includes euro 7,659 thousand relating to the portion accruing in the year for the 2011-2013 long-term bonus plan for and euro 20,106 thousand for the portion accruing in the year for the 2009-2011 long-term bonus plan. In the previous year the amount for the 2009-2011 plan had been euro 39,207 thousand.

In regard to the amounts relating to employees' leaving indemnities (TFR), defined benefit pension funds and defined benefit healthcare plans, see the comment on the item "Employee benefit obligations" (note 24).

This item also includes euro 16,054 thousand in voluntary redundancy expenses, mainly relating to the Tyre segment and classified as non-recurring events (1.4% of the total item), compared with euro 18,192 thousand in 2010 (1.7% of the total item).

33. AMORTISATION, DEPRECIATION AND IMPAIRMENT

The amortisation, depreciation and impairment of property, plant and equipment and intangible assets are broken down as follows:

(in thousands of euro)

	2011	2010
Amortisation	3,558	4,366
Depreciation	221,377	216,863
Impairment of intangible assets	4,860	-
Impairment of property, plant and equipment	1,122	7,369
	230,917	**228,598**

The impairment of intangible assets, euro 4,860 thousand, refers to the goodwill allocated to the Eco Technology cash generating unit. The impairment is classified as a **non-recurring event** (2.1% of the total item).

34. OTHER COSTS

This item is broken down as follows:

(in thousands of euro)

	2011	2010
Selling costs	259,864	239,957
Purchases of goods for resale	324,940	213,634
Fluids and power	207,111	185,346
Advertising	154,653	143,796
Professional advice	45,541	42,046
Maintenance	54,042	51,080
Warehouse operating costs	41,120	40,984
Leases and rental	65,737	55,181
Outsourcing	20,987	23,203
Travel expenses	41,865	31,541
IT expenses	25,080	24,885
Compensation of key managers	13,420	8,552
Other provisions	35,710	35,051
Duty stamps, duties and local taxes	40,205	30,941
Canteen	18,342	17,674
Bad debts	20,667	12,995
Insurance	24,348	23,227
Lease instalments	11,961	13,082
Cleaning expenses	15,200	13,482
Waste disposal	17,353	9,241
Security expenses	9,639	7,620
Telephone expenses	9,928	9,279
Other	116,298	210,285
	1,574,011	**1,443,082**

Selling costs mainly include contractual expenses for the signing of sales contracts, shipments and transport on domestic and foreign markets, commissions to agents and sales staff, customs duties and the operating costs of external warehouses. The item includes euro 6,861 thousand in **non-recurring events**, equal to 0.4% of the total item, which mainly refer to the Tyre business.

35. NET INCOME/(LOSS) FROM EQUITY INVESTMENTS

35.1 Share of net income of associates and joint ventures

The Group's share of net income (loss) of associates and joint ventures accounted for using the equity method was a positive euro 2,903 thousand, compared with a positive euro 256 thousand in 2010.

The amount for 2011 mainly consists of the amount recognised for the equity investment in Eurostazioni S.p.A. (positive euro 3,968 thousand) and in GWM Renewable Energy II S.p.A. (positive euro 1,265 thousand), partly offset by the equity investment in RCS MediaGroup S.p.A. (negative euro 1,015 thousand) and in Sino Italian Wire Technology Co. Ltd. (negative euro 1,635 thousand).

35.2 Gains from equity investments

This item is broken down as follows:

(in thousands of euro)

	2011	2010
Gains on disposal of available-for-sale financial assets	3,842	19,539
Reversal of impairment of equity investments in associates	-	3,956
Other gains on equity investments	5	336
	3,847	**23,831**

The **gains on disposal of available-for-sale financial assets** for 2011 refer mainly to disposal of the equity investment held in Gruppo Banca Leonardo S.p.A. (euro 856 thousand) and the sale of shares in Advanced Digital Broadcast Holdings S.A. (euro 680 thousand).

In 2010 the item mainly included the gain realised on disposal of the equity investment held in Oclaro Inc. (formerly Avanex) for euro 18,366 thousand.

The **reversal of impairment of equity investments in associates** in 2010 referred to the equity investment in CyOptics Inc. and stemmed from the increase in the recoverable amount of the equity investment versus its carrying amount. The amount of the reversal, euro 3,956 thousand, was determined by considering the price received for disposal of the investment at the beginning of 2011.

35.3 Losses from equity investments

This item is broken down as follows:

(in thousands of euro)

	2011	2010
Losses on disposal of available-for-sale financial assets	-	30
Impairment of equity investments in associates and joint ventures	16,816	585
Impairment of available-for-sale financial assets	11,482	5,850
	28,298	**6,465**

The **impairment of equity investments in associates and joint ventures** refers exclusively to the equity investment in RCS MediaGroup S.p.A. The value per share has been adjusted to euro 1.02 per share, compared with euro 1.48 per share in the previous year. This impairment, when combined with the Group's share in the loss of the associate totalling euro 1,015 thousand, results in a total impact of euro 17,831 thousand in the income statement.

The **impairment of available-for-sale financial assets** refers mainly to the equity investment in Alitalia S.p.A. (euro 10,300 thousand) and to the equity investment in F.C. Internazionale Milano S.p.A. (euro 638 thousand). In this regard, also see note 13 "Other financial assets".

The item also includes a loss of euro 3,917 thousand on the equity investment in Advanced Digital Broadcast Holdings S.A., classified as an available-for-sale financial asset, and recognised in the income statement insofar as the equity investment is hedged against the risk of change in its fair value due to the put option held on the investment. Since fair value hedge accounting was adopted, the equity investment was offset by the positive fair value measurement of the put option for euro 3,923 thousand (see note 28 "Derivative financial instruments"), and its impact on the income statement was consequently zero.

In 2010 the item mainly referred to impairment of the equity investments in Gruppo Banca Leonardo S.p.A. (euro 3,042 thousand), TLCom Ltd (euro 632 thousand), in Tiglio I S.r.l. (euro 580 thousand) and in Equinox (euro 372 thousand).

35.4 Dividend income

The amount of euro 4,230 thousand in 2011 consists principally of euro 2,678 thousand from Mediobanca S.p.A., euro 794 thousand from mutual fund income, euro 348 thousand from Fin. Priv. S.r.l. and euro 318 thousand from Advanced Digital Broadcast Holdings S.A.

In 2010 the total consisted of euro 2,728 thousand from Gruppo Banca Leonardo S.p.A., euro 2,678 thousand from Mediobanca S.p.A. and euro 348 thousand from Fin. Priv. S.r.l.

36. FINANCIAL INCOME

Financial income is broken down as follows:

(in thousands of euro)

	2011	2010
Interest	30,156	22,258
Other financial income	8,652	11,506
Fair value measurement of currency derivatives	15,343	-
Fair value measurement of other derivative instruments	2,522	-
	56,673	**33,764**

The **fair value measurement of currency derivatives** relates to forward purchases/sales of foreign currencies to hedge commercial and financial transactions, in accordance with the Group foreign exchange risk management policy. For transactions open at the end of the year, the fair value is determined using the forward exchange rate at the reporting date. 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 13,854 thousand, and the exchange rate component, a net gain of euro 29,197 thousand. When comparing this last amount with net losses on exchange rates included in financial expenses, totalling euro 33,113 thousand, net foreign exchange gains/(losses) are in substantial balance.

The **fair value measurement of other derivative instruments** (see also note 28 "Derivative financial instruments") mainly consists of:

- euro 4,142 thousand for the positive measurement of the interest rate swaps made by Pirelli & C. S.p.A. on a notional value of euro 125 million, for which fair value hedge accounting was adopted;
- negative euro 2,454 thousand for reclassification in the income statement of losses that were previously accumulated in equity and associated with derivative instruments for which hedge accounting was interrupted (euro 5,386 thousand at December 31, 2010);
- positive euro 1,122 thousand for the premature unwinding of certain derivative contracts;
- negative euro 288 thousand for the ineffective part of derivatives designated as hedging instruments.

37. FINANCIAL EXPENSES

These are broken down as follows:

(in thousands of euro)

	2011	2010
Interest to banks	74,741	47,098
Other financial expenses	34,561	36,449
Net losses on exchange rates	33,113	14
Fair value measurement of securities held for trading	3,698	1,916
Fair value measurement of currency derivatives	-	8,376
Fair value measurement of other derivative instruments	-	5,704
	146,113	**99,557**

Interest to banks includes euro 22,790 thousand for the bond issued by PIRELLI & C. S.p.A.

The item **other financial expenses** mainly consists of euro 10,542 thousand for the effect of adopting inflation accounting by PIRELLI de Venezuela C.A. (also see note 42) and euro 4,142 thousand for the adjustment of the bond, following fair value hedge accounting in consequence of the interest rate swaps made to hedge the risk of change in fair value.

The **net losses on exchange rates** of euro 33,113 thousand (exchange rate losses of euro 659,774 thousand and exchange rate gains of euro 626,661 thousand) refer to adjustment to year-end exchange rates of items expressed in currencies other than the functional currency outstanding at the reporting date and the net losses realised on items closed during the financial year. Comparison of these net losses with the fair value measurement of the foreign exchange component of foreign exchange derivatives negotiated as part of the Group foreign exchange risk management strategy (net gain of euro 29,197 thousand, as indicated in the item "financial income") shows that net foreign exchange gains/(losses) are substantially in balance.

