01. ANNUAL FINANCIAL REPORT AT DECEMBER 31, 2013

PIRELLI

PIRELLI & C. S.p.A. – Milan

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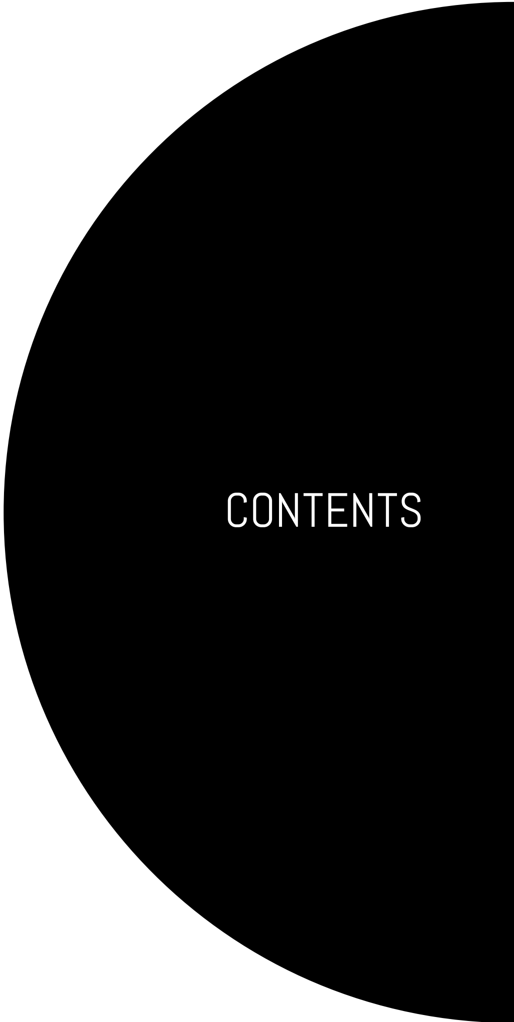
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02. 2013 REPORT ON CORPORATE GOVERNANCE AND STRUCTURE OF SHARE OWNERSHIP**

03. SUSTAINABILITY REPORT 2013

* The Annual Report on Corporate Governance and structure of share ownership, included in volume 02, is a specific, integral section of the Directors' Report on Operations
** This volume is a specific, integral section of the Directors' Report on Operations

In its paper version, the 2013 Pirelli Annual Report integrates elements of digital interactivity available through the Pirelli App thanks to a built-in system of **Augmented Reality.** The content in digital format are indicated by this icon:

THE 2013 PIRELLI
ANNUAL REPORT
IS AVAILABLE
IN DIGITAL VERSION

- Dedicate website **www.pirelli.com/AR2013**
- **App IOS** and **Android** for mobile and tablet

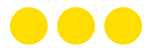
App Store iPAD

App Store iPHONE

Google play

MARCO
TRONCHETTI
PROVERA
Chairman
and CEO of Pirelli
& C. S.p.A.

Dear Stakeholder,



The year 2013 was an intense one, full of change and satisfaction, during which we achieved important goals, notwithstanding the unfavorable economic context. And it was above all a year of transformation for Pirelli, which saw a strengthening of its international profile thanks to the growing interest of institutional investors who today represent over 43% of capital, almost three times the 2009 level. This opening to the market was also facilitated by the resolution, after over 20 years, of the shareholder pact. Piece by piece, we have laid the basis for the "Pirelli of the future" which, also thanks to lean and agile governance, continues to demonstrate its capacity to respond with determination to the difficulties and opportunities which appear along its path. We compensated for the slowdown in Europe by concentrating on emerging markets which continue to grow in importance. We accelerated our focus on the Premium segment while, at the same time, managing to extract more value from the truck segment. Investors showed their appreciation for these choices, which constitute the solid core of the industrial plan which we presented in London last November and which clearly delineates the path which Pirelli will take over the next four years. We further increased our size, with sales exceeding six billion euro, but above all, thanks to our focus on the Premium segment, profitability reached 13%, in line with the best levels of the tyre sector. From now until 2017, the period of our industrial plan, we want to do even better, bringing it to over 15%. These results are achievable because of the quality and professionalism of Pirelli's people and thanks to technologies which enable us to produce and develop high-end products around the world - factors which are the basis for solid cash generation. Our organizational model has also evolved significantly, moving hand in hand with the "cultural" transformation which saw us move from a logic of "volumes" to one of "value". After

"PIECE BY PIECE, WE HAVE LAID THE BASIS FOR THE "PIRELLI OF THE FUTURE" WHICH CONTINUES TO DEMONSTRATE ITS CAPACITY

an initial phase during which, in order to speed up this transformation, all functions reported directly to the Chairman and CEO, we created a General Operations Directorate to flank the Chief Technical Officer, focused on product development, quality and the relationship with car makers. The capacity to innovate, which has always distinguished Pirelli and which each year sees us spend 7% of our Premium revenues on Research & Development, enables us to satisfy the most demanding requests of car makers in Original Equipment as well as anticipating the evolution of consumer demand, in terms of the quality of customer service and, on the product front, in terms of performance, safety, advanced technology. Technology which we are again committed to supplying to the world of Formula 1, where we are exclusive suppliers for another three years. The group's sustainability plan, with vision to 2020, reinforced our strategy of continuous improvement in social and environmental performance; an integrated approach which saw Pirelli's confirmation at the top of the most prestigious sustainability indices.

We have overcome many challenges and many others are sure to emerge, but we are determined to remain the protagonists in a story of success.

So to all of our Stakeholders, thank you once again.

TO RESPOND WITH DETERMINATION TO THE DIFFICULTIES AND OPPORTUNITIES WHICH APPEAR ALONG ITS PATH.

Chairman and CEO

Marco Tronchetti Provera

SPINNING THE WHEEL, PERFECTING THE TYRE

Pirelli's job is to "reinvent" the wheel every day, focusing on research, technology and creativity to drive new achievements in excellence. And that requires talent.

Pirelli decided to highlight this theme in the 2013 annual report, by asking 10 young professionals from around the world - including an architect, a physicist, a designer, a chef and a tenor - to interpret the wheel, using their talent and the tools of their trade. Last January, in the premises of the Pirelli Foundation in Milan, these young people took part in two lively days of discussion and work on how their creativity might be applied to reinventing the wheel, each through his or her particular talent.

The fruits of this workshop which, like the annual report, assumed the name Spinning the Wheel, were the ten "interpretations" illustrated and described in the following pages, accompanied by the reflections of the writer and playwright Hanif Kureishi, who coordinated the two-day session.

Over the course of the workshop, the ideas of the ten participants took shape, evolving into the photonic wheel of the Italian physicist Fabio Sciarrino, the rounded school (free of corners) designed by the studio of the Spanish architect Jaime Magen and the original parallel between the gears of the human body and tyres hypothesised by the Swiss biomedical researcher Sandra Hofmann Boss.

Spinning the Wheel describes the creative process, guided by talent, with the aim of highlighting the creativity, intuition, commitment, tenacity and passion that go into a successful idea, project or product.

These are essential ingredients in creating a tyre which, despite looking like nothing more than a round, black object, represents a synthesis of research, innovation and technology that make it an extremely sophisticated product.

P ZERO
PIRELLI

GENERAL INFORMATION

CALL OF GENERAL MEETING

Those entitled to vote in the meeting of the ordinary shareholders of Pirelli & C. Società per Azioni are called to an Ordinary General Meeting in Milan, at Viale Sarca, n. 214, on Thursday, 12th June, 2014 at 10.30 a.m., in single call, to discuss and resolve on the following

AGENDA

- Financial Statements at 31 December, 2013. Resolutions relating and consequent thereto.
- Appointment of the Board of Directors:
  - determination of the number of the members of the Board of Directors;
  - determination of the term of office of the Board of Directors;
  - appointment of the Directors;
  - determination of the annual remuneration of the members of the Board of Directors.
- Remuneration policy: consultation.
- Three year cash incentive plan (2014-2016) for the Management of the Group. Resolutions relating and consequent thereto.
- Purchase and disposal of treasury shares. Resolutions relating and consequent thereto.

Board of Directors[1]	
Chairman and Chief Executive Officer	**Marco Tronchetti Provera**
Deputy Chairman	**Alberto Pirelli**
Director	Carlo Acutis
Independent Director	Anna Maria Artoni
Director	Gilberto Benetton
Independent Director	Alberto Bombassei
Independent Director	Franco Bruni
Independent Director	Luigi Campiglio
Director	Paolo Fiorentino
Independent Director	Jean Paul Fitoussi
Independent Director	Pietro Guindani
Independent Director	Elisabetta Magistretti
Director	Massimo Moratti
Director	Gaetano Micciché
Director	Renato Pagliaro
Independent Director	Luigi Roth
Director	Luca Rovati
Lead Indipendent Director	Carlo Secchi
Independent Director	Manuela Soffientini
Director	Claudio Sposito
Secretary to the Board	Anna Chiara Svelto

Board of Statutory Auditors [2]	
Chairman	**Francesco Fallacara**
Statutory Auditors	Antonella Carù
	Enrico Laghi
Deputy Auditors	Umile Sebastiano Iacovino
	Andrea Lorenzatti

Internal Control, Risks and Corporate Governance Committee	
Chairman of the Committee - Lead Independent Director	**Carlo Secchi**
Independent Director	Franco Bruni
Independent Director	Elisabetta Magistretti
Independent Director	Luigi Roth

Remuneration Committee	
Chairman of the Committee - Independent Director	**Luigi Roth**
Independent Director	Anna Maria Artoni
Independent Director	Luigi Campiglio
Independent Director	Pietro Guindani

Nominations and Successions Committee	
Chairman of the Committee	**Marco Tronchetti Provera**
Independent Director	Luigi Campiglio
Independent Director	Luigi Roth

Strategies Committee	
Chairman of the Committee	**Marco Tronchetti Provera**
Independent Director	Alberto Bombassei
Independent Director	Franco Bruni
Director	Paolo Fiorentino
Director	Gaetano Micciché
Director	Renato Pagliaro
Lead Independent Director	Carlo Secchi
Independent Director	Manuela Soffientini
Director	Claudio Sposito

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

Corporate Financial Reporting Manager [4]	
	Francesco Tanzi

General Manager Operations [5]	
	Gregorio Borgo

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

[1] Appointment: April 21, 2011. Expiry: Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2013.
Manuela Soffientini, co-opted on March 1, 2012, was confirmed as Director by the Shareholders' Meeting on May 10, 2012. Jean Paul Fitoussi and Luca Rovati were appointed by the Shareholders' Meeting on May 10, 2012. Paolo Fiorentino and Claudio Sposito were co-opted on October 21, 2013. Gaetano Micciché was co-opted on November 5, 2013.

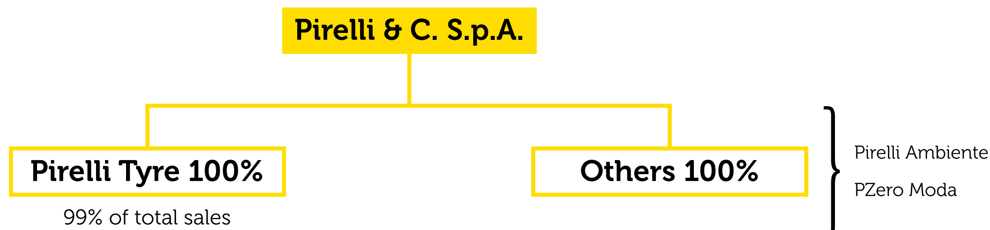
[2] Appointment: May 10, 2012. Expiry: Shareholders' Meeting called to approve the Annual Financial Report at December 31, 2014.

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

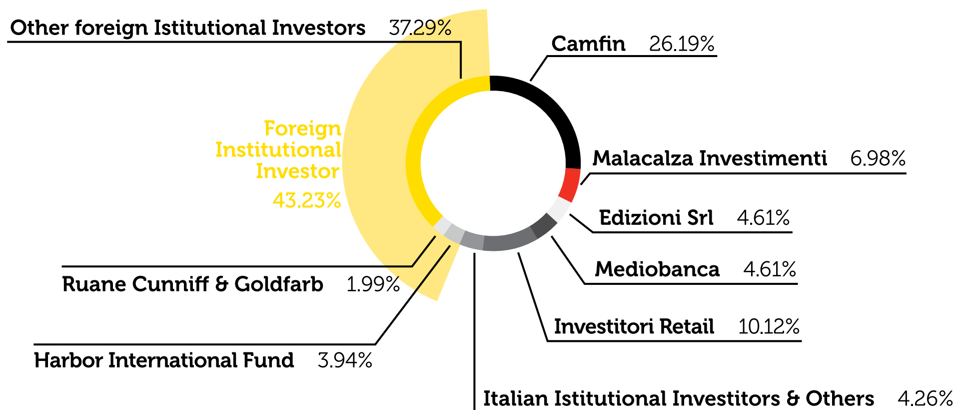
[4] Appointment: Board of Directors meeting held on April 21, 2011. Expiry: together with the current Board of Directors.

[5] Appointment: Board of Directors meeting held on September 23, 2013.

STRUCTURE OF PIRELLI GROUP AT DECEMBER 31, 2013



SHAREHOLDER STRUCTURE AT DECEMBER 31, 2013



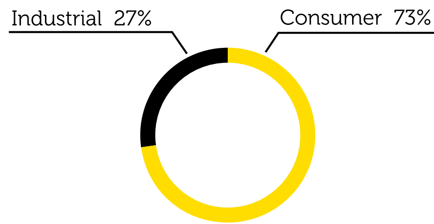
MARKET CAPITALIZATION[1] (in millions of euro)

	2013YE	2012YE	2011YE
Pirelli Ordinary (Reuters: PECI.MI,; Bloomberg: PC IM)	5,468.5	4,190.8	3,164.0
Pirelli Saving (Reuters: PECIn.NI,; Bloomberg: PCP IM)	101.8	66.7	55.5
Total	**5,570.3**	**4,257.5**	**3,219.5**

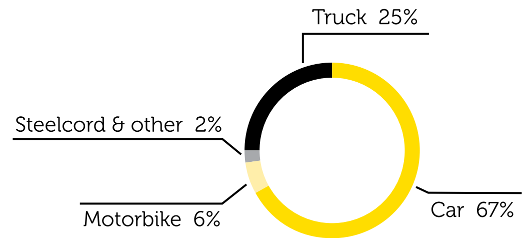
[1] Based on December average price

PIRELLI TYRE SALES

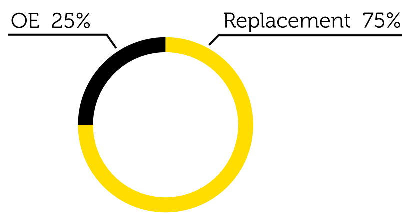
SALES BY BUSINESS



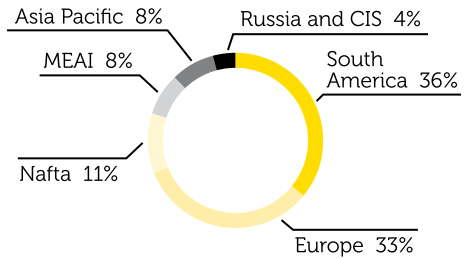
SALES BY SEGMENT



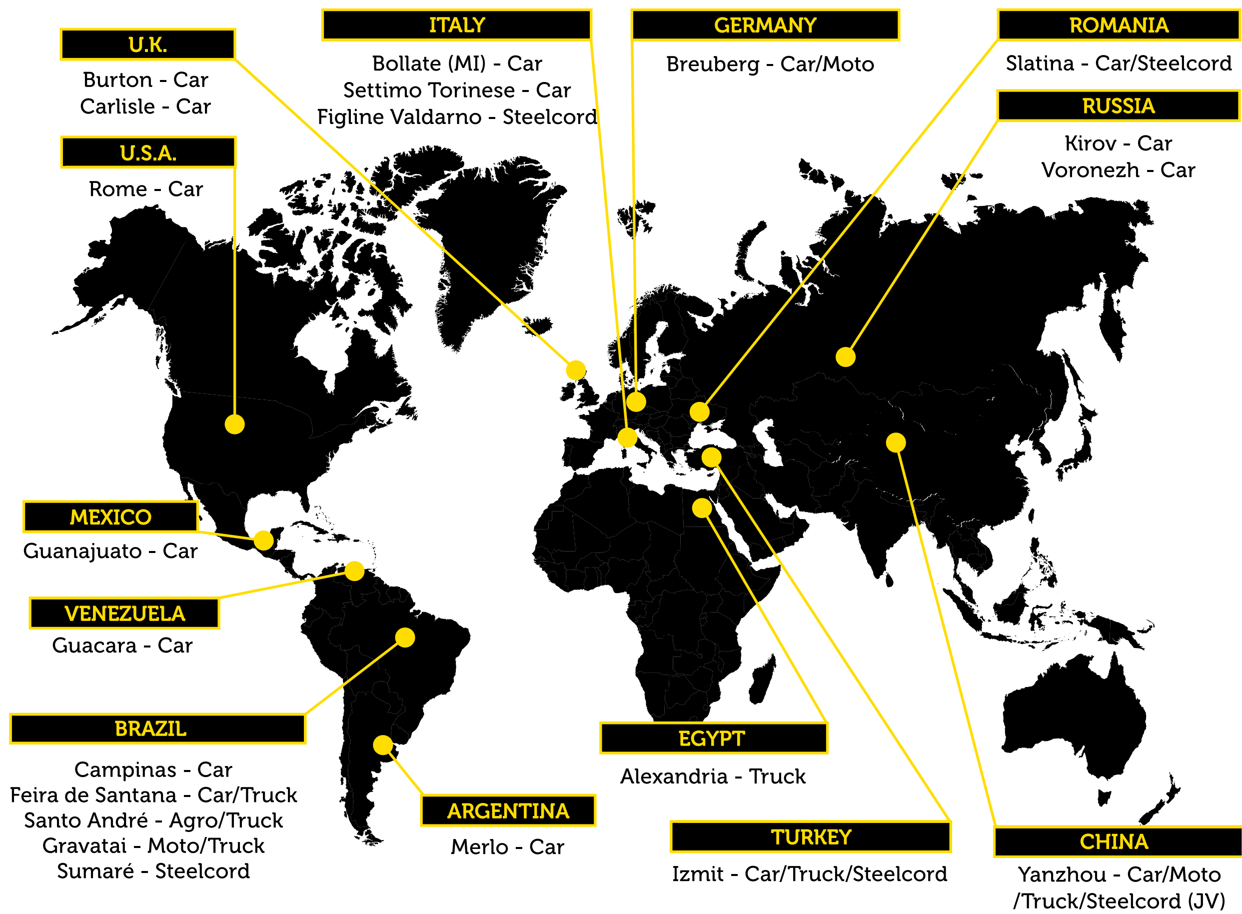
SALES BY CHANNEL



SALES BY REGION



PIRELLI TYRE PLANTS IN THE WORLD



SELECTED ECONOMIC AND FINANCIAL DATA (in millions of euro)

	2013	2012	2011	2010 (:)	2009 (:)
GROUP INCOME STATEMENT					
Net sales	**6,146**	**6,072**	**5,655**	**4,848**	**4,067**
Gross operating profit	**1,080**	**1,064**	**807**	**629**	**453**
% of net sales	17.6%	17.5%	14.3%	13.0%	11.1%
Operating income	**791**	**792**	**582**	**408**	**250**
% of net sales - ROS	12.9%	13.1%	10.3%	8.4%	6.1%
Net income (loss) from continuing operations	**306**	**398**	**313**	**228**	**77**
Net income (loss) from discontinued operations	-	-	-	(224)	(100)
Prior period deferred tax assets - Italy	-	-	128	-	-
Net income (loss)	**306**	**398**	**441**	**4**	**(23)**
Net income attributable to owners of Pirelli & C. S.p.A.	**304**	**387**	**452**	**22**	**23**
Total net earnings per share attributable to owners of Pirelli & C. S.p.A. (in euro)	0.622	0.793	0.926	0.044	0.047 (°°)
TOTAL TYRE INCOME STATEMENT					
Net sales	6,116	6,031	5,602	4,772	3,993
Gross operating profit	1,107	1,087	858	661	501
% of net sales	18.1%	18.0%	15.3%	13.9%	12.5%
Operating income	822	821	644	453	309
% of net sales - ROS	13.4%	13.6%	11.5%	9.5%	7.7%
GROUP BALANCE SHEET					
Non-current assets	4,043	3,877	3,576	3,164	3,596
Operating net working capital	409	539	399	303	427
% of net sales	6.7%	8.9%	7.1%	6.2%	10.5%
Total net working capital	412	549	151	117	222
% of net sales	6.7%	9.1%	2.7%	2.4%	5.5%
Net invested capital	4,455	4,427	3,727	3,281	3,818
Equity	2,437	2,389	2,192	2,028	2,495
Provisions	696	832	799	797	795
Net financial (liquidity)/debt position	1,322	1,205	737	456	529
Equity attribuitable to the owners of Pirelli & C. S.p.A.	2,376	2,337	2,146	1,991	2,175
Equity per share attributable to the owners of Pirelli & C. S.p.A. (in euro)	4.87	4.79	4.40	4.08	4.46 (°°)
OTHER GROUP INFORMATION					
Net operating cash flow	719	281	156	310	496
Depreciation and amortization	270	260	221	217	198
Capital expenditure - tangible	402	456	618	433	225
Capital expenditure/depreciation	1.49	1.75	2.80	2.00	1.14
Research and development expenses	199	179	170	150	137
% of net sales	3.2%	2.9%	3.0%	3.1%	3.4%
Headcount (at 31.12)	37,979	37,338	34,259	29,573	29,570
of whom temporary workers	2,620	2,714	2,649	2,426	2,245
Sales per employee (in thousands of euro)	163	167	181	160	138
Operating income/Net invested capital ** - ROI	17.81%	19.44%	16.61%	11.49%	6.33%
Net income (loss)/Equity ** - ROE	12.70%	17.39%	20.89%	0.18%	(0.94%)
Net financial position/Equity - Gearing	0.54	0.50	0.34	0.22	0.21

(:) comparative income statement figures for 2009 related to Pirelli Real Estate and Pirelli Broadband Solutions business unit, discontinued in 2010, have been reclassified to.

(°°) 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

** Average amounts

DIRECTORS' REPORT ON OPERATIONS

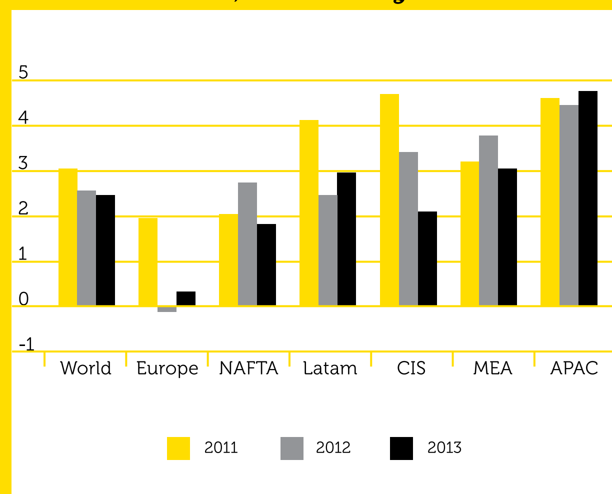
MACROECONOMIC AND MARKET CONTEXT

The international economy

The global GDP rose by 2.5% in 2013, at virtually the same rate as in 2012 (+2.6%) but with higer volatility in emerging countries.

Cyclical recovery in the eurozone seems to have gotten underway, although at a moderate pace. The latest macroeconomic figures released in the United States confirm the steady improvement in the U.S. economy that has led the Federal Reserve Bank to reduce its extraordinary measures to support growth. However, these measures negatively impacted emerging countries, with an outflow of investing capital, softening of local currencies and higher inflation. The consequent increase in interest rates has caused economic growth to slow down in those countries.

WORLD GDP GROWTH, Annual % Change



Source: IHS Global Insight, January 2014

Advanced countries grew by 1.3% in 2013, marking a slowdown from 1.4% growth in 2012. European economic activity was conditioned by the austerity programmes adopted in the individual countries that have curbed domestic demand. Nevertheless, improved financial stability, greater consumer and business confidence, and rising foreign demand have sparked a recovery. This has been led by Germany with the steadily increasing contribution made by peripheral countries over the course of the year. However, the overall macroeconomic situation remains fragile, access to credit is still limited, and restructuring of the financial system has yet to be completed. Low inflation and the high rate of unemployment impacted private consumption and economic performance.

GDP growth in North American countries slowed down in 2013 from the previous year, largely due to higher taxes in the United States and, in particular, the automatic spending cuts that came into force on March 1 (the "sequester"). Prolongation of the political debate also caused numerous U.S. federal offices to shut down in October, sapping further resources from the economy. In this context, the United States Federal Reserve Bank maintained a loose monetary policy in support of the economy and employment. In spite of the uncertainty dominating the political arena, GDP growth was sustained in 2H 2013 by consumer spending and residential property investments. This improvement nudged the annual GDP growth rate up to 1.9% and the Federal Reserve Bank to taper off its expansionary monetary policies.

Growth on the Asian economies accelerated slightly in 2013 from the previous year, mainly due to the recovery in Japan, whose economy was stimulated by monetary and budget policies that bolstered consumer confidence and spending. China initiated a new reform phase, and seems to be performing as expected with the planned "soft landing" – development at high rates that are nonetheless lower than the peaks reached during the last several years, with growth of 7.7% in 2013.

Economic activity in Brazil, the biggest economy in Latin America, expanded by 2.3% in 2013, with a slowdown in the second half of the year. Like other emerging country currencies, the real depreciated following the announcement that quantitative easing would be tapered off in the United States, and thus exacerbating inflation. The consequent monetary squeeze operated by Central Bank impacted investment spending in particular. In Argentina, strong economic growth in 1H 2013 was followed by softening in 4Q 2013 as domestic

demand slowed down. An acceleration in the depreciation of the peso, and expectations of a further increase in inflation dented consumer confidence on fears of an additional reduction in their purchasing power.

Exchange rates

The tensions that arose on the international markets triggered volatile swings in exchange rates. Expectations that Federal Reserve Bank purchases of U.S. government bonds would be cut back ("tapering") encouraged a steady outflow of capital from emerging countries, exacerbating the depreciation of their currencies and simultaneously benefiting reserve currencies.

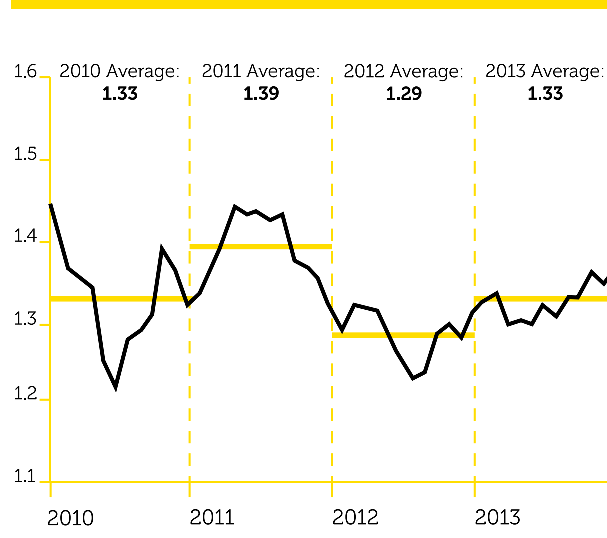
In 2013 the **euro** strengthened against the dollar, rising from an average level of USD 1.29 (in 2012) to USD 1.33. The euro rose particularly in 4Q 2013, reaching USD 1.36 notwithstanding the 25 basis point cut in the European Central Bank reference rate (to 0.25%) in November.

In Asia, the **yen** rate was influenced by the expansionary monetary policy undertaken by the Japanese central bank to stimulate sluggish growth and fight deflation. The average yen-U.S. dollar exchange rate rose from 79.8 in 2012 to 97.6 in 2013, which was equivalent to depreciation of the yen by 18%. With the exception of the brief period of uncertainty triggered by the U.S. Federal Reserve Bank announcement on May 22 that quantitative easing would be tapered off (coinciding with the period when all reserve currencies appreciated), the yen softened steadily over the course of the year.

The appreciation of the **Chinese renminbi** remained under the prudent control of Chinese monetary authorities, levelling off at an average of 6.3 renminbi to the U.S. dollar in 2013, corresponding to an appreciation of 2.1%.

Latin American currencies depreciated steeply against the U.S. dollar in 2013. They were hit especially hard by the U.S. Federal Reserve Bank announcement that quantitative easing would be tapered off, which triggered a brusque contraction in foreign credit to emerging countries. The **Brazilian real** fluctuated in a range between 1.95 and over 2.40 BRL/USD in 2013, for an average of 2.16. This represented a depreciation of nearly 10% from 2012 in spite of the rise in the reference rate by the Brazilian central bank (from 7.25% in March 2013 to 10.50% in January 2014). The **Argentine peso** also fell sharply: the average rate for 2013 – 5.48 pesos to the U.S. dollar – reflects a 17% decrease from 2012, following a 9% fall in 2012. The **Venezuelan bolivar** was devalued in February 2013, until the official exchange rate rose from 4.3 to 6.3 bolivars per U.S. dollar.

EUR/USD EXCHANGE RATES



Source: ECB

AUTOMOTIVE MARKET

Car and Light Vehicle Sales

In 2013 global sales of new vehicles rose by 4%, compared with +5% in 2012 (Source: IHS). The market was boosted especially by sales in China, the United States and the United Kingdom.

The contraction of the automotive market in **Europe** abated in 2013. It fell by a total of 2% from 2012, but did start growing again in 4Q 2013. Peripheral markets and core markets were both affected by weak demand. The significant growth in the United Kingdom and the lower growth in Spain and Portugal were unable to offset the fall in sales in Germany, France, Italy and the Netherlands. Although subsidies were introduced in Russia during 2H 2013 to ease access to credit, vehicle registrations fell by an average 6% for the year. This trend was driven mainly by the economic slowdown and termination of government incentives that had sustained registrations in 2012.

Nafta members benefited from a positive macroeconomic situation that supported vehicle registrations. The United States recovered volumes in 2013 that had been lost after the 2008-2009 financial crisis, and sales of light vehicles rose by 8%, slightly lower than in 2012.

Markets in **Asia** turned in a mixed performance. In China car registrations jumped by 15%, accelerating during the last months of the year. The market benefited from robust increase in the number of dealers and greater use of financing by consumers. In Japan, car sales dipped slightly in 2013, being negatively impacted by the termination of government eco-incentives in 2012. However, purchases recovered at the end of 2013 in anticipation of higher consumption taxes scheduled to take effect in April 2014.

In **Latin America** the car market expanded by 1%, being impacted by contraction on the Brazilian market. The end of car purchase incentives, which had sustained demand for the last two years, coupled with the rising cost of consumer credit, negatively impacted registrations, which contracted by 1%. The car market expanded robustly instead in Argentina, with sales up by more than 10%. Consumers there purchased cars as a "safe haven" in the face of high inflation.

Commercial Vehicle Sales

The commercial vehicle market stabilised in 2013 after global demand fell by 7% in 2012. Sales rose in emerging markets, while mature markets returned to growth only in the closing months of the year. China and South America distinguished themselves as the most dynamic markets, posting double-digit growth in 2013.

Commercial vehicle sales in **Western Europe** rose slightly (+1%), mainly due to improvement during 4Q 2013. New registrations of heavy trucks rose by +6% from 2012, with a fast acceleration during the last months of the year following introduction of the Euro VI regulations (in force from January 2014). Just as noted in the car market, the United Kingdom and Spain contributed the most to growth, while the German and French markets contracted slightly. The Italian market remained the weakest of the leading markets, with sales of vehicles having a curb weight of over 3.5 tons falling 8%. In **Russia** the commercial vehicle market contracted in step with weakening industrial production, combined with the introduction of a tax for the recycling of imported vehicles (which was extended to cover locally made vehicles as well in January 2014).

In the **United States** the moderate recovery of demand for heavy range vehicles that began in mid-2012 continued. Vehicle purchases in this market accelerated in 2H 2013 in response to expansion of the construction industry. The heavy vehicle segment grew by 1% from the previous year, and +10% in the light range vehicle segment.

In **Asia**, China recovered its status as the main force driving the growth on the commercial vehicle market after contracting in 2012. The demand for commercial vehicles leapt at a double-digit rate in 2013, being driven by the implementation of emissions regulations at the beginning of 2014. On the contrary, the Japanese heavy vehicle market slowed down after posting a 16% increase in 2012, remaining stable at the levels reached the previous year.

In **Latin America** commercial vehicle sales grew robustly in 2013. The market resumed expanding in Brazil after contracting sharply in 2012, when the introduc-

tion of emissions regulations had moved up sales to 2011. Commercial vehicle sales rose by 15% in 2013, after falling by -20% in the previous year. As in the car market, the Argentine market for commercial vehicles grew at a double-digit rate in 2013, as measured by both sales and production.

TYRE MARKET

Consumer segment

The global consumer tyre market totalled 1.4 billion units in 2013, marking a 3.5% increase after the slight decrease reported a year earlier. Asia Pacific and Latam were the regions that contributed most to growth, while mature countries had more modest growth. The premium market grew at a sustained rate, amounting to 9% globally.

The **European** tyre market ended 2013 with sales volumes at virtually the same level as the previous year. Both the original equipment segment and the replacement segment began growing in 3Q 2013, being driven by the steady improvement in consumer confidence. The premium market in Europe resumed growing at a rate higher than the market average after a slight downturn in 2012. The Russian consumer original equipment segmentrecorded negative rates as well as the summer replacement segment. This reflected the weak performance of the local economy, which was impacted by lower commodity prices.

In **Nafta** countries, consumer sales in the original equipment segment tracked the positive performance of vehicle production, growing by +5% in 2013 (+17% in 2012). Net sales in the replacement segment, excluding imports, decreased instead by 1% during the year. The result including imports was an increase of +4%, with growth occurring during the last four months of 2013.

The growth in vehicle output and registrations in **China** boosted original equipment tyre sales by 17% in 2013. In Japan, after the steep increase in 2012 connected with the increase in car production, original equipment sales decreased by 4%, while they increased by 4% in the replacement segment.

Driven by the strong performance of Brazil and Argentina, the **South American** tyre market grew in both product segments during 2013.

Tyre sales, Consumer segment		***2010***	***2011***	***2012***	***2013***
Europe*	Original equipment	13%	3%	-9%	0%
	Replacement	8%	3%	-12%	0%
Nafta	Original equipment	39%	10%	17%	5%
	Replacement	4%	-1%	-5%	-1%
South America**	Original equipment	13%	2%	0%	6%
	Replacement	11%	7%	1%	9%
China	Original equipment	31%	2%	7%	17%
Japan	Original equipment	20%	-13%	19%	-4%
	Replacement	9%	8%	-1%	4%

* including Turkey, excluding Russia.
** Argentina, Brazil and Venezuela.
Note: data do not include imports, with the exception of South America, where the replacement segment includes imports to Brazil.
Source: Pirelli estimates.

Industrial segment

The global radial truck tyre segment amounted to 140 million units in 2013, up 3% from 2012. This was mainly due to China (the biggest market with about 40% of the global market), Brazil and Europe.
After sales contracted in 2012, the **European** industrial tyre market (including Turkey) resumed growing in 2013, increasing by 6% in the original equipment segment and 7% in the replacement segment (net of imports).
After three years of expansion, original equipment sales in **Nafta** countries fell by 4% in 2013 (net of imports), while those in the replacement market rose by +2% after contracting the previous year.
In **Asia**, the recovery in commercial vehicle production and registrations in 2013 pushed original equipment sales in China up sharply by 17%. The replacement tyre segment turned in a positive performance, with a +3% increase. In Japan, sales to the original equipment segment remained substantially unchanged from the previous year, while the replacement channel, which showed a 6% increase, recovered from the downturn of the previous year.
In **South America**, the development of commercial vehicles in Brazil and Argentina was reflected by original equipment tyre sales, which rebounded by 34% in 2013 after plunging -29% in the previous year. Sales in the replacement channel also recovered by +10% after falling in 2012.