38. INCOME TAXES

Income taxes for the year are broken down as follows::

(in thousands of euro)

	2011	2010
Current taxes	164,546	150,979
Deferred taxes	(130,089)	(13,621)
	34,457	**137,358**

The change in deferred taxes stems principally from the recognition of deferred tax assets for residual tax losses carried forward from tax consolidation (euro 128,092 thousand) by Pirelli & C. S.p.A. following the amendment in tax law governing the use of such losses. On the one hand, this change limited use of them to 80% of taxable income each year, while on the other hand, it extended the period for the use of the losses indefinitely. This amount is classified as a **non-recurring event.**

The reconciliation between theoretical taxes and effective taxes is presented below:

(in thousands of euro)

	2011	2010
Income (loss) before income taxes	475,108	365,427
Reversal of net income (loss) of associates and joint ventures	(2,903)	(256)
A) Total Taxable Income	**472,205**	**365,171**
B) Theoretical taxes	**169,248**	**124,080**
Main causes for changes between theoretical and effective taxes:		
Income not subject to taxation	(64,450)	(39,278)
Non-deductible cost	49,093	42,735
Use of tax losses carried forward	(11,622)	(38,764)
Unrecognised deferred tax assets	16,670	7,556
Taxes not related to income and costs for tax assessments	31,519	53,801
Other	(27,908)	(12,772)
C) Effective taxes before recognition of deferred tax assets on losses carried forward in Italian tax consolidation programme	**162,549**	**137,358**
Deferred tax assets on losses carried forward	(128,092)	-
D) Effective taxes after recognition of deferred tax assets on losses carried forward in Italian tax consolidation programme	**34,457**	**137,358**
Theoretical tax rate (B/A)	36%	34%
Effective tax rate before recognition of deferred tax assets on losses carried forward by Pirelli & C. S.p.A. (C/A)	34%	38%
Effective tax rate after recognition of deferred tax assets on losses carried forward by Pirelli & C. S.p.A. (D/A)	7%	38%

The Group's effective tax burden for 2011 before recognition of deferred tax assets on losses carried forward by PIRELLI & C. S.p.A. (euro 162,549 thousand) is attributable mainly to taxes payable by the Tyre Business (Euro 181,166 thousand) for the positive taxable income of its subsidiaries.

The amount of taxes also includes accounting by PIRELLI & C. S.p.A. for the positive effects deriving from the option for domestic tax consolidation.

The amount shown for taxes also reflects the benefits resulting from use of tax losses carried forward and income not subject to taxation, as well as the costs for taxes not related to income, such as the regional business tax (IRAP) and WHT.

Considering the recognition of deferred tax assets on losses carried forward by PIRELLI & C. S.p.A., the effective tax rate was 7%.

The Group's theoretical tax burden is calculated taking into account the nominal tax rates of the countries where the Group's principal companies operate, as shown below:

	2011	2010
Europe		
Italiy	31.40%	31.40%
Spain	30.00%	30.00%
Germany	29.37%	29.41%
Great Britain	26.50%	28.00%
Turkey	20.00%	20.00%
North America		
USA	40.00%	40.00%
South America		
Argentina	35.00%	35.00%
Brazil	34.00%	34.00%
Venezuela	34.00%	34.00%

The nominal tax rate in Great Britain fell from 28% in 2010 to 26.50% in 2011, consistently with local tax laws (Finance Act 2011).

39. NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS

The net loss of euro 223,840 thousand for discontinued operations at December 31, 2010 consists of euro 247,988 thousand for the loss accrued following spin-off of the real estate activities of Pirelli RE (now Prelios S.p.A.), which concluded in October 2010, and for a positive amount of euro 24,148 thousand to the sale of the Broadband Access operating business unit, which took place in November 2010.

40. 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 (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)

	2011	2010
Net income (loss) attributable to owners of the Parent from continuing operations	451,608	233,821
Net income (loss) attributable to savings shares reflecting 2% minimum dividend	(11,191)	(5,794)
Adjusted net income (loss) attributable to owners of the Parent from continuing operations	440,417	228,027
Weighted average of outstanding ordinary shares (in thousands)	475,389	475,389
Basic earnings (losses) per ordinary share from continuing operations (in euro per shares)	**0.926**	**0.480**
Net income (loss) attributable to owners of the Parent from discontinued operations	-	(212,069)
Net income (loss) attributable to savings shares reflecting 2% minimum dividend	-	5,255
Net income (loss) attributable to owners of the Parent from discontinued operations	-	(206,814)
Weighted average of outstanding ordinary shares (in thousands)	475,389	475,389
Basic earnings (losses) per share from discontinued operations (in euro per shares)	**-**	**(0.435)**

The **diluted earnings (losses)** per share at December 31, 2011 have not been calculated because, following expiration of the stock option plans, the prerequisites for such calculation are not met.

41. DIVIDENDS PER SHARE

In 2011, PIRELLI & C. S.p.A. paid to its shareholders dividends based on 2010 earnings equal to euro 0.165 per each of the 475,388,592 ordinary shares (excluding treasury shares) and euro 0.229 per each of the 11,842,969 savings shares (excluding treasury shares). The total dividends paid out amounted to euro 81,151 thousand.

In 2010, PIRELLI & C. S.p.A. paid to its shareholders dividends based on 2009 earnings equal to euro 0.0145 per each of the 5,229,274,503 ordinary shares (excluding treasury shares) and euro 0.0406 per each of the 130,272,660 savings shares (excluding treasury shares). The total dividends paid out amounted to euro 81,114 thousand.

42. HYPERINFLATION

In accordance with Group accounting policies regarding the criteria for introducing/ending inflation accounting, the subsidiary PIRELLI de Venezuela C.A. adopted inflation accounting beginning with preparation of the consolidated financial statements at December 31, 2009. It is the only Group company operating in a high-inflation country. For this purpose, a blended price index has been used: a consumer price index (IPC) covering only the cities of Caracas and Maracaibo was used until December 31, 2007. Beginning in 2008 the Banco Central de Venezuela and the National Institute for Statistics started to publish a national consumer price index (Indice Nacional de precios al consumidor - INPC) that covers the entire country and uses December 2007 as its basis for calculation.

These indexes and the related conversion factors are presented in the table below:

(in thousands of euro)

	INDEX	CONVERSION FACTOR
December 31, 2007	100.0	1.6370
December 31, 2008	130.9	1.2506
December 31, 2009	163.7	1.2718
December 31, 2010	208.2	1.2757
December 31, 2011	265.6	1.0000

The losses on the net monetary position are recognised in the income statement under the item "Financial expenses" (note 37) for an amount of euro 10,542 thousand (euro 11,702 thousand at December 31, 2010).

43. RELATED PARTY TRANSACTIONS

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

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

BALANCE SHEET (in millions of euro)

	TOTAL REPORTED AT 12/31/2011	OF WHICH RELATED PARTIES	% SHARE	TOTAL REPORTED AT 12/31/2010	OF WHICH RELATED PARTIES	% SHARE
Non-current assets						
Other receivables	347.9	161.0	46.3%	315.5	140.4	44.5%
Current assets						
Trade receivables	745.2	7.9	1.1%	676.7	8.1	1.2%
Other receivables	281.7	28.5	10.1%	175.0	9.3	5.3%
Current liabilities						
Borrowings from banks and other financial institutions	369.5	0.3	0.1%	247.5	0.1	0.0%
Trade payables	1,382.8	6.4	0.5%	1,066.4	5.4	0.5%
Other payables	626.8	42.5	6.8%	403.4	1.2	0.3%

INCOME STATEMENT (in millions of euro)

Revenue from sales and services	5,654.8	10.9	0.2%	4,848.4	5.6	0.1%
Other income	140.4	3.2	2.3%	154.3	1.8	1.2%
Personnel expense	(1,123.5)	(13.3)	1.2%	(1,063.6)	(5.3)	0.5%
Other costs	(1,574.0)	(32.9)	2.1%	(1,443.1)	(23.0)	1.6%
Financial income	56.7	7.6	13.5%	33.8	1.1	3.4%
Financial expenses	(146.1)	(0.4)	0.3%	-	-	-

The effects of related party transactions on the consolidated income statement and balance sheet of the PIRELLI Group at December 31, 2011 are shown below.

Relations with associates

(in millions of euro)

Revenue from sales and services	10.6	The amount mainly concerns services provided by: PIRELLI Tyre S.p.A. to Sino Italian Wire Technology Co. Ltd (euro 9.9 million); PIRELLI & C. Ambiente S.p.A. to Idea Granda Società Consortile r.l. (euro 0.6 million).
Other costs	5.5	The amount mainly concerns: costs for purchase of products of PIRELLI Tyre Co. Ltd (euro 4.2 million) and PIRELLI Tyre S.p.A. (euro 1.1 million) from Sino Italian Wire Technology Co. Ltd; costs of Pirelli & C. S.p.A. from CORIMAV (euro 0.1 million).
Financial income	0.3	The amount relates to income from Sino Italian Wire Technology Co. Ltd.
Current trade receivables	5.3	The amount mainly concerns receivables for provision of services by: PIRELLI Tyre S.p.A. to Sino Italian Wire Technology Co. Ltd (euro 4.7 million); PIRELLI & C. Ambiente S.p.A. to Idea Granda Società Consortile r.l. (euro 0.6 million).
Current other receivables	3.7	The amount consists of receivables of: Solar Utility S.p.A. from G.P. Energia S.r.l. (euro 2.0 million); PIRELLI Tyre Co. Ltd (euro 1.5 million) and PIRELLI Tyre S.p.A. (euro 0.2 million) from Sino Italian Wire Technology Co. Ltd.
Current financial receivables	24.8	The amount consists mainly of receivables of: PIRELLI International Ltd from Sino Italian Wire Technology Co. Ltd (euro 19.3 million); Solar Utility S.p.A. from GWM Renewable Energy II S.p.A. (euro 5.1 million); PIRELLI & C. Ambiente S.p.A. from Green&Co2 S.r.l. (euro 0.3 million).
Current trade payables	2.6	The amount consists of payables for provision of services by: Sino Italian Wire Technology Co. Ltd to Pirelli Tyre Co. Ltd (euro 2.3 million) and to Pirelli Tyre S.p.A. (euro 0.2 million); Corimav to Pirelli & C. S.p.A. (euro 0.1 million).
Current other payables	2.1	The amount concerns payables of Solar Utility S.p.A. (euro 2.1 million) to G.P. Energia S.r.l.

Transactions with parties related to Pirelli through directors

(in millions of euro)

Revenue from sales and services	0.3	The amount refers to services provided mainly to the Camfin Group (euro 0.1 million) by PIRELLI & C. S.p.A. and to the Prelios Group (euro 0.1 million) by Poliambulatorio Bicocca S.r.l..
Other income	3.2	The amount mainly refers to services provided by PIRELLI Sistemi Informativi S.p.A. to the Prelios Group (euro 2.4 million) and to the Camfin Group (euro 0.2 million) and to rental income and associated operating expenses of PIRELLI & C. S.p.A. from Prelios S.p.A. (euro 0.2 million) and from the Camfin Group (euro 0.1 million).
Other costs	13.1	The amount mainly refers to advertising costs owed to F.C. Internazionale Milano S.p.A. (euro 12.4 million), to costs for other services of Pirelli & C. S.p.A. (euro 0.2 million) and to costs for leases of Poliambulatorio Bicocca S.r.l. (euro 0.3 million) to the Prelios Group.
Financial income	7.3	The amount refers to accrued interest (euro 6.5 million) and fees (euro 0.8 million) on the outstanding loan to Prelios S.p.A. of PIRELLI & C. S.p.A..
Current trade receivables	2.6	The amount refers to receivables connected with the services shown above to the Camfin Group (euro 0.4 million) and to the Prelios Group (euro 2.0 million) including: Pirelli Sistemi Informativi (euro 1.2 million); Pirelli & C. Ambiente Site Remendation S.p.A. (euro 0.4 million); Poliambulatorio Bicocca S.r.l. (euro 0.1 million); Pirelli Tyre S.p.A. (euro 0.1 million).
Non-current other receivables	161.0	The amount mainly concerns the loan to Prelios S.p.A. as part of the spin-off (euro 160 million).
Current trade payables	3.7	The amount mainly refers to payables to F.C. Internazionale Milano S.p.A. (euro 3.3 million), to the Prelios Group (euro 0.3 million)
Investments in subsidiaries (cash outflow)	7.0	The amounts relates to the transfer of 49% of Environment Products and Services BU from Camfin Group to PIRELLI & C. S.p.A..
Investments in other financial assets (cash outflow)	0.6	This refers to the capital increase of F.C. Internazionale Milano S.p.A..

Related party transactions

(in millions of euro)

Commission payments (cash outflows)	1.1	The amount refers to up-front fees for placement of the bond loan paid by PIRELLI & C. S.p.A. to Banca IMI S.p.A. and Mediobanca S.p.A..
Financial expenses	0.4	The amount refers to fees owed by PIRELLI International Ltd to Intesa Sanpaolo S.p.A. and to Mediobanca S.p.A..
Other costs	0.9	The amount mainly refers to insurance costs of PIRELLI Deschland Gmbh (euro 0.7 million) and costs for other services of PIRELLI UK Tyres Ltd (euro 0.2 million) owed to the Allianz Group.
Current trade payables	0.1	The amount refers to payables to Allianz Group (euro 0,1 million).
Current borrowings from banks and other financial institutions	0.3	The amount refers to payables by Pirelli International Ltd to Intesa Sanpaolo S.p.A. and to Mediobanca S.p.A. for interest accrued on loans.

BENEFITS FOR KEY MANAGERS OF THE COMPANY

The fees payable to key managers totalled euro 26,693 thousand at December 31, 2011 (euro 13,885 thousand at December 31, 2010). The portion relating to employee benefits was recognised in the income statement item "personnel expense" for euro 13,274 thousand, of which euro 492 thousand relating to employees' leaving indemnity (euro 5,333 thousand in 2010, of which euro 589 thousand relating to employees' leaving indemnity) The portion relating to non-employees (euro 13,420 thousand) was recognised in the income statement item "other costs" (euro 8,552 thousand in 2010).

The item "other current payables" includes euro 40,398 thousand for bonuses to be paid to key managers in 2012, accrued in 2011 and in previous years.

44. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

During "Sustainability Day" on **January 23, 2012,** Pirelli signed the voluntary agreement with the Ministry of Environment and Protection of Territory and the Sea to reduce the climate impact of activities related to production and use of its tyres. The agreement envisages a commitment to reduce specific emissions of CO_2 by 15% and water uptake by over 50% by 2015.

The agreement testifies to the company's commitment, which uses its own technologies to develop production systems and products that can guarantee a reduction in environmental impact, quality and safety for consumers. These elements allow Pirelli constantly to improve its efficiency, with major economic benefits, and to exploit an additional competitive advantage on international markets, especially those where these characteristics are imposed by law and appreciated by consumers. The agreement is one of the various actions taken by Pirelli to limit environmental impact. In 2011, these actions led the Group to reduce its energy consumption by 6% from 2010, accompanied by a 20% reduction in specific water uptake. In aggregate, the measures taken by PIRELLI since 2009 have allowed it to reduce its water consumption by 2 million cubic metres every year, with 5% less CO_2 emissions than in 2009.

On **January 31, 2012** the Special General Meeting of Savings Shareholders of PIRELLI & C. S.p.A. assembled on the third call and chose Professor Giuseppe Niccolini as their common representative for the 2012, 2013 and 2014 financial years. Giuseppe Niccolini replaces Mr Giovanni Pecorella.

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

This transaction follows the transfer by Sibur of the Kirov tyre plant last December. The joint venture has invested a total of euro 222 million for transfer of the assets, and additional investments of euro 200 million are planned between 2012 and 2014 for improvement of the production sites and business development. It is estimated that the joint venture will have revenue of about euro 300 million in 2012 and over euro 500 million in 2014.

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

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

45. OTHER INFORMATION

Research and development expenses

Research expenses rose from euro 150 million in 2010 (3.1% of sales) to euro 170 million in 2011 (3.0% of sales). They were expensed on the income statement insofar as they did not satisfy IFRS requirements for capitalisation.

Compensation of directors and statutory auditors

Fees paid to directors and statutory auditors of Pirelli & C. S.p.A. for performance of their duties at the parent and also at other consolidated companies were as follows:

(in thousands of euro)

	2011	2010
Directors	14,274	8,377
Statutory Auditors	167	161
	14,441	**8,538**

Employees

The average headcount of employees of consolidated companies is as follows, broken down by category:

	2011	2010
Executives and white collar staff	5,838	6,543
Blue collar staff	22,310	20,926
Temporary workers	3,104	2,860
	31,252	**30,329**

Compensation of independent auditors

The following statement, prepared pursuant to Art. 149–duodecies of the Consob Issuers Regulation, shows the fees accruing to financial year 2011 for auditing services and for services other than auditing, rendered by the accounting firm Reconta Ernst & Young S.p.A. and by entities belonging to its network:

	COMPANY THAT PROVIDED THE SERVICE	COMPANY THAT RECEIVED THE SERVICE	PARTIAL FEES	TOTAL FEES	
Independent auditing services and certification services [1]	Reconta Ernst & Young S.p.A.	PIRELLI & C. S.p.A.	508		
	Reconta Ernst & Young S.p.A.	Subsidiaries	738		
	Network Ernst & Young	Subsidiaries	1,441 (2)	2,687	94.3%
Servizi diversi dalla revisione	Reconta Ernst & Young S.p.A.	PIRELLI & C. S.p.A.	113 (3)		
	Reconta Ernst & Young S.p.A.	Subsidiaries	-		
	Network Ernst & Young	Subsidiaries	48 (4)	161	5.7%
				2,848	**100.0%**

[1] the item "independent auditing services and certification services" includes amounts paid for legal accounting auditing services and other services that envisage the issuance of an auditor's report as well as amounts paid for certification services linked with legal auditing activities

[2] of which euro 104 thousand for certification services

[3] assistance services for risks and suppliers assessment activities(

[4] tax assistance services

Transactions resulting from unusual and/or exceptional operations

Pursuant to Consob Notice of July 28, 2006, the Group certifies that it did not carry out any unusual and/or exceptional transactions in 2011, as defined in the Notice itself.

Exchange rates

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

(local currency against euro)

	END OF THE PERIOD		CHANGE IN %	AVERAGE		CHANGE IN %
	12/31/2011	12/31/2010		2011	2010	
Bolivar Venezuela Fuerte	5.5638	5.7457	(3.17%)	5.5638	5.7457	(3.17%)
Australian dollar	1.2723	1.3136	(3.14%)	1.3482	1.4431	(6.58%)
Canadian dollar	1.3215	1.3322	(0.80%)	1.3760	1.3657	0.75%
Singapore dollar	1.6819	1.7136	(1.85%)	1.7491	1.8069	(3.20%)
U.S. dollar	1.2939	1.3362	(3.17%)	1.3921	1.3263	4.96%
Swiss franc	1.2156	1.2504	(2.78%)	1.2330	1.3810	(10.72%)
Egyptian pound	7.8187	7.7553	0.82%	8.2780	7.4807	10.66%
New Turkish lira	2.4556	2.0590	19.26%	2.3356	1.9982	16.89%
New Romanian leu	4.3233	4.2620	1.44%	4.2381	4.2115	0.63%
Argentine peso	5.5690	5.3127	4.82%	5.7530	5.1893	10.86%
Mexican peso	18.0463	16.5343	9.14%	17.3090	16.7490	3.34%
South African rand	10.4830	8.8625	18.28%	10.0972	9.7029	4.06%
Brazilian real	2.4271	2.2264	9.01%	2.3313	2.3334	(0.09%)
Chinese renminbi	8.1527	8.8493	(7.87%)	8.9907	8.9785	0.14%
Russian rouble	41.6714	40.3331	3.32%	40.9038	40.2157	1.71%
British pound	0.8353	0.8608	(2.96%)	0.8679	0.8582	1.13%
Japanese yen	100.2000	108.6500	(7.78%)	110.9897	116.3803	(4.63%)

Net financial (liquidity) debt position

(ALTERNATIVE PERFORMANCE MEASURE NOT ENVISAGED BY THE ACCOUNTING STANDARDS)

Net financial (liquidity) debt position is broken down as follows:

(in thousands of euro)

	NOTE	12/31/2011		12/31/2010	
			OF WHICH NON-CONTROLLING INTERESTS		OF WHICH NON-CONTROLLING INTERESTS
Current borrowings from banks and other financial institutions	25	369,451	286	247,515	77
Current derivative financial instruments (liabilities)	28	6,138		4,810	
Non-current borrowings from banks and other financial institutions	25	1,402,497		894,711	
Total gross debt		**1,778,086**		**1,147,036**	
Cash and cash equivalents	20	(556,983)		(244,725)	
Securities held for trading	19	(160,503)		(209,770)	
Current financial receivables	16	(52,536)	(24,763)	(13,266)	(5,926)
Current derivative financial instruments (assets)	28	(20,262)		(915)	
Net financial debt *		**987,802**		**678,360**	
Non-current fiancial receivables	16	(250,733)	(161,013)	(222,757)	(140,419)
Total net financial (liquidity) debt position *		**737,069**		**455,603**	

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

Companies consolidated line-by-line

COMPANY	BUSINESS	HEADQUARTER	CURRENCY	SHARE CAPITAL	% HOLDING	HELD BY
EUROPE						
Austria						
Pirelli GmbH	Tyre	Vienna	Euro	726,728	100.00%	Pirelli Tyre (Suisse) S.A.
Belgium						
Pirelli Tyres Belux S.A.	Tyre	Bruxelles	Euro	700,000	100.00%	Pirelli Tyre (Suisse) S.A.
France						
Gecam France S.a.S.	Sustainable mobility	Villepinte	Euro	130,205	70.00%	Pirelli & C. Eco Technology S.p.A.
Pneus Pirelli S.a.S	Tyre	Villepinte	Euro	1,515,858	100.00%	Pirelli Tyre (Suisse) S.A.
Germany						
Deutsche Pirelli Reifen Holding GmbH	Tyre	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 S.A.	Tyre	Kallithea (Athens)	Euro	11,192,000	99.90%	Pirelli Tyre (Suisse) S.A.
					0.10%	Pirelli Tyre S.p.A.
PIRELLI Hellas S.A. (in liquidation)	Tyre	Athens	US $	22,050,000	79.86%	Pirelli Tyre S.p.A.
The Experts in Wheels – Driver Hellas S.A.	Tyre	Kallithea (Athens)	Euro	100,000	72.00%	Elastika Pirelli S.A.
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3,000,000	100.00%	Pirelli Tyre (Suisse) S.A.
Ireland						
Pirelli Reinsurance Company Ltd	Services	Dublin	US $	7,150,000	100.00%	Pirelli Finance (Luxembourg) S.A.