Tyre sales, Industrial segment		2010	2011	2012	2013
Europe*	Original equipment	57%	32%	-8%	6%
	Replacement	18%	-1%	-17%	7%
Nafta	Original equipment	30%	55%	5%	-4%
	Replacement	18%	3%	-11%	2%
South America**	Original equipment	47%	11%	-29%	34%
	Replacement	23%	2%	-4%	10%
China	Original equipment	53%	-15%	-19%	17%
	Replacement	10%	1%	-4%	3%
Japan	Original equipment	37%	-2%	15%	1%
	Replacement	14%	7%	-4%	6%

* including Turkey, excluding Russia.
** Argentina, Brazil and Venezuela.
Note: data do not include imports, with the exception of South America, where the replacement segment includes imports to Brazil.
Source: Pirelli estimates

Commodities

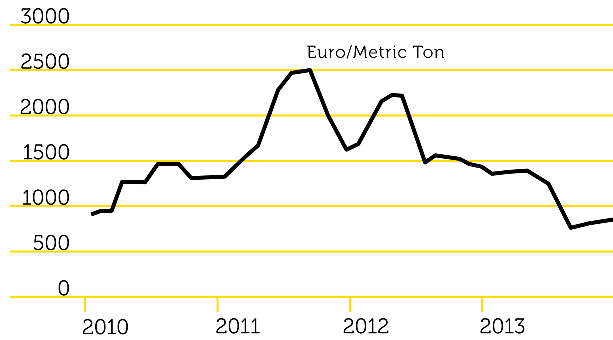
Moderate global growth in 2013 translated into limited inflation and commodity price increases. The average USD 109/bbl price for Brent crude oil in 2013 was slightly lower from the average of USD 112/bbl in the previous year. While geopolitical tensions in Syria drove up crude oil prices in the first part of 2013, higher oil and gas production in non-OPEC countries, especially the United States, reduced supplier price pressures, contributing to the relatively stable price for Brent crude during the year.

The price of natural rubber (TSR20) was impacted instead by the weakening of demand in Europe and China and increased production. This last factor resulted from the growth in commodity prices between 2005 and 2008 and consequent investments in cultivated areas. The average purchase price of USD 2,518/ton in 2013 was 20% lower than the average price of USD 3,156/ton in 2012.

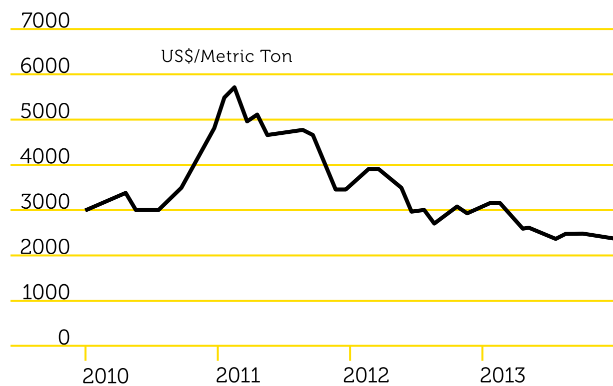
Hit by weak demand and excess supply, prices for butadiene, which is the principal ingredient used in making synthetic rubber, fell in 2013. Prices fell below euro 1,000/ton (euro 750/ton in August) for the first time since March 2010, and the average purchase price in 2013 was euro 1,108/ton, 37.5% lower than in the previous year.

COMMODITY PRICES

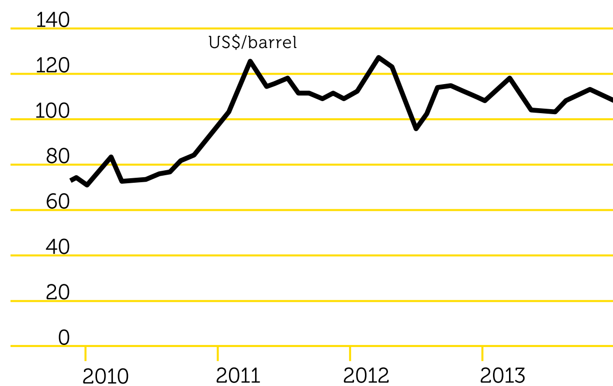
BUTADIENE



NATURAL RUBBER TSR20



BRENT



Source: IHS Global Insight

SIGNIFICANT EVENTS IN 2013

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

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

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

On **January 30, 2013** Pirelli and Russian Technologies announced the start-up of a new production line at the Voronezh factory, in southwest Russia. Following the investments in new technology made there, this new production line now meets Pirelli standards and will allow to produce premium tyre compounds, especially in the winter segment. Investments will total euro 100 million in 2015.

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

On **March 26, 2013** Pirelli expanded its range of premium products with Winter Sottozero 3, an ultra-high performance tyre developed for medium-large engine cars in the premium segment that can enhance the sporty performance of such vehicles. The new Winter Sottozero 3 is the result of a joint development project with the most prestigious car companies and is designed to equip sports cars and powerful sedans. An innovative compound was developed in Pirelli laboratories to improve tyre performance, such as road hold, even in wet or icy conditions, while improving the driving performance characteristics of the tyre.

On **March 27, 2013** Pirelli & C. S.p.A, in relation to the extraordinary operation of the re-launch of the Prelios group approved by the Board of Prelios S.p.A., involving restructuring of its financial position, announced – in its role of financier to Prelios S.p.A –its participation along with the other parties involved. For Pirelli, this entailed the contribution of new financial resources indirectly through subscription of the capital increase of Fenice S.r.l. for euro 23 million in August and restructuring of the entire credit during last August, totalling euro 173.5 million, claimed against Prelios at December 31, 2012, with conversion into shares and equity instruments (the "convertendo") for euro 169.9 million and collection of the remaining euro 3.6 million. Pirelli's participation in the operation of re-launching Prelios S.p.A. does not change in any way Pirelli's strategic focus on the core tyre business, but has as its sole objective the strengthening of Prelios' equity and finances with the aim of maximising the value of Pirelli's credit towards Prelios S.p.A.

On **April 8, 2013** Pirelli presented the Angel GT tyre on board of the ship *Cavour* at Taranto. This new motorcycle tyre is certified as number one for mileage in the Sport Touring segment. Angel GT is the pride and joy of the Pirelli Sport Touring range. It is the natural heir of the Angel ST, the tyre that has repeatedly come first in comparative tests held by prestigious motorcycle mag-

azines and the holder of seven world duration records. Compared with its predecessor, the Angel GT increases mileage by 30% and reduces braking distance by about one metre (at a speed of 75 km/h), while also improving grip and maneuverability under wet conditions.

On **April 15, 2013** a Memorandum of Understanding was signed by Pirelli and Rosneft for the first Pirelli premium flagship store in Russia. It will be located inside the new Rosneft service station in Sochi, on the Black Sea coast in the region of Krasnodar. The agreement represents a new important step towards development of the strategic commercial and marketing collaboration agreement initialled by the two partners on December 20, 2012. The agreement also calls for the opening of other similar sales outlets at Rosneft service stations located in areas offering access to premium customers.

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

On **May 13, 2013** the Shareholders' Meeting of Pirelli & C. S.p.A. approved the annual financial report 2012, which closed with consolidated net income of euro 398.2 million, of which euro 234.4 million attributed to the parent company, resolving to pay a dividend of euro 0.32 euro per ordinary share and euro 0.39 per savings share. The Shareholders' Meeting appointed Jean Paul Fitoussi (independent), Luca Rovati and Carlo Salvatori, who had been previously co-opted by the Board of Directors in July 2012, as Directors until the term of the current Board of Directors expires upon approval of the annual report 2013. The Shareholders' Meeting also authorised the Board of Directors to buy back and dispose of treasury shares up to the limit of 10% of share capital and for a maximum period of 18 months, and also approved certain amendments to the bylaws. The Shareholders' Meeting approved the Company Remuneration Policy, with a 98.6% majority of the voting shares.

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

- to Allianz S.p.A. to release from the Shareholders' Agreement the entire Pirelli & C. S.p.A. shareholding, amounting to 20,977,270 Pirelli & C. ordinary shares (4.41% of the share capital);
- to Fondiaria-Sai S.p.A. to release from the Shareholders' Agreement a total of 12,229,394 ordinary shares in Pirelli & C. S.p.A. (2.57% of the share capital);
- to Camfin S.p.A. to release from the Shareholders' Agreement a total of 33,300,000 ordinary shares in Pirelli & C. S.p.A. (7% of the share capital);
- to amend Article 2 of the Shareholders' Agreement by establishing that, in case of renewal, the extension of the Shareholders' Agreement for the Participants that have not opted out shall be subject to the condition that the remaining financial instruments tied to the Shareholders' Agreement together represent at least 30% (rather than 33%, as previously envisaged) of the ordinary subscribed share capital of Pirelli & C. S.p.A.

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

On **October 30, 2013** the Block Voting Shareholders' Agreement of ordinary shareholders of RCS MediaGroup S.p.A, to which Pirelli belonged, was prematurely dissolved. Therefore, beginning on the date that the Block Voting Shareholders' Agreement was dissolved, the equity investment held in RCS Mediagroup will be reclassified on the Pirelli statement of financial position as a financial asset available-for-sale.

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

On **August 5, 2013** in relation to the joint venture between Pirelli, Russian Technologies ("RT") and Fleming Family & Partners – now named GHP Asset Management Holdings Ltd. ("GHP") – Pirelli, confirming the strategic importance of the Russian market, seized the opportunity to increase its own participation in the project, as agreed with its financial partner GHP and the shareholder RT. This raised the Pirelli shareholding from an initial 50% to 65% in the joint venture, following reduction in the GHP shareholding from 25% to 10% and maintenance of the RT shareholding at 25%. The agreements made by the parties envisage that Pirelli may further increase its shareholding in the joint venture in 2017, by exercising the put and call options on the entire 10% shareholding still owned by GHP, and on a 15% shareholding (out of the total 25% total holding) owned by RT.

On **September 26, 2013** the Operations Management Department was formed, and Gregorio Borgo, previously in charge of the Asia-Pacific region, was named as General Manager Operations. The reorganisation aims to maximize oversight of the business and geographical coordination of all operational activities linked to product development and management. The organisational units linked to operations management (Industrial Operations, Supply Chain, Product and Original Equipment Aftermarket and Marketing), the Industrial and Moto Business Units, as well as the different Regions (Europa, Africa, Middle East and India, Asia-Pacific, Latam, Nafta and Russia) report to the General Manager Operations.

On **October 16, 2013** Carlo Salvatori resigned as member of the company Board of Directors, due to the recent concentration of his professional commitments.

On **October 21, 2013** the Board of Directors of Pirelli & C. S.p.A. co-opted Claudio Sposito and Paolo Fiorentino. They were appointed after the resignation of Directors Vittorio Malacalza and Giulia Maria Ligresti, which were notified on May 10, 2013 and July 24, 2013, respectively.

On **October 21, 2013** the Management of the Pirelli & C. S.p.A. Block Syndicate voted to appoint the lawyer Alessandro Pedersoli to open consultations between all aderents to the pact in view of its upcoming expire and to evaluate a possible early winding up of the agreement. Following the consultations sponsored by the Pirelli & C. S.p.A. Block Syndicate, the syndicate participants (Assicurazioni Generali S.p.A., Camfin S.p.A., Edizione S.r.l., Fondiaria-SAI S.p.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A, Massimo Moratti and Sinpar S.p.A) agreed to dissolve the shareholders' agreement prematurely, before its expiry on April 15, 2014. Therefore, since **October 31, 2013** the participants have been definitively and irrevocably released from all the commitments and obligations resulting from the agreement.

On **November 5, 2013** Gaetano Micciché was co-opted by the Board of Directors following the resignation of Carlo Salvatori. At the same meeting, the Board of Directors appointed Gaetano Micciché and Paolo Fiorentino as members of the Strategies Committee.

On **November 5, 2013** the Board of Directors of Pirelli & C. S.p.A. gave the Chairman a mandate for further analysis of a possible partnership for the Steel Cord business unit. The decision, which was approved by the Strategies Committee, reflects the management's decision to examine possible opportunities to develop the business in partnerships that would guarantee it a significant international presence and adequate competitive standards.

On **November 6, 2013**, Pirelli presented the Business Plan 2013-2017 in London. This plan forecasts growth in the business segments with higher added value, the extraction of value from selected medium segment products, further reduction of volumes and capacity in the standard segment, realisation of a new efficiency plan, selective investment in high-return projects and continuous monitoring of working capital. These actions, supported by capital expenditure of euro 1.6 billion, should allow Pirelli to achieve Ebit (before restructuring charges) of over 15% in 2017 and ROI (excluding financial investments) of about 28%, as well as limit net debt to about euro 500 million at the end of the plan,

through the forecast generation of solid cash flow.

On **November 26, 2013** Pirelli, Rosneft and Rostec (Russian Technologies) signed a Memorandum of Understanding (MOU) to carry out joint research and development activities on materials to be used in tyre production. Such materials include synthetic rubber, fillers such as carbon black and reinforcing materials, with all of them being developed at the high technological standards of Pirelli.

On **December 27, 2013** Pirelli, Rosneft and Oil Techno signed a Memorandum of Understanding for joint research and development in the synthetic rubber field, and particularly Styrene-Butadiene Rubber (SBR), in Armenia. According to the terms of the preliminary agreement, Rosneft will be the principal investor in the activities related to SBR rubber in Armenia and Oil Techno will represent the local partner. For its part, Pirelli will collaborate with Rosneft in research and development activities related to SBR rubber, and is interested in defining a long-term supply agreement for purchase of the SBR rubber to be produced.

GROUP PERFORMANCE AND RESULTS IN 2013

In addition to the financial performance measures established by the International Financial Reporting Standards (IFRSs), this report presents alternative performance indicators that are derived from IFRSs. These performance indicators are used to facilitate understanding of Group operating performance. These indicators are: Gross Operating Profit, Non-current assets, Provisions, Operating working capital, Net working capital, and Net financial (liquidity)/debt position. Please refer to the section "Alternative performance indicators" for a more analytical description.
Following the entry into force of the newly revised standard IAS 19 – Employee Benefits on January 1, 2013, the 2012 figures have been restated.
The following table summarises the impact of this change on the main statement of financial position and income statement items in each quarter and their totals for all of 2012. Please refer to the notes to the consolidated financial statements for additional details

(in millions of euro)

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

In this document, comments on changes from December 31, 2012 always refer to the restated amount, unless otherwise indicated.

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The macroeconomic situation was still difficult in 2013, with the European business cycle beginning to recover at a moderate pace and emerging country exchange rates growing volatility (Brazilian real, Argentine peso, Turkish lira and Egyptian pound).
This situation is reflected in the performance of the markets where Pirelli operates. Europe reported volumes that were stable at their 2012 levels, while the soft market in Russia mainly affected the original equipment and summer segments. The premium segment, which is at the centre of Group strategy, continued growing and outperforming the market average, rising by about 9% (car tyres).
Notwithstanding this general situation, exposure to the most dynamic markets and focus on value segments allowed Pirelli to expand its volumes in the consumer business by 4.6% and its premium segment volumes by 15.3%, higher than the 2013 target of more than 13%.
Volumes also increased in the industrial business as compared with 2012, mainly due to the positive performance of sales on South American markets during the first part of the year.

Consolidated net sales in 2013 totalled euro 6,146.2 million, up 1.2% in spite of the large, negative translation effect (-7.2%). This was accomplished thanks to the increase in premium segment sales (49.3% of consumer business net sales, up 2.3 percentage points as compared with 2012) and the growing contribution made by emerging markets (55.7% of tyre sales, with its share increasing by about 1.6 percentage points on an annualised basis).
Consolidated operating income totalled euro 791.0 million, with Ebit margin of 12.9%, virtually unchanged from 2012 (operating income of euro 792.5 million, Ebit margin 13.1%). Aside from the growth in volumes, this level of profitability benefits Pirelli, alone in its industry during 2013 to have improved its price/mix, due to its value strategy. The improvement in operating variables, together with efficiency gains, offset higher industrial costs (start-up in Mexico and Russia, conversion of the Settimo Torinese plants) and commercial costs – as investments in future business growth – including higher amortisation and depreciation.

Just like net sales, the net result was impacted by the unfavourable changes in exchange rates, which generated a negative change of nearly euro 63 million in consolidated net income.
Net income for 2013 was euro 306.5 million, compared with euro 391.5 million in 2012. The net total was impacted by higher net financial expenses, up by about euro 45 million to euro 195.8 million. The change is attributable to the higher average level of debt, mainly during the first six months of 2013, the different mix of geographical areas of financing, the negative impact for euro 8.5 million resulting from the devaluation of the Venezuelan currency on the accounts of the local subsidiary, and euro 13 million less financial income from the loan to Prelios S.p.A. Finally, the comparison with the previous year reflects the recognition in 2012 of non-recurring exchange gains amounting to euro 8.7 million, related to the start-up of activities in Russia.
The aggregate impact resulting from long-term investments, which totalled a negative euro 78.3 million (negative euro 52.2 million in 2012) is tied to the investments in RCS MediaGroup S.p.A. and Mediobanca S.p.A. for about euro -20 million, fair value adjustment on the Prelios S.p.A. "convertendo" equity instrument by euro -44.3 million and the parent company share in the result of its associate Prelios S.p.A. for the last quarter of the year, as determined based on the current available information (euro -12.8 million).
The consolidated net financial (liquidity)/debt position was a negative euro 1,322.4 million, compared with a negative euro 1,205.2 million at December 31, 2012. The planned conversion of the financial receivable from Prelios S.p.A. into shares and equity instruments (the "convertendo") was carried out in 3Q 2013 following completion of the debt restructuring and capital increase process at the real estate company. The aggregate impact of these operations on the net financial (liquidity)/debt position of the Group was negative by about euro 193 million, including the cash payment of approximately euro 23 million for its share of the capital increase executed through Fenice S.r.l.

The allocated euro 21.3 million contribution by Pirelli to the capital increase of RCS MediaGroup S.p.A. was

made in 3Q 2013, while the parent company paid approximately euro 157 million of dividends to its shareholders in 2Q 2013.
Net operating cash flow totalled a positive euro 720.1 million in 2013, up sharply from euro 281.1 million in 2012, due to better management of working capital. This figure received a big boost in the last quarter of the year, which is seasonally more favourable.
Before payment of the parent company dividend to shareholders and the impact from conversion of the Prelios credit, the Group as a whole had net positive cash flow of about euro 232 million.

Net sales of the **Tyre Business**, which generates 99.5% of Company's net sales, totalled euro 6,115.8 million at December 31, 2013, with an increase of 1.4% (+8.6% net of the translation effect), being sustained by higher volumes (+5.7%) and improvement in the price/mix component (+2.9%).
Both businesses reported higher volumes: +4.6% in the consumer business, driven by sales in South America and good performance of the premium segment in China, Nafta and Europe, and +8.7% in the industrial business, where growth was focused on South America.
In geographical terms, the growth in revenue on emerging markets (+4.3%) more than offset the decrease in net sales in Europe and Nafta (-2.2% and -1.5%, respectively). In particular, net sales in South America increased by 5.2% (including the translation effect), and +14.5% in Asia-Pacific, while net sales in Russia were substantially stable from 2012, and down by 5% in Middle East Africa, impacted by highly volatile exchange rates.
Net sales in the premium segment totalled euro 2,210.0 million, up 6.5% from 2012, and grew over the course of 2013 after a negative first quarter.
Growth was greater in emerging countries, where premium segment net sales rose by +21.9% from 2012.
In Nafta, premium segment net sales grew by 3.1% and Europe, although impacted by recession, reported a 1.7% increase in premium segment net sales. This was the result of performance during the last two quarters of the year (+7.2% in 3Q 2013 and +17.2% in 4Q 2013).
Operating income was euro 822.0 million in 2013, with an Ebit margin of 13.4% (euro 820.8 million in the previous year, equal to 13.6% of net sales).
Focusing on the different business segments, the consumer business was more impacted by the performance of the European and Russian markets, which were stable and down slightly, respectively. Net sales in 2013 totalled euro 4,478.9 million, +1.3% from 2012 (including the 6.5% negative translation effect). Operating income was euro 596.4 million, with an Ebit margin of 13.3%, down by 1.2 percentage points from 2012, mainly due to the negative translation effect, the costs of converting the Settimo Torinese truck plants to premium car tyre production, the start-up costs of activities in Mexico and Russia, and higher commercial costs for development of the premium segment.
The industrial business, focused mainly in South America and the Middle East Africa and India area, had net sales of euro 1,636.9 million, up 1.6% from 2012 (net of a negative 9.2% translation effect). Operating income improved by 26% to euro 225.6 million, with the Ebit margin growing from 11.1% to 13.8%, partly due to production capacity being located entirely in countries having low industrial costs.

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

(in millions of euro)

	12.31.2013	*12.31.2012 restated*	*12.31.2012 reported*
Net sales	**6,146.2**	**6,071.5**	**6,071.5**
Gross operating profit before restructuring expenses	1,105.4	1,102.9	1,091.2
% of net sales	18.0%	18.2%	18.0%
Operating income before restructuring expenses	816.5	831.6	819.9
% of net sales	13.3%	13.7%	13.5%
Restructuring expenses	(25.5)	(39.1)	(39.1)
Operating income	**791.0**	**792.5**	**780.8**
% of net sales	12.9%	13.1%	12.9%
Net income (loss) from equity investments	(78.3)	(52.2)	(52.2)
Financial income/(expenses)	(195.8)	(150.5)	(129.5)
Pre-tax income (loss)	**516.9**	**589.8**	**599.1**
Income tax	(210.4)	(198.3)	(200.9)
Tax rate %	40.7%	33.6%	33.5%
Total net income (loss)	**306.5**	**391.5**	**398.2**
Net income attributable to owners of Pirelli & C. S.p.A.	303.6	387.1	393.8
Total net earnings per share attributable to owners of Pirelli & C. S.p.A. (in euro)	0.622	0.793	0.807
Non-current assets	**4,043.0**	**3,877.2**	**3,877.2**
Inventories	987.3	1,102.6	1,102.6
Trade receivables	666.4	704.6	704.6
Trade payables	(1,244.5)	(1,268.7)	(1,268.7)
Operating Net working capital	**409.2**	**538.5**	**538.5**
% of net sales	6.7%	8.9%	8.9%
Other receivables/other payables	3.0	11.0	11.0
Total net working capital	**412.2**	**549.5**	**549.5**
% of net sales	6.7%	9.1%	9.1%
Net invested capital	**4,455.2**	**4,426.7**	**4,426.7**
Equity	**2,436.6**	**2,389.4**	**2,389.4**
Provisions	696.2	832.1	832.1
Net financial (liquidity)/debt position	**1,322.4**	**1,205.2**	**1,205.2**
Equity attributable to the owners of Pirelli & C. S.p.A.	2,376.1	2,337.4	2,337.4
Equity per share attributable to the owners of Pirelli & C. S.p.A. (in euro)	4.869	4.790	4.790
Total Tyre - net sales	**6,115.8**	**6,031.3**	**6,031.3**
% of net sales total	99.5%	99.3%	99.3%
Total Tyre - operating income	**822.0**	**820.8**	**809.1**
% on total tyre - net sales	13.4%	13.6%	13.4%
Total Tyre - net sales Consumer	**4,478.9**	**4,419.8**	**4,419.8**
% on total tyre - net sales	73.2%	73.3%	73.3%
Total Tyre - net sales Industrial	**1,636.9**	**1,611.5**	**1,611.5**
% on total tyre - net sales	26.8%	26.7%	26.7%
Total Tyre - net sales Premium	**2,210.0**	**2,075.9**	**2,075.9**
% on net sales Consumer	49.3%	47.0%	47.0%
Capital expenditure	413.1	470.9	470.9
Research and development expenses	199.2	178.9	178.9
% of net sales	3.2%	2.9%	2.9%
Research and development expenses - Premium	163.3	141.9	141.9
% on sales Premium	7.4%	6.8%	6.8%
Headcount (number at end of period)	37,979	37,338	37,338
Industrial sites (number)	23	23	23

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

(in millions of euro)

	Total Tyre		Other business		Total	
	2013	2012 restated	2013	2012 restated	2013	2012 restated
Net sales	**6,115.8**	**6,031.3**	**30.4**	**40.2**	**6,146.2**	**6,071.5**
Gross operating profit before restructuring expenses	1,130.3	1,126.5	(24.9)	(23.6)	1,105.4	1,102.9
Operating income before restructuring expenses	845.4	859.9	(28.9)	(28.3)	816.5	831.6
Restructuring expenses	(23.4)	(39.1)	(2.1)	-	(25.5)	(39.1)
Operating income	**822.0**	**820.8**	**(31.0)**	**(28.3)**	**791.0**	**792.5**
% of net sales	*13.4%*	*13.6%*			*12.9%*	*13.1%*
Net income (loss) from equity investments					(78.3)	(52.2)
Financial income/(expenses)					(195.8)	(150.5)
Pre-tax income (loss)					**516.9**	**589.8**
Income tax					(210.4)	(198.3)
Tax rate %					*40.7%*	*33.6%*
Total net income (loss)					**306.5**	**391.5**
Net financial (liquidity)/debt position					**1,322.4**	**1,205.2**

Group performance broken down on a quarterly basis is shown next

(in millions of euro)

	1° Q		2° Q		3° Q		4° Q		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Net sales	**1,536.3**	**1,556.5**	**1,594.8**	**1,465.3**	**1,518.8**	**1,552.3**	**1,496.3**	**1,497.4**	**6,146.2**	**6,071.5**
yoy	*-1.3%*	*11.1%*	*8.8%*	*5.5%*	*-2.2%*	*5.3%*	*-0.1%*	*5.3%*	*1.2%*	*7.5%*
Gross operating profit before restructuring expenses	**255.3**	**279.1**	**278.2**	**271.2**	**279.9**	**267.6**	**292.0**	**285.0**	**1,105.4**	**1,102.9**
% of net sales	*16.6%*	*17.9%*	*17.4%*	*18.5%*	*18.4%*	*17.2%*	*19.5%*	*19.0%*	*18.0%*	*18.2%*
Operating income before restructuring expenses	**183.0**	**214.7**	**205.1**	**205.1**	**208.8**	**199.2**	**219.6**	**212.6**	**816.5**	**831.6**
% of net sales	*11.9%*	*13.8%*	*12.9%*	*14.0%*	*13.7%*	*12.8%*	*14.7%*	*14.2%*	*13.3%*	*13.7%*
Operating income	**179.8**	**212.7**	**200.9**	**192.6**	**201.0**	**195.5**	**209.3**	**191.7**	**791.0**	**792.5**
% of net sales	*11.7%*	*13.7%*	*12.6%*	*13.1%*	*13.2%*	*12.6%*	*14.0%*	*12.8%*	*12.9%*	*13.1%*
Pre-tax income (loss)	**114.6**	**188.9**	**137.1**	**155.9**	**158.5**	**126.3**	**106.7**	**118.7**	**516.9**	**589.8**
Total net income (loss)	**72.1**	**123.6**	**78.0**	**94.9**	**108.0**	**84.8**	**48.4**	**88.2**	**306.5**	**391.5**

NET SALES

In 2013 net sales totalled euro 6,146.2 million, up 1.2% from the previous year (euro 6,071.5 million), with 99.5% of net sales being generated by the Tyre Business, core business of the Group. Excluding the negative translation effect (-7.2%), net sales grew by 8.4% in 2013.

OPERATING INCOME

Operating income in 2013 totalled euro 791.0 million, with an Ebit margin of 12.9%, in line with 2012 (euro 792.5 million). This result benefited from the positive contribution made by volumes (euro +98 million), the improved price/mix component (euro +47 million), the lower cost of raw materials (euro +136 million), and gross efficiency gains (euro +74 million), which offset the negative impact of the change in consolidation translation rates (euro -62.7 million), higher production costs, including amortisation and depreciation, the previously mentioned plant conversion costs at Settimo Torinese, start-up costs in Mexico and Russia, and higher commercial costs for development of the premium segment.

This result was also impacted by euro 25.5 million in restructuring charges resulting from ongoing organisational streamlining measures. In 2012 restructuring charges totalled euro 39.1 million.

NET INCOME (LOSS) FROM EQUITY INVESTMENTS

The net loss from equity investments was euro 78.3 million, and is mainly composed of:

- euro 44.3 million for the fair value adjustment of the "convertendo" equity instruments issued by Prelios S.p.A.;
- euro 12.8 million from consolidation, on the basis of available information, of the associate Prelios S.p.A. under the equity method;
- euro 4.9 million as the net balance of consolidation according to the equity method and adjustment to market value of the investment in RCS Mediagroup S.p.A. (which, once the premise of significant influence ceased to exist due to dissolution of the Shareholders' Agreement, was reclassified from investment in associates to financial assets available-for-sale);
- euro 11.7 million for adjustment of the value of the equity investment held in Mediobanca (euro -10.4 million) and Fin.Priv. (euro -1.3 million), recognised in the interim financial statements at June 30, 2013, consistently with the policy that rules the significance threshold and duration of the decrease in value;
- euro 4.9 million for adjustment of the value of Alitalia to net equity before the subscribed capital increase.

NET INCOME

Net income at December 31, 2013 totalled a positive euro 306.5 million (euro 391.5 million in 2012).

The lower net income was impacted by net financial expenses, totalling euro 195.8 million and reflecting an increase of euro 45.3 million from 2012 (which benefited from euro 8.7 million in non-recurring exchange rate gains related to the start-up of activities in Russia). This largely occurred in 1H 2013, and resulted from:

- the higher average indebtedness during the period and greater exposure to currencies in countries where interest rates are higher than in the eurozone;
- the negative euro 8.5 million impact of devaluation of the Venezuelan currency that occurred at the beginning of 2013:
- the euro 13.3 million in lower financial income from the loan to Prelios S.p.A.

The average cost of debt during the period was 6.23%.

Tax liabilities totalled euro 210.4 million, with a tax rate of 40.7%. Excluding the amount resulting from consolidation of associates under the equity method (negative euro 25.8 million), the effective tax rate was 38.8%. Impairment of the Prelios S.p.A. "convertendo" equity instruments impacted that result by about 3 percentage points.

The total net income attributable to owners of Pirelli & C. S.p.A. at December 31, 2013 was a positive euro 303.6 million (euro 0.62 per share), compared with euro 387.1 million for the same period of 2012 (euro 0.79 per share).

EQUITY

Consolidated equity rose from euro 2,389.4 million at December 31, 2012 to euro 2,436.6 million at December 31, 2013.

Equity attributable to owners of Pirelli & C. S.p.A. at December 31, 2013 totalled euro 2,376.1 million (euro 4.87 per share), compared with euro 2,337.4 million at December 31, 2012 (euro 4.79 per share).

This change, whose details are illustrated in the following table, largely reflects the net income, euro 306.5 million, the payment of dividends for euro 156.7 million to the parent company dividend, the negative change resulting from changes in the translation rate of foreign equity investments (principally due to depreciation of the Brazilian, Venezuelan, Turkish, Egyptian and Argentine currencies), and the positive net effect of inflation/devaluation on the equity held in the Venezuelan subsidiary.

(in millions of euro)

	Group	*Non-controlling interests*	*Total*
Equity at 12.31.2012	**2,337.4**	**52.0**	**2,389.4**
Translation differences	(226.7)	(4.1)	(230.8)
Net income (loss)	303.6	2.9	306.5
Adjustement to fair value of other financial assets/derivative instruments	57.4	-	57.4
Actuarial gains/(losses) on employee benefits	22.8	-	22.8
Dividend resolved	(156.7)	(2.9)	(159.6)
Venezuela inflation effect	49.5	1.9	51.4
Other changes	(11.1)	10.6	(0.5)
Total changes	**38.7**	**8.5**	**47.2**
Equity at 12.31.2013	**2,376.1**	**60.5**	**2,436.6**

The following statement illustrates the reconciliation between the equity of the parent company and the consolidated equity attributable to owners of Pirelli & C. S.p.A. 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 12.31.2013	**1,343.3**	**404.8**	**191.9**	**1,940.0**
Net income for the year of consolidated companies (before consolidation adjustments)	-	-	398.2	398.2
Share capital and reserves of consolidated companies (before consolidation adjustments)	-	1,218.5	-	1,218.5
Consolidation adjustments:				
• carrying value of equity investments in consolidated companies	-	(1,169.7)	-	(1,169.7)
• intercompany dividends	-	322.6	(322.6)	-
• others	-	(47.0)	36.1	(10.9)
Consolidated equity of Group at 12.31.2013	**1,343.3**	**729.2**	**303.6**	**2,376.1**

CASH FLOW – CHANGE IN NET FINANCIAL (LIQUIDITY)/ DEBT POSITION

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

(in millions of euro)

	Q1		Q2		Q3		Q4		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Operating income (Ebit) before restructuring expenses	183.0	214.7	205.1	205.1	208.8	199.2	219.6	212.5	816.5	831.6
Amortisation and depreciation	72.3	64.4	73.1	66.1	71.1	68.4	72.4	72.4	288.9	271.3
Capital expenditures of property, plant and equipment and intangible assets	(79.7)	(80.1)	(84.3)	(114.8)	(74.3)	(132.5)	(174.8)	(143.5)	(413.1)	(470.9)
Change in working capital/ other	(492.4)	(511.1)	(5.6)	(237.3)	(160.3)	(197.2)	686.1	594.7	27.8	(350.9)
Operating cash flow	**(316.8)**	**(312.1)**	**188.3**	**(80.9)**	**45.3**	**(62.1)**	**803.3**	**736.2**	**720.1**	**281.1**
Ordinary financial income/ (expenses)	(58.6)	(24.3)	(46.1)	(33.5)	(43.9)	(45.5)	(47.2)	(47.2)	(195.8)	(150.5)
Ordinary tax charges	(42.5)	(65.3)	(59.1)	(61.0)	(50.5)	(41.5)	(58.3)	(30.5)	(210.4)	(198.3)
Net operating cash flow	**(417.9)**	**(401.7)**	**83.1**	**(175.4)**	**(49.1)**	**(149.1)**	**697.8**	**658.4**	**313.9**	**(67.7)**
Financial investments/ disinvestments	-	3.2	-	-	(31.6)	2.3	(7.5)	-	(39.1)	5.5
Real estate disposals	-	-	-	-	26.5	-	-	20.5	26.5	20.5
Russia Investment	-	(154.5)	-	-	-	(16.4)	-	-	-	(170.9)
Impact of consolidating of Sino Italian Wire	-	-	-	-	-	-	(39.5)	-	(39.5)	-
Retail Investment	-	-	-	(106.2)	(4.1)	-	(7.9)	-	(12.0)	(106.2)
Other dividends paid	-	(2.2)	(3.1)	(0.7)	-	-	-	-	(3.1)	(2.9)
Cash Out for restructuring operations	(7.5)	(4.2)	(5.2)	(3.3)	(4.2)	(3.6)	(5.7)	(12.4)	(22.6)	(23.5)
Foreign exchange differences/other	(49.6)	(8.5)	29.5	20.2	17.1	0.7	11.3	(3.0)	8.3	9.4
Net cash flow before divid. paid/Prelios	**(475.0)**	**(567.9)**	**104.3**	**(265.4)**	**(45.4)**	**(166.1)**	**648.5**	**663.5**	**232.4**	**(335.8)**
Dividend paid by Parent	-	-	(156.7)	(132.3)	-	-	-	-	(156.7)	(132.3)
Prelios: receivable conversion/share capital increase	-	-	-	-	(192.9)	-	-	-	(192.9)	-
Net cash flow	**(475.0)**	**(567.9)**	**(52.4)**	**(397.7)**	**(238.3)**	**(166.1)**	**648.5**	**663.5**	**(117.2)**	**(468.1)**

Operating cash flow was generally positive in 2013, totalling euro 720.1 million, up from euro 281.1 million in 2012, due to better management of working capital, especially in 2Q and 4Q 2013.
In 2013 capital expenditure on property, plant and equipment and intangible assets totalled euro 413.1 million (1.4 times depreciation and amortisation). Capital expenditure was mainly related to development of the premium segment (capacity and improved mix and quality) in Russia, Mexico, Romania and China.