COMPANY	BUSINESS	HEADQUARTER	CURRENCY	SHARE CAPITAL	% HOLDING	HELD BY
ITALY						
Driver Italia S.p.A.	Tyre	Milan	Euro	350,000	72.45%	Pirelli Tyre S.p.A.
EPRE S.r.l.	Environment	Milan	Euro	10,000	100.00%	Solar Utility S.p.A.
IESS Pachino S.r.l.	Environment	Milan	Euro	10,000	100.00%	Solar Utility S.p.A.
IN & OUT S.r.l.	Fashion	Milan	Euro	20,000	100.00%	PZero S.r.l.
Maristel S.p.A.	Services	Milan	Euro	1,020,000	100.00%	Pirelli & C. S.p.A.
P.A. Società di Gestione del Risparmio S.p.A..	Environment	Milan	Euro	2,000,000	100.00%	Pirelli & C. Ambiente S.p.A.
Pirelli & C. Ambiente S.p.A.	Environment	Milan	Euro	1,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente Site Remediation S.p.A.	Environment	Milan	Euro	155,700	100.00%	Pirelli & C. Ambiente S.p.A.
Pirelli & C. Eco Technology S.p.A.	Sustainable mobility	Milan	Euro	17,810,000	100.00%	Pirelli & C. S.p.A.
Pirelli Industrie Pneumatici S.r.l.	Tyre	Settimo Torinese (To)	Euro	31.000.000	100,00%	Pirelli Tyre S.p.A.
Pirelli Labs S.p.A.	Services	Milan	Euro	5,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Nastri Tecnici S.p.A. (in liquidation)	Services	Milan	Euro	384,642	100.00%	Pirelli & C. S.p.A.
Pirelli Servizi Amministrazione e Tesoreria S.p.A. (ex-Centro Servizi Amministrativi PIRELLI S.r.l.)	Services	Milan	Euro	2,047,000	100.00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Services	Milan	Euro	1,010,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	756,820,000	100.00%	Pirelli & C. S.p.A.
Poliambulatorio Bicocca S.r.l.	Tyre	Milan	Euro	10,000	100.00%	Pirelli Tyre S.p.A.
PZero S.r.l.	Fashion	Milan	Euro	4,000,000	100.00%	Pirelli & C. S.p.A.
Servizi Aziendali Pirelli S.C.p.A.	Services	Milan	Euro	104,000	92.25%	Pirelli & C. S.p.A.
					2.00%	Pirelli Tyre S.p.A.
					1.00%	Pirelli & C. Ambiente S.p.A.
					0.95%	Pirelli Servizi Amministrazione e Tesoreria S.p.A. (ex-Centro Servizi Amministrativi Pirelli S.r.l.)
					0.95%	Pirelli Labs S.p.A.
					0.95%	Pirelli Sistemi Informativi S.r.l.
					0.95%	PZero S.r.l.
					0.95%	Pirelli & C. Eco Technology S.p.A.
Solar Utility S.p.A.	Environment	Milano	Euro	14,000,000	100.00%	Pirelli & C. Ambiente S.p.A.
Solar Utility Sicilia S.r.l.	Environment	Milano	Euro	10,000	100.00%	Solar Utility S.p.A.
Luxembourg						
Pirelli Finance (Luxembourg) S.A.	Financial	Luxembourg	Euro	13,594,910	100.00%	Pirelli & C. S.p.A.
Poland						
Driver Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	100,000	62.50%	Pirelli Polska Sp.ZO.O.
Pirelli Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	625,771	100.00%	Pirelli Tyre (Suisse) S.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.	Sunstainable mobility	Oras Bumbesti-Jiu	Rom. Leu	55,000,000	100.00%	Pirelli & C. Eco Technology S.p.A.

COMPANY	BUSINESS	HEADQUARTER	CURRENCY	SHARE CAPITAL	% HOLDING	HELD BY
Slovakia						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Euro	6,639	100.00%	Pirelli Tyre (Suisse) S.A.
Spain						
Euro Driver Car S.L.	Tyre	Barcelona	Euro	876,000	25.34%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
					28.08%	Proneus S.L. - Sociedad Unipersonal
Omnia Motor S.A. - Sociedad Unipersonal	Tyre	Barcelona	Euro	1,502,530	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Pirelli Iniciativas Tecnologicas S.L. - Sociedad Unipersonal	Tyre	Barcelona	Euro	10,000	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Pirelli Neumaticos S.A. - Sociedad Unipersonal	Tyre	Barcelona	Euro	25,075,907	100.00%	PIRELLI Tyre S.p.A.
Proneus S.L. - Sociedad Unipersonal	Tyre	Barcelona	Euro	3,005	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Tyre & Fleet S.L. - Sociedad Unipersonal	Tyre	Barcelona	Euro	20,000	100.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
Sweden						
Pirelli Tyre Nordic A.B.	Tyre	Bromma	Swed. Krona	950,000	100.00%	Pirelli Tyre (Suisse) S.A.
Switzerland						
Pirelli Group Reinsurance Company S.A.	Service	Lugano	Swiss Franc	8,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Tyre (Suisse) S.A.	Tyre	Basel	Swiss Franc	1,000,000	100.00%	Pirelli Tyre S.p.A.
The Netherlands						
E-VOLUTION Tyre B.V.	Tyre	Heinenoord	Euro	100,000	50.00%	Pirelli Tyre S.p.A.
Pirelli China Tyre N.V.	Tyre	Heinenoord	Euro	38,045,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Nederland B.V.	Tyre	Heinenoord	Euro	18,152	100.00%	Pirelli Tyre (Suisse) SA
Turkey						
Celikord A.S.	Tyre	Istanbul	Turkey Lira	29,000,000	98.73%	Pirelli Tyre S.p.A.
					0.63%	Pirelli International Ltd
					0.37%	Pirelli UK Tyres Ltd
					0.27%	Pirelli Industrie Pneumatici S.r.l.
Turk-Pirelli Lastikleri A.S.	Tyre	Istanbul	Turkey Lira	140,000,000	99.839%	Pirelli Tyre S.p.A.
					0.152%	Pirelli Industrie Pneumatici S.r.l.
					0.009%	Pirelli Tyre (Suisse) S.A.
United Kingdom						
CPC 2010 Ltd	Tyre	Burton on Trent	British Pound	10,000	100.00%	Pirelli UK Tyres Ltd
CTC 1994 Ltd	Tyre	Burton on Trent	British Pound	984	100.00%	CTC 2008 Ltd
CTC 2008 Ltd	Tyre	Burton on Trent	British Pound	100,000	100.00%	Pirelli UK Tyres Ltd
Pirelli International Ltd	Tyre	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.

COMPANY	BUSINESS	HEADQUARTER	CURRENCY	SHARE CAPITAL	% HOLDING	HELD BY
NORTH AMERICA						
Canada						
Pirelli Tyre Inc.	Tyre	Fredericton (New Brunswich)	Can. $	6,000,000	100.00%	Pirelli Tyre (Suisse) S.A.
U.S.A.						
Pirelli North America Inc.	Tyre	Atlanta	US $	10	100.00%	Pirelli Tyre S.p.A.
Pirelli Tire LLC	Tyre	Wilmington (Delaware)	US $	1	100.00%	Pirelli North America Inc.
CENTRAL/SOUTH AMERICA						
Argentina						
Pirelli Neumaticos S.A.I.C.	Tyre	Buenos Aires	Arg. Peso	101,325,176	95.00%	Pirelli Tyre S.p.A.
					5.00%	Pirelli Pneus Ltda
Brazil						
Comercial e Importadora de Pneus Ltda	Tyre	Sao Paulo	Bra. Real	12,913,526	100.00%	Pirelli Pneus Ltda
Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda	Tyre	Santo Andrè	Bra. Real	84,784,342	100.00%	Pirelli Pneus Ltda
Ecosil - Industria Quimica do Brasil Ltda	Tyre	Meleiro	Bra. Real	1,370,000	85.00%	Pirelli Pneus Ltda
Pirelli Ltda	Financial	Sao Paulo	Bra. Real	14,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Pneus Ltda	Tyre	Santo Andrè	Bra. Real	341,145,811	100.00%	Pirelli Tyre S.p.A.
RF Centro de Testes de Produtos Automotivos Ltda	Tyre	Elias Fausto (Sao Paulo)	Bra. Real	10,000	49.00%	Pirelli Pneus Ltda
TLM - Total Logistic Management Serviços de Logistica Ltda	Tyre	Santo Andrè	Bra. Real	1,006,000	99.98%	Pirelli Pneus Ltda
					0.02%	Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda
Chile						
Pirelli Neumaticos Chile Limitada	Tyre	Santiago	Chile Peso /000	1,918,451	99.98%	Pirelli Pneus Ltda
					0.02%	Comercial e Importadora de Pneus Ltda
Colombia						
Pirelli de Colombia S.A.	Tyre	Santa Fe De Bogota	Col. Peso/000	3,315,069	92.91%	Pirelli Pneus Ltda
					2.28%	Pirelli de Venezuela C.A.
					1.60%	Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda
					1.60%	TLM - Total Logistic Management Serviços de Logistica Ltda
					1.60%	Comercial e Importadora de Pneus Ltda