The financial restructuring of Prelios S.p.A. was completed in 3Q 2013. This involved conversion of the financial receivable held by Pirelli into shares and equity instruments (the "convertendo") issued by the company for euro 169.9 million, and indirect subscription of the capital increase, for euro 23 million paid through Fenice S.r.l., with an aggregate negative impact on net financial (liquidity)/debt position amounting to euro 192.9 million.
Net cash flow before the effects resulting from completion of the reorganisation of Prelios S.p.A. and payment of the parent company dividend was positive for euro 232.4 million.
Net cash flow was a negative euro 117.2 million, with a consequent increase in the negative net financial (liquidity)/debt position.

NET FINANCIAL (LIQUIDITY)/DEBT POSITION

At December 31, 2013 the Group's net borrowings totalled euro 1,322.4 million.

(in millions of euro)

	12.31.2013	*12.31.2012*
Current borrowings from banks and other financial institutions	316.7	440.5
Current derivative financial instruments	3.2	19.2
Non-Current borrowings from banks and other financial institutions	2,014.3	1,995.8
Total gross debt	**2,334.2**	**2,455.5**
Cash and cash equivalents	(879.9)	(679.8)
Securities held for trading	(48.1)	(224.7)
Current financial receivables	(17.7)	(66.3)
Current derivative financial instruments	(6.7)	(18.1)
Non-current financial receivables	(59.4)	(261.4)
of which Prelios	-	*(173.5)*
Total financial receivables, cash and cash equivalents	**(1,011.8)**	**(1,250.3)**
Net financial (liquidity)/debt position	**1,322.4**	**1,205.2**

Totale gross debt fell by a total of euro 121.3 million from December 31, 2012, falling from euro 2,455.5 million to euro 2,334.2 million.
Following conclusion of the capital transaction resolved by Prelios S.p.A. at the end of March 2013, aimed at relaunching the business development prospects and strengthening the financial position of the group owned by Prelios S.p.A., as well as rebalancing its overall financial structure, and as accepted by Pirelli, the financial receivable of euro 173.5 million outstanding at December 31, 2012 was converted into Prelios S.p.A. ordinary shares for euro 21.5 million, into equity instruments (the "convertendo") for euro 148.4 million, while the remaining euro 3.6 million was repaid by Prelios and thus collected.
The reduction in non-current financial receivables reflected recognition in Brazil of the release and consequent receipt of about euro 19 million for amounts in escrow accounts for tax litigation and lawsuits.

In regard to current financial receivables, the reduction from December 2012 includes about euro 33 million due to the effects of the line-by-line consolidation of the Chinese subsidiary operating in the steel cord business at December 31, 2013 (previously classified as an associate and by which a financial receivable was owed at December 31, 2012).

The **structure of total gross debt**, which totals euro 2,334.2 million and of which about 85% matures beginning in 2015, is summarised as follows

(in millions of euro)

	Financial Statements 12.31.2013	Maturity date				
		2014	2015	2016	2017	2018 and beyond
Use of committed credit facilities	575.0	-	575.0	-	-	-
Bond 5,125% - 2011/2016	500.0	-	-	500.0	-	-
EIB loans	250.0	-	100.0	100.0	20.0	30.0
USD private placement	108.8	-	-	-	10.9	97.9
Schuldschein	155.0	-	-	114.0	31.0	10.0
Other financing	745.4	312.1	101.8	116.9	174.5	40.1
Total gross debt	**2,334.2**	**312.1**	**776.8**	**830.9**	**236.4**	**178.0**
		13.4%	33.3%	35.6%	10.1%	7.6%

At December 31, 2013 the Group has euro 625 million undrawn under the euro 1.2 billion committed credit facility (euro 625 million at December 31, 2012). When combined with the euro 928 million in cash or cash equivalents, this provides the Group with a liquidity margin amounting to euro 1,553 million.

HEADCOUNT

Group headcount was 37,979 at December 31, 2013, compared with 37,338 employees at December 31, 2012.

The following tables show the breakdown of headcount by geographical area and type

Geographical Area	12.31.2013		12.31.2012	
Europe:				
● Italy	3,611	9.5%	3,667	9.8%
● Rest of Europe	12,063	31.8%	12,102	32.5%
of which Russia	*3,394*	-	*3,758*	-
Nafta	1,152	3.0%	994	2.7%
Central and South America	14,244	37.5%	13,860	37.1%
Middle Est/Africa	3,311	8.7%	3,301	8.8%
Asia/Pacific	3,598	9.5%	3,414	9.1%
	37,979	**100.0%**	**37,338**	**100.0%**

Type	12.31.2013		12.31.2012	
Executives	322	0.8%	354	0.9%
White collar staff	7,135	18.8%	7,026	18.8%
Blue collar staff	27,902	73.5%	27,244	73.0%
Temps	2,620	6.9%	2,714	7.3%
	37,979	**100.0%**	**37,338**	**100.0%**

For more details, the reader is referred to the Social Dimension chapter in the Sustainability Report 2013, which is an integral part of this annual report.

BUSINESS OUTLOOK IN 2014

In light of the performance in the last quarter of 2013 and in the first months of 2014, Pirelli confirms the 2014 targets indicated last November in terms of:

- Ebit at 850 million euro after restructuring costs of 50 million euro
- investments below 400 million euro
- cash generation before dividends above 250 million euro
- net financial position negative at around 1.2 billion euro.

Consolidated sales are expected to be around 6.2 billion euro (compared with the previous target of around 6.6 billion euro) essentially because of a more cautious exchange rate scenario, expected at -9%/-10% compared with the prior target of -2%/-3%.
In organic terms, that is excluding exchange rate effects, growth is expected at >+9%/+10% compared with the previous estimate of >+8%/+9% in the following context:

- volumes above +5% (in line with previous targets) but with a greater contribution from Premium component (growth above +14% compared with prior target of about +12%). The volume growth estimates in Consumer and Industrial remain unchanged, respectively >+6 and between +4% and +4.5%);
- price/mix improving to +4%/+5% (previous targets +3%/+4%).

The target for the operating result (Ebit) excluding restructuring charges is confirmed at 850 million euro, as a consequence of:

- an improvement in the price/mix contribution to +4%/+5% (previously +3%/+4%), as already noted, with a positive impact on the operating result of about 15 million euro.
- lower raw material costs compared with previous estimates (-75 million euro compared with -120 million euro previously);
- already mentioned greater exchange rate volatility, with a total negative impact on the operating result of -110 million euro compared with the previous -50 million euro.

OPERATING PERFORMANCE

TYRE BUSINESS

The table below sets forth the consolidated results for 2013 as compared with 2012

(in millions of euro)

	2013	2012 restated	2012 reported
Net sales	**6,115.8**	**6,031.3**	**6,031.3**
yoy	*1.4%*	*7.7%*	*7.7%*
Gross operating profit before restructuring expenses	1,130.3	1,126.5	1,114.8
% of net sales	*18.5%*	*18.7%*	*18.5%*
Operating income before restructuring expenses	845.4	859.9	848.2
% of net sales	*13.8%*	*14.3%*	*14.1%*
Restructuring expenses	(23.4)	(39.1)	(39.1)
Operating income	**822.0**	**820.8**	**809.1**
% of net sales	*13.4%*	*13.6%*	*13.4%*

The following table illustrates the quarterly results

(in millions of euro)

	1° Q		2° Q		3° Q		4° Q		Total	
	2013	2012 restated	2013	2012 restated	2013	2012 restated	2013	2012 restated	2013	2012 restated
Net sales	**1.526,7**	1.542,6	**1.587,3**	1.457,7	**1.511,8**	1.542,6	**1.490,0**	1.488,4	**6.115,8**	6.031,3
yoy	*-1,0%*	*11,4%*	*8,9%*	*5,9%*	*-2,0%*	*5,3%*	*0,1%*	*8,2%*	*1,4%*	*7,7%*
Gross operating profit before restructuring expenses	**260,1**	283,6	**282,7**	277,2	**284,7**	272,9	**302,8**	292,8	**1.130,3**	1.126,5
% of net sales	*17,0%*	*18,4%*	*17,8%*	*19,0%*	*18,8%*	*17,7%*	*20,3%*	*19,7%*	*18,5%*	*18,7%*
Operating income before restructuring expenses	**188,8**	220,5	**210,6**	212,2	**214,6**	205,8	**231,4**	221,4	**845,4**	859,9
% of net sales	*12,4%*	*14,3%*	*13,3%*	*14,6%*	*14,2%*	*13,3%*	*15,5%*	*14,9%*	*13,8%*	*14,3%*
Operating income	**185,6**	218,5	**207,2**	199,7	**207,0**	202,1	**222,2**	200,5	**822,0**	820,8
% of net sales	*12,2%*	*14,2%*	*13,1%*	*13,7%*	*13,7%*	*13,1%*	*14,9%*	*13,5%*	*13,4%*	*13,6%*

NET SALES

Net sales totalled euro 6,115.8 million, up 1.4% compared with euro 6,031.3 million in 2012. Excluding the translation effect (negative 7.2%), net sales rose by 8.6% due to the higher volumes (+5.7%) – especially in the emerging markets (+10.2%) that accounted for 55.7% of net sales in 9M 2013 – and the price/mix component (+2.9%).

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

	1° Q		***2° Q***		***3° Q***		***4° Q***		***at 12.31***	
	2013	***2012***	***2013***	***2012***	***2013***	***2012***	***2013***	***2012***	***2013***	***2012***
Volume	3.9%	-7.4%	8.8%	-7.6%	5.4%	-6.2%	4.9%	-1.8%	5.7%	-5.6%
of which Premium volume	*4.0%*	*15.8%*	*12.9%*	*12.3%*	*19.1%*	*12.5%*	*27.5%*	*11.1%*	*15.3%*	*12.6%*
Price/mix	-	16.5%	5.1%	11.1%	2.5%	8.6%	4.3%	5.4%	2.9%	10.2%
Change in scope of Russia	-	2.2%	-	3.5%	-	4.1%	-	6.6%	-	4.1%
Change on a like-for-like basis	**3.9%**	**11.3%**	**13.9%**	**7.0%**	**7.9%**	**6.5%**	**9.2%**	**10.2%**	**8.6%**	**8.7%**
Translation effect	-4.9%	0.1%	-5.0%	-1.1%	-9.9%	-1.2%	-9.1%	-2.0%	-7.2%	-1.0%
Total change	**-1.0%**	**11.4%**	**8.9%**	**5.9%**	**-2.0%**	**5.3%**	**0.1%**	**8.2%**	**1.4%**	**7.7%**

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

Geographical Area	***12.31.2013***			***12.31.2012***
	Euro\mln	*yoy*		
Italy	349.1	-9.4%	5.7%	6.4%
Rest of Europe	1,679.4	-0.5%	27.3%	28.0%
Russia and CIS	254.1	-0.4%	4.2%	4.0%
Nafta	682.1	-1.5%	11.2%	11.5%
Central and South America	2,174.2	5.2%	35.6%	34.3%
Asia\Pacific	481.5	14.5%	7.9%	7.0%
Middle East\Africa\India	495.4	-5.1%	8.1%	8.8%
TOTAL	**6,115.8**	**1.4%**	**100.0%**	**100.0%**

Product	***12.31.2013***			***12.31.2012***
	Euro\mln	*yoy*		
Car tyres	4,092.1	*1.7%*	66.9%	66.7%
Motorcycle tyres	386.8	*-2.5%*	6.3%	6.6%
Consumer	**4,478.9**	***1.3%***	**73.2%**	**73.3%**
Industrial vehicle tyres	1,551.7	*2.5%*	25.4%	25.1%
Steelcord	85.2	*-12.7%*	1.4%	1.6%
Industrial	**1,636.9**	***1.6%***	**26.8%**	**26.7%**

OPERATING INCOME

Operating income in 2013 totalled euro 822.0 million (euro 820.8 million in 2012), with an Ebit margin of 13.4% (13.6% in 2012).

This result reflected the negative 62.7 million euro consolidation translation effect.

In 2013, the change in volume was a positive euro 97.7 million, while the contribution made by the change in the price/mix component to the result was a positive euro 47.3 million. Taken together with efficiency gains (positive euro 74.0 million before the impact of the slowdown in production, amounting to a negative euro 34.0 million) and lower commodity costs (euro 136.2 million), these operating results nearly offset both the growth in production input costs (euro 138.5 million) and the increase in all other operating costs and depreciation and amortisation (euro 134.4 million). This last quantity mainly refers to:

- higher industrial costs (about euro 25.5 million), mainly related to transformation of the Settimo Torinese truck plant into a new plant making premium car tyres and to the start-up costs for the plants in Mexico and Russia;
- higher depreciation and amortisation (euro 34.2 million) as the result of intense investment activity during previous financial years;
- higher commercial costs (euro 30.3 million) related to development of the premium segment.

In 2013 non-recurring events occurred related to disposals of real estate and receivables under litigation from the 1990's, and expenses related to settlement of a lawsuit in Brazil for a net positive balance of about euro 22 million. In 2012, the non-recurring events had a positive balance of about euro 30 million (disposal of real estate in Brazil and elimination of liabilities for the earn-out on the Russia acquisition).

The changes as compared with December 2012 can be summarised as follows in the following table

(in millions of euro)

	1° Q	2° Q	3° Q	4° Q	Total
2012 Operating income restated	**218.5**	**199.7**	**202.1**	**200.5**	**820.8**
Foreign exchange effect	(9.6)	(9.2)	(18.8)	(25.1)	(62.7)
Prices/mix	(19.6)	20.2	15.1	31.6	47.3
Volumes	17.9	28.0	25.7	26.1	97.7
Cost of prodution factors (raw materials)	37.0	31.2	42.2	25.8	136.2
Cost of prodution factors (labour/energy/others)	(24.2)	(37.2)	(39.3)	(37.8)	(138.5)
Efficiency*	7.6	5.3	18.5	8.6	40.0
Ammortisation, depreciation and other	(40.8)	(39.9)	(34.6)	(19.1)	(134.4)
Restructuring expenses	(1.2)	9.1	(3.9)	11.6	15.6
Change	**(32,9)**	**7,5**	**4,9**	**21,7**	**1,2**
2013 Operating income	**185,6**	**207,2**	**207,0**	**222,2**	**822,0**
* of which slowdown impact	(5.5)	(7.5)	(11.1)	(9.9)	(34.0)

CONSUMER BUSINESS

The following table illustrates the 2013 results compared with 2012

(in millions of euro)

	1° Q		2° Q		3° Q		4° Q		Total	
	2013	2012 restated	2013	2012 restated	2013	2012 restated	2013	2012 restated	2013	2012 re-stated
Net sales	**1,116.7**	**1,151.8**	**1,138.7**	**1,078.3**	**1,123.2**	**1,116.8**	**1,100.3**	**1,072.9**	**4,478.9**	**4,419.8**
yoy	*-3.0%*	*17.1%*	*5.6%*	*12.5%*	*0.6%*	*9.0%*	*2.6%*	*11.9%*	*1.3%*	*12.6%*
Gross operating profit before restructuring expenses	**194.8**	**235.4**	**203.5**	**214.7**	**211.9**	**210.1**	**229.4**	**210.8**	**839.6**	**871.0**
% of net sales	*17.4%*	*20.4%*	*17.9%*	*19.9%*	*18.9%*	*18.8%*	*20.8%*	*19.6%*	*18.7%*	*19.7%*
Operating income before restructuring expenses	**138.0**	**187.3**	**146.7**	**164.4**	**155.3**	**157.8**	**172.2**	**154.7**	**612.2**	**664.2**
% of net sales	*12.4%*	*16.3%*	*12.9%*	*15.2%*	*13.8%*	*14.1%*	*15.7%*	*14.4%*	*13.7%*	*15.0%*
Operating income	**136.0**	**185.4**	**144.2**	**154.5**	**151.2**	**154.8**	**165.0**	**148.0**	**596.4**	**642.7**
% of net sales	*12.2%*	*16.1%*	*12.7%*	*14.3%*	*13.5%*	*13.9%*	*15.0%*	*13.8%*	*13.3%*	*14.5%*

The following table shows the detailed breakdown of market performance

	1° Q	2° Q	1° half 2013	3° Q	at 09.30.2013	4° Q	Total year
EUROPE (*)							
Original Equipment	-9%	+3%	-3%	+5%	-1%	+2%	+0%
Replacement	-11%	+3%	-5%	+5%	-1%	+2%	+0%
NAFTA							
Original Equipment	+1%	+6%	+4%	+5%	+4%	+5%	+5%
Replacement	-7%	-3%	-4%	+0%	-3%	+3%	-1%
SOUTH AMERICA							
Original Equipment	+8%	+22%	+15%	+4%	+11%	-10%	+6%
Replacement	+6%	+17%	+11%	+11%	+11%	+4%	+9%
CHINA							
Original Equipment	+16%	+14%	+15%	+14%	+14%	+24%	+17%

(*) including Turkey; excluding Russia

Net sales in 2013 totalled euro 4,478.9 million, up 1.3% (+7.8% excluding the translation effect) as compared with 2012. Sales made a positive contribution, up by 4.6% (+1.2% in 1Q 2013, +4.6% in 2Q, +6.0% in 3Q and +6.9% in 4Q), driven by the performance of emerging markets (volumes +9.7%, particularly Apac, South America and Russia), which offset the slight downturn in Europe.

The premium segment grew at a rate three times that of the market average, with volumes increasing by 15.3% in 2013. The performance in South America, Apac and the Middle East Africa and India was particularly positive, confirming the robust development of higher added value product segments on these markets. As measured by net sales, the premium segment expanded strongly on emerging markets (+21.8%), particularly in Asia (+28.6%) and South America (+25.4%), while expanding more modestly in Russia (+4%), Nafta (+3.1%) and Europe (+1.7%), where the improvements occurred over the last two quarters of the year (+7% in 3Q and +17% in 4Q). It must be emphasised that overall performance in Europe was impacted by the crisis in consumer spending due to macroeconomic trends, partial adjustment of prices to current trends on the commodity markets, and a different mix of sales segments, with original equipment assuming greater weight as an investment in the future development of the replacement segment.

The following table sets forth the breakdown of net sales

	1° Q		2° Q		3° Q		4° Q		at 12.31	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Volume	1.2%	-5.1%	4.6%	-5.3%	6.0%	-6.1%	6.9%	-4.0%	4.6%	-5.2%
of which Premium volume	*4.0%*	*15.8%*	*12.9%*	*12.3%*	*19.1%*	*12.5%*	*27.5%*	*11.1%*	*15.3%*	*12.6%*
Price/mix	-0.5%	18.8%	5.7%	13.6%	3.1%	9.6%	5.1%	6.4%	3.2%	12.0%
Change in scope of Russia	-	2.7%	-	4.4%	-	5.9%	-	9.5%	-	5.8%
Change on a like-for-like basis	**0.7%**	**16.4%**	**10.3%**	**12.7%**	**9.1%**	**9.4%**	**12.0%**	**11.9%**	**7.8%**	**12.6%**
Translation effect	-3.7%	0.7%	-4.7%	-0.2%	-8.5%	-0.4%	-9.4%	0.0%	-6.5%	0.0%
Total change	**-3.0%**	**17.1%**	**5.6%**	**12.5%**	**0.6%**	**9.0%**	**2.6%**	**11.9%**	**1.3%**	**12.6%**

Operating income totalled euro 596.4 million in 2013, with an Ebit margin of 13.3%, as compared with euro 642.7 million in the same period of 2012 (14.5% of net sales).
The strong performance of operating variables, with the price/mix up 3.2% in the premium segment and volumes up 4.6%, was offset by:

- the higher industrial costs resulting from the start-up of activities in Mexico and Russia and conversion of the Settimo Torinese truck plant to premium car tyre production (euro 23 million);
- higher commercial costs for development of the premium segment (euro 30 million);
- rising inflation for factors of production, mainly related to the cost of labour in emerging countries;
- the costs related to new activities that have not yet reached operating capacity, particularly in Russia and Sweden, where the seasonal nature of the business is focused more on the winter segment;
- the impact related to consolidation translation rates (negative euro 34.3 million) and higher depreciation (negative euro 29.3 million).

CAR BUSINESS

The car business accounts for 91.4% of net sales in the consumer segment. In 2013 net sales were divided 70% in the replacement channel and 30% in the original equipment segment (71% in the replacement segment and 29% in the original equipment segment in 2012).
The greater weight of the original equipment segment in 2013 reflects rising original equipment sales in South America (where the market was dynamic in 2013, contrasting with a downturn in 1H 2012, before the reintroduction of car purchase incentives), in Asia (due to continuous growth of the premium segment) and full operating activity in Russia as compared with the previous year. Net sales in the replacement segment fell in Europe and Russia, were substantially stable in the Middle East, Africa and India, while growing significantly in Apac, Latam and Nafta.
The results of the car business reflect the growth in volumes, which rose especially in Apac, Russia and South America, together with improvement of the price/mix due to development of the premium segment. These positive elements offset the effects deriving from a weakened market and greater competition in Europe and Russia, the previously mentioned increase in industrial and start-up costs and higher commercial costs for development of the premium segment, aside from the unfavourable consolidation translation rate.
In 2013 Pirelli reinforced its market presence by rolling out products offering constantly improving performance and responsiveness to environmental concerns, both for winter and summer tyres: the Cinturato P7 Blue, the first summer tyre to come in efficiency class A sizes for rolling resistance and wet braking in compliance with new European labelling requirements; the Winter Sottozero 3, developed to guarantee safety and performance for new sedans and

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

MOTORCYCLE BUSINESS

The target markets of the Motorcycle Business were heavily impacted by the ongoing crisis, especially in Europe, with vehicle registrations down sharply and volumes down even in the replacement segment.
In 2013 certain market criticalities also arose in specific segments, including the South American original equipment market, due to lower financing of motorcycle purchases, and in the Nafta area, while the market was up in Asia.
Net sales in 2013 totalled euro 386.8 million, down 2.5% from 2012, due to the aforementioned external conditions, with markets contracting in the various reference regions. This trend reversed in 4Q 2013, with net sales rising by 15% year-over-year.
The breakdown of net sales by segment was as follows: 81.1% in the replacement segment and 18.9% in the original equipment segment (in the previous year, the replacement segment accounted for 79.6% and the original equipment segment accounted for 20.4%).
New Metzeler 888 products were launched in 2013 for the custom segment, the Tourance Next and the Angel GT products. The new products won all comparative tests conducted by leading European motorcycle magazines.

INDUSTRIAL BUSINESS

The following table illustrates the 2013 results compared with 2012

(in millions of euro)

	1° Q		2° Q		3° Q		4° Q		Total year	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Net sales	**410.0**	**390.8**	**448.6**	**379.4**	**388.6**	**425.8**	**389.7**	**415.5**	**1,636.9**	**1,611.5**
yoy	*4.9%*	*-2.6%*	*18.2%*	*-9.1%*	*-8.7%*	*-3.3%*	*-6.2%*	*-0.3%*	*1.6%*	*-3.9%*
Gross operating profit before restructuring expenses	**65.3**	**48.2**	**79.2**	**62.5**	**72.8**	**62.8**	**73.4**	**82.0**	**290.7**	**255.5**
% of net sales	*15.9%*	*12.3%*	*17.7%*	*16.5%*	*18.7%*	*14.7%*	*18.8%*	*19.7%*	*17.8%*	*15.9%*
Operating income before restructuring expenses	**50.8**	**33.2**	**63.9**	**47.8**	**59.3**	**48.0**	**59.2**	**66.7**	**233.2**	**195.7**
% of net sales	*12.4%*	*8.5%*	*14.2%*	*12.6%*	*15.3%*	*11.3%*	*15.2%*	*16.1%*	*14.2%*	*12.1%*
Operating income	**49.6**	**33.1**	**63.0**	**45.2**	**55.8**	**47.3**	**57.2**	**52.5**	**225.6**	**178.1**
% of net sales	*12.1%*	*8.5%*	*14.0%*	*11.9%*	*14.4%*	*11.1%*	*14.7%*	*12.6%*	*13.8%*	*11.1%*

The next table shows the detailed breakdown of market performance

	1° Q	2° Q	1° half 2013	3° Q	at 09.30.2013	4° Q	Total year
EUROPE (*)							
Original Equipment	-6%	+2%	-2%	+7%	+1%	+24%	+6%
Replacement	+1%	+12%	+7%	+9%	+8%	+6%	+7%
NAFTA							
Original Equipment	-11%	-10%	-10%	+0%	-7%	+7%	-4%
Replacement	-8%	+6%	+0%	+5%	+2%	+1%	+2%
SOUTH AMERICA							
Original Equipment	+44%	+51%	+48%	+33%	+42%	+11%	+34%
Replacement	+12%	+16%	+14%	+8%	+12%	+6%	+10%
CHINA							
Original Equipment	-6%	+40%	+14%	+24%	+17%	+18%	+17%

(*) including Turkey; excluding Russia

Net sales totalled euro 1,636.9 million, up 1.6% compared with euro 1,611.5 million at December 31, 2012.
Net of the negative translation effect (-9.2%), net sales grew by 10.8%, driven by higher sales volumes (+8.7%, mainly due to good performance in South America in the first part of the year), and improvement in the price/mix (+2.1%).

The following table sets forth the breakdown of net sales

	1° Q		2° Q		3° Q		4° Q		at 12.31	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Volume	11.7%	-12.3%	20.6%	-11.3%	4.0%	-6.2%	-0.3%	3.1%	8.7%	-6.5%
Price/mix	1.4%	11.2%	3.6%	5.3%	0.9%	6.0%	2.5%	2.9%	2.1%	6.2%
Change on a like-for-like basis	**13.1%**	**-1.1%**	**24.2%**	**-6.0%**	**4.9%**	**-0.2%**	**2.2%**	**6.0%**	**10.8%**	**-0.3%**
Translation effect	-8.2%	-1.5%	-6.0%	-3.1%	-13.6%	-3.1%	-8.4%	-6.3%	-9.2%	-3.6%
Total change	**4.9%**	**-2.6%**	**18.2%**	**-9.1%**	**-8.7%**	**-3.3%**	**-6.2%**	**-0.3%**	**1.6%**	**-3.9%**

Operating income totalled euro 225.6 million, with Ebit margin of 13.8%, up sharply from euro 178.1 million reported in 2012 (11.1% of net sales). The operating result positively impacted the development of activities in the Group's principal markets, especially in South America, where Pirelli increased its market share, and in Middle East, Africa and India.
The complete localisation of truck production capacity in emerging markets, which was completed by conversion of production activities in Italy to make premium car tyres, had a positive impact on profitability. Most of the start-up costs for this conversion (euro 10.4 million), instead impacted the consumer business.

TRUCK BUSINESS

In 2013 the truck tyre market was characterised by contrasting trends in the various geographical areas and segments.
The original equipment channel recovered strongly in South America, rising +34%, after having been impacted in 2012 by the conversion of production capacity from Euro3 to Euro5 vehicles, especially in 1H 2013. Growth rates fell to 11% in 4Q 2013 after hitting +42% in the first nine months of the year.
The Nafta truck market was down, ending the year down by 4%, in spite of rising 7% in 4Q 2013.
The market in Europe grew by 6% overall, recovering after initially shrinking by 2% in 1H 2013.
In the replacement segment, the South American market closed up by 10%, with a slowdown in the last quarter, partly in consequence of a different basis of comparison. In Europe it expanded by 7% from the previous year, with a substantially continuous trend.
The Nafta replacement market grew by 2% from 2012, due to improvements in 2H 2013.
Against this backdrop, the profitability of this business segment improved significantly from the previous year, notwithstanding the negative translation effect. It was driven by growing net sales volumes, especially in South America, improvement in prices and mix, supported by the successful introduction of new products, and lower commodity prices. Special emphasis should also be given to the growing contribution made by the new industrial organisation over the course of the year, with 100% of production capacity being located on emerging markets and gradual introduction of new products.

The Driving Innovation event was held in Munich in the first half of March, being attended by over 300 participants, including journalists, fleets, dealers and business partners, coming from Europe, Turkey, Australia, China and Egypt. The content of this event, reported in the specialised press and online, was focused on the innovative, complete and integrated package of products and services designed for fleets. This event also offered Pirelli another opportunity to confirm its goal of providing transport operators with a package of products and services allowing them to operate with maximum economic efficiency, safety and respect for the environment. The product range was extended in the Series 01 lines, with the most recent ST:01 Neverending™ and ST:01 Base. They went on sale on the European market at the end of the second quarter, at the same time sales of the new associated Formula brand began. Finally, after the official launch of the Pirelli Fleet Solutions project in Munich, the gradual start-up of sales also got under way in Europe (beginning in Italy, Germany and Spain) of CyberFleet™. The agreement with the partner Marangoni was renewed for the tyre rebuilding activity (Novateck) following the excellent results achieved in South America.
After Munich, a Driving Innovation event was repeated at the beginning of October in Istanbul, with broad participation by dealers, fleets and local press. This event highlighted both the products in the 01 series, particularly the new

tyre for tow trucks (ST-01), marked M+S, and also used under wintry conditions, and in the CyberFleet.
At the end of October, Pirelli introduced the complete range of 01 Series radial tyres, the innovative Cyber Fleet technology and the Novateck range for reconstruction at Fenatran (the principal transport and logistic sector in South America), held in Sao Paulo, Brazil. The new products, developed at the Group's Research and Development Centre in Brazil, also using the technology developed at the Italian establishment, represent the entire line of tyres dedicated to various applications. With products for all types of freight transport vehicles, passenger vehicles, and mixed and city use, the new range was developed considering the peculiarity of South American roads.
The exceptional results of certification by the principal makers of heavy vehicles in Latin America and evaluations of the tyres (whose pressure and mileage were monitored by CyberFleet sensors), under all driving conditions during three years of tests for a total of 1.5 million kilometres in certain fleets in Argentina, Brazil, Chile and Colombia, confirm the excellent performance of the product line.

AGRICULTURAL BUSINESS

Net sales in 2013 totalled euro 192.9 million, up a total 5.1% year-on-year. Volumes rose by 15%, accompanied by a negative translation effect (-13%) related to South American currencies.
Almost 90% of net sales are concentrated in South America, where the agricultural business grew sharply. Pirelli has confirmed its leadership in this context, especially in the original equipment segment, focusing on growth in the rear and radial segment.

STEEL CORD BUSINESS

Aggregate net sales of steel cord in 2013 were 13% lower than in 2012. The hose wire business, which is connected with the production of high pressure pipes for new vehicles, remained substantially stable with the results for the previous year.
Manufacturing activity at the German plant in Merzig ended at the end of June 2013.

RESEARCH AND DEVELOPMENT

The core of Pirelli's growth strategy is its consolidated capacity to innovate products and processes and consider new opportunities that might arise from ongoing research activities.
The exchange of know-how amongst the different business units, partnership with the best suppliers and continuous collaboration with major university research centres and leading car makers, ensure that the Group has technologies capable of developing cutting-edge products, successfully tested at major sports competitions, certified as original equipment by the most prestigious car makers and transferred to highway use to satisfy specific customer requirements.
Traditionally focused on the development of new high-end 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. This relies on a "Green Performance" strategy that calls for comprehensive eco-innovation, exploiting technological components and the most advanced know-how, the result of intensive research on materials, model prototypes, profiles, tread designs and production processes.
Research and development costs totalled euro 199.2 million, corresponding to 3.2% of net sales. The R&D costs related to the premium segment totalled euro 163.3 million, equal to 7.4% of premium product net sales. Sales were concentrated on high-end products, making it possible to achieve major results:

- in 2013, ten out of the twenty new car product lines planned for the 2011-2015 period were introduced, as previously announced;
- in the truck business, the evolution of Winter, Regional and Offroad products in the 01 series was successfully completed;
- in the motorcycle business, the new Enduro and Sport Touring products received top scores in 2013 tests;
- the first generation of the Cyber Tyre was intro-

duced on the market beginning in 2012, and the second generation will be introduced in 2015.

To achieve the targets set out in the business plan 2013-2017, Pirelli intends to further reinforce its commitment to research and development in all business segments. The R&D unit has its headquarters in Milan and ten regional centres, and relies on the collaboration of about 1,400 engineers.
It will develop 14 new product lines in the car business (including six winter tyres): six will be initially dedicated to the original equipment segment and eight immediately to the replacement segment. A portion of the new products will be sold on all markets, and a portion will instead be reserved for specific, individual local markets. Six lines will also include niche products like Runflat and Seal Inside tyres. Aside from significantly expanding its product line, Pirelli will introduce other technological innovations. These will include the PNCS (Pirelli Noise Cancelling System), to reduce noise, and new materials and geometries intended to reduce the rolling resistance of certain products by up to 20% by 2017.
In the Moto business, Pirelli aims at consolidating its technological leadership with even better performing products. Plans call for the introduction of ten new Pirelli products and eleven new Metzeler products. In particular, a new line of radial tyres will be developed for 250-350 cc motorcycles on the Latin American market, while the Metzeler Custom Touring line will be launched in North America.
Pirelli will introduce 11 new tyres between 2014 and 2017 in the Truck business. These will include the new Regional tyre, which offers greater mileage and tyre tread reconstruction technology, the Highway and City tyres, whose rolling resistance is comparable to what is offered by its principal competitors, and rounding out the line of severe winter condition tyres. Finally, Pirelli will focus on development of the technology for reconstruction and customer service through the Cyber Fleet.
In the Agricultural business, Pirelli will transfer the radial tyre fabrication process to the replacement segment, invest in local production capacity and renewal of the product line, while establishing original equipment partnerships with top brands – John Deer, CNH and AGCO – in view of developing products that target specific local needs.

INNOVATIVE MATERIALS

Compounds are key to tyre performance.
Research on polymers, fillers and chemical additives offers Pirelli new future possibilities to develop ever more stable compounds, even lighter structures and even more impermeable liners.
Collaboration of Pirelli with the academic world involves the University of Milan Bicocca, offering scholarships for doctoral candidates in the School of Sciences through the *Corimav* (Consorzio ricerca materiali avanzati – Consortium for Research on Advanced Materials).
The relationship between Milan Polytechnic and Pirelli has led to establishment of the chair in "Chemical Foundations of Rubber and Compound Technology" for the study of innovative materials for development of new generation tyres.
In November 2013 Pirelli, Rosneft and Rostec (Russian Technologies) signed a Memorandum of Understanding (MOU) to carry out joint research and development activities on materials to be used in tyre production. The tyre production materials include synthetic rubber, fillers such as carbon black and reinforcing materials, with all of them being developed at the high technological standards of Pirelli. Pirelli, Rosneft and Oil Techno signed a Memorandum of Understanding for joint research and development in the synthetic rubber field, and particularly Styrene-Butadiene Rubber (SBR), in Armenia. According to the terms of the preliminary agreement, Rosneft will be the principal investor in the activities related to SBR rubber in Armenia and Oil Techno will represent the local partner. For its part, Pirelli will collaborate with Rosneft in research and development activities related to SBR rubber, and is interested in defining a long-term supply agreement for purchase of the SBR rubber to be produced. An eco-sustainable material, SBR rubber is used to product low environmental impact tyres, and contributes to improving its performance as measured by fuel consumption and grip under both dry and wet conditions.

Nanotechnology

The introduction of a new family of materials – "nano-fillers" – in tyre compounds aims to obtain mechanical reinforcement and air impermeability properties that could not otherwise be achieved. These new material properties will translate into improved performance, environmental impact, safety and tyre durability. At the product level, the possibility of using stiffer compounds allows to develop tyres with improved driving characteristics, particularly in terms of stability and precision. By using compounds that are significantly stiffer than those currently used, it will also be possible to develop tyres with a different structure, where several elements may have smaller dimensions, thus resulting in a lighter tyre that consequently has a reduced environmental impact in terms of raw material use and lower mass to be managed during waste disposal. The barrier characteristic of compounds with lamellar nanocompounds may significantly improve the impermeability of tyres to air, fundamentally impacting product characteristics.
Between 2008 and 2011, Pirelli led the "Nanofiller and New High-Performance Materials for Tyres" pre-competitive programme, financed by the Ministry of Economic Development and carried out in collaboration with the Milan Polytechnic, University of Salerno, the German institute DIK, CNR-ISMAC – Genoa unit and INSTM-University of Brescia. Its activities, aimed at developing the mechanical reinforcement obtainable with nanofillers or improving its impermeability were particularly successful. Four materials, including three lamellar materials and one having a fibrous geometry, were developed in eight different applications to the prototype tyre stage. This resulted in five patent applications being filed. Four of these applications were introduced into industrial production immediately after the end of the development programme. The activities carried out in collaboration with the universities and research institutes mentioned above have led to significant progress in basic comprehension of the systems comprised by nanometric fillers in elastomers, testifying – together with technical reports, publications and presentations at conferences – to the scientific excellence of the work performed.

GREEN MATERIALS

Leadership in green materials is achieved through research on biomaterials (silica from rice husks, natural rubber from alternative sources to the rubber tree) and recycling. Research into alternative sources is increasingly necessary, both for cost-savings and for sustainability.
The guayule (*Parthenium argentatum*) is a non-edible shrub that needs little water and no pesticides, and represents an alternative source to natural rubber thanks to its hypo-allergenic properties, unlike the more common Hevea rubber.
In March 2013 Versalis (Eni) and Pirelli signed an important Memorandum of Understanding to undertake a joint research project on the use of natural rubber from guayule in tyre production.
This study will engage the two firms for a period of three years. During that time, and operating on an exclusive basis between the parties, Versalis will provide innovative types of natural rubber extracted from guayule that will be tested by Pirelli for use in tyre production. On the basis of this new collaboration and, upon industrial scale production of rubber from guayule, Versalis may provide Pirelli with new products that will consolidate and round out the commercial range of synthetic rubber made by Versalis and already used by Pirelli for quite some time in tyre production. The agreement with Versalis will complement and expand the commitment made by Pirelli to research on innovative materials from renewable sources, and particularly from biomasses. Pirelli, which already makes tyres using raw materials derived from rice husks (the non-edible part of the rice grain and normally used for combustion), aims at steadily reducing petroleum-derived components by replacing them with new raw materials that simultaneously guarantee constant improvement in the performance and environmental sustainability of processes and products.
The three-year (2012-2014) JOINT LABS agreement made between Pirelli and the Milan Polytechnic for research and training in the tyre industry also focuses research on the de-vulcanization of materials derived from used tyre compounds and biopolymers.

MODELLING

New simulation models (developed in-house, capitalising directly on the experience acquired from supplying Formula 1 tyres), supported by extremely high-powered calculating capacity, will allow further reductions in the time-to-market and improvement of project quality, by improving their performance in accordance with higher demands:

- tyre model: prediction of wear and tear, integrity, rolling resistance, vulcanization;
- models of the entire vehicle and tyre as a single system: braking, stability, aquaplaning, high-speed deformation, F1 simulator.

PROCESSES

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.

CYBER TYRE

Tyre electronics (like the microchip contained in the ***Cyber Tyre***, which allows to monitor changing road surface conditions by sending the vehicle key information for stability and safe driving), represent a path for Pirelli's premium innovation strategy.

The Tyre System project represents one of the most technologically advanced and innovative programmes at Pirelli, as well as the entire tyre industry and beyond (wireless sensor field).

Industrial research activity relies on the contribution of specialised knowledge from both the academic and industrial communities during the development phase. In collaboration with the Turin Polytechnic, Pirelli has set up a Tyre System research laboratory. Initially located in an area provided by the Turin Polytechnic and now the permanent home of the Pirelli Technological Centre in Settimo Torinese, this joint effort aims to maximise the development of know-how and effectiveness of development activities. The Centre is staffed with personnel from Pirelli, the Turing Polytechnic and other resources (suppliers, visiting scientists and students) who have different but extremely interdependent expertise and offer synergies. Finally, the JOINT LABS agreement between Pirelli and the Milan Polytechnic also focuses on the intelligent tyre (*Cyber Tyre*), with the development of mathematical models which allow the chip contained in the *Cyber Tyre* to "interpret" different road surface conditions.

CYBER FLEET™ is the innovative monitoring system perfected by Pirelli for road haulers. After a total of 28 trucks equipped with 176 sensors travelled a total of approximately 7 million kilometres during different phases of testing, from Germany to Sweden and from Italy to Brazil, it was shown that the reduction in operating costs in consequence of lower fuel consumption and longer tyre life amounts to about euro 1,000/year for the vehicles operating in Europe and a comparable figure for the vehicles operating in Brazil.

Using a telematic box and special sensors applied on the inner surfaces of the tyres, the system transmits data about tyre condition to a central infrastructure. This permits monitoring of the principal operating parameters, such as pressure and temperature, through real-time reporting of the situation to the fleet operator, while also warning the operator of punctures or other hazardous events. Pirelli offers vehicle management advice to fleets.

The sensor is not damaged and the data are not lost even if the tyre is rebuilt.

CAR BUSINESS

Product performance requirements are significantly different today from what they were 10-15 years ago. Now the performance threshold has been raised yet again for premium products.

Pirelli wishes to achieve better market segmentation for premium products, and specifically in the category of winter products, including the different studded tyres made for the Nordic and Russian markets.

The Company also intends to continue obtaining certification of its premium tyres for the most prestigious car models.

Even the top product line, the PZero, will contribute to further developing the position of premium tyres through product certifications, which in turn make the firm a partner of top car makers like Bentley, Aston Martin, Porsche and BMW. This will be achieved by exploiting the priceless know-how developed in the Formula 1 programme, which will be continuously transferred to highway products.
SUV vehicles, representing a segment that did not even exist until about 20 years ago, will benefit from lighter products, with improved mileage and at least 30% less rolling resistance than today.
These green characteristics will also be found in the principal ecological line, the Cinturato product family, which will offer comprehensively improved green performance.
The challenge today and in future is to make simultaneous progress in terms of rolling resistance, grip and stopping distance under wet conditions, and also run flat and self-sealing technologies.
The Pirelli Noise Cancelling System is the new technology developed by Pirelli that can reduce noise by 2 to 3 decibels inside the vehicle passenger compartment, equivalent to half of the total noise, and doing so without interfering with the other tyre characteristics in any way. The system absorbs the vibrations released by compression of the air during the compression phase and reduces its transmission inside the passenger compartment, with a significant improvement in driving comfort. Developed by Pirelli for the Audi Group, it responds to increasing demand in the automotive world, in step with the latest European noise abatement regulations. The Pirelli Noise Cancelling System is currently available as original equipment on the Audi RS6 and RS7, which are equipped with P Zero tyre sizes 285/30ZR21 and 275/30ZR21, respectively. The tyres featuring this system will have the letters "PNCS" stamped on their sidewall, representing an additional confirmation of the historic partnership between the two companies.

New Products

In 2013 Pirelli car tyre research and development activity created new green products.
The Pirelli Winter Sottozero 3 tyres were presented in a preview offered to over 400 European dealers last March in Austria, between Seefeld and the Kühtai pass at over 2,000 metres: the third generation of ultra-high performance tyres for the winter season, conceived to equip sports cars and powerful sedans and offer grip on water, ice and snow.

Here are the principal characteristics of this new product line:

- An innovative compound made of functional polymers (that improve the mechanical, thermal and dynamic properties of the compounds), improving tyre performance.
- An improved profile to guarantee greater mileage through uniform contact with the ground.
- A more rounded shoulder to shed much more water.
- The deep grooves that help water to drain away.

The new line guarantees control, mileage and grip under wintry conditions.
The Winter Sottozero 3 tyres are offered in bore sizes ranging from 16 to 21 inches and in 11 runflat versions.

Original Equipment

As has been previously illustrated, Pirelli enjoys close relationships with the world's leading car makers, which are cultivated to provide original equipment tyres and essential to the development of new products and implementation of new technologies.
In February, at the Parco Naturale delle Dolomiti e della Val Fiscalina nature preserve, the new Jaguar XF Sportbrake station wagon was tested for its performance under all hazardous winter driving conditions, including steep climbs, being equipped with the Pirelli Winter Sottozero™ in the 18, 19 and 20 inch sizes. Three days of tests on snowy, wet, slippery or simply icy roads, including a spin around the Auronzo di Cadore circuit, revealed the strengths of the winter product that reproduces the UHP characteristics of the PZero family: compounds for high performance under wet and icy

conditions, with side grip on snow and dry roads, but also traction and braking on snow and handling on dry roads. The Pirelli Winter Sottozero tyres also feature a mark – "J" or "JRS" – which indicate that these tyres were developed specifically for this car, through a joint fine-tuning effort between Pirelli and Jaguar.
The number of types of Pirelli tyres certified on Jaguar Land Rover vehicles has now climbed to 69.
A new achievement in the historic collaboration between Pirelli and Maserati is represented by the ad hoc development of tyres specifically for the new Ghibli, presented in Milan in May. Pirelli researchers developed a dedicated version of PZero tyres to satisfy the high-performance demands of the latest Maserati model. The summer tyres of the top-performing family of tyres in the Pirelli product line were custom-made for the new Ghibli. They are marked with the letters "MGT", dedicated tyres offered in the 18, 19 and 20 inch sizes.
Once again flanking great car designers, Pirelli has equipped the latest car designed by Studiotorino: the customised Moncenisio model, derived from the Porsche Cayman S. The name of this new car is borrowed from one of the most beautiful Alpine passes in Piedmont. This new "Fine Sports Car" made by the Piedmont firm is equipped with PZero tyres in the following sizes: 235/35R20 front and 265/35R20 rear.
Lamborghini celebrated 50 years of history at the "Fondazione Pirelli" foundation in Milan, where the car maker based in Sant'Agata Bolognese opened the festivities with a press conference, including the participation of Maurizio Boiocchi, CTO Pirelli, and Stephan Wilkelmann, Chairman and Chief Executive Officer of Lamborghini. The partnership began in 1963, the year when Ferruccio Lamborghini asked Pirelli to supply the tyres for the first car made by his newly formed company. This was the 350 GTV, presented as a prototype at the Turin Car Show that same year.
This relationship is based on shared values: technological innovation, passion, a taste for beauty, challenge, speed and racing. It is also based on an "ethical approach to doing business", as the Chairman of Lamborghini mentioned. For its fiftieth birthday, Lamborghini organised a special tour that began in Milan – with over 700 Lamborghini that had arrived from around the world at Piazza Castello – and, after stopping at Forte dei Marmi and Rome, ended at Sant'Agata Bolognese, location of the company headquarters, for the grand finale of the celebrations.
The fact that Lamborghini chose the Pirelli location to celebrate its own fiftieth anniversary confirms that, together with the extraordinary technological quality offered by its respective products, the relations between corporate functions – R&D, Production, Quality, Procurement and even Top Management – have also gone beyond the simple customer-supplier relationship and transformed over the years into a solid personal as well as professional relationship.
For years Pirelli has been the exclusive supplier of all models, from the historic Miura and Countach, to the current Gallardo and Aventador, and will continue to be so for the next models that are currently being designed. Moreover, it is common knowledge that Lamborghini belongs to the VW Group, of which Pirelli is proud to be the principal supplier for its prestige and premium brands such as Bentley, Porsche and Audi and the second biggest supplier at the VW Group level. This status has been achieved through the quality and innovative content of its products and its capacity to serve customers in areas such as China, Russia, and the Americas.
For its "*commitment, competitiveness and capacity to innovate, with development of the Self Sealing technology that exhibits technological know-how and corporate capacity to meet future challenges*", Pirelli was given the "Global Champion" award as part of the Volkswagen Group Award, the prize that the car maker awards every year to its best suppliers. This award recognises excellence in global partnership, product quality, competitiveness, project management and flexibility.
That recognition is testified by the many models equipped with Pirelli tyres – from the Porsche Carrera, Boxster, Cayenne and Panamera and Bentley Continental GT and Flying Spur to the Audi A3, A4, A5, A6, A7, A8, Q3, Q7, RS5, RS6 and TT, the Volkswagen Tiguan, Touareg, Phaeton and Golf.
An annual supply of six million Ultra High Performance (UHP) tyres for over 200 automotive approvals, in sizes ranging from 15 to 21 inches, plus another 250 approved versions under development and ready to be

produced over the coming years. A long list of prestige and premium models equipped with Pirelli tyres, and a global partnership extending far beyond Europe over the years, has grown in Latin America, Mexico, China, and now also Russia and the United States.

Car Shows

Pirelli equipped all the supercars at the 83rd Geneva Car Show held in March: Ferrari, Lamborghini, Maserati, McLaren, Audi, AMG, BMW, Jaguar and Porsche. Drawing on the precious experience gained from supplying Formula 1, Pirelli is transferring more and more race car tyre technology to highway models with its premium tyres.
Two examples are the limited edition Ferrari Kers, a special version of the PZero Corsa Asimmetrico, and the PZero with the new fitment+1 for the new Aventador made by Lamborghini.

Competitions

Pirelli research and development efforts earned it major recognition in competition during 2013. Races offer the testing ground for new technological solutions under extreme vehicle use conditions.
Pirelli was the sole supplier to Formula 1 for the third year in a row, with an evolution of its compounds from the previous year. Its aim was to increase thermal degrade and guarantee more pit stops, and thus greater spectacle for fans. Pirelli also returned to stock car racing in Brazil in 2013, after a five-year hiatus.
For Pirelli, Motorsport means: GT, Rally (including historic rallies), prestigious single-brand events like the Ferrari Challenge, Lamborghini Super Trofeo, Maserati Trofeo and many others. Motorsport competitions feature different categories, both on the racetrack and off-road events.
Over 250 championship events held in more than 40 countries around the world were equipped by Pirelli, for a total of 720,000 tyres supplied to the most famous car and motorcycle makers. This activity makes Pirelli the single biggest supplier of tyres to Motorsport both domestically and internationally.

Formula 1

Pirelli was confirmed as the sole supplier to the FIA Formula 1 World Championship. World Motor Sport Council confirmed Pirelli as the sole supplier of tyres to the FIA Formula 1 World Championship by renewing the contract that engaged Pirelli between 2011 and 2013, with the renewal period covering the 2014 through 2016 seasons.
In collaboration with the racing teams, the Federation and Pirelli worked together on further improvements to the safety and performance of the F1 Championship. Major changes in tyre test rules were also made to the FIA Sporting Regulations.
The principal changes are summarised as follows:

- one of the 12 pre-season group test days governed by the 2014 Sporting Regulations will be dedicated to wet condition tyres.
- each team dedicates one of the eight in-season test days already envisaged by the 2014 Sporting Regulations exclusively to tyre tests; this means that during each of the eight test days, at least one team, and up to a maximum of two, will concentrate on the tyre tests together with Pirelli technicians.
- Pirelli will continue to define the tyre specifications and manage all aspects of their development, in close collaboration with FIA and the teams, and within the parameters established by the FIA Formula One Sporting and Technical Regulations. Moreover, Pirelli and the Federation have agreed to discuss the procedures for establishing a partnership to address road safety as part of the "FIA Action for Road Safety" programme.

Conclusion of the third Formula 1 season supplied with Pirelli tyres offers an opportunity to sum up the Pirelli commitment to Formula 1 in numbers.
The numbers for these first three years are important: more than 110 thousand tyres supplied, 3,000 pit stops, and an average of 56 overtakes per race. These three years were characterised by the continuous commitment of Pirelli staff both at the racetrack and at R&D centres, to respond to the needs of teams and race car drivers with ever-more sophisticated and challenging technologies and solutions, as repeatedly recognised

by very people involved. Over the three-year period, the specifications changed completely every year, and evolved each year over the course of the season. This effort has no equal in the history of exclusive supplier relationships with Formula 1.
The relationship between Pirelli and the GP2 and GP3 series is also continuing. An agreement has been announced for a multiyear renewal that will continue the partnership that began in 2010 and engaged Pirelli as a key player in this series, which allows young race car drivers to prepare for the next step, Formula 1.

Rally
Pirelli has been participating in this class of competition since 1907, with the Peking-Paris raid, and was the exclusive supplier to the Rally world championship from 2008 to 2010, developing unique know-how in the field. In addition to its commitments in numerous national and single-brand championships, Pirelli is supplier to the FIA WRC Academy, the rally series created to train young rally stars.
Beginning in 2014, Pirelli will return to the Rally WRC World Championship, a series with which Pirelli has collaborated since way back in 1973. Pirelli is returning to this field after a brief interruption, operating under open competition conditions. This means that it will supply tyres together with three other tyre makers chosen by FIA to supply the Rally World Championship from 2014. Pirelli is confident in the quality of its products, which have been further developed from the experience acquired in the meantime, especially from Formula 1. It believes that the most recent evolutions will allow its tyres to be even more competitive in future together with the latest generation of the World Rally Car races. The rally is a fantastic challenge for a tyre maker, because the tyres are tested on all road surfaces and under a great variety of climate conditions.
The rally is an extreme sport, where the tyres can make a huge difference. Pirelli intends to become a true partner in a championship that will assume growing importance, thanks to greater promotion and a high level of interest by new car makers.

This year, Pirelli is going to continue developing and testing its own rally tyres, refining the latest PZero products for asphalt and the renamed Scorpion for dirt roads. They represent an excellent match of performance and durability and have been adapted to the most recent rules issued by the WRC, while always respecting the environment.

MOTORCYCLE BUSINESS

Pirelli and Metzeler tyres are offering incredible levels of performance and safety as compared with the past.
Pirelli will continue concentrating on its unique competitive advantages that already make it the best world motorcycle tyre maker.
It will use the technology coming from the Superbike experience to produce supersport applications.
Enduro and SportTouring tyres, which will be increasingly used under all weather conditions, will significantly benefit from our dedicated product range to offer the best performance under wet conditions.
Metzeler celebrated its 150th anniversary in 2013. The celebrations began with a ceremony in Stuttgart organised by the German magazine Motorrad to elect Metzeler as the "the best brand of 2013 in the tyre category" for the fourth straight year.

New Products

A spectacular wet road braking test was held at the new Taranto naval base in April 2013. The flight deck of the aircraft carrier Cavour was doused with water pumps operating at a pressure of 17 atmospheres, creating the unprecedented track for launching the Angel GT. Max Biaggi accelerated to 100 km/h and then braked hard at the previously marked braking point. He first accelerated his motorcycle to full throttle, and then he stopped immediately on the wet asphalt. Thus, the six-time World Superbike Champion christened the Angel GT, the new sport touring tyre for naked small motorcycles, supersport motorcycles and touring motorcycles. This unprecedented test was held by Pirelli thanks to the precious collaboration of Difesa Servizi S.p.A. and, in particular, the Italian Navy, which provided the flight deck of the aircraft carrier Cavour, moored at the Taranto naval base.

The Metzeler Legendary Knight was held in November 2013. During this event, the new SPORTEC M7 RR supersport tyres and the ME 888 MARATHON Ultra custom touring tyres in the Whitewall version and 23 inch front wheel size were introduced to the world for the very first time.

Original Equipment

Mv Agusta, the prestigious Italian motorcycle maker, chose the Pirelli Diablo Supercorsa™ SP as original equipment for the base versions of the R and RR models in the F4 2013 line. The Diablo Supercorsa was chosen by motorcycle makers for their own supersports models because it has the characteristic of embodying everything that can learned from racing experience, and particularly from the Superbike, to which Pirelli is sole supplier. The Diablo is a highway tyre that can nonetheless offer the typical performance of racing products, thereby offering an ultra-performance tyre that can be used equally on the road or on the racetrack. One interesting detail of this tyre is that its compounds have been reinforced even more with a tread design that is repeated six times on the surface of the tyre.

These solutions now guarantee increased grip and traction, allowing the motorcycle to maintain higher speed at every leaning angle. The partnership between Pirelli and Agusta has been renewed and offers the world a combination of performance and technology. It is still possible to customise the tyre by applying special labels on its sidewalls, a characteristic that has made the Diablo a unique product much-loved by motorcyclists.

The press preview was held at the Autodromo Enzo e Dino Ferrari racetrack in Imola, where the new Ducati 899 Panigale was presented. This offered Pirelli the opportunity to confirm its leadership in the top of the line segment and the strong technological partnership between the Borgo Panigale based motorcycle maker. It has adopted the Pirelli Diablo Rosso Corsa as original equipment for its new motorcycle, in the 120/70 ZR17 size for the front wheel and the 180/60 ZR17 size for the rear wheel. The Pirelli Diablo Rosso Corsa tyres are the most versatile supersport tyres for highway and track use designed for flared and naked motorcycles.

Press Test

After being certified by the authoritative independent entity Motorrad Testcenter as the best sport touring tyre for mileage and having won the comparative test of sport touring tyres conducted by the prestigious German magazine Motorrad, the new Angel GT has also won top place in the comparative tyre tests held by the French magazines Moto Journal and Moto Magazine and the German magazine PS Das Sport-Motorrad Magazin. The comparative tests conducted by the three magazines compared the new Pirelli Angel GT with the Metzeler Roadtec Z/8 Interact M/O, Bridgestone Battlax T30, Continental Road Attack 2, Dunlop Sportmax RoadSmart II and Michelin Pilot Road 3. In all three cases, the testing entities gave the top score to the new Pirelli sport touring tyre, which won all four of the comparative sport touring tyre tests in 2013.

The new Metzeler Tourance™ Next moved up to the highest position on the winner's stand in the comparative street enduro tyre test organised by the authoritative German magazine Motorrad, which compared it with the Michelin Anakee 3, Bridgestone Battle Wing 501/502, Continental TrailAttack 2, Dunlop Trailmax TR91 and Pirelli Scorpion Trail. All of these tyres were tested in the 110/80 R19 and 150/70 R17 sizes, mounted on six Triumph Tiger Explorer motorcycle. The Metzeler tyre won because it offered the most balanced performance under all test conditions, performing outstandingly under dry conditions, while exhibiting excellent handling under wet conditions, combined with its high mileage.

Issue number 11/2013 of the German magazine shows that the six tyre models were tested at two different times – the first time when the tyre was brand new and then, the second time, after being used for 4000 km to determine the wear and tear and mileage of both the front and rear tyres. A fast road test was also performed (on the Autobahn and on a super highway) and, above all, under wet conditions.

In particular, the dry condition test measured performance in terms of maneuverability, steering precision, stability on curves, grip while leaning over, traction under acceleration, stability on a straight-away under full throttle, behaviour when carrying a passenger, behav-

iour under extreme conditions, travelling on a straight line and braking on curves.
The wet test was held on a track that had been soaked in water. In addition to the parameters listed above, Motorrad also considered the braking distance at a speed of 100 km/h, average travelling speed and time on the circuit, with the new Metzeler Tourance™ Next beating the competition.

Competitions

Pirelli has accumulated an impressive series of motorcycle race wins.
Since 2004 Pirelli has been the sole supplier of tyres for the SBK World Championship, but also for the *Supersport*, *Superstock 1000* and *Superstock 600* classes. The commitment of Pirelli has marked a major change from the use of past prototypes. Technically, this has translated into a significant increase in the quality and performance of its products, with constant technical development that has been made possible in part by the involvement of technicians and drivers on the various teams.
Its technical partnership has been confirmed for the four competition classes of the World Championship until the end of the 2015 season.
The eni FIM Superbike World Championship has seen lots of technical firsts, starting with the new line of 17 inch Diablo Superbike tyres for dry conditions, Diablo Wet for mixed conditions and Diablo Rain for very wet conditions. The new 17 inch tyres, used beginning this year, performed very well even in the Superbike class, confirming the expectations of both Pirelli and the race drivers, who steadily improved their times on the circuit and also toppled historic records.
In particular, at their season debut in Monza, with the Pirelli Diablo Superbike and Diablo Supercorsa rear tyres using the SC0 compound, the Englishman Tom Sykes broke the fast lap record on the circuit, and the Italian Marco Melandri broke the record for highest average race speed in the entire history of the Superbike World Championship, and the drivers covered a lap 1 second faster on average than in 2011. Once again in 2013, the world championship was fought out to the very end by four race drivers from three different teams. In the end, Tom Sykes celebrated his first world championship title on his Kawasaki, by beating the Aprilia team, which got the consolation prize of best motorcycle maker, its 52nd prize in little over twenty years, counting both speed and off-road competition. Sykes succeeded Max Biaggi, who had won the top prize the previous year by half a point. In 2013, for the first time Pirelli also sponsored a new prize, the "*Tattooed tyre of the Champion*", a tattooed slick tyre given to the winner of the eni FIM Superbike World Championship.
The image shows the World Champion driver sitting on his own motorcycle, framed by laurel leaves and the phrase "2013 FIM Superbike World Champion". Pirelli appeared as a top player in this championship, with over 57 thousand tyres supplied for the 28 races in the Superbike World Championship, European Junior Cup and Cup of Nations classes (excluding tests). Once again, Pirelli demonstrated its excellent work in 2013 in the Superbike World Championship. It achieved all this by using Diablo Superbike tyre models that are available on the market and that any motorcyclist can purchase.
The Team HRC Rally, the official Honda team, chose Metzeler as supplier of tyres and technical partner to confront the toughest raids and rally competitions in the world, including the 2014 edition of the prestigious Dakar race. The product to be used in the competitions at which the Team HRC Rally will participate, the Metzeler KAROO Extreme, is a prototype tyre that is not available for sale, because it was specifically developed for sports activities in collaboration with the Team HRC Rally. This name was used to emphasise two important aspects for development of this product, which tend to combine the know-how and experience acquired with the KAROO in the enduro on/off application and the "extreme" experience of Metzeler in the enduro competition world with the MCE 6 Days Extreme, a tyre that has won the Enduro World Championship 22 times.
Pirelli won its 59th championship title in the FIM Motocross World Championship thanks to the performance of the Dutch 18-year-old Jeffrey Herlings, who decided the outcome of the MX2 championship a good three races before the end of the series. For the KTM driver, who was competing with the SXF 250 official equipped with Pirelli Scorpion MX MidSoft 32F tyres in the front

and Scorpion MX MidSoft 32 in the back, this was the second straight world championship title that he won, putting in an extraordinary superior performance by winning all 14 of the grand prizes in competition. They were also world champions in MX1. Tony Cairoli, a 27 year old from Messina, competed with the KTM SX 350 equipped with the Pirelli Scorpion MX MidSoft 32F in the front and Scorpion MX MidSoft 32 in the back, won the world championship one race before the end of the series. Having won his seventh world championship, Cairoli became the second-top winner in the history of motocross, after the Belgian Stefan Everts.

TRUCK BUSINESS

Industrial customers use different parameters to assess and choose tyres.
Pirelli will concentrate its efforts on their actual needs. It will significantly increase mileage and fuel consumption efficiency through improved rolling resistance in all segments, and 30% better rebuildability for all products will guarantee excellent value for money.
The Company also aims to focus on the winter segment, which is undergoing major growth on the industrial market, with the goal of increasing traction on snow by about 20% and guaranteeing top winter performance.
The European General Safety Regulation 661/2009 entered into force November 1 last year. This has led to the issuance of a series of new noise, wet grip and rolling resistance requirements. These requirements were established by Regulation UNECE 117.02 (issued by the United Nations in Geneva), which divided the snow tyre into two families: Snow and Snow tyre for use in severe snow conditions. The first family is identified by the mark "M+S", while the second is identified by the mark "3PMSF" (Three Peak Mountain Snow Flake).
In order to affix this mark, the manufacturer has to subject its tyres to a performance test on a snowy surface. Pirelli has already started selling these truck tyres. Beginning with products made in 2013, all Pirelli Winter tyres bear the 3PMSF mark on their sidewall. Compared with the M+S, they perform better in terms of traction, grip, braking on show at temperatures below 4°C. They consequently guarantee better control of the vehicle.

New Products

Many innovations were rolled out in 2013. The roll-out of the innovative "Formula" associated brand line of Pirelli Tyre was completed in a few months, marking an important change in corporate policy. There is a strong demand on the market for lower-cost products, but at the same time buyers do not want to give up quality and performance, which are themselves a source of savings, such as low fuel consumption or rolling resistance, and a guarantee of safety, such as wet braking.
Pirelli has chosen to design a specific new product line, privileging the concept of value for money. This is how it has rounded out its product line without making compromises that would have contradicted the corporate philosophy. In fact, the decision was taken to create a lighter product of limited size that uses the latest generation of materials: compounds with a high silica content and high mileage performance.
The engineers who have developed the new line were able to rely on the most recent Pirelli technologies, such as double layer technology, and especially the *Bigiro Slim* belting structure, covered by a Pirelli patent. The zero degree protection of the last belt is key to preserving the structure of the tyre, both at the beginning of its life and during reconstruction. The use of these Pirelli technologies combined with the use of better performing tread compounds has made it possible to make a lighter, more efficient tyre with an extremely high quality/price ratio, offering high performance guarantees and thus safety. In fact, every tyre in this line satisfies the same Green Label rules of the premium class, and for some parameters reaching the same levels of other product lines. The new Formula product line has passed all the severe in-house tests, which guarantee a product designed and certified by Pirelli. Formula is a line developed for medium and long-distance travel, combining the characteristics of versatile use, performance, durability and economy. It is available in various versions: for the steer axles, drive axles and trailer axles. This product line is offered in six sizes and two bores (17.5 and 22.5 inches). The Formula Steer tyre has four, straight longitudinal grooves to guarantee precise driving, control and safety even under critical conditions. The dense lamellar structure on the edges of the tyre

beads serve to prevent irregular wear and tear. The tyre preserves all these characteristics unchanged over its entire lifetime. Optimisation of the lamellar structure and the geometry of the design then guarantee reduced braking distances and better lateral grip. The Formula Drive tyres have been designed to offer guaranteed performance under all conditions (they also bear the M+S mark for winter use). The deep web structure offers high traction. The tread design also improves wet grip, reduces noise and optimises grip. Designed for trailers, the Formula Trailer tyres feature zigzag longitudinal grooves that assist transverse grip and braking performance, even under wet conditions. The reinforced beads assure greater resistance against lateral stresses.

The product line dedicated to the medium and long-distance transport segment has also been rounded out by a new tyre that enhances safety and minimises operating costs, by means of energy efficiency, high mileage, possibility of reconstruction, reduced noise and use of innovative materials. With the new ST:01 Base – characterised by innovative materials, optimal reduction of wear and tear and use of a Pirelli patent – all different types of transport operator requirements are covered.

ST:01 Base improves the Pirelli range of products offered for industrial vehicles with a new tyre that flanks the other two products for trailers and semi-tractor trailers already available in the catalogue: ST:01 Neverending and Formula Trailer. In particular, ST:01 Neverending is the first Pirelli line to have been awarded the double class "A" of the European Label for rolling resistance and wet grip, and represents the best equipment for trailers and semi-tractor trailers even for reconstruction.

HIGHLIGHTS OF OTHER ACTIVITIES

The other activities refer to Pirelli Ambiente (which also include the activities related to particulate filter figures) and PZero and are broken down as follows

(in millions of euro)

	Pirelli Ambiente		**Pzero**		**Total other business**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Net sales	**22.3**	29.2	**8.1**	11.0	**30.4**	40.2
Gross operating profit before restructuring expenses	**(11.8)**	(6.9)	**(13.1)**	(16.7)	**(24.9)**	(23.6)
Operating income before restructuring expenses	**(14.9)**	(10.7)	**(14.0)**	(17.6)	**(28.9)**	(28.3)
Restructuring expenses	**(1.0)**	-	**(1.1)**	-	**(2.1)**	-
Operating income	**(15.9)**	**(10.7)**	**(15.1)**	**(17.6)**	**(31.0)**	**(28.3)**

At December 31, 2013 net sales totalled euro 30.4 million, compared with euro 40.2 million at December 31, 2012, while the operating loss was euro 31.0 million (due to euro 2.1 million in restructuring charges), compared with the euro 28.3 million operating loss in 2012.
The reduction in filter activities, which partly reflected the strategy of focusing on the Tyre business, specifically led to impairment of assets and inventories by about euro 7 million.

PARENT COMPANY'S HIGHLIGHTS

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

(in millions of euro)

	12.31.2013	**12.31.2012**
Operating income	24.3	17.5
Net financial income and net income from equity investments	195.8	211.2
Net income (loss)	**191.9**	**234.4**
Non current-financial assets	1,536.1	1,363.7
Equity	**1,940.0**	**1,866.2**
Net financial (liquidity)/debt position	(227.1)	(288.6)

At December 31, 2013 the company had net income of euro 191.9 million, including euro 310 million in dividends received from the subsidiary Pirelli Tyre S.p.A. adjustment of the value of certain financial assets with a negative impact of euro 126.7 million, of which euro 20.1 million for the subsidiary Pirelli & C.Ambiente S.r.l., euro 15.2 million for the subsidiary Pzero S.r.l., euro 23.7 million for RCS Mediagroup S.p.A., euro 10.4 million for Mediobanca S.p.A. (adjustment made on the half-yearly financial statements at June 30, 2013 consistently with the policy that rules the significance threshold and duration of the decrease in value), euro 4.9 million for Alitalia S.p.A., euro 44.3 million for fair value adjustment of the "convertendo" equity instrument of the subsidiary Prelios S.p.A., and euro 4.8 million for the associate Fenice S.r.l..