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%	Comercial e Importadora de Pneus Ltda
PIRELLI Neumaticos S.A. de C.V.	Tyre	Silao	Mex. Peso	500,050,000	99.00%	PIRELLI Tyre S.p.A.
					1.00%	PIRELLI Pneus Ltda
PIRELLI Servicios S.A. de C.V.	Tyre	Silao	Mex. Peso	50,000	99.00%	PIRELLI Tyre S.p.A.
					1.00%	Servicios PIRELLI Mexico S.A. de C.V.
Servicios PIRELLI Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	50,000	99.00%	PIRELLI Pneus Ltda
					1.00%	Comercial e Importadora de Pneus Ltda
Venezuela						
PIRELLI de Venezuela C.A.	Tyre	Valencia	Ven. Bolivar/000	20,062,679	96.22%	PIRELLI Tyre S.p.A.
AFRICA						
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) S.A.
International Tire Company Ltd	Tyre	Alexandria	Egy. Pound	50,000	99.80%	Alexandria Tire Company S.A.E.
South Africa						
PIRELLI Tyre (Pty) Ltd	Tyre	Centurion	S.A. Rand	1	100.00%	PIRELLI Tyre (Suisse) S.A.
OCEANIA						
Australia						
PIRELLI Tyres Australia Pty Ltd	Tyre	Sydney	Aus $	150,000	100.00%	PIRELLI Tyre (Suisse) S.A.
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 (ex-PIRELLI Scientific and Technological Consulting (Shangai) Co. Ltd)	Tyre	Shangai	US $	700,000	100.00%	PIRELLI China Tyre N.V.
Yanzhou Hixih Ecotech Environment CO. Ltd	Sustainable mobility	Yanzhou	Ch. Renminbi	130,000,000	60.00%	PIRELLI & C. Eco Technology S.p.A.
Japan						
PIRELLI Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2,700,000,000	100.00%	PIRELLI Tyre S.p.A.
Singapore						
PIRELLI Asia Pte Ltd	Tyre	Singapore	Sing. $	2	100.00%	PIRELLI Tyre (Suisse) S.A.
Taiwan						
PIRELLI Taiwan Co. Ltd	Tyre	New Taipei City	N.T. $	10,000,000	100.00%	PIRELLI Tyre (Suisse) S.A.

INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

COMPANY	BUSINESS	HEADQUARTER	CURRENCY	SHARE CAPITAL	% HOLDING	HELD BY
EUROPE						
Germany						
Industriekraftwerk Breuberg GmbH	Tyre	Hoechst/Odenwald	Euro	1,533,876	26.00%	Pirelli Deutschland GmbH
Greece						
Eco Elastika S.A.	Tyre	Athens	Euro	60,000	20.00%	Elastika Pirelli S.A.
Italy						
A.P.I.C.E. - società per azioni	Environment	Rome	Euro	200,000	50.00%	Pirelli & C. Ambiente S.p.A.
Eurostazioni S.p.A.	Financial	Rome	Euro	160,000,000	32.71%	Pirelli & C. S.p.A.
Green&Co2 S.r.l.	Environment	Milan	Euro	10,000	49.00%	Pirelli & C. Ambiente S.p.A.
GWM Renewable Energy II S.p.A.	Environment	Rome	Euro	15,063,016	16.87%	Solar Utility S.p.A.
Idea Granda Società Consortile r.l.	Environment	Cuneo	Euro	1,292,500	49.00%	Pirelli & C. Ambiente S.p.A.
RCS MediaGroup S.p.A.	Financial	Milan	Euro	762,019,050	5.33%	Pirelli & C. S.p.A.
Serenergy S.r.l.	Environment	Milan	Euro	25,500	50.00%	Pirelli & C. Ambiente S.p.A.
Romania						
S.C. Eco Anvelope S.A.	Tyre	Bucarest	Rom. Leu	160,000	20.00%	S.C. Pirelli Tyres Romania S.r.l.
Spain						
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200,000	20.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
ASIA						
China						
Sino Italian Wire Technology Co. Ltd	Tyre	Yanzhou	Ch. Reminbi	227,500,000	49.00%	Pirelli Tyre S.p.A.

OTHER INVESTMENTS CONSIDERED SIGNIFICANT AS PER CONSOB RESOLUTION NO. 11971 OF MAY 14, 1999

COMPANY	BUSINESS	HEADQUARTER	CURRENCY	SHARE CAPITAL	% HOLDING	HELD BY
Belgium						
Euroqube S.A. (in liquidazione)	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.
Hungary						
HUREC Tyre Recycling Public Benefit Company	Tyre	Budapest	Hun. Forint	50,000,000	17.00%	Pirelli Hungary Tyre Trading and Services Ltd
Italy						
Fin. Priv. S.r.l.	Financial	Milan	Euro	20,000	14.29%	Pirelli & C. S.p.A.
Poland						
Centrum Utylizacji Opon Organizacja Odzysku S.A.	Tyre	Warsawa	Pol. Zloty	1,008,000	14.29%	Pirelli Polska Sp. ZO.O.
Tunisia						
Société Tunisienne des Industries de Pnéumatiques S.A.	Tyre	Tunis	Tun. Dinar	12,623,472	15.83%	Pirelli Tyre S.p.A.
United Kingdom						
Tlcom I Ltd Partnership	Financial	London	Euro	1,204	10.39%	Pirelli Finance (Luxembourg) S.A.

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154 BIS OF LEGISLATIVE DECREE 58 OF FEBRUARY 24, 1998, AND PURSUANT TO 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 consolidated financial statements, during the period January 1, 2011 – December 31, 2011.

2. 2. In this regard it should be noted that the adequacy of the administrative and accounting procedures for preparation of the consolidated financial statements for the year ended December 31, 2011 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 consolidated 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 report on operations includes a reliable analysis of the performance and results of operations, and of the situation of the reporting entity and of the Group of companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

March 12, 2012

The Chairman of the
Board of Directors and Chief Executive Officer

(Marco Tronchetti Provera)

The Corporate Financial
Reporting Manager

(Francesco Tanzi)

ERNST & YOUNG

Reconta Ernst & Young S.p.A.
Via della Chiusa, 2
20123 Milano

Tel. (+39) 02 722121
Fax (+39) 02 72212037
www.ey.com

Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated 27 January 2010
(Translation from the original Italian text)

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

1. We have audited the consolidated financial statements of Pirelli & C. S.p.A. and its subsidiaries, (the "Pirelli & C. Group") as of 31 December 2011 and for the year then ended, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005 is the responsibility of Pirelli & C. S.p.A.'s Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated 24 March 2011.

3. In our opinion, the consolidated financial statements of the Pirelli & C. Group at 31 December 2011 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the Pirelli & C. Group for the year then ended.

4. The Directors of Pirelli & C. S.p.A. are responsible for the preparation of the Directors' Report on Operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency with the financial statements of the Directors' Report on Operations and the specific section on Corporate Governance and Structure of Share Ownership, regarding the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), as required by the law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Directors' Report on Operations and the information reported therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) included in the specific section of the report, are consistent with the consolidated financial statements of the Pirelli & C. Group at 31 December 2011.

Milan, 29 March 2012

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

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

Reconta Ernst & Young S.p.A.
Sede Legale: 00198 Roma - Via Po, 32
Capitale Sociale € 1.402.500,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la CC.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.I. 00891231003
Iscritta all'Albo Revisori Contabili al n. 70945 Pubblicato sulla G.U.
Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

The illustration contained in the three volumes of the Annual Report
are all the work of Stefan Glerum

Art direction
Francesco Valtolina, Friends Make Books

Layout
Leftloft, Milano

Printing
Grafiche Antiga S.p.A.

Printed on Arctic Paper Munken Print

The results' documentation can be found online at www.pirelli.com

Vol. A

Data Highlights

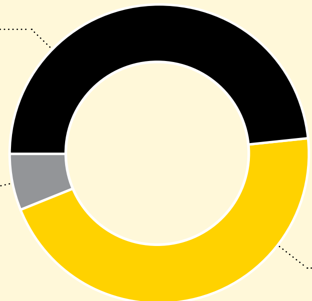
STRUCTURE OF PIRELLI GROUP AT DECEMBER 31, 2011

Pirelli & C. S.p.A.[1]

- **Pirelli Tyre 100%** — 99% of total sales
- **Others 100%** — Pirelli Eco Technology, Pirelli Ambiente, PZero Moda

(1) Pirelli businesses are supported by Pirelli Labs (100% Pirelli & C.), a centre of technological excellence and engine of innovation.

SHAREHOLDERS STRUCTURE 2011



FREE FLOAT	48.6%[3]	SHAREHOLDERS AGREEMENT: 45.5%	45.5%
Institutional Investors	31.0%	— Camfin S.p.A.	20.32%
— UK	8.2%	— Mediobanca S.p.A.	4.61%
— Italy	3.8%	— Edizione S.r.l.	4.61%
— Continental Europe	8.5%	— Fondiaria SAI S.p.A.	4.42%
— USA	8.3%	— Allianz S.p.A.	4.41%
— Rest of the World	2.2%	— Ass. Generali S.p.A.	4.41%
		— Intesa Sanpaolo S.p.A.	1.62%
Retail	16.1%	— Sinpar S.p.A.	0.63%
Other Shareholders	1.6%	— Massimo Moratti	0.49%

(2) Stake not conferred to the Shareholders Agreement. Camfin totally owns 26.2% of ordinary share capital
(3) Source: Stock Register and Thomson Reuters November 2011

MARKET CAPITALIZATION (€mln)[4]

	2011YE	2010YE	2009YE
Pirelli Ordinary (Reuters: PECI.MI; Bloomberg: PC IM)	3,164.0	2.940,6	2,097.9
Pirelli Saving (Reuters: PECIn.MI; Bloomberg: PCP IM)	55.5	70.1	56.9
Total	3,219.5	3,010.7	2,154.8

[4] Based on December average price not adjusted

PIRELLI

TAB #1 HISTORIC TREND

(in millions of euro)