The following table summarises the carrying values of the principal non-current financial assets at December 31, 2013

(in millions of euro)

	12.31.2013
Equity investments in subsidiaries	
Pirelli Tyre S.p.A.	1,085.8
Pirelli Finance (Luxembourg) S.A. - Lussemburgo	10.4
Pirelli Ltda - Brasile	9.7
Pirelli Ambiente S.r.l.	13.5
Pirelli Labs S.p.A.	4.1
Pirelli UK Ltd	21.8
Pirelli Group Reinsurance Company S.A.	6.3
Pzero Srl	4.0
Pirelli Servizi Amministrazione e Tesoreria S.p.a.	3.2
Other	3.3
Total equity investments in subsidiaries	**1,162.1**
Equity investments in associates and other financial assets	
Eurostazioni S.p.A.	52.9
Prelios S.p.A.	21.8
"Convertendo" Prelios S.p.A.	104.0
Fenice S.r.l.	18.2
Mediobanca S.p.A.	100.1
RCS Mediagroup S.p.A.	30.5
Fin. Priv. S.r.l.	13.7
Fondo Comune di Investimento Immobiliare - Anastasia	15.0
Alitalia S.p.A.	7.5
Istituto Europeo di Oncologia S.r.l.	5.0
Other	5.3
Total equity investments in associates and other financial assets	**374.0**
Total non-current financial assets	**1,536.1**

Equity rose from euro 1,866.2 million at December 31, 2012 to euro 1,940.0 million at December 31, 2013.
The change is illustrated as follows

(in millions of euro)

Equity at 12.31.2012	**1,866.2**
Net income	191.9
Dividends paid	(156.7)
Gains/(losses) recognised directly in Equity	38.6
Equity at 12.31.2013	**1,940.0**

The following table illustrates the breakdown of equity at December 31, 2013 and comparative figures for the year at December 31, 2012

(in millions of euro)

	12.31.2013	12.31.2012
Share capital	1,343.3	1,343.3
Legal reserve	129.6	117.9
Business combination reserve	12.4	12.4
IAS operating reserve	42.6	3.9
Retained earnings	220.2	154.3
Net icome	191.9	234.4
	1,940.0	**1,866.2**

The net financial (liquidity)/debt position, which was a positive euro 227.1 million at December 31, 2013 as compared with euro 288.6 million at December 31, 2012, was mainly impacted by the receipt of dividends from the subsidiaries and other equity investments totalling euro 325.2 million (including euro 310.0 million from Pirelli Tyre S.p.A.), offset by payment of the dividend of euro 156.7 million and capital increases executed by RCS Mediagroup S.p.A. (euro 21.3 million) and Fenice S.r.l. (euro 23 million), plus reclassification of the euro 169.9 million credit from Prelios S.p.A. as shares and equity instruments following the extraordinary capital transactions completed in 3Q 2013 that involved financial restructuring of Prelios S.p.A..

RISKS AND UNCERTAINTIES

The current macroeconomic situation, financial market instability, complex management processes and continuous legislative and regulatory evolution force successful businesses to protect and maximise tangible and intangible sources of value that characterise the corporate business model. Pirelli adopts a pro-active risk management system. It uses a systematic process of identifying, analysing and assessing risk-prone areas to provide the Board of Directors and management with decision-making tools so that they can anticipate and manage the effects of these risks, 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 three categories of risks: external risks, strategic risks and operating risks.

1. EXTERNAL RISKS

The occurrence of these risks is beyond the Company's control. This category includes the risks related to macroeconomic trends, changes in demand, the strategy of competitors, technological innovation, new regulations, and country risk (and specifically economic, security, political and environmental risks).

2. STRATEGIC RISKS

These are typical risks in the Group's specific business sector. Proper management of these risks is a source of competitive advantage or, on the contrary, a cause for failure to achieve plan targets (three-year and annual targets). This category includes market risk, product innovation and process risk, human resource risk, raw material price risk, production process risk, financial risk, and M&A risk.

3. OPERATING RISKS

These are risks generated by the organisational structure and processes of the Group, and the assumption of which does not determine any competitive advantage. The principal areas of risk in this category are information technology, business interruption, legal and compliance, health, safety and environment and security risk.

1. EXTERNAL RISKS

Risks connected with general economic conditions and the medium-term evolution of demand

After a year, 2013, dominated by a high degree of uncertainty, Pirelli expects – consistently with forecasts by leading analysts – that the global economy will gradually accelerate in 2014.

In mature economies, a partial relaxation of austerity measures in the public sector and lower level of indebtedness in the private sector (especially in the United States) should sustain growth on both sides of the Atlantic. Improvement in the economic fundamentals of the United States and, to a lesser extent, in Europe, should also permeate emerging economies in terms of greater exports and further improvement in financial market confidence.

Elements of uncertainty will remain and might derive, inter alia, from the tapering of quantitative easing in the United States, possible political tensions in the more economically fragile emerging countries and, last but not least, geopolitical tensions in the Middle East.

EUROPE:
TIMID RECOVERY IN 2014

Although signs of cyclical weakness are still perfectly evident (especially in the labour market), the recent economic recovery could accelerate during 2014, through an easy monetary policy and increased purchasing power (resulting from lower inflationary pressure). Notwithstanding these encouraging signs, 2014 will continue to be a transition year for the eurozone periphery, especially on account of the labour market remaining depressed and austerity measures that will continue to curtail internal demand. However, the recovery will be stronger elsewhere in the European Union, especially in Germany.

UNITED STATES:
ROBUST IMPROVEMENT IN OUTLOOK

After slowing down in 2013, the American economy should undergo a robust acceleration in 2014. With significant improvement in economic fundamentals (especially the real estate market), growing importance of unconventional energy sources (shale gas/fracking oil) combined with a more relaxed political climate in regard to the debt ceiling represent the principal bases for the American recovery.

CHINA:
SUBSTANTIALLY STABLE GROWTH

The recent trend data and forecasts issued by leading economic analysts seem to converge on a 2014 GDP forecast that is substantially consistent with the last two years or, in the worst case, in slight deceleration. The structural reforms decided during the third plenum of the Central Committee of the Chinese Communist Party will continue to drive the country towards an economic model based more on consumption and a slow, but steady deregulation of the financial system. While no particular risks are perceived at the cyclical level – partly on account of the ever-increasing attention dedicated by the government to achieving a minimum growth rate – over the medium-long term the country must find a permanent solution to certain endemic problems such as the excessive debt of local governmental entities, a possible bubble on the real estate market and, in regard to society, an ageing population, urbanisation and pollution.

SOUTH AMERICA:
STABLE OUTLOOK, NOT WITHOUT RISKS

The Brazilian economy should stabilise at its present growth levels. Over the short term, the principal growth driver will continue to be the stimulus generated by the upcoming World Cup soccer championships. The principal risk factors include the impact of

changing United States monetary policy on the Brazilian currency and, indirectly, consumer price pressures. The risk of possible devaluations is growing in both Argentina and Venezuela.

RUSSIA:
ACCELERATION IN 2014, BUT PRE-CRISIS RATES ARE STILL FAR OFF

After 2013, which was most likely the year with the lowest growth rate in the last five years (around 1.6%), the economy of the Russian Federation should accelerate during 2014 thanks to an increase in internal demand (especially government consumption and families). This acceleration, combined with a substantially stable outlook for energy commodities, might negatively impact its trade balance, and consequently slowing down marginal improvements in GDP during 2014. A return to pre-crisis growth rates is not expected over the short-medium term.

The increasing strain between USA and Russia due to the worsening of the political situation in Ukraine and the consequent possible adoption of embargo measures pose a factor of uncertainty in the growth forecast expected in the Region.

* * *

The automotive market will continue to be influenced by exogenous factors, such as persistent macroeconomic uncertainty, regulatory obligations, volatile currency markets, and the evolution in demand according to consumer habits and lifestyles. The number of vehicles on the road is forecast to increase at an average annual rate of 3.7% until 2017, with a steady increase in the impact of the premium segment.

In particular, it is forecast that nearly 10% of the total number of vehicles on the road in 2017 will be premium segment vehicles, up from the 9.1% share estimated in 2013. The premium segment will remain concentrated in Europe and the Nafta area, which account for 60% of the total, as compared with 65% in 2013, and in the Apac area, whose weight is expected to grow by 30% from the present 27% level.

Even during economic crisis, the performance of the tyre market confirms the choice made by Pirelli to focus its activities on the premium segment. Even in the face of a situation caused by the difficult international business cycle, the premium segment will continue to grow at a rate three times faster than the non-premium segment, with a forecast annual average global increase of 7.3% between 2013 and 2017, as compared with a 2.4% rate in the non-premium segment (+3.6% overall growth).

In mature economies (Europe and Nafta), the annual growth of the premium segment is forecast to be 5.7%, compared with 0.3% growth in the non-premium segment (+2.2% overall growth). Finally, in rapidly developing economies, the annual growth of the premium segment is forecast to be 11.6%, compared with 3.8% growth in the non-premium segment (+4.8% overall growth).

For 2017, it is forecast that the premium segment will account for 26% of the total global tyre market (38% in mature markets and 15% in rapidly developing economies), up 4 percentage points from the 22% estimated in 2013.

In this context, it may be forecast that:

- the profitability of the premium products made by the automotive and tyre industry will remain structurally higher than the average stability of the respective sectors, partly in consideration of the fact that premium segment tyres are increasingly perceived as products associated with sustainability and safety. These areas are systematically cultivated by Pirelli, using its know-how and cutting-edge technology;
- mature economies will continue to play a preponderant role in the premium segment;
- the tyre segment will continue to be driven by the positive developments of emerging economies, beginning in the Apac area.

In light of these elements, the Group's strategic objectives will aim at balancing the impact of various geographical areas on profitability. In particular:

- the contribution to Ebit made by mature countries, currently 35%, will increase in 2016 (with an average annual growth rate of 12%, tied to the dynamics of

the premium segment and greater efficiency, especially in Europe);
- the contribution to Ebit made by rapidly developing economies (excluding Latam), now 20%, is forecast to grow to nearly 30% in 2016 (with an average annual growth rate of 22%, driven by the expected development of the premium segment);
- the contribution to Ebit made by Latam, now 45%, will sink to around 35% (with an average annual growth rate of 3% and a stable "mid-teen" Ebit margin over the three-year period.

Risks connected with the evolution of long-term demand

Social and technological trends have emerged over the last several years that might have a material impact over the medium-long term on the automotive sector and indirectly on the tyre market. On the one hand, these are represented by growing urbanisation (according to United Nations estimates, about 70% of the global population will live in urban areas in 2050) and, on the other hand, by changes in the values and behaviour of younger generations (increase in the average age when a driver's license is obtained, loss of importance of owning a car, increased recourse to various types of car sharing).

These factors will be complemented by the spread of information technologies, with a concurrent expansion of e-commerce and/or telecommuting, and frequent regulatory changes in both mature and emerging economies to limit the presence of polluting vehicles within and near metropolitan areas. These dynamics might be followed by an evolution in automotive sector demand (from changes to vehicle dimensions or type of propulsion system to possible resizing of cars to satisfy the transportation preferences of citizens), with contingent impact on tyre sector dynamics.

Pirelli constantly monitors the evolutionary changes in automotive sector demand by actively participating in international working groups, such as the one engaged in the Sustainable Mobility 2.0 (SMP 2.0) project sponsored by the World Business Council for Sustainable Development (WBCSD). The main objective of SMP 2.0 is to study the possible long-term evolution in urban mobility and promote solutions that might improve the social, environmental and economic well-being of the urban population.

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. 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 (Argentina, Brazil, Mexico, Russia, China, Egypt, Turkey, Venezuela and Indonesia) where the general political and economic context and tax systems might prove unstable in future.

In fact, structural risk factors persist in the Latam area, particularly those involving the political and economic situation in Venezuela and Argentina, and in Egypt, where political and social instability remains dominant and which has altered normal market dynamics over the last three years and, more generally, business operating conditions.

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.

Competitive risks associated with the markets where the Group operates

Over the last several years, competition has grown in the markets where the Group operates, especially in Latin America, due to the entry of low-cost products from Asian countries and major investments by competitors attracted by the dimensions of the internal market and growth of the middle class (+10 million persons over the next few years).

Pirelli generated about 45% of its Ebit in Central and South America. Consistently with its strategy, it intends to seize the opportunities for value creation deriving from the forecast growth rates in the premium segment of the automotive market by exploiting and preserving its market leadership, both in the replacement and original equipment segments, the broad and consolidated network of single brand retail outlets, both in Brazil and Argentina, and the consolidation of its brand, due partly to its participation in Formula 1 competition.

2. STRATEGIC RISKS

Risks associated with price trends and availability of raw materials

In 2014 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 years and their impact on the cost of finished products (about 37% of cost of sales).

In 2013, commodity prices – especially natural rubber – were negatively impacted by the capacity of mature economies to recover and lower than expected economic growth in the People's Republic of China.

Pirelli expects that commodity prices in 2014 will remain substantially steady at their 2013 levels. Uncertainty will clearly persist, mainly due to the impact on commodity markets of the tapering off of quantitative easing in the United States and/or possible conflicts or geopolitical tensions.

Contingent price scenarios for the principal commodities purchased by the Group are simulated on the basis of their historic volatility and/or the best information available on the market (e.g. forward prices). On the basis of various scenarios, sales price increases and/or other internal cost efficiency recovery actions have been identified (e.g. use of alternative raw materials, reduction of product weight, improvement of process quality, and reduction of discarded material) as necessary to guarantee the forecast profitability levels.

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 aim of Group policy is to minimise the impact of transaction exchange rate risk related to volatility. For this reason, Group procedures envisage that the Operating Units be responsible for collecting all information related to assets and liabilities exposed to transaction exchange rate risk. Forward contracts are made to hedge this risk, with the Group Treasury whenever possible.

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. The Group periodically monitors the opportunity to enter into hedges on future transactions. In these cases, it typically uses forward purchases and risk reversal options (i.e. zero cost collars).

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.

In **2013** the principal currencies of emerging countries where Pirelli operates depreciated against the United States dollar (USD), and particularly the Venezuelan bolivar, Argentine peso, Egyptian pound and, to a lesser extent, the Brazilian real and Turkish pound. This generalised trend of depreciation in emerging country currencies, partly due to exogenous factors – such as U.S. Federal Reserve Bank monetary policy – and specific internal macroeconomic conditions, combined with appreciation of the euro against the U.S. dollar has had a comprehensively negative impact on the Group.

In **2014**, Pirelli expects – consistently with leading market operators – continuation of the present trend of depreciation tracked by leading emerging country currencies, attributable once again to the impact of changes in U.S. Federal Reserve Bank monetary policy and specific country risk factors (particularly in regard to the Venezuelan bolivar and Argentine peso).

Finally, Pirelli expects that the current euro/dollar exchange rate trend to reverse, with the euro weakening from its levels at the end of 2013. Once again, significant uncertainty persists, such as the monetary policy decisions that will be taken by central banks on both sides of the Atlantic.

Liquidity risk

The principal instruments used by the Group to manage the risk of not having sufficient financial resources to meet its financial and commercial obligations at the agreed terms and conditions consist of annual and three-year plans and cash-pooling plans, which give a full and fair view and measurement of positive and negative 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.

In addition to the available portion of the euro 1.2 billion revolving credit facility due on November 30, 2014, of which euro 575 million had been used at December 31, 2013, the Pirelli Group draws on the capital market by diversifying the products and maturities used to seize the best opportunities available from time to time. For example, in December 2012 a private placement was executed in several tranches on the United States market for a total of USD 150 million, and a Schuldschein (German law loan) was obtained, again in several tranches, for a total amount of euro 155 million. The generation of cash flow and profile of debt maturities did not entail particularly significant transactions in 2013.

The EMTN (Euro Medium Term Note) programme was finalised in July 2013. This is a document platform for the issuance of bonds on the Euromarket – whose maximum amount was set at euro 2 billion. The Board of Directors periodically resolves on the maximum amount of bonds that may be issued and their time horizon under this programme. The program aims at

promptly seizing the best financing opportunities to provide continuous support for business growth in the face of volatile financial markets and possible restrictions on access to credit. The bonds may be placed only 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 tends to keep the ratio of exposure to fixed rates and variable rates at around 70% fixed rate and 30% variable rate.
To maintain this general ratio, the Group enters into derivative financial instrument contracts, typically interest rate swaps.

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 4.6% 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 the execution of insurance policies: beginning in January 2012, a two-year master agreement was made with a leading insurance company for worldwide coverage (the policy excludes Egypt, Venezuela and China) of the credit risk related mainly to sales in the replacement segment (with the acceptance rate in December 2013 running at about 79%).
The foregoing master agreement was also renewed in 2014.
In 2013 the general situation of trade receivables was substantially the same as at December 31, 2011.
The Group transacts only with financial counterparties having high credit ratings for the management of its temporary cash surpluses or trading of derivative instruments.
Pirelli does not hold government bonds issued by any European country, and constantly monitors its net credit exposures to the banking system. Pirelli does not exhibit significant concentrations of credit risk.

Restructuring of the financial receivable from Prelios S.p.A.

Following restructuring of the financial receivable from Prelios S.p.A. completed in August 2013, the company now owns three types of financial assets:

- Prelios shares (listed on the stock market);
- shares in the special purpose vehicle Fenice, which owns Prelios class B shares;
- the "convertendo" equity instrument.

In addition to the price risk limited to the volatility of financial assets, such as listed shares, the company is also subject to the risk of economic and financial performance and execution capacity of the Prelios S.p.A. business plan.

3. OPERATING RISKS

Environmental risks

The activities and products of the Pirelli Group are subject to numerous environmental laws that vary from country to country. These are related by the tendency to evolve towards increasingly restrictive measures, partly in consequence of 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 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 occupational health and safety law (Legislative Decree 81/08), as amended (Legislative Decree 106/09) introduced new obligations that have impacted the management of activities at Pirelli sites and the models used to allocate liability. 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 adopts the measures necessary to prevent and attenuate any penalties that might result from these proceedings.

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.

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 vol-

umes or specific (high-end) products. During 2013 the vulnerability of all Group facilities to catastrophic natural events (particularly flooding, hurricane and earthquakes) was analysed, with an estimate of the contingent damage (give the probability of occurrence). The analyses that were performed confirmed that business interruption risks are adequately covered, through a detailed series of safety measures, damage prevention systems and mitigation of possible impact on business, inter alia on the basis of current business continuation plans and existing insurance policies covering property damage and business interruption. In regard to earthquake risk, and specifically at the plant located in Turkey, particularly large seismic events might cause losses exceeding the insurance coverage limits, with a consequent negative impact on operating results.
In 2012 the scope of analysis of business interruption risks was extended to the Pirelli supply chain, particularly in regard to Tier-1 suppliers. The analysis led the Group to undertake a series of mitigation actions to reduce the vulnerability of the supply chain. In particular, this involved extending the portfolio of approved plants by individual supplier, approval of alternative materials/suppliers, increase in the levels of safety stocks of critical materials, supplier audits, etc.

A joint effort was launched in 2013 with certain of the Group's principal suppliers to agree on areas for improvement of the principal business interruption risks at their production sites, including the sharing of Pirelli best practices applicable to loss prevention.

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 personnel, 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/or the risk of statutory and regulatory violations.
The Group has 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 the principal vulnerabilities were implemented for additional reinforcement of safety measures (physical, logic and infrastructure).

ALTERNATIVE PERFORMANCE INDICATORS

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

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

- **Gross Operating Profit (EBITDA):** gross operating profit is an intermediate economic measure deriving from operating income, but excluding depreciation of property, plant and equipment and amortisation of intangible assets;
- **Non-current assets:** this measure is the sum of "property, plant and equipment," "intangible assets," "investments in associates and joint ventures" and "other financial assets";
- **Provisions:** this measure is the sum of "provisions for liabilities and charges (current and non-current)," "provisions for employee benefits" and "provisions for deferred tax liabilities";
- **Operating working capital:** this measure consists of the sum of "inventories," "trade receivables" and "trade payables";
- **Net working capital:** this measure consists of operating working capital and the other receivables and payables not included in "net financial (liquidity)/debt position";
- **Net financial (liquidity)/debt position:** this performance measure is represented by gross financial debt less cash and cash equivalents and other financial receivables. The section "Explanatory notes to the consolidated financial statements" presents a table showing the items of the statement of financial position used to calculate this measure.

SIGNIFICANT EVENTS SUBSEQUENT TO YEAR END

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

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

On **February 28, 2014** Pirelli & C. S.p.A. announced that effective December 31, 2013, it had closed the medium-long term management cash incentive plan – Long Term Incentive (LTI) – adopted in 2012 in support of the 2012-2014 three-year objectives without any pay-out, either full or pro-rated, of the three-year incentive. The Company announced that it had adopted a new plan –

also applicable to all of management (about 330 participants) – related to the targets for the period 2014-2016 contained in the business plan presented on November 6, 2013. Consistently with the variable compensation mechanisms adopted internationally, the three-year LTI plan is also based on the performance of Pirelli stock ("TSR") and makes it possible to align the interests of management with those of shareholders. Just like previous plans, the 2014-2016 plan is entirely self-funded, insofar as the related expenses are included in the financial figures of the business plan. Participants in the LTI Plan 2014-2016 include, inter alia, the Chairman and Chief Executive Officer of Pirelli & C., Marco Tronchetti Provera, the Deputy Chairman, Alberto Pirelli (as senior manager), the General Manager Operations, Gregorio Borgo, the key managers Maurizio Boiocchi (Chief Technical Officer), Maurizio Sala (Chief Planning and Controlling Officer), Francesco Tanzi (Chief Financial Officer and Financial Reporting Manager) and Christian Vasino (Chief Human Resources Officer).

SUSTAINABILITY REPORT

The Pirelli Group Sustainability Report is the expression of a corporate culture based on the integration of economic, environmental and social choices, in accordance with the triple bottom line approach. For this reason, instead of being published separately, the description of Pirelli sustainable performance is included as an integral part of the Pirelli Annual Financial Report at December 31, 2013, of which it is Volume 3.
The Sustainability Report is prepared in accordance with the reporting guidelines published by the Global Reporting Initiative (GRI) – in the new version GRI-G4 and application of the most advanced option for sustainability reporting, defined comprehensive reporting. The contents of the Sustainability Report are also based on the principles of inclusiveness, materiality and compliance with Standard AA1000, a tool for measuring the capacity of the company to integrate sustainable management in its corporate strategy, identification of "material" themes that are consequently significant to the business and its stakeholders, related management and transparent reporting.
More specifically, the analysis of sustainable performance is based on a set of Key Performance Indicators (KPIs), developed in accordance with the GRI–G4 indicators, the ten principles of the Global Compact (which Pirelli has adhered to since 2004) and what is periodically monitored by the leading sustainable finance rating agencies.
The management systems used to consolidate the data are the CSR-DM (Corporate Social Responsibility Data Management), HSE-DM (Health, Safety and Environment Data Management), SAP-HR (SAP Human Resources) and HFM (Hyperion Financial Management).
The Sustainability Report is approved by the Board of Directors of the parent company Pirelli & C. S.p.A. on a voluntary basis, since it is not prescribed as a mandatory statutory or regulatory obligation. The Board of Directors of the parent company also approves the sustainability strategies and plans that are presented to the market together with the Group business plan.
The Sustainability Report has been submitted for External Assurance certification by SGS Italia SpA.
Following below is a summary of the highlights of the Sustainability Report 2013 – Volume 3 of the Annual Financial Report, to which reference is made for detailed and complete discussion.
Chapter 1 is dedicated to the "Sustainable Value Creation Model" and describes the Sustainability governance approach adopted by Pirelli, its guiding principles, the policies drafted in support of the model, the organisational structure, and the long-term governance tools directly related to the capacity of the Company to generate and distribute value, with this including corporate governance, risk governance, reputation governance, compliance and the system for management of whistleblowing reports by stakeholders.
The materiality mapping of strategic sustainable growth issues for Pirelli is also presented. The mapping is the result of a sophisticated stakeholder engagement that allowed the expectations of the principal classes of Group stakeholders in relation to the cited issues to be compared with the criticalities attributed

to them for success of the business according to the corporate vision. The result of the comparison is the strategic significance matrix, which reveals inter alia that stakeholder expectations are substantially aligned with the corporate vision.
Space is also dedicated to the Business Plan 2013-2017 presented by the top management of the Group to the financial community in London on November 6, 2013. That Business Plan includes the Sustainability Plan containing specific economic, environmental and social targets, some of which reach as far as 2020.
These include a reduction in tyre rolling resistance, which will reach 40% of the 2007 figure in the car segment, a 58% reduction in the specific uptake of water with an expected saving of 2,700,000 cubic metres in the period 2014-2017, a 90% reduction in the injury incidence rate from 2009 levels, a 15% reduction in CO2 levels and an 18% reduction in Company energy consumption from 2009 levels, for an expected saving of about euro 25 million and 400,000 tons of CO2 in the period 2014-2017, a 95% waste recovery rate by 2020, with an expected savings of about euro 60 million by 2017 through the reuse of industrial discards.
The sustainable performance assessments of the Company by leading global indices of sustainable finance and received recognition complete the report given in Chapter 1.
Chapter 2, which has a strongly economic focus, is dedicated to the added value created and distributed by the Company in 2013 (euro 2,218 million, up 0.3% from 2012), as well as a description of the sustainable performance reported in management of relations with shareholders, investors and the financial community, customers and suppliers.
A section is dedicated to each of the mentioned stakeholders, which provides a complete description of the adopted management and dialogue model, the activities performed in 2013 and the objectives and projects for 2014. Quantitative performance indicators are provided in support and illustrate the performance, for example in terms of increases of the share price on the stock market, the positive results of customer satisfaction surveys, the number of suppliers whose sustainability performance was audited by third parties, and the related outcome.
Chapter 3 is dedicated to the process and environmental performance achieved in 2013, as compared with the previous two years and in view of pursuing the targets that the Company has committed itself to meet by 2020. The "materiality" approach that characterises environmental impact governance is highlighted. This was made possible by having calculated – and reported – both the carbon footprint and the water footprint of the Group. The environmental impact of the tyre, considering the phases of its life cycle, is substantially determined by the usage phase. According to the considered environmental indicator (atmospheric emissions, energy consumption, impact on water resources), it varies from 75% to 95% of the total impact.
In regard to the process – which has a weight of less than 5% in terms of the environmental impact on the tyre life cycle – information is provided about the performance of Pirelli to reduce use of environmental resources. Specific examples of this are the 10% reduction in specific uptake of water from 2012, the 1% reduction in specific emissions of CO_2 and energy consumption, the 4% increase in waste recovery during 2013 from the previous year, raising the recovery rate to 80%, which is thus on track to achieving a recovery rate in excess of 95% that the Company intends to achieve by 2020.
Again in terms of materiality – the Model for Environmentally Friendly Management that characterises the entire product life cycle, from research and development of new raw materials to end-of-life is described.
The description dwells on the green performance characteristics of Pirelli tyres, i.e. tyres that can maximise respect for the environment and performance, whose total impact on net sales of tyres at December 31, 2013 was about 42.4%, up from 39.6% in 2012. This figure is on track to achieving the impact target of 48% of total tyre sales by 2017.
The chapter then highlights the green performance characteristics that the Company expects to achieve between 2015 and 2020, both for car tyres and truck and motorcycle tyres. In the car product, for example, tyre rolling resistance will decrease by 20% from 2013. The figure for 2013 was already 20% less than the 2007 benchmark figure.

Chapter 4 is dedicated to management performance in relation to the Internal Community and External Community.
The report on the Internal Community, which is comprised of Group employees, gives a detailed illustration of the composition and evolution of Pirelli employees during the three-year period 2013-2012-2011. The focus is in job category, geographical area of assignment, gender, average age, average job seniority, type of employment contract, new hires and separations from the Group. It shows, inter alia, that there was a net increase of 641 new employees at December 31, 2013 from a year earlier, and 1,533 new employees from December 31, 2011.
Proceeding to discussion of the adopted Responsible Management Model and related qualitative and quantitative performance, the report focuses on hiring, development, training, diversity, compensation, international mobility, internal communication, welfare, industrial relations, health and occupational safety.
Among the numerous indicators of quantitative performance in 2013, the following merit mention here:

- the workplace accident frequency rate fell by 20% from the 2012 figure;
- the average number of pro-capita training days grew, reaching an average of 7.2 days in 2013, compared with 5.1 in 2012.

In both of these cases, Pirelli met its 2015 target two whole years in advance, as previously communicated to the market with the Plan 2012-2104 and Vision to 2015.
The report on the External Community opens by describing the internationally significant activities for sustainable development in which Pirelli participated actively in 2013, including Global Compact Lead (where Pirelli belongs to the Steering Committee), CSR Europe (where Pirelli is part of the Board), World Business Council for Sustainable Development (where Pirelli is part of the Tyre Industry Project Group and the "Mobility 2.0" Project), the activity performed by the International Rubber Study Group (where Pirelli belongs to the Industry Advisory Panel) for drafting a standard on sustainability in the context of producing and transforming natural rubber, participation in the Campaigns of the European Occupational Safety and Health Agency (EU-OSHA).
A section is then dedicated to relations with institutions and public administrations, before presenting a detailed report on the philanthropic activities supported by Pirelli around the world to assist youths, training, health, the environment and culture.

OTHER INFORMATION

Information on ownership structure

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 this Annual Financial Report and published in the Governance section of the Company website (www.pirelli.com).

Security Policy Document

Although Decree Law 5 of February 9, 2013 (entitled "Urgent Measures for Simplification and Development") converted, with amendments, by Law 35 of April 4, 2012, abrogated the obligation to draft/update the Security Policy Document, Pirelli & C. S.p.A has nonetheless updated this document for 2013, for the purpose of effectively monitoring its adoption of and compliance with security measures.

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 Article 36 of Consob Regulation 16191/2007 on market regulation ("Market Regulation").
At December 31, 2013, the Non-EU Companies that were directly or indirectly controlled by Pirelli & C. S.p.A. and of material interest pursuant to Article 36 of the Market Regulation were Pirelli Pneus Ltda (Brazil); Pirelli Tire LLC (USA); Pirelli Tyre Co. Ltd (China); Turk Pirelli Lastikleri A.S. (Turkey); Pirelli de Venezuela C.A. (Venezuela); Pirelli Neumaticos S.A.I.C. (Argentina); Pirelli Neumaticos S.A. de C.V. (Mexico).
Also under the terms of the same regulations, the Company has in place specific and appropriate "Group Operating Rules" which ensure immediate, constant and full compliance with the provisions contained in the said Consob Regulations. Under the terms of the said Operating Rules, the delegated corporate functions of the parent precisely and periodically identify and disclose all Non-EU Companies of material interest under the Market Regulations, and – with the necessary and timely collaboration of the companies involved – guarantee collection of the data and information and verification of the circumstances as required by Article 36 of the Market Regulations, ensuring that the information and figures provided by the subsidiaries are available in the event of a request by Consob. Furthermore, a regular flow of information is provided in order to ensure that the Board of Statutory Auditors of the Company can carry out the required and appropriate audits.
Finally, in keeping with the regulatory provisions, the above "Operating Rules" prescribe how the financial statements (the statement of financial position and income statement) of material Non-EU Companies prepared for use in the consolidated financial statements are to be made available to the public.
Therefore, it is certified that the Company has fully complied with the provisions of Article 36 of Consob Regulation 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, between January 1, 2013 and December 31, 2013 the Pirelli Board of Directors approved a most significant transaction, as defined in Article 3(1)(a) of the aforementioned regulation, after receiving the favourable opinion of the Related-Party Transactions Committee. This transaction involved the financial restructuring and relaunching of the business prospects of Prelios S.p.A., to be implemented by means of recapitalising it and restructuring its financial debt.
In particular, Pirelli participated in that transaction through (i) conversion into Prelios ordinary shares of a portion of the financial receivable claimed against Prelios totalling about euro 21.5 million, compared with an authorised maximum amount of euro 26.3 million and (ii) restructuring of an additional portion of the financial receivable claimed against Prelios into a "convertendo" equity instrument, having a total value of about euro

148.4 million – of which about euro 67.5 million into Prelios class B shares – compared with an authorised maximum amount of euro 157.9 million, while (iii) Pirelli was not asked to make any payment against the guarantee – for a maximum of euro 2.3 million – envisaged in the connection with the aforementioned capital increase.

For more information about the description of the transaction, reference is made to the Information Document published pursuant to the cited Consob Regulation and available – complete with the changes thereto – on the Company website.

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, 2013.

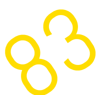
In the 2010 financial year, the Board of Directors approved the Procedure for Related Party Transactions in view of, inter alia, implementing the aforementioned Consob regulation. In implementation of, inter alia, a specific recommendation by Consob on this matter, and since three years had passed since its adoption, the Board of Directors, after receiving the favourable opinion of the Internal Control, Risks and Corporate Governance Committee and the Related-Party Transactions Committee, found at its November 5, 2013 meeting that the overall Procedure for Related Party Transactions was valid and effective, limiting itself to introducing the definition of "transaction" and eliminating the previous clause 22.2, a transitory rule which was no longer applicable. For more details on the Procedure for Related Party Transactions, please see the section Interests of Directors and Related Party Transactions in the Annual Report on Governance and Share Ownership and the procedure published on the Group website *www.pirelli.com*.

Waiver to publish disclosure documents

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

The Board of Directors
Milan, March 27, 2014

REMUNERATION REPORT



INTRODUCTION

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

- Section I: "Policy" for financial year 2014 ("**2014 Policy**") and
- Section II: "Statement" for financial year 2013 ("**2013 Statement**").

The Report has been prepared pursuant to Article 123-*ter* of the Consolidated Law on Financial Intermediation and to Article 84-*quater* of Consob's so-called Issuers' Regulation, and also on the basis of Model Format 7-*bis* in Annex 3A to said regulation. In drafting the Report account was taken of the recommendations issued by the European Commission on April 30, 2009 concerning the remuneration of directors of listed companies (2009/385/EC) as well as of the recommendations on remuneration in the Corporate Governance Code of Borsa Italiana S.p.A. of December 2011, to which Pirelli subscribes.
The Report has also been adopted in the light of Article 14 of the Pirelli Procedure for Related Party Transactions.
The 2014 Policy sets out the principles and guidelines followed by Pirelli to (i) determine and (ii) monitor the application of the pay practices, as illustrated below, in regard to:

- Directors holding special offices, the General Managers, and the Managers with strategic responsibility of Pirelli & C.;
- the Senior Managers and Executives of the Group.

The 2013 Statement, submitted for the information of the Shareholders, provides a comprehensive account of remuneration in financial year 2013 that illustrates its consistency with the Policy approved by the Company the previous year.

To facilitate comprehension and reading, the Report includes the following glossary of some frequently used terms:
Directors holding special offices: the Directors of Pirelli & C. that hold the position of Chairman, 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 managers are, for the purposes of this Policy and depending on their role, Executives or Senior Managers (barring a resolution otherwise by the Board of Directors of Pirelli & C. that designates them "Managers with strategic responsibility").
Directors not holding special offices: these are all the Directors of Pirelli & C. other than the Directors holding special offices. The Directors at other Pirelli companies who are also Group executives are, for the purposes of this Policy and according to their role held, Executives or Senior Managers (barring a resolution otherwise by the Board of Directors of Pirelli & C. that designates them "Managers with strategic responsibility").
Annual Total Direct Compensation at the target level: 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 objectives at the target level;
(iii) annualisation of the medium/long-term variable component made up of a) the LTI bonus that the beneficiary would receive on achieving the 3-year objectives at the target level and of b) the annual rolling mechanism for deferring payment of part of the accrued MBO incentive and for providing enhanced payment of the entire accrued MBO incentive in recognition of the sustained achievement, over time, of the annual objectives at the target level.
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 are, for the purposes of this Policy and according to their role held, Executives or Senior Managers (barring a resolution otherwise by the Board of Directors of Pirelli & C. that designates them "Managers with strategic responsibility").

Managers with strategic responsibility: managers, chosen 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: managers at Pirelli's companies in Italy or employees at the Group's foreign companies having a position or role equivalent to that of an Italian manager.

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 Managers with strategic responsibility, the senior managers and the executives.

MBO incentive: the annual variable component of remuneration obtainable for achieving pre-set business objectives, as illustrated below in section 5 (also termed MBO incentive).

2014-2016 LTI Plan: the Long Term Cash Incentive Plan illustrated below in section 5.

GAS: the gross annual fixed component of remuneration for the employees of any Pirelli Group company.

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

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

REMUNERATION POLICY FOR 2014

1. PRINCIPLES AND EXAMINATION OF RISKS

The 2014 Policy has been prepared on the basis of policy in previous years. It takes account, too, of the regulatory provisions adopted by Consob in Resolution no. 18049 of November 23, 2011, as well as of the early termination of the 2012-2014 LTI Plan and of the adoption of a new 2014-2016 Long Term Cash Incentive Plan introduced in "support" of the objectives for the 2014-2016 period listed in the 2014-2017 Industrial Plan approved by the Board of Directors on November 5 2013 (see 2014 Policy, section 5).

It is noted that the approval of the Shareholders' Meeting shall be sought for that part of the 2014-2016 LTI Plan which provides that the incentive is also determined on the basis of a Total Shareholder Return objective assessed in terms of Pirelli's performance and with regard to an index composed of selected peers in the Tyre sector.

* * *

The aim of the Pirelli Remuneration Policy is to attract, motivate and retain the resources that have the professional skills needed to successfully pursue Pirelli Group objectives. Indeed, Pirelli defines and applies a remuneration policy that, with regard to top management and Senior Managers, is geared to exert a strong pull on the third quartile of the corresponding employment market (as measured by the standard benchmark) and, with regard to Executives, is in line with the relevant market practice.

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 at the time of their appointment for their entire term by the Board of Directors, and, as an aggregate annual amount, it includes any fixed components for other positions that the Directors hold in the Pirelli Group.
  For the rest of Management, the fixed component is set when they are employed and may be periodically revised to take account of their performance, of their assumption of new responsibilities, and market salary trends for the type of position held by the individual;
- an annual variable component (MBO incentive): 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 individual. If the objectives are attained at target level this percentage can range 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 role of the person concerned, it is designed to reward the annual performance of the Group, the Company and/or the function to which he or she belongs. Moreover, there is a limit on the maximum MBO incentive obtainable which is set at twice the incentive obtainable at the target level; for the Directors holding special offices and assigned specific functions, it is 2.5 times the incentive obtainable at the target level.
- the medium/long-term variable component: the LTI bonus is, likewise, set as a percentage of the fixed component and is aimed at rewarding Group performance during the period 2014-2016. Like the MBO incentive, the 3-year LTI bonus is a pre-determined percentage of the fixed component, with percentages that rise according to the position held and considering the benchmarks for each individual. If the objectives are attained at the target level this percentage can range from a minimum of 50% for Executives to a maximum of 250% for the Directors holding a special office who have been assigned specific functions. In addition, a limit is applied to the maximum LTI incentive obtainable and is set at twice the incentive obtainable at the target level
  A more detailed description of the function of the annual and 3-year variable components can be found in section 5, "MBO and LTI Plan".

The variable remuneration of Management is based on short and medium/long-term objectives set in the annual and multi-year Industrial Plans announced to the market.
It is relevant in this regard that the risk management process is now fully integrated into the strategic planning process. This guarantees that the set objectives for earning the variable bonus does not expose Pirelli to a risk appetite by management at variance with an acceptable level of risk as defined by the Board of Directors when approving 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 objectives are met at the target level, this component represents:

- not less than 50% of the Annual Total Direct Compensation at the target level for the Chairman and Chief Executive Officer, the General Managers, and the Managers with strategic responsibility;
- not less than 40% for Senior Managers, and lastly,
- not less than 25% for Executives.

A significant portion of the MBO-linked variable incentive (25%) is deferred to encourage the continuity of results over time (so that payment of it is at risk) with a possible reward mechanism for enhancing the entire MBO incentive earned in each year in accordance with the level of achievement of MBO objectives in the following year, as explained below (for a detailed description, see section 5).
The definition of a mix of objectives, including non-financial objectives, for the medium/long-term variable portion avoids the preponderant weight of a single performance objective. Moreover, the existence of objec-

tives for achieving a significant part of the LTI incentive that are based on cumulative economic/financial parameters over the 3-year period (without, therefore, any interim account stage) discourages action aimed solely at achieving short-term objectives in order to secure the annual incentive.

For the other components of remuneration – office termination payments, non-competition agreements, and non-monetary benefits – granted to the various members of Management, see the sections that describe the remuneration structure for each category.

2. "THE PROCESS" OF POLICY DEFINITION AND IMPLEMENTATION AND THE PARTIES INVOLVED

Policy definition is the result of a clear and transparent process in which the Remuneration Committee and the Board of Directors play a key role. The fact is, the Policy, following a motion from the Remuneration Committee, is adopted and annually approved by the Board of Directors, which then submits it to the consultative vote of Meeting of the Shareholders.

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 policy application. For this reason, at least once annually, on presentation of the Remuneration Statement, the Senior Advisor for Human Resources and/or the Chief Human Resources Officer report(s) to the Remuneration Committee on compliance with the Policy.

The 2014 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 Statutory Auditors at its meeting on March 27, 2014 – is submitted for the examination and non-binding vote of the Shareholders' Meeting.

The point is made, merely as a detail, that under current laws the Board of Directors has the discretion to adopt (or where the law so provides, to propose to the Shareholders' Meeting) incentive mechanisms involving a grant of financial instruments or options on financial instruments, 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 has no incentive plans based on financial instruments.

It is noted, for the record, that the approval of the Shareholders' Meeting shall be sought for that part of the 2014-2016 LTI Plan whereby the incentive is determined on the basis of a Total Shareholder Return objective calculated commensurate with Pirelli's performance and against an index made up of selected peers in the tyre industry.

3. REMUNERATION COMMITTEE

Composition

As early as 2000, the Corporate Governance system then adopted by Pirelli & C. included a Remuneration Committee.

The Committee has four members, all independent, consistent with the most rigorous approach recommended by the Corporate Governance Code issued by Borsa Italiana (December 2011).

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, which ends its period in office with the approval of the financial statements at December 31, 2013, comprises: Luigi Roth (Chairman); Anna Maria Artoni; Luigi Campiglio; and Pietro Guindani.

In the course of financial year 2013 Carlo Acutis (a director and Chairman of the Committee) stood down as Chairman and member of the Remuneration Committee since he no longer qualified as independent. Following this resignation, the Committee was restored to full strength through the appointment of Luigi Campiglio, while Luigi Roth (director), was appointed Chairman of the Committee.

Two members of the Committee (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.
You are advised that the next Shareholders' Meeting for approving the financial statements at December 31, 2013 shall be called on to vote on the renewal of the Board of Directors of the Company.

Duties of the Remuneration Committee

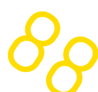
The Remuneration Committee has advisory, policy making, and supervisory functions to assure definition and application within the Group of remuneration policies aimed, on the one hand, at attracting, motivating and retaining resources having the professional skills necessary to profitably pursue Group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

- assists the Board of Directors in defining the General Remuneration Policy of the Group;
- periodically assesses the adequacy, overall consistency and concrete application of the General Remuneration Policy;
- makes proposals to the Board of Directors in regard to Directors holding special offices, to the General Managers, and the tp Managers with strategic responsibility concerning:
    - their remuneration, in line with the General Remuneration Policy;
    - the setting of performance objectives related to the variable component of their remuneration;
    - the making of any non-competition agreements;
    - the making of any agreements to terminate the relationship, including on the basis of the principles set out in the General Remuneration Policy;
- assists the Board of Directors in vetting recommendations to the Shareholders' Meeting on adopting compensation plans based on financial instruments;
- monitors application of decisions taken by the Board of Directors, verifying in particular the effective achievement of established performance objectives;
- examines and submits to the Board of Directors the Annual Remuneration Report. Identifying by name each member of the Board of Directors and of the Board of Statutory Auditors, as well as the General Managers, and treating the Managers with strategic responsibility as an overall group, the report:
    - properly examines each item making up remuneration;
    - details the compensation paid during the reference year, for whatever reason any in whatever form, by the Company and its subsidiaries.

It might be added that the Board of Directors has delegated the responsibilities of the Committee for Related Party Transactions, required by Consob regulations, to the Internal Control, Risks and Corporate Governance Committee, barring solely issues regarding the remuneration of Directors and Manager with strategic responsibility, which are 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, by the Chairman of the Board of Directors or, if appointed, 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[1] and – if deemed appropriate and on invitation by the Remuneration Committee – by other representatives of the Company and/or the Group as well as by the Independent Auditor. The Senior Advisor for Governance and Senior Advisor for Human Resources and/or the Chief Human Resources Officer are also present at 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 such, at any rate, as is necessary) is 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 present. Remuneration Committee meetings may be held by means of telecommunication links and are duly recorded in minutes by the Secretary and entered in a register.
The Remuneration Committee – which may draw on external consultants to perform its functions – has adequate funding to discharge its duties and has absolutely independent spending authority.
The Remuneration Committee may access key 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 2013 by the Remuneration Committee, see the Report on Corporate Governance and Ownership Structure.

4. CONTENTS OF THE 2014 POLICY

As previously mentioned, the Policy defines principles and guidelines to which:

- the Board of Directors refers when defining the remuneration:
  - of Directors of Pirelli & C. and, in particular, of the Directors holding special offices;
  - of the General Managers;
  - of the Managers with strategic responsibility;
- Pirelli refers when defining the remuneration of the Senior Managers and, more generally, the Executives of the Group.

5. MBO AND LTI PLAN

MBO

The annual variable component (MBO incentive) remunerates the beneficiary's performance on an annual basis.
Access to the annual variable component is contingent on fulfilling a financial condition (the so-called "on/off condition"), which is determined having regard to the role performed by the beneficiary. The incentive is then calculated on the basis of a number of objectives, likewise defined with regard for the specific role performed by the beneficiary. Corresponding to each such objective is an "entry threshold", which attracts payment of an amount equal to 75% of the target-level incentive payment, and a cap, representing the maximum amount that can be earned.
The MBO objectives for Directors holding special offices and who are assigned specific functions, for the General Managers, and for Managers with strategic responsibility, are set by the Board of Directors on a recommendation from the Remuneration Committee, and are linked to the annual performance of the Group.
The objectives for 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 Manage-

[1] The corporate governance rules of the Company make special provision enabling the entire Board of Statutory Auditors to directly monitor Committee activities and to perform its delegated supervisory functions more effectively.

ment Control Department. In contrast with the treatment of top management, these persons may be set objectives linked to the operating performance of their specific unit/function as well as qualitative/quantitative objectives linked to specific parameters of individual performance.

MBO 2014

As in the past, access to the **MBO 2014** incentive scheme is likewise dependent on a financial condition. In the case of Directors holding special offices and who are assigned special functions, of General Managers, and of Mangers with strategic responsibility, that condition is a Group Net Financial Position (before dividend distribution) that is aligned with the value set in the 2014-2017 Industrial Plan, inclusive of a "tolerance margin".
The above individuals are then set two objectives of an economic/financial nature, that are mutually independent, namely Group Ebit (after restructuring charges) and Group Net Cash Flow (before dividend distribution).
The target-level objectives represent a performance on a par with the corresponding objectives announced to the market. The scheme also includes an entry threshold, set at a less high level, which is rewarded with an incentive payment that is 75% of the amount obtainable at the target level.
There is, in addition, a ceiling set on the maximum incentive payment obtainable under the scheme. For Directors holding special offices and who are assigned special functions this stands at 2.5 times the incentive at the target level, and for General Managers and Managers with strategic responsibility, it is twice the incentive at the target level. The final figure for the incentive between the entry threshold and the target level and between the target and maximum levels is arrived at on a straight-line basis.
Senior Managers and Executives, in addition to the access condition (a financial objective relating to the Group or to their Region of operation) and to the two economic and financial objectives (relating, again, to their organisational unit), are set a third objective for their performance as an individual manager. They, too, will receive an incentive reward that is 75% of the incentive payable at the target level if they achieve the lower-level entry threshold, and the limit on the maximum obtainable if they outperform the target-level objectives is twice the target-level incentive.
At the end of the financial year, when a final account of performance can be undertaken, the Group Human Resources and Organisation Department, assisted by the Group Management Control Department, conducts an audit on the level of fulfilment attained in pursuing the objectives.
The table below sets out the objectives of the various office holders and the weighting of the respective objectives assuming that target-level performance is attained

Individual	Objective	% weighting at target level
Chairman and Chief Executive Officer/ General Manager and Managers with strategic responsibility	Group Net Financial Position (before dividend distribution)	On/Off Condition
	Group Ebit (after restructuring charges)	65%
	Group Net Cash Flow (before dividend distribution)	35%
Senior Manager/ Executive (Head Office)	Group Net Financial Position (before dividend distribution)	On/Off Condition
	Group Ebit (after restructuring charges)	50%
	Group Net Cash Flow (before dividend distribution) or a functional objective with Group-wide scope	30%
	Individual qualitative/quantitative performance	20%
BU/Region Senior Manager/ Executive	Group Net Financial Position (before dividend distribution), if for BU; Regional Net Financial Position, if for Region	On/Off Condition
	BU/Region Ebit (prior to restructuring charges)	50%
	Functional objective with a typically-wide Group scope	30%
	Individual qualitative/quantitative performance	20%

Deferral of payment of MBO incentive

Payment of 25% any MBO incentive as may be accrued is subject to a 12-month deferral and is conditional on achieving the MBO objectives of the following year. In particular,

- if, in the year following the one when the MBO incentive was accrued, no MBO incentive is accrued, the deferred portion of the previous year's MBO incentive (25% of the bonus accrued, as noted above) is forfeited;
- if, in the year following the one when the MBO incentive was accrued, an MBO incentive at entry-threshold level is accrued, the deferred portion of the previous year's MBO incentive is released;
- if, in the following year, an MBO incentive is accrued between the target level and the maximum level, an additional amount of between 20% and 40% of the incentive accrued in the previous year is paid out (for results in the following year ranging between the target level and the maximum level, the enhancement to the previous year's MBO incentive is scaled up linearly).

LTI Plan

In view of the introduction of a new Industrial Plan for 2013-2017, the Board of Directors of Pirelli voted – with effect from December 31, 2013 – to terminate the medium/long-term cash incentive for Management (the Long Term Incentive, or LTI) adopted in 2012 and geared to the objectives for the 3-year period 2012-2014.

As an effect of that decision, no payout was made of the 3-year incentive, not even a pro-rated payment, the "coinvestment" mechanism was abandoned, and any MBO incentive accrued for financial year 2013 was paid out in full. Concurrently, the Board of Directors approved the adoption of new LTI plan linked to the objectives of the 2014-2016 period as set out in the 2013-2017 Industrial Plan submitted on 6th November 2013, with pre-release of the respective guidelines on that occasion.

Like the previous LTI plan, the new one, for 2014-2016, is open to all of Management (except for specific cases, for example, the managers of the Internal Audit function) and may also be extended to those who join Group management during the 3-year period and/or assume the position of Executive as a result of in-house career development. Where this happens, their inclusion is conditional on participation 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 2014-2016 LTI Plan provides for an incentive ("LTI bonus") which is conditional on fulfilment of multi-year objectives 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. Corresponding to each objective there is an entry threshold, which attracts payment of an amount equal to 75% of the target-level bonus, and a ceiling representing the maximum amount that can be earned. Where all the objectives are fulfilled at the maximum level, the LTI Bonus may not exceed twice the bonus obtainable for achieving the objectives at the target level.

In the event of a failure to reach the entry-level threshold for any objective, no right to payment of the commensurate bonus will accrue to the beneficiary.

As with the previous Plans, the 2014-2016 LTI Plan likewise includes an access condition, consisting in fulfilling the 3-year creation-of-value objective, which measures the capacity of the company to create value over the medium-long term considering the profitability after tax of ordinary operations compared with the amount of invested capital and its cost. In particular, this objective is equal to the difference between NOPAT (Net Operating Profit After Tax) and the weighted average cost of fixed capital plus working capital.

As to the medium/long-term objectives of the LTI bonus and the metrics for measuring them, the following three types of objective have been set, the first two of which are independent from one another, along with their respective weightings:

- Group *Total Shareholder Return* ("**TSR**"), an objective applying equally to Management as a whole and comprising two mutually independent sub-objectives: (i) absolute TSR, with a weighting

that accounts for 40% of the total LTI bonus and (ii) relative TSR, with a 20% weighting, measured against a panel of selected peers. Fuller details on the application of the *Total Shareholder Return* objective can be found in the document released at the time of the Shareholders' Meeting;
- an objective specific to each Executive concerning their respective organisational unit (Group, Region, Business Unit): Return On Sales (ROS), calculated as the ratio between accumulated Ebit after restructuring charges over the 3-year period and accumulated turnover over the same period; the weighting of ROS in the total LTI bonus is 30%;
- the remaining 10% is calculated on the basis of a Sustainability indicator relating to the positioning of Pirelli in two indices, with equal weighting: (i) *Dow Jones Sustainability Index, Autoparts and Tyre Sector*, and (ii) *FTSE4Good Tyre*. This objective is only afforded recognition if the entry threshold for at least one of the two economic/financial objectives above is reached.

The LTI objectives applying equally to the various individual managers together with their respective weightings at the target level, is tabulated below

Objective	***Weighting at the target level***
Creation of value (difference between NOPAT -Net Operating Profit After Tax- and the weighted average cost of fixed plus working capital)	On/Off Condition
ROS (calculated as the ratio between accumulated Ebit after restructuring charges over the 3-year period and accumulated turnover over that 3-year period) of the Group, of the Business Unit, or of the Region (depending on the organisational unit in which the Executive works)	30%
"Absolute" TSR	40%
"Relative" TSR with respect to a selected panel of peers	20%
Sustainability indices	10%

Regarding the **TSR** and **ROS** objectives, for intermediate results ranging between the minimum value (entry threshold) and the target level or between the target level and the maximum level, the final assessment shall be made through linear scaling. The costs for the entire LTI incentive scheme are factored into the Industrial Plan, so that the cost of the LTI plan is "self-financed" by fulfilment of the objectives themselves.

The LTI Plan also promotes employee retention. If the individual's term in office and/or employment relationship should end for any cause or reason before completion of the 3-year period, the beneficiary – including Directors holding special offices and invested with special functions (as in the case of the Chairman and Chief Executive Officer, Mr. Tronchetti Provera) – ceases to be part of the LTI Plan and consequently the 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:

- Directors holding special offices who may also be assigned specific functions;
- Directors not holding special offices.

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

On April 21, 2011 the Pirelli Shareholders' Meeting that appointed the Board of Directors also approved an overall compensation amount for remuneration of the Directors, pursuant to Article 2389(1) of the Italian Civil Code, while leaving it to the Board of Directors to decide on how it was to be allocated. In particular, the Shareholders' Meeting approved aggregate gross annual compensation of 1.7 million euros, which was subsequently allocated by the Board of Directors as follows

Body	***Appointment***	***Gross annual compensation***
Board of Directors	Director	50 thousand euros
Internal Control, Risks, and Corporate Governance Committee	Chairman	40 thousand euros
	Committee Member	30 thousand euros
Remuneration Committee	Chairman	25 thousand euros
	Committee Member	20 thousand euros
Strategies Committee	Chairman (M. Tronchetti Provera)	No compensation
	Committee Member	25 thousand euros
Appointments & Successions Committee	Chairman (M. Tronchetti Provera)	No compensation
	Committee Member	20 thousand euros
Supervisory Body	Chairman and committee members	25 thousand euros

In accordance with best practices, no variable compensation was granted to Directors not holding special offices (as defined hereinabove).

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

Again, in accordance with best practices, the Company implements a D&O (*Directors & Officers*) *Liability* insurance policy covering the third party liability of corporate bodies, General Managers, Managers with strategic responsibility, 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 Directors not holding special offices.

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 who have been assigned specific functions consists of the following elements:

- a gross annual fixed component;
- an annual variable component (i.e. MBO incentive);
- a medium/long-term variable component (comprising the LTI bonus and the annual rolling arrangement for deferred payment of part of the earned MBO incentive and for making an enhanced payment of the entire MBO earned depending on the level of MBO attainment in the following year).

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 account of the other positions they hold in the Pirelli Group.

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 Annual Total Direct Compensation at the target level;
- the annual incentive (MBO incentive) earned at the target level is a pre-determined amount corresponding to 100% of the fixed compensation for the main executive appointment. In any case, the maximum bonus cannot exceed 2.5 times that compensation;
- the annualised medium/long-term variable component, at the target level, represents at least 60% of the aggregate variable component. The LTI Bonus includes a cap set on the maximum level obtainable, corresponding to twice the bonus at the target level.

During his current tenure as a director, namely in financial year 2012, the structure of the remuneration of 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 as follows:

- for the position held at Pirelli & C., he was paid just a fixed gross annual salary of 900 thousand euros, in addition to his compensation as board member (50 thousand euros gross, annually);
- for the position held at Pirelli Tyre S.p.A., he was granted a fixed gross salary of 2 million euros and annual and multi-year variable compensation, based on the criteria described above.

As to the incidence of the various components, the table below shows the structure of the compensation package of the Chairman and Chief Executive Officer, Mr Marco Tronchetti Provera, where both the annual objectives of the 2014, 2015, and 2016 MBO schemes and the objectives set in the 2014-2016 LTI Plan are achieved (i) at the target level, or alternatively, (ii) at the maximum level.

Remuneration of the Chairman and Chief Executive Officer: structure (annualised)		
	Performance at the target level	***Performance at maximum level***
Fixed component	42.0%	22.2%
Annual variable component (MBO incentive)	21.4%	28.2%
Medium/long-term variable component	36.6%	49.6%

Subject to the 12-month deferral arrangements affecting part of the MBO incentive, with the attendant risks and opportunities noted in section 1 and detailed in section 5, part of the medium/long-term variable component in the table is conditional on the level of attainment of results in financial year 2017 and will, accordingly, be paid out – if applicable – in financial year 2018.

Regarding Directors holding special offices and assigned specific functions (at December 31, 2013, the Chairman and Chief Executive Officer, Mr Marco Tronchetti Provera), the Board of Directors made provision as below for those such Directors as do not have employee status, allowing entitlements comparable to those claimed by the Group's Italian managers in law and/or through the National Collective Bargaining Agreement, namely:

- a *T.F.M.* Office Termination Payment pursuant to Article 17(1)(c) of the *T.U.I.R.* Consolidated Income Tax Law no. 917/1986, with characteristics similar to those of the *TFR* Severance Indemnity Payment under Article 2120 of the Italian Civil Code granted by law to the Italian managers of the Group, and including the contributions that would be payable by the employer to social security institutions or funds if the manager had an employment 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;
- benefits for permanent disability and for death following illness;
- additional benefits typical of their office and currently granted within the Group to Managers with strategic responsibility and/or to Senior Managers (company car).

If a Director holds special offices but has not been assigned specific functions (at December 31, 2013, this was the case of the Deputy Chairmen, Mr Alberto Pirelli and, up to May 10, 2013, of Mr. Vittorio Malacalza), their remuneration as Directors consists solely of the annual fixed gross component. If a Director holding a special office is also an Executive/Senior Manager (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 is provided to Directors holding special offices who have not been assigned specific functions, other than the mandatory coverage or that available to them as Directors.
The Remuneration Committee and the Board of Directors analyse the positioning, 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 normal limits of benchmark analyses, these firms use methods designed to enable a 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, etc.) are used to define the annually updated panel of benchmark companies.
The benchmark sample of companies used in 2013 to analyse competitiveness and revise the remuneration of the Chairman and Chief Executive Officer of Pirelli & C. comprised 8 companies in the Car and Tyre segment, on the one hand, and 26 European "Large Cap" companies, on the other hand.

The 8 companies making up the "Car and Tyre" panel are

BMW	Daimler	Michelin	Renault and Nissan
Continental	Fiat	Peugeot	Volkswagen

The 26 companies making up the "Large Cap Europe" panel are

Air Liquide	L'Oreal	Richemont	Unilever
Carrefour	Nestle	Roche Holding	Volkswagen
Daimler	Novartis	Royal Dutch Shell	Wolters Kluwer
Danone	Reckitt Benckiser Group	SABMiller	WPP
Heineken	Reed Elsevier	Sanofi	Xstrata
Iberdrola	Renault and Nissan	Siemens	
Linde	Repsol	Total	

HEIDI PAULA LANGVAD

Heidi Paula Langvad
is a Fashion Designer from Denmark,
known for her dark, feminine style
and use of traditional craftsmanship
and local products. Her work is featured
on numerous fashion sites and blogs,
including Vogue.
She was the recipient of Muuse's
most promising designer award
from VOGUE talents 2012, as well as
their Young Vision Award in 2011.
She was also nominated for Best upcoming
Designer from the Costume awards 2012.

36 YEARS OLD DANISH

2012: Muuse Prize
(assigned by Vogue Talents)
as Most Promising Designer
2012: Nomination at Costume
Awards as Best
Emerging Designer
2011: Young Vision Award

STYLIST

For a fashion designer Heidi is an introverted and shy person, carrying around her manikin at all times as a defensive tool as much as a comfort – and this proved to me that her work went beyond the façade, beyond the textiles to something deeper and more philosophical. She understands clothes in an experiential sense, they are not just for the external viewer, but more importantly for the wearer; they reflect something more meaningful back at them, and her designs include minute details not apparent to anyone other than the wearer. They are expressive, but not only outwardly. She explored the curvature of the female body in relation to the wheel. Heidi talked articulately and eloquently about women and clothes, and how women wear their clothes. She looks at the relationship between the two; the material and the body, but understands that, ultimately, a woman wants to look good, and wants her clothes to make her feel empowered and not vulnerable. She carried with her a fascinating book of ideas, aphorisms, stories (interestingly) and design, which was the chronicle of the dress that she presented to us. This proved that the process is not simply one of choosing materials and design – the physical preparation – but cerebral too. The dress, the finished item, is an amalgam of intellectual methods, which we might not have expected. The stark but graceful dress she presented was a testament to Heidi's creative vigor. She is an all-round talent, thinking beyond the limits of her medium, verging on the polymath.

[Hanif Kureishi]

Do you consider your talent a gift or a burden?

A gift, of course, who doesn't want to make women feel and look beautiful and confident?

What you would do if one day you woke up and discovered you had lost your talent?

Build up another one! Work hard, learn, make mistakes and work even harder – go with my passion always. It´s all about what´s happening in our minds and how much we want it.

Who is the living talent you most admire?

Peter Doherty

What do you like about your talent and what don't you like?

I have the ability to empower women.

When or where does your talent make you happy?

When a stranger, one day, told me. "Hey! You not only create clothes, you create beauty"! When I can see women strolling in my creations! Small femmes fatales ruling the world with their passion.

If you could change your talent, how you would change it?

I don't want to. And I can´t see how it is possible to change what is so much a part of my personality.

MY WHEEL

My wheel is the female body!
The shape of our inner self and thoughts.
Our softness and fragility, our perfection
and beauty. The shape of the dress,
the round lines, the handmade textures
(dynamic and slow fashion) takes us
back in time and brings back
the old handcrafted tradition.
This dress symbolises the tyre –
the mixture of rubbers, combined
to create the perfect match.
I don't follow fashion trends. My creations
are timeless with thoughts
and hearts from back then... It comes,
it goes, it comes and it goes –
and we must take part of it further
and make a circle of a lifetime full
of personality and beauty.

IS A DRESS

8. THE BOARD OF STATUTORY AUDITORS

The Shareholders' Meeting sets a fixed annual amount for remuneration of the Board of Statutory Auditors. In particular, at the date the Board of Auditors was renewed in financial year 2012, the fixed annual gross amount payable to the Chairman was set at 75 thousand euros and the amount payable to the members of the Board of Auditors was set at 50 thousand euros.
For the Statutory Auditor appointed to the Compliance Programme Supervisory Body, the Board of Directors, following its renewal, determined gross annual compensation of 25 thousand euros.
The Statutory Auditors are also entitled to reimbursement of the expenses they incur on official business.

In accordance with best practices, the Company provides a D&O (Directors & Officers) Liability insurance policy covering the third party liability of corporate bodies, General Managers, Managers with strategic responsibility, Senior Managers and Executives in the performance of their functions. The purpose of this policy is to indemnify Pirelli for the cost of damages arising out of provisions in the applicable national collective bargaining agreement and legal provisions regarding appointed positions, with exclusion of wilful misconduct and gross negligence.

9. GENERAL MANAGERS AND MANAGERS WITH STRATEGIC RESPONSIBILITY

At December 31, 2013, Pirelli & C. had: one General Manger for Operations (Mr Gregorio Borgo) and four Managers with strategic responsibility: (Mr Maurizio Boiocchi, Mr Francesco Chiappetta[2], Mr. Francesco Tanzi, and Mr Maurizio Sala. Additionally, as of January 1, 2014, they were joined by Mr. Christian Vasino and, with effect from 27 March 2014, by Mr. Giuliano Menassi).
The remuneration of the General Managers and Managers with strategic responsibility is composed of the following elements:

- a gross annual fixed component;
- an annual variable component (MBO incentive);
- a medium/long-term variable component (comprising the LTI bonus and the annual rolling arrangement for deferred payment of part of the earned MBO incentive and payment of an enhancement of the entire MBO earned depending on the level of MBO attainment in the following year;
- benefits typically granted to Pirelli Executives.

Furthermore, provision as below is made for General Managers and for Managers with strategic responsibility (comparable to the claims enjoyed by Senior Managers and Executives with an employment contract in Italian law):

- supplementary retirement plans that obligate the employer company to pay an amount equal to 4% of the gross annual remuneration received into a pension fund, up to a maximum gross amount of 150 thousand euros;
- supplementary 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 responsibility is determined when they are hired and periodically revised according to their performance, as resolved by the Board of Directors on a recommendation 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 Annual Total Direct Compensation at the target level;
- for General Managers and the Chief Technical Officer the annual MBO incentive earned at the target level is a pre-set percentage of GAS, namely 75%, and for Managers with strategic responsibility, 50% of GAS
- the annualised, medium/long-term variable component, at the target level, accounts for no less than 60% of the aggregate variable component. The LTI Bonus is also subject to a cap, limiting the maximum that can be earned to twice the bonus at the target level.

As for the General Manager Operations the fixed component now stands at an overall figure of 600 thousand euros gross.
Regarding the incidence of the various components, the table below shows the structure of the compensation package of the General Manager Operations and, as an aggregate figure, of the directors with strategic responsibility, where both the annual objectives of the 2014, 2015, and 2016 MBO schemes and the objectives set in the 2014-2016 LTI Plan are achieved (i) at the target level, or alternatively, (ii) at the maximum level.

Remuneration of the General Manager Operations; structure (annualised)		
	Performance at the target level	***Performance at maximum level***
Fixed component	39.0%	22.5%
Annual variable component (MBO incentive)	21.9%	25.4%
Medium/long-term variable component	39.1%	52.1%

Overall remuneration of the 4 Managers with strategic responsibility[3]: structure (annualised)		
	Performance at the target level	***Performance at maximum level***
Fixed component	43.6%	26.1%
Annual variable component (MBO incentive)	19.1%	22.9%
Medium/long-term variable component	37.3%	51%

Subject to the 12-month deferral arrangements regarding part of the MBO incentive, with the risks and opportunities referred to in section 1 and detailed in section 5, part of the medium/long-term variable component in the table is conditional on the level of attainment of results in financial year 2017 and will, accordingly, be paid out – if applicable – in financial year 2018.
The process for definition of the remuneration of General Managers is similar to that illustrated for the Directors holding special offices.
In regard to the Managers with strategic responsibility, the Remuneration Committee assesses the consistency of their remuneration with the Policy.
The remuneration of General Managers and Managers with strategic responsibility is also analysed with the assistance of independent firms specialising in executive compensation. Definition of this remuneration is revised annually and published in the annual Remuneration Statement. In particular, a variety of parameters (sector, geography, etc.) are used to define the annually updated panel of benchmark companies.
In regard to the General Manager Operations and Managers with strategic responsibility the benchmark market used to verify the competitiveness of the respective remuneration includes 236 companies in the following European countries: Belgium, France, Germany, Italy, Spain, Netherlands and the United Kingdom.

10. 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 (MBO incentive);
- a medium/long-term variable component (comprising the LTI bonus and the annual rolling arrangement for deferred payment of part of the earned MBO incentive and for providing an enhanced payment of the entire MBO earned depending on the level of MBO performance in the following year.
- benefits as are customary in company practice (e.g. company car and, in the case of foreign assignments, contribution to housing costs and possibly to children's school expenses).

[2] As with effect from January 31, 2014, Mr. Francesco Chiappetta withdrew from his previous commitments to take on the role of Senior Advisor Governance in support of the Chairman and Chief Executive Officer. At the same time he stepped down as a manager with strategic responsibilities.
[3] The managers in question are: Francesco Tanzi (Chief Financial Officer); Maurizio Sala (Chief Planning and Controlling Officer); Maurizio Boiocchi (Chief Technical Officer); and Christian Vasino (Chief Human Resources Officer).

Furthermore, the Executives and Senior Managers with an Italian employment contract are entitled to:

- supplementary retirement plans that entail the employer company in paying an amount equal to 4% of the gross annual remuneration received to a pension fund, up to a maximum gross amount of 150 thousand euros;
- supplementary health and life insurance in addition to the requirements of the National Collective Bargaining Agreement for Companies that Produce Goods and Services.

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

- fixed component: (i) for Senior Managers, its weight is generally not more than 60% of the Annual Total Direct Compensation at the target level, and (ii) for Executives, its weight is generally not more than 75% of the Annual Total Direct Compensation at the target level;
- an annual MBO incentive that, at the target level, accounts for not less than 20% of GAS.
- the annualised medium/long-term variable component, at the target level, accounts for not less than 60% of the aggregate variable component. For the LTI bonus there is a limit on the maximum level that caps it at twice the bonus at the target level.

The table below presents the structure of the compensation package for Senior Managers and Executives (taken overall) and shows the incidence of the various (annualised components of their compensation package where both the annual objectives of the 2014, 2015, and 2016 MBO schemes and the objectives set in the 2014-2016 LTI Plan are achieved (i) at the target level, or alternatively, (ii) at the maximum level

Remuneration of Senior Managers: structure (annualised)		
	Performance at the target level	***Performance at maximum level***
Fixed component	49.1%	31%
Annual variable component (MBO incentive)	14.7%	18.6%
Medium/long-term variable component	36.2%	50.4%

Remuneration of Executive: annualised structure		
	Performance at the target level	***Performance at maximum level***
Fixed component	71.1%	52.8%
Annual variable component (MBO incentive)	10.7%	15.8%
Medium/long-term variable component	18.2%	31.4%

Subject to the 12-month deferral arrangements regarding part of the MBO incentive, with the risks and opportunities referred to in section 1 and detailed in section 5, part of the medium/long-term variable component in the table is conditional on the level of attainment of results in financial year 2017 and will, accordingly, be paid out – if applicable – in financial year 2018.

The Group may include Senior Managers and Executives in possible incentive schemes adopted by the Group that assign financial instruments or options on instruments. In this connection, as already noted, at the date of this Report the Company has no incentive programmes involving financial instruments in place.
The remuneration of Executives and Senior Managers is also analysed with the assistance of independent firms specialising in executive compensation. Inter alia, this analysis takes account of the position held by the individual

manager and the country where he or she is assigned. For the Internal Audit Manager, the Board of Directors has determined – in accordance with best practices and as recommended by the Internal Control, Risks and Corporate Governance Committee – that the fixed component should have greater weight with respect to the variable component. However, the Internal Audit Manager (and, generally speaking, the managers of the Internal Audit function) are not included in the LTI Incentive Plan, but benefit only from the annual incentive plan linked 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

It is not Pirelli Group policy to make agreements with Directors, General Managers, Managers with strategic responsibility, Senior Managers and Executives that regulate ex ante the economic issues arising in the case of early termination of their contract by the Company or by the individual employee (i.e. "golden parachutes"). Agreements made when an existing relationship with the Group is terminated without just 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 in reaching agreements on the early termination of contracts with managers and/or Directors holding special offices.