	2011	2010	2009:	2008	2007
GROUP INCOME STATEMENT					
Net sales	**5,655**	**4,848**	**4,067**	**4,660**	**6,076**
Net sales (excluding DGAG - PRE) *				4,660	4,780
Gross operating profit	**807**	**629**	**453**	**252**	**573**
% of net sales	14.3%	13.0%	11.1%	5.4%	9.4%
Operating income	**582**	**408**	**250**	**43**	**364**
% of net sales - ROS	10.3%	8.4%	6.1%	0.9%	6.0%
Net income (loss) from continuing operations	**313**	**228**	**77**		
Net income (loss) from discontinued operations	-	(224)	(100)		
Prior period deferred tax assets - Italy	128	-	-		
Total net income (loss)	**441**	**4**	**(23)**	**(413)**	**324**
Net income attributable to owners of Pirelli & C. S.p.A.	**452**	**22**	**23**	**(348)**	**165**
Total net earnings (losses) per share attributable to owners of Pirelli & C. S.p.A. (in euro)	0.926	0.045	0.047 °°	(0.065)	0.031
TYRE INCOME STATEMENT					
Net sales	**5,602**	**4,772**	**3,993**	**4,100**	**4,162**
Gross operating profit	**858**	**661**	**501**	**341**	**549**
% of net sales	15.3%	13.9%	12.5%	8.3%	13.2%
Operating income	**644**	**453**	**309**	**151**	**358**
% of net sales - ROS	11.5%	9.5%	7.7%	3.7%	8.6%
GROUP BALANCE SHEET					
Non-current assets	3,558	3,164	3,596	3,665	3,815
Net working capital	399	303	427	600	551
% of net sales	7.1%	6.2%	10.5%	12.9%	11.5%
Total net working capital	155	117	222	418	298
% of net sales	2.7%	2.4%	5.5%	9.0%	6.2%
Net invested capital	3,713	3,281	3,818	4,083	4,113
Equity	2,192	2,028	2,495	2,374	3,804
Provisions	784	797	795	681	611
Net financial (liquidity)/debt position	737	456	529	1,028	(302)
Equity attributable to owners of Pirelli & C. S.p.A.	2,146	1,991	2,175	2,172	2,980
Equity per share attributable to owners of Pirelli & C. S.p.A. (in euro)	4.40	4.08	4.46 °°	0.40	0.56
OTHER GROUP INFORMATION					
Net operating cash flow	156	310	496	(147)	299
Depreciation and amortization	221	217	198	199	214
Capital expenditure - tangible	618	433	225	311	287
Capital expenditure/depreciation	2.80	2.00	1.14	1.56	1.34
Research and development expenses	170	150	137	156	173
% of net sales	3.0%	3.1%	3.4%	3.3%	3.6%
Headcount (at 12/31)	34,259	29,573	29,570	31,056	30,823
of whom temporary workers	2,649	2,426	2,245	2,913	3,642
Sales * per employee (in thousands of euro)	181	160	138	148	155
Operating income/Net invested capital ** - ROI	16.64%	11.49%	6.33%	1.05%	6.33%
Net income (loss)/Equity ** - ROE	20.89%	0.18%	(0.94%)	(13.37%)	7.63%
Net financial position/Equity - Gearing	0.34	0.22	0.21	0.43	n.s.

: Comparative income statement figures for 2009 related to Pirelli Real Estate and Pirelli Broadband Solutions business units, discontinued in 2010, have been reclassified to "net income (loss) from discontinued operations"

°° 2009 per share figures have been reclassified on a comparable basis after the reverse stock split pursuant to the Shareholders' Meeting resolution of July 15, 2010

* Excluding net sales for deconsolidation of DGAG real estate assets

** Average amounts

TAB #2 GROUP: FINANCIAL AND ECONOMIC HIGHLIGHTS

(in millions of euro)

	12/31/2011	12/31/2010
Net sales	**5,654.8**	**4,848.4**
Gross operating profit before restructuring expenses	834.6	653.7
% of net sales	14.8%	13.5%
Operating income before restructuring expenses	**609.7**	**432.5**
% of net sales	10.8%	8.9%
Restructuring expenses	(27.8)	(24.7)
Operating income	**581.9**	**407.8**
% of net sales	10.3%	8.4%
Net income (loss) from equity investments	(17.3)	23.4
Financial income/(expenses)	(89.5)	(65.8)
Pre-tax income (loss)	**475.1**	**365.4**
Income tax	(162.5)	(137.4)
Tax rate %	34.2%	37.6%
Net income (loss) from continuing operations	**312.6**	**228.0**
Net income (loss) from discontinued operations	-	(223.8)
Prior period deferred tax assets - Italy	128.1	-
Total net income (loss)	**440.7**	**4.2**
Net income attributable to owners of PIRELLI & C. S.p.A.	451.6	21.7
Total net earnings per share attributable to owners of PIRELLI & C. S.p.A. (in euro)	0.926	0.044
Non-current assets	**3,558.1**	**3,164.1**
Inventories	1,036.7	692.3
Trade receivables	745.2	676.7
Trade payables	(1,382.8)	(1,066.4)
Net working capital	**399.1**	**302.6**
% of net sales	7.1%	6.2%
Other receivables/other payables	(243.9)	(185.9)
Total net working capital	**155.2**	**116.7**
% of net sales	2.7%	2.4%
Net invested capital	**3,713.3**	**3,280.8**
Equity	**2,191.6**	**2,028.0**
Provisions	784.6	797.2
Net financial (liquidity)/debt position	**737.1**	**455.6**
Equity attributable to the owners of Pirelli & C. S.p.A.	**2,146.1**	**1,990.8**
Equity per share attributable to the owners of Pirelli & C. S.p.A. (in euro)	**4,398**	**4,080**
Capital expenditure (tangible and intangible assets)	**626.2**	**438.6**
Research and development expenses	**169.7**	**149.7**
% of net sales	3.0%	3.1%
Headcount (number at end of period)	**34,259**	**29,573**
Industrial sites (number)	**21**	**20**

TAB #3 GROUP - SUMMARY BY BUSINESS SEGMENT

(in millions of euro)

	Tyre		Other Activities *		Total	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Net sales	**5,601.6**	**4,772.0**	**53.2**	**76.4**	**5,654.8**	**4,848.4**
Gross operating profit before restructuring expenses	875.5	684.3	(40.9)	(30.6)	834.6	653.7
Operating income before restructuring expenses	661.7	476.3	(52.0)	(43.8)	609.7	432.5
Restructuring expenses	(17.8)	(23.2)	(10.0)	(1.5)	(27.8)	(24.7)
Operating income (loss)	**643.9**	**453.1**	**(62.0)**	**(45.3)**	**581.9**	**407.8**
% of net sales	11.5%	9.5%			10.3%	8.4%
Net income (loss) from equity investments	(1.3)	0.3	(16.0)	23.1	(17.3)	23.4
Financial income/(expenses)	(90.1)	(66.4)	0.6	0.6	(89.5)	(65.8)
Pre-tax income (loss)	**552.5**	**387.0**	**(77.4)**	**(21.6)**	**475.1**	**365.4**
Income tax	(181.1)	(134.4)	18.6	(3.0)	(162.5)	(137.4)
tax rate %	32.8%	34.7%			34.2%	37.6%
Net income (loss) from continuing operations	**371.4**	**252.6**	**(58.8)**	**(24.6)**	**312.6**	**228.0**
Net income (loss) from discontinued operations			**-**	**(223.8)**	**-**	**(223.8)**
Prior period deferred tax assets - Italy	-	-	128.1	-	128.1	-
Net income (loss)	**371.4**	**252.6**	**69.3**	**(248.4)**	**440.7**	**4.2**
Net financial (liquidity)/debt position	**962.3**	**1,109.9**	**(225.2)**	**(654.3)**	**737.1**	**455.6**

* This item includes the Pirelli EcoTechnology Group, the Pirellli Ambiente Group, PZero S.r.l., all holding companies (including the parent), the other service companies and, for the item "net sales", elimination of intercompany transactions

TAB #4 GROUP - OPERATING INCOME

(in millions of euro)

	Q1		Q2		Q3		Q4		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Net sales	**1,400.9**	1,135.0	**1,388.4**	1,234.0	**1,476.5**	1,249.7	**1,389.0**	1,229.7	**5,654.8**	4,848.4
Gross operating profit before restructuring expenses	**203.4**	141.9	**207.5**	163.3	**220.2**	174.9	**203.5**	173.6	**834.6**	653.7
% of net sales	14.5%	12.5%	14.9%	13.2%	14.9%	14.0%	14.7%	14.1%	14.8%	13.5%
Net operating income (loss) before restructuring expenses	**146.5**	90.2	**151.3**	109.6	**163.3**	119.9	**148.6**	112.8	**609.7**	432.5
% of net sales	10.5%	7.9%	10.9%	8.9%	11.1%	9.6%	10.7%	9.2%	10.8%	8.9%
Operating income	**143.3**	87.6	**146.8**	104.3	**161.1**	115.4	**130.7**	100.5	**581.9**	407.8
% of net sales	10.2%	7.7%	10.6%	8.5%	10.9%	9.2%	9.4%	8.2%	10.3%	8.4%

TAB #5 GROUP – NET FINANCIAL (LIQUIDITY) / DEBT POSITION

(in millions of euro)

	12/31/2011	12/31/2010
Current borrowings from banks and other financial institutions	369.5	247.5
Non-current borrowings from banks and other financial institutions	1,408.6	899.5
Total gross debt	**1,778.1**	**1,147.0**
Cash on hand	(557.0)	(244.7)
Securities held for trading	(160.5)	(209.8)
Current financial receivables	(72.8)	(14.2)
Non-current financial receivables	(250.7)	(222.8)
of which Prelios	*(160.0)*	*(140.4)*
Total financial receivables, cash and cash equivalents	**(1,041.0)**	**(691.4)**
Net financial (liquidity)/debt position	**737.1**	**455.6**

TAB #6 GROUP – NET CASH FLOW

(in millions of euro)

	Q1		Q2		Q3		Q4		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Operating income (EBIT) before restructuring expenses	146.5	90.2	151.3	109.6	163.3	119.9	148.6	112.8	609.7	432.5
Amortisation and depreciation	56.9	51.7	56.2	53.7	56.9	55.0	54.9	60.8	224.9	221.2
Capital expenditures of property,plant and equipment and intangible assets	(96.9)	(50.2)	(137.2)	(85.2)	(162.1)	(91.5)	(230.0)	(211.7)	(626.2)	(438.6)
Change in working capital/ other	(313.5)	(143.2)	18.1	42.2	(100.6)	(18.0)	344.0	214.2	(52.0)	95.2
Operating cash flow	**(207.0)**	**51.5**	**88.4**	**120.3**	**(42.5)**	**65.4**	**317.5**	**176.1**	**156.4**	**310.3**
Financial income/(expenses)	(14.8)	(17.6)	(29.9)	(23.0)	(19.4)	(14.0)	(25.4)	(11.2)	(89.5)	(65.8)
Income tax	(47.9)	(30.4)	(39.6)	(39.9)	(51.3)	(40.2)	(23.7)	(26.9)	(162.5)	(137.4)
Net operating cash flow	**(269.7)**	**(99.5)**	**18.9**	**57.4**	**(113.2)**	**11.2**	**268.4**	**138.0**	**(95.6)**	**107.1**
Financial investments/ disinvestments	24.4	-	-	-	(16.4)	9.8	(7.0)	21.9	1.0	31.7
Acquisition of non-controlling interests (China)	-	-	-	-	(28.0)	-	-	-	(28.0)	-
Russia investment	-	-	-	-	-	-	(55.0)	-	(55.0)	-
Dividend paid by Pirelli & C. S.p.A.	-	-	(81.1)	(81.1)	-	-	-	-	(81.1)	(81.1)
Dividends paid to non-controlling interests	(0.7)	-	(1.7)	(4.0)	-	-	-	-	(2.4)	(4.0)
Cash Out for restructuring expenses	(2.8)	(34.0)	(5.7)	(9.9)	(1.9)	(7.4)	(6.5)	(2.0)	(16.9)	(53.3)
Net cash flow of discontinued operations	-	(26.1)	-	(5.8)	-	(37.9)	-	75.4	-	5.6
Foreign exchange differences/other	(8.4)	10.0	3.5	24.9	0.1	16.3	1.3	16.0	(3.5)	67.2
Net cash flow	**(257.2)**	**(149.6)**	**(66.1)**	**(18.5)**	**(159.4)**	**(8.0)**	**201.2**	**249.3**	**(281.5)**	**73.2**

TAB #7 NET FINANCIAL (LIQUIDITY)/DEBT POSITION BY BUSINESS SEGMENT

(in millions of euro)

	TYRE		OTHER BUSINESS		CORPORATE		TOTAL	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Gross debt	1,798.2	1,613.6	130.7	83.3	641.3	123.0	1,778.1	1,147.0
of wich due to Corporate	*669.5*	*589.6*	*113.7*	*83.3*				
Financial receivables	(161.2)	(98.3)	(7.3)	(4.8)	(947.1)	(806.7)	(323.5)	(236.9)
of wich from Prelios S.p.A.					*(160.0)*	*(140.4)*	*(160.0)*	*(140.4)*
Cash, cash equivalents, securities held for trading	(674.7)	(405.4)	(4.2)	(6.6)	(38.6)	(42.5)	(717.5)	(454.5)
Net financial (liquidity)/ debt position	**962.3**	**1,109.9**	**119.2**	**71.9**	**(344.4)**	**(726.2)**	**737.1**	**455.6**

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

TAB #8 GROUP – GROSS DEBT

(in millions of euro)

	FINANCIAL STATEMENTS 12/31/2011	MATURITY DATE				
		2012	2013	2014	2015	2016 and beyond
Use of committed credit dacilities	360.0	-	-	-	360.0	-
P.O. 5.125% - 2011/2016	500.0	-	-	-	-	500.0
EIB Loans	390.0	125.0	25.0	-	100.0	140.0
Other financing	528.1	250.6	75.0	126.1	22.2	54.2
Total gross debt	**1,778.1**	**375.6**	**100.0**	**126.1**	**482.2**	**694.2**
		21.1%	5.6%	7.1%	27.1%	39.1%

At December 31, 2011 the Group has euro 840 million as unused portion of committed credit facilities.

TAB #9 EMPLOYEES

GEOGRAPHICAL AREAS	12/31/2011		12/31/2010	
Europe:				
- Italy	3,629	10.6%	3,587	12.1%
- Rest of Europe	10,746	31.4%	7,714	26.1%
of which Russia	*2,850*		*39*	
Nafta	490	1.4%	285	1.0%
Central and South America	13,202	38.5%	12,522	42.3%
Middle East/Africa	3,296	9.6%	2,983	10.1%
Asia/Pacific	2,896	8.5%	2,482	8.4%
	34,259	**100.0%**	**29,573**	**100.0%**

TYPE	12/31/2011		12/31/2010	
Executives	326	1,0%	302	1.0%
White collar staff	6,109	17.8%	5,429	18.4%
Blue collar staff	25,175	73.5%	21,416	72.4%
Temps	2,649	7.7%	2,426	8.2%
	34,259	**100.0%**	**29,573**	**100.0%**

TAB #10 TYRE – FINANCIAL AND ECONOMIC HIGHLIGHTS

(in millions of euro)

	12/31/2011	12/31/2010
Net sales	**5,601.6**	**4,772.0**
Gross operating profit before restructuring expenses	875.5	684.3
% of net sales	15.6%	14.3%
Operating income before restructuring expenses	661.7	476.3
% of net sales	11.8%	10.0%
Restructuring expenses	(17.8)	(23.2)
Operating income	**643.9**	**453.1**
% of net sales	11.5%	9.5%
Net income/(loss) from equity investments	(1.3)	0.3
Financial income/(expenses)	(90.1)	(66.4)
Pre-tax income/(loss)	**552.5**	**387.0**
Income tax	(181.1)	(134.4)
Tax rate %	32.8%	34.7%
Total net income/(loss)	**371.4**	**252.6**

TAB #11 TYRE – SALES VARIATION

	Q1		Q2		Q3		Q4		TOTAL	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Volume	6.1%	17.4%	1.2%	7.5%	2.8%	1.8%	-3.9%	3.4%	1.4%	7.3%
of which Premium	*25.2%*		*21.7%*		*17.5%*		*8.3%*		*18.2%*	
Price/Mix	15.9%	1.4%	15.8%	10.1%	18.6%	12.3%	19.8%	11.3%	17.6%	8.9%
Change on a like-for-like basis	**22.0%**	**18.8%**	**17.0%**	**17.6%**	**21.4%**	**14.1%**	**15.9%**	**14.7%**	**19.0%**	**16.2%**
Translation effect	2.7%	1.0%	-3.7%	5.3%	-2.7%	4.2%	-2.5%	2.6%	-1.6%	3.3%
Total change	**24.7%**	**19.8%**	**13.3%**	**22.9%**	**18.7%**	**18.3%**	**13.4%**	**17.3%**	**17.4%**	**19.5%**

TAB #12 TYRE – BREAKDOWN OF NET SALES

GEOGRAPHICAL AREA

	12/31/2011			12/31/2010
	euro/mln	**yoy**		
Italy	426.6	*4%*	8%	9%
Rest of Europe	1,844.1	*23%*	33%	31%
Nafta	561.3	*18%*	10%	10%
Central and South America	1,915.5	*17%*	34%	34%
Asia/Pacific	352.8	*23%*	6%	6%
Middle East/Africa	501.3	*8%*	9%	10%
TOTAL	**5,601.6**	**17%**	**100%**	**100%**

TAB #13 TYRE – OPERATING INCOME

(in millions of euro)

	Q1		Q2		Q3		Q4		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Net sales	**1,384.5**	1,110.0	**1,376.4**	1,215.3	**1,464.8**	1,233.8	**1,375.9**	1,212,9	**5,601.6**	4,772.0
D yoy	*24.7%*	*19.8%*	*13.3%*	*22.9%*	*18.7%*	*18.3%*	*13.4%*	*17.3%*	*17.4%*	*19.5%*
Gross operating profit before restructuring expenses	**209.5**	146.4	**218.4**	177,5	**228.4**	173.0	**219.2**	187.4	**875.5**	684.3
% of net sales	*15.1%*	*13.2%*	*15.9%*	*14.6%*	*15.6%*	*14.0%*	*15.9%*	*15.5%*	*15.6%*	*14.3%*
Operating income before restructuring expenses	**155.6**	98,1	**164.6**	127,1	**174.1**	121.5	**167.4**	129.6	**661.7**	476.3
% of net sales	*11.2%*	*8.8%*	*12.0%*	*10.5%*	*11.9%*	*9.8%*	*12.2%*	*10.7%*	*11.8%*	*10.0%*
Operating income (loss)	**152.4**	95.5	**160.1**	121.8	**171.9**	117.0	**159.5**	118.8	**643.9**	453.1
% of net sales	*11.0%*	*8.6%*	*11.6%*	*10.0%*	*11.7%*	*9.5%*	*11.6%*	*9.8%*	*11.5%*	*9.5%*

TAB #14 TYRE – OPERATING INCOME VARIATION

(in millions of euro)

	Q1	Q2	Q3	Q4	TOTAL
2010 OPERATING INCOME	**95.5**	**121.8**	**117.0**	**118.8**	**453.1**
Foreign exchange effect	2.5	(5.5)	(4.2)	(3.2)	(10.4)
Prices/mix	128.1	154.3	177.4	200.3	660.1
Volumes	28.7	8.8	13.9	(13.1)	38.3
Cost of production factors (raw materials)	(81.8)	(129.7)	(135.2)	(165.0)	(511.7)
Cost of production factors (labour/energy/others)	(13.4)	(15.8)	(11.5)	(18.6)	(59.3)
Efficiency gains	15.6	22.1	17.3	38.9	93.9
Amortisation, depreciation and other	(22.2)	3.3	(5.1)	(1.5)	(25.5)
Restructuring expenses	(0.6)	0.8	2.3	2.9	5.4
Change	**56.9**	**38.3**	**54.9**	**40.7**	**190.8**
2011 OPERATING INCOME	**152.4**	**160.1**	**171.9**	**159.5**	**643.9**

TAB #15 TYRE – NET CASH FLOW

(in millions of euro)