Pirelli makes no provision to pay allowances or extraordinary compensation for contract termination affecting Directors holding special offices, who are assigned specific functions, and who do not have management-level employee status 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 just cause;
- termination by the Director with just cause: for example, in the case of substantial changes in his role or assigned duties, and/or in the event of a hostile takeover offer.

In these cases, allowance amounts to twice the Director's gross annual compensation, where gross annual compensation means the sum of the gross annual fixed salaries for the offices held in the Group, the average of the annual variable remuneration (MBO incentive) accrued during the previous 3-year period, and the "TFM" severance payment on termination of office reckoned on the foregoing amounts.

12. NON-COMPETITION CLAUSES

With its General Managers and Managers with strategic responsibility, as well as with key professional figures at Senior Manager and Executive level, the Group may make non-competition agreements that entail payment of a GAS-related consideration determined by the duration and extent of the restrictions in the agreement.
The restriction applies to the merchandise sector in which the Group operates at the time the agreement is made and to its territorial coverage. The extent of the restriction varies according to the role of the person when the agreement is made and may, as in the case of the General Directors, cover all countries where the Group operates.

13. CHANGES TO THE REMUNERATION POLICY COMPARED TO THE PREVIOUS FINANCIAL YEAR

The 2014 Policy takes account of the adoption of a new 2014-2016 Long Term Cash Incentive Plan ("new LTI Plan") geared to the new 2013-2017 Industrial Plan and of the resulting early termination of the 3-year 2012-2014 Long Term Cash Incentive Plan (without any payout of the 3-year incentive, not even a pro-rated payment).

As against the previous year, the Policy has been revised to take account of the adoption of the new LTI Plan together with the discontinuance of the *Bonus Bank* arrangement. The revision concurrently extends to the MBO variable incentive, which, while retaining the entry threshold, departs from the previous version through the inclusion of a different rolling arrangement for deferring part of the MBO incentive accrued and for possibly enhancing the MBO incentive accrued if given objectives are achieved in the following year. The effect of this deferral arrangement is that effective payment of part of the medium/long-term variable component is made in financial year 2018 because it is dependent on the level of results reached in financial year 2017 (and, accordingly, in the second year after the end of the 3-year period covered by the 2014-2016 Plan). Following the discontinuance of the *Bonus Bank*, the entire 2013 MBO incentive accrued shall be paid out in its entirety, without any "setting aside".
Likewise, there have been percentage changes in the variable incentives that apply to the whole of management. Their effect is to marginally reduce earnings prospects at the target level and, where objectives are achieved at the maximum level, to provide an increase broadly of the same order, while leaving the total compensation package for results in the range between the target level and the maximum level entirely unchanged. By contrast, there is a more appreciable reduction for the attainment of objectives at the minimum level of access to the incentive payments.
Included in the 2014 Policy are some changes in wording to lend greater clarity to the text of the 2013 Policy.

14. 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 2014 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 2014 Policy. The criteria used to select the benchmarks are indicated in regard to the structure of remuneration for each individual.

Regarding the Remuneration Report as in Article 123-*ter* of the Consolidated Law on Financial Intermediation, Model Format no. 7-*bis* adopted with Consob Resolution no. 18049 of December 23, 2011 provides that the section of that report concerning members of the administrative bodies, the General Managers and the other Managers with strategic responsibility must, at least, contain the information indicated in said Model Format. The table below sets out the information required and indicates where, in the Report, it is found.

Information required under Model Format 7-bis	***Sections that specifically contain the required information***
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
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
the name of any independent experts who might have participated in the preparation of the remuneration policy;	**14.** Other information
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 **13.** Changes to the Remuneration Policy compared to the previous financial year

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.si fisso/variabile; variabile di breve/variabile di medio-lungo periodo **6.** Remuneration of Directors of Pirelli & C. **7.** Remuneration of Directors holding special offices **8.** The Board of Statutory Auditors **9.** General Managers and Managers with strategic responsibility **10.** Senior Managers and Executives The following section illustrates how the variable components of remuneration work: **5.** MBO and LTI Plan
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 Managers with strategic responsibility **10.** Senior Managers and Executives
in reference to the variable components, a description of the performance objectives on the basis of 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
the criteria used for assessing performance objectives underlying the grant of shares, options, other financial instruments or other variable components of remuneration;	**5.** MBO and LTI Plan
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 Managers with strategic responsibility **10.** Senior Managers and Executives
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
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.
the policy governing any consideration payable on expiry of term in office or termination of the employment relationship, specifying what circumstances establish the right and any link between said consideration and company performance;	**11.** Allowances in the event of resignation, dismissal or termination **12.** Not-to-compete clauses
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 officese **8.** The Board of Statutory Auditors **9.** General Managers and Managers with strategic responsibility **10.** Senior Managers and Executives
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.
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	**14.** Other information

REMUNERATION STATEMENT FOR 2013

1. PRINCIPLES

The Remuneration statement for 2013 illustrates the remuneration Policy applied by the Pirelli Group in 2013 and presents a final account of the remuneration, broken down by the different types of beneficiary, without prejudice to the disclosure obligations imposed by other provisions of law or regulation, highlighting the consistency with the company remuneration policy approved during the previous financial year.

2. "THE TABLE": COMPENSATION PAID TO MEMBERS OF THE BOARD OF DIRECTORS AND BOARD OF STATUTORY AUDITORS, THE GENERAL MANAGERS AND OTHER MANAGERS WITH STRATEGIC RESPONSIBILITY

The tables below indicate:

- the remuneration paid to the Directors, to the Statutory Auditors, and to the General Manager Operations[4], each identified by name
- the remuneration paid, as an aggregate figure, to the other Managers with strategic responsibility[5]. It is to be noted that at December 31, 2013 other Managers with strategic responsibility were the Chief Financial Officer, Francesco Tanzi, the Chief Planning and Controlling Officer, Maurizio Sala, and the Chief Technical Officer, Maurizio Boiocchi (the latter as from November 5, 2013)[6]. To complete this information, Christian Vasino, the Chief Human Resources Officer, joined Pirelli as a Director with strategic responsibility, starting on 1 January, 2014, and on 27 March, 2014 Giuliano Menassi, the Vice President Manufacturing, was designated as a Manager with strategic responsibility.

The compensation is indicated in accordance with the accruals principle and the notes to the tables clarify the office held for which the compensation is received (for example, when a Director serves on several Board Committees) and the subsidiary and/or associate company (except for compensation waived or handed over to the company).

The tables include all persons who held the above positions during financial year 2013, even if for a part of the financial year.

The non-monetary benefits, where received, are also indicated on an accruals basis and reported in relation to the "tax liability criterion" applying to the benefit allocated.

It is to be noted that owing to the adoption of the new 2014-2016 LTI Plan (entailing early termination of the 2012-2014 LTI Plan without any payment – not even pro-rated - of the 3-year incentive) and to the consequent discontinuance of the Bonus Bank mechanism, 100% of the 2013 MBO incentive accrued shall be paid out (rather than 50% with the remaining portion being set aside under the Bonus Bank arrangement). Accordingly, save for that aspect:

- persons who were Directors of the Company during financial year 2013 have accrued/received compensation (on an accruals basis) as determined in accordance with the criteria in section 6 of the 2013 Policy;
- persons who were Directors with special duties during financial year 2013 (Chairman and Director and Deputy Chairman) accrued/received compensation (in accordance with the accruals concept) as determined in accordance with the criteria in section 7 of the 2013 Policy;
- the General Manager Operations of Pirelli & C. S.p.A. (appointed on September 26, 2013) accrued fixed compensation up to October 31, 2013 and the entire 2013 MBO variable incentive as a Senior Manager of Pirelli Tyre S.p.A.. His fixed remuneration, as General Manager Operations (600 thousand euros gross annually), is effective as from November 1, 2013;
- Managers with strategic responsibility have received/accrued compensation for the position held during the 2013 financial year, in accordance with the criteria set out in section 9 of the 2013 Policy;
- each member of the Supervisory Body received/accrued compensation for financial year 2013 of 25

thousand euros gross per year in line with the provisions set out in the 2013 Policy;

- each member of the Board of Auditors received/accrued compensation for financial year 2013 in line with the decisions of the Shareholders' Meeting at the date of their appointment (in addition to the 25 thousand euros gross per year in compensation paid to the Statutory Auditor appointed as a member of the Supervisory Body).
- the Senior Managers and Executives have received/accrued compensation for financial year 2013, in accordance with the criteria set out in paragraph 10 of the 2013 Policy. Limited exceptions were made, linked to operational requirements or at times when specific extraordinary objectives were attained, and these exceptions were reported by the Senior Advisor Human Resources or the Chief Human Resources Officer to the Remuneration Committee.

It should be known that with regard to its General Manger Operations, its Managers with strategic responsibility, and more generally, the other members of Group Senior Management (including Deputy Chairman, Alberto Pirelli, and excluding the Chairman and Chief Executive Officer) Pirelli has introduced non-competition agreements to protect its strategic and operational know-how. While the employer/employee relationship is in course no payments shall be made under these agreements. In this connection, it is observed that the Board of Directors, in view of the public announcement of the new Industrial Plan at the end of 2013, with objectives challenging enough in themselves but made even more so by the macroeconomic and market conditions, voted to approve the introduction of these non-competition agreements. In particular, the Board of Directors noted that, in the months before, there had been intensified competition in the tyre industry, already observable in 2012, and especially in the Premium segment, where Pirelli outperformed the market. This development, while on the one hand showing that Pirelli's positioning at the top of the range was a strategically sound choice, on the other hand weighed as a factor in deciding to "protect", through said non-competition agreements, its strategic and operational know-how in order to guarantee implementation of the new Industrial Plan.

The table below sets out the objectives set under the 2013 MBO incentive scheme for Directors holding special offices who are assigned specific functions and for Managers with strategic responsibility, and the end-of-period assessment

Type of objective	*Objective at the target level*	*Weighting*	*Result*	*% incentive*
Group Net Financial Position, before dividend distribution and prior to the effects of converting the Prelios loan	1,050 million euros	On/off condition	972 million euros	Condition ON
Group Ebit (after restructuring charges)	810 million euros*	100%	791 million euros*	90% of the bonus when performance is at target level

* With regard to the Group Ebit objective, the 2013 MBO plan allowed for an entry threshold at 790 million euros (97.5% of the value at target level). For results in the range between the entry threshold and the target level the incentive accrued would be 90% of the bonus payable for target level performance.

[4] Regarding the General Manager Operations, Gregorio Borgo, the table shows only that part of his remuneration earned as a General Manager. More specifically, Mr. Borgo took up his appointment as General Manager Operations on September 26, 2013 and his fixed remuneration as a General Manager took effect as from November 1, 2013. We advise you, as matter of full disclosure, that in financial year 2013 Mr. Borgo (i) up to October 31, 2013, received gross annual remuneration and (ii) accrued the MBO incentive for the whole of financial year 2013. For fuller details on the structure of the remuneration of the General Manager Operations, Gregorio Borgo, see section 9 of the Remuneration Policy for financial year 2014.

[5] Point b), Section II of Model Format 7-bis (see Annex 3A to Consob's Issuers' Regulation) lays down that the Remuneration Statement is to be divided into two parts:
"a) the remuneration of the members of the board of directors and of the board of statutory auditors, as well as of the general managers;
b) the remuneration of any other managers with strategic responsibility that, during the course of the year, have received total remuneration (obtained by adding cash remuneration to remuneration based on financial instruments) in excess of the highest total remuneration assigned to the persons in point a).
In the case of managers with strategic responsibility other than those referred to in point b), the information is provided on an aggregate level in tabular form, and in place of their names indicates the number of them concerned".

[6] Regarding the Chief Technical Officer, Maurizio Boiocchi, the table shows only the part of his remuneration (fixed and variable) received after being selected, on November 5, 2013, by the Board of Directors as a Manager with strategic responsibility. The remaining part of his remuneration (fixed and variable) received during the year is not shown in the table.

Name and surname	Office	Period of tenure in office	Expiry of term of office	Fixed compensation	Fees for serving on committees
Marco Tronchetti Provera	Chairman & CEO	01.01.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2013	**3,383,346.60**	**0.00**
Of which, remuneration from Pirelli & C. S.p.A.				(1) 950,000.00	
Of which, remuneration from subsidiary & associated companies				(2) 2,433,346.60	
Vittorio Malacalza	Deputy Chairman	01.01.2013 05.10.2013	-	**126,094.33**	**15,931.00**
Of which, remuneration from Pirelli & C. S.p.A.				(4) 126,094.33	(5) 15,931.00
Of which, remuneration from subsidiary & associated companies					
Alberto Pirelli	Deputy Chairman	01.01.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2013	**952,039.94**	**0.00**
Of which, remuneration from Pirelli & C. S.p.A.				(6) 350,000.00	
Of which, remuneration from subsidiary & associated companies				(7) 602,039.94	
Carlo Acutis	Director	01.01.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2013	**50,000.00**	**13,562.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) 50,000.00	(10) 13,562.00
Of which, remuneration from subsidiary & associated companies					
Anna Maria Artoni	Director	01.01.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2013	**50,000.00**	**20,000.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) 50,000.00	(11) 20,000.00
Of which, remuneration from subsidiary & associated companies					
Gilberto Benetton	Director	01.01.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2013	**50,000.00**	**0.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) 50,000.00	
Of which, remuneration from subsidiary & associated companies					
Alberto Bombassei	Director	01.01.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2013	**50,000.00**	**25,000.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) 50,000.00	(12) 25,000.00
Of which, remuneration from subsidiary & associated companies					
Franco Bruni	Director	01.01.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2013	**50,000.00**	**55,000.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) 50,000.00	(13) 55,000.00
Of which, remuneration from subsidiary & associated companies					
Luigi Campiglio	Director	01.01.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2013	**50,000.00**	**28,110.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) 50,000.00	(14) 28,110.00
Of which, remuneration from subsidiary & associated companies					
Paolo Fiorentino	Director	10.21.2013 12.31.2013	At first shareholding meeting practicable	9,726.00	3,836.00
Of which, remuneration from Pirelli & C. S.p.A.				(9) (15) 9,726.00	(12) (15) 3,836.00
Of which, remuneration from subsidiary & associated companies					
Jean Paul Fitoussi	Director	05.13.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2013	**31,781.00**	**0.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) 31,781.00	
Of which, remuneration from subsidiary & associated companies					

Variable non-equity compensation		Non-monetary benefits	Other components	Total	Fair value of equity compensation	End-of-office/employment-severance indemnity
Bonus and other incentives	Profit sharing					
1,800,000.00	**0.00**	**6,201.48**	**0.00**	**5,189,548.08**	**0.00**	**0.00**
		6,201.48		956,201.48		
(3) 1,800,000.00				4,233,346.60		
0.00	**0.00**	**0.00**	**0.00**	**142,025.33**	**0.00**	**0.00**
				142,025.33		
102,600.00	**0.00**	**3,659.52**	**0.00**	**1,058,299.46**	**0.00**	**0.00**
				350,000.00		
(8) 102,600.00		(8) 3,659.52		708,299.46		
0.00	**0.00**	**0.00**	**0.00**	**63,562.00**	**0.00**	**0.00**
				63,562.00		
0.00	**0.00**	**0.00**	**0.00**	**70,000.00**	**0.00**	**0.00**
				70,000.00		
0.00	**0.00**	**0.00**	**0.00**	**50,000.00**	**0.00**	**0.00**
				50,000.00		
0.00	**0.00**	**0.00**	**0.00**	**75,000.00**	**0.00**	**0.00**
				75,000.00		
0.00	**0.00**	**0.00**	**0.00**	**105,000.00**	**0.00**	**0.00**
				105,000.00		
0.00	**0.00**	**0.00**	**0.00**	**78,110.00**	**0.00**	**0.00**
				78,110.00		
0.00	0.00	0.00	0.00	13,562.00	**0.00**	**0.00**
				13,562.00		
0.00	**0.00**	**0.00**	**0.00**	**31,781.00**	**0.00**	**0.00**
				31,781.00		

Name and surname	Office	Period of tenure in office	Expiry of term of office	Fixed compensation	Fees for serving on committees
Mario Greco	Director	01.01.2013 03.04.2013	-	**8,630.00**	**0.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) (15) 8,630.00	
Of which, remuneration from subsidiary & associated companies					
Pietro Guindani	Director	01.01.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2013	**50,000.00**	**20,000.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) 50,000.00	(11) 20,000.00
Of which, remuneration from subsidiary & associated companies					
Giulia Maria Ligresti	Director	01.01.2013 07.24.2013	-	**28,082.00**	**0.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) 28,082.00	
Of which, remuneration from subsidiary & associated companies					
Elisabetta Magistretti	Director	01.01.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2013	**50,000.00**	**30,000.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) 50,000.00	(16) 30,000.00
Of which, remuneration from subsidiary & associated companies					
Gaetano Micciché	Director	11.05.2013 12.31.2013	At first shareholding meeting practicable	**7,671.00**	**3,836.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) (15) 7,671.00	(12) (15) 3,836.00
Of which, remuneration from subsidiary & associated companies					
Massimo Moratti	Director	01.01.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2013	**50,000.00**	**0.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) 50,000.00	
Of which, remuneration from subsidiary & associated companies					
Renato Pagliaro	Director	01.01.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2013	**50,000.00**	**25,000.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) (15) 50,000.00	(12) (15) 25,000.00
Of which, remuneration from subsidiary & associated companies					
Luigi Roth	Director	01.01.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2013	**50,000.00**	**72,027.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) 50,000.00	(17) 72,027.00
Of which, remuneration from subsidiary & associated companies					
Luca Rovati	Director	05.13.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2013	**31,781.00**	**0.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) 31,781.00	
Of which, remuneration from subsidiary & associated companies					
Carlo Salvatori	Director	01.01.2013 10.06.2013	-	**39,589.00**	**0.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) 39,589.00	
Of which, remuneration from subsidiary & associated companies					
Carlo Secchi	Director	01.01.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2013	**50,000.00**	**90,000.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) 50,000.00	(18) 90,000.00
Of which, remuneration from subsidiary & associated companies					

Variable non-equity compensation		Non-monetary benefits	Other components	Total	Fair value of equity compensation	End-of-office/employment-severance indemnity
Bonus and other incentives	Profit sharing					
0.00	**0.00**	**0.00**	**0.00**	**8,630.00**	**0.00**	**0.00**
				8,630.00		
0.00	**0.00**	**0.00**	**0.00**	**70,000.00**	**0.00**	**0.00**
				70,000.00		
0.00	**0.00**	**0.00**	**0.00**	**28,082.00**	**0.00**	**0.00**
				28,082.00		
0.00	**0.00**	**0.00**	**0.00**	**80,000.00**	**0.00**	**0.00**
				80,000.00		
0.00	**0.00**	**0.00**	**0.00**	**11,507.00**	**0.00**	**0.00**
				11,507.00		
0.00	**0.00**	**0.00**	**0.00**	**50,000.00**	**0.00**	**0.00**
				50,000.00		
0.00	**0.00**	**0.00**	**0.00**	**75,000.00**	**0.00**	**0.00**
				75,000.00		
0.00	**0.00**	**0.00**	**0.00**	**122,027.00**	**0.00**	**0.00**
				122,027.00		
0.00	**0.00**	**0.00**	**0.00**	**31,781.00**	**0.00**	**0.00**
				31,781.00		
0.00	**0.00**	**0.00**	**0.00**	**39,589.00**	**0.00**	**0.00**
				39,589.00		
0.00	**0.00**	**0.00**	**0.00**	**140,000.00**	**0.00**	**0.00**
				140,000.00		

Name and surname	Office	Period of tenure in office	Expiry of term of office	Fixed compensation	Fees for serving on committees
Manuela Soffientini	Director	01.01.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2013	**50,000.00**	**25,000.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) 50,000.00	(12) 25,000.00
Of which, remuneration from subsidiary & associated companies					
Claudio Sposito	Director	10.21.2013 12.31.2013	At first shareholding meeting practicable	**9,726.00**	**4,863.00**
Of which, remuneration from Pirelli & C. S.p.A.				(9) (15) 9,726.00	(12) 4,863.00
Of which, remuneration from subsidiary & associated companies					
Gregorio Borgo	General Manager	09.26.2013 12.31.2013	-	**100,510.00**	**0.00**
Of which, remuneration from Pirelli & C. S.p.A.				(20) 100,510.00	
Of which, remuneration from subsidiary & associated companies					
4 Managers with strategic responsibility (19)				**1,907,146.70**	**0.00**
Of which, remuneration from Pirelli & C. S.p.A.				1,301,870.00	
Of which, remuneration from subsidiary & associated companies				(22) 605,276.70	
Francesco Fallacara	Chairman of the Statutory Audit Board	01.01.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2014	**75,000.00**	**0.00**
Of which, remuneration from Pirelli & C. S.p.A.				75,000.00	
Of which, remuneration from subsidiary & associated companies					
Enrico Laghi	Standing statutory auditor	01.01.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2014	**105,177.42**	**0.00**
Of which, remuneration from Pirelli & C. S.p.A.				50,000.00	
Of which, remuneration from subsidiary & associated companies				(24) 55,177.42	
Antonella Carù	Standing statutory auditor	01.01.2013 12.31.2013	Shareholders' Meeting to approve Financial Statements at 12.31.2014	**50,000.00**	**25,000.00**
Of which, remuneration from Pirelli & C. S.p.A.				50,000.00	(25) 25,000.00
Of which, remuneration from subsidiary & associated companies					
Total remuneration fromPirelli & C. S.p.A.				**3,820,460.33**	**457,165.00**
Total remuneration from subsidiary and associated companies				**3,695,840.66**	**0.00**
Total				**7,516,300.99**	**457,165.00**

Variable non-equity compensation		Non-monetary benefits	Other components	Total	Fair value of equity compensation	End-of-office/employment-severance indemnity
Bonus and other incentives	Profit sharing					
0.00	**0.00**	**0.00**	**0.00**	**75,000.00**	**0.00**	**0.00**
				75,000.00		
0.00	**0.00**	**0.00**	**0.00**	**14,589.00**	**0.00**	**0.00**
				14,589.00		
0.00	**0.00**	**0.00**	**104,466.96**	**204,976.96**	**0.00**	**0.00**
			(21) 104,466.96	204,976.96		
630,000.00	**0.00**	**14,377.70**	**0.00**	**2,551,524.40**	**0.00**	**0.00**
468,000.00		10,692.60		1,780,562.60		
(23) 162,000.00		(22) 3,685.10		770,961.80		
0.00	**0.00**	**0.00**	**0.00**	**75,000.00**	**0.00**	**0.00**
				75,000.00		
0.00	**0.00**	**0.00**	**0.00**	**105,177.42**	**0.00**	**0.00**
				50,000.00		
				55,177.42		
0.00	**0.00**	**0.00**	**0.00**	**75,000.00**	**0.00**	**0.00**
				75,000.00		
468,000.00	**0.00**	**16,894.08**	**104,466.96**	**4,398,986.37**	**0.00**	**0.00**
2,064,600.00	**0.00**	**7,344.62**	**0.00**	**5,767,785.28**	**0.00**	**0.00**
2,532,600.00	**0.00**	**24,238.70**	**104,466.96**	**10,166,771.65**	**0.00**	**0.00**

[1] Of which: 50 thousand euros as Director of Pirelli & C. S.p.A.; 900 thousand euros as Chairman and Chief Executive Officer of Pirelli & C. S.p.A..
[2] Of which: 2.000.000,04 euros as Chairman and Chief Executive Officer of Pirelli Tyre S.p.A. and 433.346,56 euros as Chairman of the Board of Directors of Prelios S.p.A., an appointment held up to 8th May 2013; for details of remuneration in that capacity see the Remuneration Report released by Prelios S.p.A..
[3] As Chairman and Chief Executive Officer of Pirelli Tyre S.p.A..
[4] Of which: 17.761 euros as a Director of Pirelli & C. S.p.A.; 108.333,33 euros as Deputy Chairman of Pirelli & C. S.p.A..
[5] Of which: 7.068 euros as a member of the Appointments and Successions Committee; 8.863 euros as a member of the Strategies Committee.
[6] Of which: 50 thousand euros as a Director di Pirelli & C. S.p.A.; 300 thousand euros as Deputy Chairman of Pirelli & C. S.p.A..
[7] Of which: euro 150 thousand as Deputy Chairman Pirelli Tyre S.p.A.; 452.039,94 euros as Senior Manager of Pirelli Tyre S.p.A..
[8] As a Senior Manager of Pirelli Tyre S.p.A..
[9] As a Director of Pirelli & C. S.p.A..
[10] As Chairman of the Remuneration Committee up to July 17, 2013.
[11] As a Member of the Remuneration Committee.
[12] As a Member of the Strategies Committee.
[13] Of which:30 thousand euros as a Member of the Internal Control, Risks and Corporate Governance Committee and 25 thousand euros as a Member of the Strategies Committee.
[14] Of which: 8.110 euros as a Member of the Remuneration Committee (as from August 5, 2013) and 20.000 euros as a Member of the Appointments & Successions Committee.
[15] Remuneration handed on to the Company he works for.
[16] As a Member of the Internal Control, Risks and Corporate Governance Committee.
[17] Of which: 30 thousand euros as a Member of the Internal Control, Risks and Corporate Governance Committee; 22.027 euros as a Member of the Remuneration Committee (and as from August 5, 2013 Chairman of said committee); 20 thousand euros as a Member of the Appointments and Successions Committee.
[18] Of which: 40 thousand euros as Chairman of the Internal Control, Risks and Corporate Governance Committee; 25 thousand euros as a Member of the Strategies Committee and 25 thousand euros as a Member of the Supervisory Body.
[19] At December 31, 2013 the following were Managers with strategic responsibility: Francesco Chiappetta; Maurizio Boiocchi; Maurizio Sala; and Francesco Tanzi.
[20] Remuneration, prorated, earned in his capacity as General Manager Operations (November 1, 2013 was starting date for remuneration).
[21] Mr. Gregorio Borgo earned his incentive under the 2013 MBO Plan in his capacity as a Senior Manager of Pirelli Tyre S.p.A.and, therefore, his incentive is not included in the table.
[22] Inclusive of the remuneration earned as Chief Technical Officer following his selection as a Manager with strategic responsibility on November 5, 2013 as well as 19.354,84 euros earned by Mr. Francesco Chiappetta during his appointment as Director of Administration of Prelios S.p.A. held as from May 8, 2013.
[23] Mr. Maurizio Boiocchi earned his incentive under the 2013 MBO Plan in his capacity as a Senior Manager of Pirelli Tyre S.p.A.and, therefore, his incentive is not included in the table.
[24] as Chairman of the Statutory Audit Board of Prelios S.p.A..
[25] As a Member of the 231 Supervisory Body.

3. MONETARY INCENTIVE PLANS IN FAVOUR OF MEMBERS OF THE BOARD OF DIRECTORS, GENERAL MANAGERS AND OTHER MANAGERS WITH STRATEGIC RESPONSIBILITY

For a description of the monetary incentive plans, please refer to section 5 of the 2013 Remuneration Policy.

The Board of Directors of Pirelli voted to terminate the medium/long-term cash incentive plan ("Long Term Incentive" or "LTI") for Group Management adopted in 2012 in support the objectives of the 3-year period 2012-2014. That decision, effective as from December 31, 2013, also excluded any payout, not even a prorated payment, of the 3-year incentive. At the same time, the Board approved the adoption of a new incentive plan – again intended for the entire management (some 330 participants) – geared to the objectives for the 2014-2016 period as listed in the 2013-2017 business plan submitted on November 6, 2013, the guidelines of which were released for that occasion.

Name and surname	Appointment	Plan	Annual bonus			Prior years' bonus			Other bonuses
			Payable / Paid out	Deferred	Period of deferral	No longer payable	Payable / Paid out	Still deferred	
Marco Tronchetti Provera	Chairman and Chief Executive	2013 MBO Plan	1,800,000.00	0.00	-	-	-	-	0.00
		2012-2014 LTI Plan	0.00	0.00	-	-	-	-	0.00
Alberto Pirelli	Deputy Chairman [1]	2013 MBO Plan	102,600.00	0.00	-	-	-	-	0.00
		2012 -2014 LTI Plan	0.00	0.00	-	-	-	-	0.00
Gregorio Borgo	General Manager Operations [2]	2013 MBO Plan	0.00	0.00	-	-	-	-	0.00
		2012 -2014 LTI Plan	0.00	0.00	-	-	-	-	0.00
n. 4 Key Managers [3]		2013 MBO Plan	0.00	0.00	-	-	-	-	0.00
		2012 -2014 LTI Plan	0.00	0.00	-	-	-	-	0.00
(I) Remuneration from company that prepares the Annual Financial Report		**2013 MBO Plan**	**468,000.00**	**0.00**	**-**	**-**	**-**	**-**	**0.00**
		2012 -2014 LTI Plan	**0.00**	**0.00**	**-**	**-**	**-**	**-**	**0.00**
(II) Remuneration from subsidiary and associated companies		**2013 MBO Plan**	**2,064,600.00**	**0.00**	**-**	**-**	**-**	**-**	**0.00**
		2012 -2014 LTI Plan	**0.00**	**0.00**	**-**	**-**	**-**	**-**	**0.00**
(III) Total			**2,532,600.00**	**0.00**	**-**	**-**	**-**	**-**	**0.00**

(1) Mr. Alberto Pirelli in included in the MBO and LTI variable incentive plans in his capacity as a Senior Manager of Pirelli Tyre S.p.A..

(2) Mr. Gregorio Borgo earned his incentive under the 2013 MBO Plan in his capacity as a Senior Manager of Pirelli Tyre S.p.A., and, therefore, his incentive is not included in the table, whereas for 2014 he is to be included in the MBO and LTI variable incentive plans in his capacity as General Manager Operations.

(3) At December 31, 2013, Messrs. Francesco Chiappetta, Maurizio Boiocchi, Maurizio Sala, and Francesco Tanzi were managers with strategic responsibility. In the case of Mr. Boiocchi only the part of his variable (MBO) remuneration relating to the time after his selection as a manager with strategic responsibility is shown.

4. 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 MANAGERS WITH STRATEGIC RESPONSIBILITY

The following table discloses any equity investments in Pirelli & C. S.p.A. and in its subsidiaries that might be held by persons who held one of the following positions, even for a part of the financial year:

- members of the Board of Directors;
- members of the Board of Auditors;
- General Manager;
- Manager with strategic responsibility.

In particular, the table shows – person by person for the members of the Board of Directors and of the Board of Statutory Auditors, as well as for the General Managers, and as an overall total for other Managers with strategic responsibility – the number of shares, by class of stock and in relation to the respective investee company:

- 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, held appointments as members of the Board of Directors and Board of Statutory Auditors, as General Manager or as a Manager with strategic responsibility for even just a part of a year are included.

1. SHARES HELD BY MEMBERS OF THE BOARDS OF DIRECTORS AND OF THE STATUTORY AUDITORS AND BY GENERAL MANAGERS

Name and surname	Appointment	Investee company	No. of shares held at 12.31.2012	No. of shares acquired/sub-scribed for	No. of shares sold	No. of shares held at 12.31.2013
Tronchetti Provera Marco	Chairman and Chief Executive Officer	Pirelli & C.	1,251	-	-	1,251
		Pirelli & C. (held indirectly)	(1) 96,669,168	(*) see note	(*) see note	-
		Pirelli & C. (held indirectly)	(2) 27,831,232	(*) see note	(*) see note	-
		Pirelli & C. (held indirectly)	(3) 110,673	(*) see note	(*) see note	-
Pirelli Alberto	Deputy chairman	Pirelli & C.	131,629	-	-	131,629
Moratti Massimo	Director	Pirelli & C. (held indirectly)	(4) 2,343,392	-	-	(4) 2,343,392
Roth Luigi	Director	Pirelli & C. (held indirectly)	(5) 4,000	-	-	(5) 4,000

(1) Shares held through Camfin S.p.A. (*)
(2) Shares held through Cam 2012 S.p.A. (*)
(3) Shares held through Cam Partecipazioni S.p.A. (*)
(4) Shares held through CMC S.p.A., of which 1.838.459 in the name Cordusio Società fiduciaria per azioni under a trust arrangement.
(5) Share held by spouse
(*) In 2013 Lauro Sessantuno S.p.A. ("Lauro") made a bid for the shares in Camfin S.p.A. ("Bid") and gained control of it in June 2013. On October 4, 2013, following partial execution of an increase in the capital of Lauro to fund payment of the shares tendered in acceptance of the Bid, in compliance with agreements signed on June 4, 2013 and disclosed to the market, the stake held by Mr. Marco Tronchetti Provera (through the subsidiary company, Nuove Partecipazioni S.p.A.) was reduced from 54.80% to 39.16%. The resultant effect is that, as from October 4, 2013, no person has control of Lauro pursuant to article 93 of Legislative Decree no. 58/98. Accordingly, as from then, Mr. Marco Tronchetti Provera ceased to have the control in law that he had indirectly exercised over Lauro (and therefore over Camfin S.p.A.) through Nuove Partecipazioni S.p.A.. In accordance with what Lauro reported to the market, it is further noted that for the purposes of antitrust legislation Camfin S.p.A. is subject to the joint control of Nuove Partecipazioni S.p.A. and of Lauro Cinquantaquattro S.r.l. through Lauro.

2. SHARES HELD BY OTHER MANAGERS WITH STRATEGIC RESPONSIBILITY

Number of managers with strategic responsibility	Investee company	No. of shares held at 12.31.2012	No. of shares acquired/ sub-scribed for	No. of shares sold	No. of shares held at 12.31.2013
1	Pirelli & C.	3,837	-	-	3,837

RESOLUTIONS

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

Shareholders,

The financial year at December 31, 2013 closed with net income of euro 191,891,145.

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 0.32 for each ordinary share;
- euro 0.39 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, 2013;
- 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, 2013, 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 191,891,145;

b) to allocate the 2013 net income of euro 191,891,145 as follows

5% to the legal reserve	**9,594,557**
to the shareholders:	
● euro 0.32 (*) to each of the 475,388,592 (**) ordinary shares, for a total of	**152,124,349**
● euro 0.39 (*) to each of the 11,842,969 (**) savings shares, for a total of	**4,618,758**
● the remainder to retained earnings	**25,553,481**

(*) 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 2013 will be collectible from June 19, 2014, with coupon detachment date on June 16 21, 2014."