	Q1		Q2		Q3		Q4		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Operating income (EBIT) before restructuring expenses	**155.6**	**98.1**	**164.6**	**127.1**	**174.1**	**121.5**	**167.4**	**129.6**	**661.7**	**476.3**
Total amortisation and depreciation	53.9	48.3	53.8	50.4	54.3	51.5	51.8	57.8	213.8	208.0
Capital expenditures of property, plant and equipment and intangible assets	(94.5)	(47.6)	(133.8)	(84.5)	(160.3)	(88.1)	(229.2)	(184.8)	(617.8)	(405.0)
Change in working capital/other	(291.6)	(132.2)	4.5	37.0	(99.7)	(9.9)	344.6	194.3	(42.2)	89.2
Operating cash flow	**(176.6)**	**(33.4)**	**89.1**	**130.0**	**(31.6)**	**75.0**	**334.6**	**196.9**	**215.5**	**368.5**
Financial expenses/income tax	(63.6)	(45.6)	(85.4)	(61.7)	(78.3)	(50.8)	(43.9)	(42.7)	(271.2)	(200.8)
Net operating cash flow	**(240.2)**	**(79.0)**	**3.7**	**68.3**	**(109.9)**	**24.2**	**290.7**	**154.2**	**(55.7)**	**167.7**
Dividends paid to non-controlling interests	(0.7)	-	(1.7)	(3.8)	-	-	-	-	(2.4)	(3.8)
Acquisition of non-controlling interests (China)	-	-	-	-	(28.0)	-	-	-	(28.0)	-
Russia investment	-	-	-	-	-	-	(55.0)	-	(55.0)	-
Cash out for restructuring expenses	(1.8)	(22.2)	(5.7)	(8.3)	(1.6)	(7.0)	(4.5)	(2.0)	(13.6)	(39.5)
Foreign exchange differences/ other	(6.4)	6.0	18.8	9.4	8.4	(9.3)	(7.7)	13.5	13.1	19.6
Net cash flow before dividend payment to parent	**(249.1)**	**(95.2)**	**15.1**	**65.6**	**(131.1)**	**7.9**	**223.5**	**165.7**	**(141.6)**	**144.0**
Dividends paid to parent	-	-	(120.0)	(156.0)	-	-	(90.8)	(70.6)	(210.8)	(226.6)
Capital increase from parent	-	-	500.0	-	-	-		-	500.0	-
Net cash flow	**(249.1)**	**(95.2)**	**395.1**	**(90.4)**	**(131.1)**	**7.9**	**132.7**	**95.1**	**147.6**	**(82.6)**

TAB #16 ECONOMIC HIGHLIGHTS

(in millions of euro)

	Q1		Q2		Q3		Q4		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Net sales	983.3	780.9	958.9	835.8	1,024.3	847.1	959.0	836.5	3,925.5	3,300.3
D yoy	*25.9%*	*16.5%*	*14.7%*	*19.1%*	*20.9%*	*15.1%*	*14.6%*	*16.2%*	*18.9%*	*16.7%*
Gross operating profit before restructuring expenses	160.6	106.0	169.7	122.4	172.2	118.9	166.9	141.1	669.4	488.4
% of net sales	*16.3%*	*13.6%*	*17.7%*	*14.6%*	*16.8%*	*14.0%*	*17.4%*	*16.9%*	*17.1%*	*14.8%*
Operating income before restructuring expenses	119.7	69.5	128.6	84.7	131.1	80.5	127.1	99.9	506.5	334.6
% of net sales	*12.2%*	*8.9%*	*13.4%*	*10.1%*	*12.8%*	*9.5%*	*13.3%*	*11.9%*	*12.9%*	*10.1%*
Operating income	**116.8**	**67.0**	**124.3**	**80.3**	**129.0**	**77.2**	**120.5**	**92.5**	**490.6**	**317.0**
% of net sales	*11.9%*	*8.6%*	*13.0%*	*9.6%*	*12.6%*	*9.1%*	*12.6%*	*11.1%*	*12.5%*	*9.6%*

TAB #17 MARKET PERFORMANCE

	Q1	Q2	CUMULATIVE AT JUNE	Q3	CUMULATIVE AT SEPTEMBER	Q4	ANNUAL TOTAL
EUROPE *							
Original Equipment	+7%	+0%	+5%	+3%	+4%	+1%	+3%
Replacement	+7%	+1%	+4%	+6%	+5%	-4%	+3%
NAFTA							
Original Equipment	+15%	+2%	+9%	+8%	+8%	+14%	+10%
Replacement	+7%	-5%	+1%	-2%	+0%	-4%	-1%
SOUTH AMERICA							
Original Equipment	+8%	+7%	+8%	+3%	+6%	-8%	+2%
Replacement	-2%	-1%	-2%	+3%	+0%	+3%	+1%

* excluding Russia

TAB #18 SALES VARIATION

(milioni di euro)

	Q1		Q2		Q3		Q4		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Volume	9.0%	14.9%	2.6%	6.2%	4.3%	0.8%	-3.3%	4.2%	3.0%	6.4%
of which Premium	*25.2%*		*21.7%*		*17.5%*		*8.3%*		*18.2%*	
Price/Mix	14.6%	1.2%	16.2%	8.7%	18.4%	10.7%	19.7%	9.3%	17.3%	7.6%
Change on a like-for-like basis	23.6%	16.1%	18.8%	14.9%	22.7%	11.5%	16.4%	13.5%	20.3%	14.0%
Translation effect	2.3%	0.4%	-4.1%	4.2%	-1.8%	3.6%	-1.8%	2.7%	-1.4%	2.7%
Total change	**25.9%**	**16.5%**	**14.7%**	**19.1%**	**20.9%**	**15.1%**	**14.6%**	**16.2%**	**18.9%**	**16.7%**

TAB #19 ECONOMIC HIGHLIGHTS

(in millions of euro)

	Q1		Q2		Q3		Q4		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Net sales	**401.2**	**329.1**	**417.5**	**379.5**	**440.5**	**386.7**	**416.9**	**376.4**	**1,676.1**	**1,471.7**
D yoy	*21.9%*	*28.4%*	*10.0%*	*32.0%*	*13.9%*	*26.1%*	*10.8%*	*19.7%*	*13.9%*	*26.3%*
Gross operating profit before restructuring expenses	**48.9**	**40.4**	**48.7**	**55.1**	**56.2**	**54.1**	**52.3**	**46.3**	**206.1**	**195.9**
% of net sales	*12.2%*	*12.3%*	*11.7%*	*14.5%*	*12.8%*	*14.0%*	*12.5%*	*12.3%*	*12.3%*	*13.3%*
Operating income before restructuring expenses	**35.9**	**28.6**	**36.0**	**42.4**	**43.0**	**41.0**	**40.3**	**29.7**	**155.2**	**141.7**
% of net sales	*8.9%*	*8.7%*	*8.6%*	*11.2%*	*9.8%*	*10.6%*	*9.7%*	*7.9%*	*9.3%*	*9.6%*
Operating income	**35.6**	**28.5**	**35.8**	**41.5**	**42.9**	**39.8**	**39.0**	**26.3**	**153.3**	**136.1**
% of net sales	*8.9%*	*8.7%*	*8.6%*	*10.9%*	*9.7%*	*10.3%*	*9.4%*	*7.0%*	*9.1%*	*9.2%*

TAB #20 MARKET PERFORMANCE

	Q1	Q2	CUMULATIVE AT JUNE	Q3	CUMULATIVE AT SEPTEMBER	Q4	ANNUAL TOTAL
EUROPE *							
Original Equipment	+77%	+42%	+57%	+24%	+45%	+2%	+32%
Replacement	+16%	+11%	+14%	-9%	+5%	-18%	-1%
SOUTH AMERICA							
Original Equipment	+2%	+4%	+3%	+16%	+8%	+21%	+11%
Replacement	+10%	+3%	+6%	-6%	+2%	-9%	-1%

TAB #21 SALES VARIATION

	Q1		Q2		Q3		Q4		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Volume	-0.7%	24.1%	-1.9%	10.4%	-0.5%	4.2%	-5.4%	1.6%	-1.7%	9.4%
Price/Mix	19.0%	1.8%	14.9%	13.7%	19.0%	16.2%	20.1%	15.7%	17.8%	12.3%
Change on a like-for-like basis	**18.3%**	**25.9%**	**13.0%**	**24.1%**	**18.5%**	**20.4%**	**14.7%**	**17.3%**	**16.1%**	**21.7%**
Translation effect	3.6%	2.5%	-3.0%	7.9%	-4.6%	5.7%	-3.9%	2.4%	-2.2%	4.6%
Total change	**21.9%**	**28.4%**	**10.0%**	**32.0%**	**13.9%**	**26.1%**	**10.8%**	**19.7%**	**13.9%**	**26.3%**

TAB #22 OTHER ACTIVITIES-HIGHLIGHTS

(in millions of euro)

	PIRELLI ECO TECHNOLOGY		PIRELLI AMBIENTE		PZERO		OTHER		TOTAL OTHER ACTIVITIES	
	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010	12/31/2011	12/31/2010
Net sales	**43.3**	61.4	**1.6**	4.4	**9.7**	7.7	**(1.4)**	2.9	**53.2**	76.4
Operating income (loss) before restructuring expenses	**(12.2)**	(11.4)	**(8.6)**	(6.3)	**(11.8)**	(0.3)	**(19.4)**	(25.8)	**(52.0)**	(43.8)
Restructuring expenses	**(10.0)**	(1.5)	**-**	-	**-**	-	**-**	-	**(10.0)**	(1.5)
Operating income (loss)	**(22.2)**	**(12.9)**	**(8.6)**	**(6.3)**	**(11.8)**	**(0.3)**	**(19.4)**	**(25.8)**	**(62.0)**	**(45.3)**
Net income (loss)	**(24.6)**	**(14.9)**	**(6.8)**	**(6.0)**	**(12.2)**	**(0.4)**	**(15.2)**	**(3.3)**	**(58.8)**	**(24.6)**
Net financial (liquidity)/ debt position	**62.7**	38.0	**49.3**	30.1	**7.2**	3.8	**(344.4)**	(726.2)	**(225.5)**	(654.3)

TAB #23 PARENT HIGHLIGHTS

(in millions of euro)

	12/31/2011	12/31/2010
Operating income/(loss)	**(23.8)**	**(39.6)**
Net financial income and net income from equity investments	150.8	229.5
Net income of continuing operations	144.4	191.0
Net income/(loss) of discontinued operations	-	(103.6)
Prior period deferred tax assets - Italy	128.1	-
Net income	**272.5**	**87.4**
Non-current financial assets	1,367.4	965.2
Equity	**1,740.6**	**1,584.6**
Net financial (liquidity)/debt position	**(200.7)**	**(597.0)**