APPOINTMENT OF THE BOARD OF DIRECTORS:

- **Determination of the number of members of the Board of Directors**
- **Determination on the term of office of the Board of Directors;**
- **Appointment of the Directors;**
- **Determination of the annual remuneration of the members of the Board of Directors.**

To the Shareholders,

The Board of Directors currently in office was appointed by the Ordinary Meeting of the Shareholders of April 21, 2011 for a fixed period of three financial years that lasts until the Meeting of the Shareholders called to approve the financial statements for the year ending December 31, 2013.
Accordingly, the Board is now due to cease holding office through the expiry of its natural term. For this reason the Meeting of the Shareholders is called on to appoint a new Board of Directors subject to deciding on the number of board members, their term of office, and the corresponding remuneration.
In this connection, you are advised that article 10 of the Company Bylaws (reproduced in full at the end of this report) lays down that the Board of Directors of the Company must be made up of a number of members between 7 (seven) and 23 (twenty-three) and fixes their term in office as three financial years, stating that the Meeting of the Shareholders when voting their appointment can decide on a shorter term than three years and that the Directors can be reappointed.
You are also reminded that in accordance with article 10 of the Company Bylaws the appointment of the Board of Directors shall be made on the basis of slates presented by members that, alone or along with other members, hold shares that together represent at least 1 percent of the share capital of the Company entitled to vote in the Ordinary Meeting of the Shareholders, or such lesser percent as requested in the rules of Consob (Commissione Nazionale per le Società e la Borsa), and they shall have a duty to prove their ownership of the number of shares needed to present the slates before the time limit when the Company must publicize the slates. We note in this connection that in its resolution no. 18775 of January 29, 2014, Consob has in fact fixed the threshold for presenting slates of candidates at 1 percent.
The slates, in which the candidates are consecutively numbered, must be signed by the members submitting them and must be filed with the registered office of the Company at least 25 days prior to that set for the Meeting of the Shareholders called to vote the appointment of the Board of Directors.
The slates of the candidates must be made publicly available at the registered office of the Company, on its Internet website, and in other ways as provided in the rules of Consob at least 21 days before the date of the Meeting of the Shareholders.
Together with each list a statement accepting nomination must be filed by the candidates as well as a declaration in which they certify, on their own responsibility, that there are no grounds for their ineligibility or incompatibility and that they have the requisites as may be laid down for the respective positions. Along with the declarations each candidate must likewise file a curriculum vitae listing their personal and professional particulars with a statement (which may be appended) of the appointments they have held in management and auditing positions at other companies and any reason that suits them to be regarded as independent, judging by criteria that are legally prescribed or adopted by the Company (Corporate Governance Code for listed companies).
In this regard, it may be noted that the Board of Directors of the Company in its resolution of April 21, 2011 confirmed it stance, in conformity with the provisions of the Corporate Governance Code, as to the maximum number of appointments held by its members in other companies and judged to be compatible with effectively performing the role of Director in Pirelli & C.;

the Members that intend to present slates are accordingly requested to consult that document, published on the Internet website of the Company at www.pirelli.com, in the Corporate Governance section.
The point is also made that Law no. 120 of July 12, 2011 introduced gender quotas for corporate bodies of listed companies, laying down that said companies must, for at least three terms of office, guarantee compliance with a requirement for a division in the make-up of corporate bodies. In effect, the less-represented gender must obtain at least one third of the directors and of the standing auditors elected.
However, the legislator has decided that at the first renewal of the boards of directors and statutory auditors, after one year from the date when said law came into force (accordingly, as from August 12, 2012), the quota of the less-represented gender is to be at least one fifth of the directors and of the standing auditors elected.
Accordingly, in order to ensure a balance between the genders, article 10 of the Company Bylaws provides that slates where the number of candidates equals two or more must include candidates of the less-represented gender at least in the minimum measure required by laws and regulations at the time. This being the first renewal of the Board of Directors after the law in question has taken effect, that measure is one fifth (rounding upwards) of the directors to be elected.
Any alterations as may occur up to the day when the Meeting of the Shareholders takes place must be promptly notified to the Company.
Each member may present, or join in presenting, a single slate and each candidate may put themselves forward on just one slate, failing which they shall be ineligible.
As laid down by Consob, the members that present a slate must give evidence of their identity and of their overall percentage shareholding. Slates presented in disregard of the provisions in article 10 of the Company Bylaws shall be treated as not presented.
Finally, taking account of the results of the self-assessment process for financial year 2013 conducted by the Board of Directors, the Board of Directors recommends that in presenting the slates the shareholders should bear in mind (i) that greater store should be set on fielding a variety of different skills, and also on the presence of independent directors, who could make up the majority of the Board and must be in sufficient number to guarantee that the Committees can operate; (ii) that a preponderant focus on financially-related skills is a risk to be avoided, so that a balance may be struck between different professional roles, knowledge, and experience; (iii) that the presence of economists is helpful to the Board in analysing scenarios and understanding the way the business and markets are going; (iv) the need for a certain continuity in the make-up of the Board in order to conserve the knowledge the Company and the Group has built up over time.

All the above having been stated, the Board of Directors,

- having noted the provisions of the Company Bylaws regarding the make-up of the Board and the procedures for appointing it

invites the Meeting of the Shareholders:

- to decide on the number of members of the Board of Directors and to determine their period in office as well as their remuneration;
- to vote for the slates of candidates for the office of company director, presented and publicised in accordance with the procedures and terms in article 10 of the Company Bylaws and of the legal provisions, including regulations, applicable.

Bylaws - Article 10

10.1 The Company shall be managed by a Board of Directors composed of no less than seven and no more than twenty three members who shall remain in office for three financial years (unless the shareholders' meeting establishes a shorter term at the time of their appointment) and may be re-elected. The shareholders' meeting establishes the number of members of the Board of Directors, which remains unchanged until said meeting resolves otherwise.

10.2 The Board of Directors is appointed on the basis of slates presented by the shareholders pursuant to the following paragraphs hereof, in which the candidates are listed by consecutive number.

10.3 The slates presented by the shareholders, which must be undersigned by the parties submitting them, must be filed at the Company's registered office, and be available at least twenty five days before the date set for the shareholders' meeting that is required to decide upon the appointment of the members of the Board of Directors. They are made available to the public at the registered office, on the Company website and in the other ways specified by Consob regulations at least 21 days before the date of the general meeting.

10.4 Each shareholder may present or take part in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.

10.5 Only shareholders who, alone or together with other shareholders, hold a total number of shares representing at least 1 percent of the share capital entitled to vote at the ordinary shareholders' meeting or the minor percentage, according to the regulations issued by Commissione Nazionale per le Società e la Borsa, are entitled to submit slates, subject to their proving ownership of the number of shares needed for the presentation of slates within the term specified for their publication by the Company.

10.6 Together with each slate, statements must be filed in which the individual candidates agree to their nomination and attest, under their own liability, that there are no grounds for their ineligibility or incompatibility, and that they meet any requisites prescribed for the positions. Together with such statements, a curriculum vitae must be filed for each candidate, including their relevant personal and professional data and mentioning the offices held in management and supervisory bodies of other companies and their satisfaction of the requisites of independence prescribed for directors of listed companies by the law or by the governance code endorsed by the Company. In order to ensure gender balance, slates that contain a number of candidates equal to or more than three must contain a number of candidates of the less represented gender at least matching the minimum laid down in statutory and/or regulatory provisions as in force at the time, in accordance with what will be stated in the notice of the Shareholders' Meeting. Any changes that occur up to the date of the Shareholders' meeting must be promptly notified to the Company.

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

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

10.9 The Board of Directors is elected as specified below:

a) four-fifths of the directors to be elected are chosen from the slate which obtains the highest number of votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it is rounded-down to the nearest whole number;

b) the remaining directors are chosen from the other slates; to this end, the votes obtained by the various slates are divided by whole progressive numbers from one up to the number of directors to be elected. The quotients thus obtained are assigned to the candidates on each slate in the order they are respectively listed thereon. On the basis of the quotients assigned, the candidates on the various slates are ranked in a single list in decreasing order. Those who have obtained the highest quotient are elected.

If more than one candidate obtains the same

quotient, the candidate from the slate that has not yet elected a director or that has elected the lowest number of directors is elected.

If none of such slates has as yet elected a director or they have all elected the same number of directors, the candidate from the slate which obtained the highest number of votes is elected. If the different slates obtain the same number of votes and their candidates are assigned the same quotients, a new vote is held by the entire shareholders' meeting and the candidate who obtains the simple majority of the votes is elected.

10.10 The appointment of the Board of Directors must take place in compliance with the rules on gender balance in force at the time. If applying the slate voting procedure fails to secure the minimum number of directors of the less represented gender that is required by the statutory and/or regulatory rules in force at the time, the appointed candidate of the more represented gender indicated with the higher progressive number on the slate that attracts most votes shall be substituted by the non-appointed candidate of the less represented gender, drawn from the same slate on the basis of their progressive order of presentation, and so on, slate by slate (solely with regard to slates with a number of candidates equal to or more than three), until the minimum number of directors of the less represented gender is reached. If at the end, said procedure does not secure the result just indicated, the substitution will be made through a resolution of the Shareholders' Meeting voted by a relative majority, subject to the nomination of persons of the less represented gender.

10.11 If the application of the slate voting system shall not ensure the appointment of the minimum number of independent Directors required by the law and/or regulation, the appointed non-independent candidate indicated with the higher progressive number in the slate which has obtained the higher number of votes is replaced by the non-appointed independent candidate included in the same slate on the basis of the progressive order of the presentation and so on, slate by slate, until the minimum number of independent Directors shall be appointed, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time.

10.12 When appointing directors who, for whatsoever reason were not appointed under the procedure established herein, the shareholders' meeting shall vote on the basis of the majorities required by law, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time.

10.13 If one or more vacancies occur on the Board during the course of the financial year, the procedure established in article 2386 of the Italian Civil Code shall be followed, without prejudice, whatever the circumstances, to compliance with the gender balance as provided by law and/or regulation in force at the time.

10.14 In the event a Director cease to comply with the independence requirements, this does not cause his/her ceasing to be a Director provided that the Directors in office complying with legal independence requirements are a number at least equal to the minimum number requested by laws and/or regulations.

10.15 The Board of Directors shall elect its own Chairman, if the shareholders' meeting has not already done so, and may also appoint one or more Deputy Chairmen.

10.16 In the absence of the Chairman, a Deputy Chairman or a Managing Director, in that order, shall act in his/her stead; should there be two or more Deputy Chairmen or Managing Directors, the Board shall be presided over by the elder of same respectively.

10.17 The Board of Directors shall appoint a Secretary, who need not be a director.

10.18 Until the shareholders' meeting resolves otherwise, the directors shall not be subject to the prohibition contemplated in article 2390 of the Italian Civil Code.

REMUNERATION POLICY: CONSULTATION

To the Shareholders,

Pursuant to the provisions of Article 123-ter, subsections 3 and 6, of the Consolidated Law on Financial Intermediation, we have called you to submit the first section of the Remuneration Report for your advisory non-binding vote. This Report illustrates the policy governing the remuneration of the members of the administrative bodies, of the General Managers, of Managers with strategic responsibility, and of Senior Managers and Executives in the Pirelli Group.

The Policy submitted for your vote this year has been prepared on the basis of policy in previous years as well as the related experience applying it, and it complies with Consob's regulatory provisions. It also takes account of the fact that a new Long Term Cash Incentive Plan for the period 2014-2016 ("new LTI Plan") has been adopted by the Board of Directors in support a new 2013-2017 Industrial Plan and in response to the resultant early termination of the Long Term Cash Incentive Plan for 2012-2014. Regarding the 2012-2014 LTI, no disbursement under its 3-year incentive arrangements was made, not even a prorated payment.

The new LTI Plan, consistent with pay mechanisms adopted internationally, is based inter alia on Pirelli's stock market performance (reflected in Total Shareholder Return), so ensuring that the interests of management and those of the shareholders fully coincide.

As compared with the previous year, the Policy includes a number of changes stemming notably from the fact that the new LTI Plan dispenses with the need for the so-called "Bonus Bank" mechanism and from a revision of the MBO variable incentive. As against the earlier one, the revised MBO scheme adopts a different rolling mechanism for deferring part of the accrued MBO incentive and for possibly providing enhanced payment, subject to deferral, of the accrued incentive on the achievement of set objectives in the following year. The effect of the deferral mechanism is that part of the accrued medium/long-term variable components is effectively paid in financial year 2018, because payout is made contingent on the level of results achieved for financial year 2017. (Accordingly, payout is in the second year after the end of the three years covered by the 2014-2016 LTI).

With the so-called "Bonus Bank" mechanism now no longer operative, you are advised that the entire 2013 MBO incentive accrued shall be paid out without there being any "setting aside".

Additionally, the percentages of variable incentive have been revised for the entire Management. The effect, as compared with the previous LTI Plan for 2012-2014, is a marginally reduced prospect of earnings for achievement at the target level, but without any alteration in the total compensation package for achieving results in the intermediate range between the target level and the maximum level. By contrast there is a more noticeable reduction for achieving results at the entry threshold level (a lower level as compared to the target level).

In accordance with Article 123-ter of the Consolidated Law on Financial Intermediation, the Remuneration Report submitted comprises two separate sections: see below.

- the first section illustrates:
  - the Pirelli Remuneration Policy for Directors, General Managers and Managers with strategic responsibility and, more generally, the Pirelli Remuneration Policy for all of Management;
  - the procedures used for adoption and implementation of this Policy;
- Section II presents the information below, relating it to named members of the Boards of Directors and Statutory Auditors and to named General Managers, while treating Managers with strategic responsibility (now more numerous given the new organisational structure adopted by Pirelli) as an aggregate:
  - a proper explanation of each item that makes up their remuneration, including the arrangements envisaged where an appointment is ended or an employment relationship terminated, highlighting its consistency with the Policy approved during the previous year;
  - an account of the compensation that the Company and its subsidiaries or associates

paid in financial year 2013, for whatever reason and in whatever form, 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 consideration for the activity performed during the reference year, and may indicate an estimate of components not objectively quantifiable in the reference year.

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

THREE YEAR CASH INCENTIVE PLAN (2014-2016) FOR THE PIRELLI GROUP MANAGEMENT. RESOLUTION RELATING AND CONSEQUENT THERETO

To the Shareholders,

In its meeting of February 27, 2014, the Board of Directors approved the adoption of a new 2014-2016 3-year cash incentive plan for Pirelli Group Management ("LTI Plan") geared to the objectives of the 2014-2016 period as in the 2013-2017 Industrial Plan, which was presented on November 6, 2013 along with a preview of the LTI Plan guidelines. In addition, the decision on the "new" LTI Plan was taken in accordance with article 2389 of the Italian Civil Code, following a recommendation by the Remuneration Committee and the favourable opinion of the Board of Statutory Auditors in relation to the persons concerned by the opinion that was sought. The LTI Plan is submitted for the approval of the Meeting of the Shareholders in accordance with article 114-bis of Legislative Decree 58/1998 (the Consolidated Law on Financial Intermediation) in that it entails, among other things, that a part of the incentive shall be based on a Total Shareholder Return objective calculated in terms of Pirelli's performance as well with regard to an index comprising selected peers in the tyre industry.
The key information on the LTI Plan is set out below. For a more detailed description, instead, please see the Disclosure Document drawn up in accordance with paragraph 1, article 84-bis, of Consob resolution no. 11971 of 14th May 1999 (the "Issuers' Regulation"), which is publicly available at the registered office of Pirelli & C. S.p.A. (viale Piero e Alberto Pirelli 25, Milan) as well as at www.pirelli.com and at Borsa Italiana S.p.A. (Piazza degli Affari, 6, Milan) together with this report.

* * *

Reasons for adopting the Plan[1]

In accordance with best practice, nationally and internationally, the Remuneration Policy for financial year 2014 adopted by Pirelli (the "**2014 Policy**") is tailored to Pirelli's aim of attracting, motivating, and retaining human resources having the professional standing needed to successfully pursue Group aims.

The 2014 Policy and the 2014-2016 LTI Plan (an integral part of the Policy) are designed in such a way as to align the interests of Management with those of the shareholders through the pursuit of the overriding objective of creating sustainable value over the medium-long term period by forging an effective and verifiable link between, on the one hand, remuneration and, on the other, individual performance and that of Pirelli.

The 2014 Policy was formulated on the basis of the experience of applying policy in past years, resulting in a better designed framework and improved content, as well as of suggestions gleaned over time from our main Proxy Advisors, to enable a thorough understanding of the link between Management remuneration structure and value creation over the medium-long term. The 2014 Policy also takes account of the regulatory requirements adopted by Consob in its resolution no. 18049 of December 23, 2011.

The LTI Plan has been adopted in support of a new Industrial Plan for 2013-2107, concurrent with the early termination of the 2012-2014 LTI Plan, in respect of which no pay-out was made of the corresponding three-year incentive, not even a prorated one.

Beneficiaries of the Plan[2]

The LTI Plan regards Pirelli Management (made up of Executive Directors of Pirelli & C. and Group Executives in general) and may be extended to those who, over the 3-year period, join the Group Management or take up an Executive post. Where this happens, their inclusion in the Plan is conditional on participating in the LTI Plan for at least an entire financial year and the incentive percentages are adjusted to reflect the number of months of effective participation in the Plan.

In particular, the participants in the LTI Plan are, among others, the Chairman and Chief Executive Officer of Pirelli & C., Marco Tronchetti Provera, the Deputy Chairman, Alberto Pirelli (in his capacity as Senior Manager), the General Manager Operations, Gregorio Borgo, and the managers with strategic responsibility Maurizio Boiocchi (Chief Technical Officer), Giuliano Menassi (Senior Vice President Manufacturing), Maurizio Sala (Chief Planning and Controlling Officer), Francesco Tanzi (Chief Financial Officer and Manager with responsibility for preparing the Company's accounting documents), and Christian Vasino (Chief Human Resources Officer).

Performance objectives and calculation of the Bonus[3]

Management remuneration is made up of three structural elements:

- fixed component;
- an annual variable component (MBO incentive): 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 individual. If the objectives are attained at target level this percentage can range from a minimum of 20% for Executives (managers at Pirelli's Italian Companies or employees at the Group's foreign Companies holding a position equivalent to that of an Italian manager) up to a maximum of 100% for the Directors holding a special office who have been assigned specific functions. According to the role of the person concerned, it is designed to reward the annual performance of the Group, of the Company and/or of the function to which he or she belongs. A limit is applied to the maximum MBO incentive obtainable and is set at twice the incentive obtainable at the target level; for the Directors holding special offices and assigned specific functions, it is 2.5 times the incentive obtainable at the target level. To encourage continuity of results over time, payment of

[1] Information required under article 114-bis, para. 1, point a) of the Consolidated Law on Financial Intermediation.
[2] Information required under article 114-bis, para. 1, points b) and b-bis of the Consolidated Law on Financial Intermediation
[3] Information required under article 114-bis, para. 1, point c) of the Consolidated Law on Financial Intermediation.

about 25% of the MBO incentive as may be accrued is deferred to the following year subject to the respective MBO incentive being accrued (so that payment of it is at risk), and in addition there is a possible reward mechanism for providing an enhanced payment of the entire MBO depending on the level of attainment of the MBO objectives in the following year (for the purposes of the Annual Total Direct Compensation, this element, which is subject to deferral and enhanced payment, is classified along with the medium/long-term variable component);

- the medium/long-term variable component: made up of the LTI bonus aimed at rewarding Group performance during the 2014-2016 period and of the above-mentioned MBO- element variously subject to deferral and enhanced payment.

  Like the MBO incentive, the LTI bonus is a pre-determined percentage of the fixed component, with percentages that rise according to the respective role and considering the benchmarks for each individual. If the objectives are attained at the target level this percentage can range from a minimum of 50% for Executives to a maximum of 250% for the Directors holding a special office who have been assigned specific functions. A limit is applied to the LTI maximum incentive obtainable and it is set at twice the incentive obtainable at the target level.

The LTI Plan, which is based on cash and makes no provision for shares or share options, is conditional on achieving the 3-year objectives and is calculated as a percentage of the gross annual fixed component (GAS) received by the beneficiary at the date when his/her participation in the Plan is established.

Access to the 2014-2016 LTI Plan is conditional on fulfilling an objective, the Creation of positive Value over the 3-year period, which measures the capacity of the company to create positive value over the medium-long term by relating post-tax profits from ordinary operations to the level of invested capital and its cost. Specifically, this objective equates to the difference between NOPAT (Net Operating Profit After Tax) and the weighted average cost of fixed capital plus working capital.

In addition, the following three types of objective have been set, the first two of which are independent from one another, along with their respective weightings:

- Group Total Shareholder Return ("**TSR**"), an objective applying equally to Management as a whole and comprising two mutually independent sub-objectives: (i) absolute TSR, with a weighting that accounts for 40% of the total LTI bonus and (ii) relative TSR, with a 20% weighting, measured against a panel of selected peers. Fuller details on the application of the Total Shareholder Return objective can be found in the document released at the time of the Meeting of the Shareholders;
- an objective specific to each Executive concerning their respective organisational unit (Group, Region, Business Unit): Return on Sales (ROS), calculated as the ratio between accumulated Ebit after restructuring charges over the 3-year period and accumulated turnover over the same period; the weighting of ROS in the total LTI bonus is 30%;
- the remaining 10% is calculated on the basis of Sustainability Indicators relating to the positioning of Pirelli in two indices, with equal weighting: (i) Dow Jones Sustainability Index, Autoparts and Tyre Sector, and (ii) FTSE4Good Tyre. This objective is effective only if the entry threshold for at least one of the two economic/financial objectives above is reached.

Associated with all three of the objectives (**TSR, ROS, and Sustainability**) is a minimum value (an entry threshold level). At this level there is a pay-out that is 75% – for each objective – of the incentive amount obtainable for performance at the target level.

Regarding each objective, where the set minimum value is not attained, no right is accrued by the beneficiary to the corresponding part of the incentive.

Regarding the **TSR** and **ROS** objectives, for intermediate results ranging between the minimum value (entry threshold) and the target level or between the target level and the maximum level, the final assessment shall be made through linear scaling.

Period of Bonus Pay-out

Where the objectives are achieved, pay-out of the medium/long-term incentive (the so-called LTI Bonus) to participants in the LTI Plan will be in the first half of 2017 ("**Pay-out Date**") barring where, by December 31 2016, there has been cessation (for whatever reason) of their appointment and/or employment status.

Under the mechanism described above for sustaining continuity of results over the longer term, payment of 25% of the MBO incentive as may be accrued in connection with financial year 2016 shall be deferred to the following year (and, accordingly, shall be at risk of payment). Indeed, depending respectively on whether and at what level the 2017 MBO incentive is accrued, pay-out of the deferred 25% of the 2016 MOB incentive accrued, plus a possible enhancement of the entire 2016 MBO incentive, shall be made in the first half of 2018.

If the individual's term in office and/or employment relationship should end for any cause or reason before completion of the 3-year period, the beneficiary – including Directors holding special offices and invested with special functions (as in the case of the Chairman and Chief Executive Officer, Mr. Tronchetti Provera) – ceases to be part of the LTI Plan and consequently the LTI bonus will not be paid, not even on a pro-rated basis.

Duration of the Plan and Amendments

The Plan, relating to financial years 2014-2016, shall end on the Pay-out Date. As to the procedure in place for carrying out any revision of the LTI Plan, please refer to the Disclosure Document.

Special incentive fund for worker participation in undertakings[4]

The Plan receives no financial support from the Special incentive fund for worker participation in undertakings as in Law no. 350 of December 24, 2003, article 4, paragraph 112.

* * *

The LTI Plan ranks as being of "particular importance" in that it regards, among others, the Chairman and Chief Executive of Pirelli & C., the General Manager Operations, and individuals with strategic responsibility in that they have regular access to privileged information and have the power to make decisions that affect the development and the future prospects of the Group.

Given that the LTI Plan is monetary, and makes no provision for granting shares or options on securities, but solely a cash award partly linked to the stock market performance of Pirelli's ordinary shares, the Disclosure Document prepared under current rules does not include the prescribed information on arrangements for awarding shares or share options.

* * *

To the Shareholders,

on the basis of the above, we ask that:

- you approve – in accordance with article 114-*bis*, Legislative Decree no. 58 of 24 February 1998, as subsequently amended and supplemented – the adoption of a 2014-2016 3-year Incentive Plan (the "LTI Plan") for Pirelli Group Management based, with regard to the part based inter alia, on the stock market performance of Pirelli, such as presented above in this Report and as further detailed in the Disclosure Document (drawn up in accordance with paragraph 1, article 84-*bis*, of the Issuers' Regulation). In fact, under the provisions of the LTI Plan, part of the LTI Bonus is calculated on the basis of a Total Shareholder Return objective in terms of Pirelli's performance and with regard to an index made up of selected "peers" in the tyre industry;
- to confer on the Board of Directors – and on its behalf on the Chairman – all powers needed for the complete and full implementation of the LTI Plan.

[4] Information required under article 114-bis, para. 1, point d) of the Consolidated Law on Financial Intermediation.

PURCHASE AND DISPOSAL OF TREASURY SHARES RESOLUTIONS RELATING AND CONSEQUENT THERETO

To the Shareholders,

With the resolution you adopted on May 13, 2013, you authorised the purchase of the Company's own shares up to a maximum number such as to not exceed 10% of the share capital and for a maximum period of 18 months from the date of the resolution.
At the date of this report no such shares have been bought pursuant to that authorisation, the Board of Directors has not exercised it, and it will cease to have effect on November 13, 2014.
The reasons that led the Directors to recommend adoption of the resolution in May 2013 still apply and for that reason we think it right to recommend to this Meeting of the Shareholders, in order to avoid calling a new meeting close to the above expiry date, that you renew the authorisation to purchase and to dispose of the Company's own shares, given the motivations and in accordance with the manner and the terms as set out below.

1. MOTIVATIONS FOR WHICH AUTHORISATION IS REQUESTED

The reasons for the request and the main aims the Board of Directors of Pirelli & C. S.p.A. (hereafter "**Pirelli**" or the "**Company**") intends to pursue, through the transactions concerned by the authorisation that we recommend you renew, are as follows:

- to purchase own shares as a medium and long-term investment;
- to intervene directly or through intermediaries, in compliance with the applicable provisions, in order to moderate share price fluctuations and to smooth the trend in trading and prices in the presence of short-term distortions reflecting excessive volatility or reduced market liquidity;
- to acquire holdings of own shares for use in any extraordinary financial transactions or for other uses deemed to be of financial, operational and/or strategic interest for the Company;
- to offer shareholders a further means to realise the cash value of their investment.

With specific regard to the request for authorisation to purchase own shares, we state that in the present circumstances that request is not for the purposes of effecting a reduction in share capital through the cancellation of the shares so purchased.

2. MAXIMUM NUMBER, CLASS AND PAR VALUE OF SHARES TO WHICH THE AUTHORISATION REFERS

The proposal is to authorise the Board of Directors to purchase both the Company's (fully paid-up) ordinary shares and savings shares, in a single operation or in several, in a quantity that the Board of Directors may freely determine up to a maximum number of shares that does not exceed 10% of the share capital, having regard for the own shares that it holds directly and those as may be held by its subsidiaries (accordingly, at the present time, some 48.7 million shares).
In any event, the purchases will be made – in compliance with the provisions of Article 2357, paragraph 1 of the Italian Civil Code – subject to the limits of distributable net income and the available reserves in the Company's most recent regularly approved financial statements.
We advise you that concurrent with transactions to purchase, assign, or exchange own shares, or to transfer them as a consideration in kind, the Company, in accordance with applicable legal provisions and accounting standards, makes the required entries in the accounts. In the event of assignment, of exchange, of transferral as a consideration, or of impairment, further purchases may be undertaken up to the expiry of the authorisation voted by the shareholders, without prejudice either to the statutory quantitative limits on the number of own shares as may be held from time to time by the Company or by its subsidiaries, or to the terms and conditions established by the Meeting of the Shareholders.

3. RELEVANT INFORMATION IN ASSESSING COMPLIANCE WITH ARTICLE 2357, PARAGRAPH 3 OF THE ITALIAN CIVIL CODE

The Company's subscribed and paid-up share capital is represented by 487,991,493 shares, with no par value, including 475,740,182 ordinary shares and 12,251,311 savings shares, corresponding to an overall value of 1,345,380,534.66 euros.

At the present date, the Company holds directly 351,590 of its own ordinary shares, corresponding to 0.07% of the capital of that class and of the entire share capital, as well as 408,342 own savings shares, corresponding to 3.3% of that class of capital and corresponding to 0.084% of the entire share capital, whereas no Pirelli & C. shares are held by its subsidiaries.

You are informed that the following reserves, which are not subject to restriction and are freely distributable:

- Retained earnings reserve 220,185,000 euros
- Business combination reserve 12,467,000 euros

are entered in the Company's draft financial statements for the financial year ending at December 31, 2013 - duly approved by the Board of Directors in its meeting of March 27, 2014 and submitted for the approval of today's Meeting of the Shareholders, called also to vote on this recommendation to authorise the purchase and disposal of own shares.

For completeness we note that, as reported, the Legal Reserve stands at 129,620,000 euros and the IAS Operating Reserve at 42,576,000 euros.

4. DURATION OF AUTHORISATION

The Board of Directors recommends that the authorisation to purchase the Company's own shares is granted for a period of 18 months from the date when the Meeting of the Shareholders adopts the corresponding resolution. The Board may proceed with the authorised transactions in a single operation or in several and at any time.

The time limit of 18 months does not apply to any transactions to dispose of the own shares as may be purchased by virtue of the above authorisation.

5. MINIMUM AND MAXIMUM AMOUNT PAYABLE

The share purchase price will be determined on each separate occasion, having regard to the chosen procedure for carrying out the transaction and in compliance with possible regulatory provisions or with permitted market practice. Whatever the circumstances, however, it shall not be lower than 15% below or higher than 15% above the weighted average official Stock Exchange price for the shares registered by Borsa Italiana S.p.A. in the three sessions prior to each individual transaction

With regard to the assignment of own shares, this transaction may be executed at the price, or, in any case, in accordance with the criteria and conditions, as determined by the Board of Directors, having regard to the execution procedures adopted, the share price trend in the period prior to the transaction, and the Company's best interests.

6. PROCEDURES TO EXECUTE THE TRANSACTIONS

Given that different purposes may be pursued through transactions with own shares, the Board of Directors recommends that the authorisation is granted for carrying out purchases of own shares in accordance with any of the procedures permitted by current legislation, to be chosen, on each occasion, at the discretion of the Board, and therefore, currently:

- by means of a public offer of purchase or exchange;
- through purchases executed on regulated markets, in compliance with the operating procedures established by Borsa Italiana S.p.A. and having the characteristics as in under Article 144-bis of the Issuers' Regulation;
- by the proportional allocation of put options to shareholders to be exercised within the term of the authorisation set out in paragraph 4, above.

Nevertheless, the authorisation sought from the Meeting of the Shareholders does not include the right to purchase own shares through buying or selling deriva-

tive instruments traded on regulated markets that entail the physical delivery of the underlying shares, even if allowed under article 144-*bis*, point c) of the Issuers Regulation.
As regards disposals, the Board of Directors recommends that the authorisation permits the adoption of any procedure as appears appropriate for achieving the purposes pursued – including the use of own shares to service share incentive plans – to be executed both directly and through intermediaries, in compliance with the relevant national and European Union law and regulations in force.
Transactions to purchase and dispose of own shares for which the authorisation is requested will be executed in compliance with the applicable legislation including, in particular, in compliance with the national and European Union laws and regulations on market abuse.
Transactions to purchase and assign own shares shall be subject to proper notice, in compliance with the applicable duties of disclosure.

7. POSSIBLE CANCELLATION OF OWN SHARES PURCHASED

As already stated, the purchase of the Company's own share is not for the purposes of effecting a reduction in share capital through the cancellation of the shares so purchased.

* * *

In the light of all that has been stated, we think it right to recommend the renewal of the relevant authorisation.

Therefore, we invite you to approve the following

RESOLUTION

"The Ordinary Meeting of the Shareholders:

- having noted the Directors' recommendation;
- having regard to the provisions set out under Article 2357 and Article 2357-*ter* of the Italian Civil Code, Article 132 of Legislative Decree No. 58 of February 24, 1998, and Article 144-*bis* of the Issuers' Regulation adopted by Consob with resolution No. 11971 of May 14, 1999, as subsequently amended;
- having noted that, today, the Company holds directly 351,590 of its own ordinary shares, corresponding to 0.07% of the capital in that class and of the entire share capital, as well as 408,342 own savings shares, corresponding to 3.3% of the capital in that class and to 0.084% of the entire share capital, while no Pirelli & C. shares are held by its subsidiaries;
- having regard to the financial statements at December 31, 2013;
- having taken stock of the reasons to renew the authorisation for transactions to purchase and dispose of own shares for the purposes and through the procedures illustrated above

ADOPTS A RESOLUTION

a) to authorise the Board of Directors to purchase the Company's own shares, both ordinary and savings shares, though in any case within the maximum limit as provided in Article 2357, paragraph 3 of the Italian Civil Code, that is, up to a maximum number of shares such as not to exceed 10% of Pirelli's share capital at the time, taking into account the own shares already held by the Company and the own shares which may be held by its subsidiaries, establishing that:

- the purchase may be undertaken, In a single operation or in several, within 18 months from the date of this resolution, using any of the procedures as in Article 132 of Legislative Decree No. 58 of February 24, 1998 in conjunction with Article 144-*bis* points a), b), and d), of the Issuers' Regulations adopted by Consob with resolution No. 11971 of May 14, 1999, as subsequently amended, taking into account the specific exemption provided under Article 132, paragraph 3 of Legislative Decree No. 58 of February 24, 1998 and, in any case, using any procedure as allowed in national and Community laws and regulations in the matter, and in compliance with any other rule applicable, including national and Community laws and regulations regarding market abuse, with the sole exception of the purchase procedure in article 144-*bis*, letter c) of the Issuers' Regulation cited above;

- transactions to purchase own shares shall be subject to proper notice, in compliance with the applicable duties of disclosure;
- the purchase price of each share shall not be lower than 15% below or higher than 15% above the weighted average official Stock Exchange price for the shares registered by Borsa Italiana S.p.A. in the three sessions prior to each individual transaction;
- the purchases of own shares shall be made using the distributable net income and the reserves not subject to restrictions as shown in the last duly approved financial statements with respect to the date of the transaction, and at the same time an own shares reserve shall be formed, and in all cases the required accounting entries shall be made observing the legal practice and limits, in any event, the foregoing shall conform and comply with any other applicable relevant provisions in law and in regulations in force at the time;

b) to authorise, in full or in part, without time limits, the disposal of the own shares purchased, both directly and through intermediaries, in accordance with the resolution set out in point a), even before having exercised in full the authorisation to purchase the own shares, establishing that:

- the disposal may be executed in accordance with the purposes and using any of the procedures permitted by law, including use of own shares to service share incentive plans, and in accordance with every other applicable law and regulation, including national and Community laws and regulations relating to market abuse;
- transactions to assign the own shares shall be subject to proper notice, in compliance with the applicable duties of disclosure;
- the sale of the own shares may transacted in a single operation or in several and at any time, including through a public offer, an offer to shareholders, on the market or as part of any extraordinary transactions. The shares may also be sold through being coupled with bonds or warrants to cover their respective exercise and, in any case, in accordance with the procedures permitted by the laws and regulations in force, at the discretion of the Board of Directors;
- the disposals of the own shares may be executed at the price or, in any case, in accordance with the conditions and the criteria as determined by the Board of Directors, having regard to the execution procedures adopted, to the trend in share prices during the period prior to the transaction, and to the Company's best interests;
- in any event the disposals may be executed in accordance with the procedures permitted by the laws and regulations in force, at the discretion of the Board of Directors;

c) to make every accounting entry as necessary or appropriate in relation to the transactions in the own shares, in accordance with Article 2357-*ter*, paragraph 3 of the Italian Civil Code, in compliance with the legislation in force and the applicable accounting standards;

d) to confer on the Board of Directors – and on the Chairman and Chief Executive Officer on behalf of the Board – the fullest powers necessary to execute the transactions to purchase and dispose of the own shares, also by means of subsequent transactions, and however, to implement the above-mentioned resolutions, also through attorneys, and to comply with the requests which may be made by the competent authorities."

The Board of Directors
Milan, March 27, 2014

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (in thousands of euro)

		12.31.2013		12.31.2012 (*)	
			of which related parties		*of which related parties*
9	Property, plant and equipment	2,608,448		2,623,444	
10	Intangible assets	1,013,979		1,022,484	
11	Investments in associates and jv	131,466		113,171	
12	Other financial assets	289,096	104,087	118,125	
13	Deferred tax assets	210,181		207,110	
15	Other receivables	169,463	-	370,210	173,968
16	Tax receivables	7,890		9,297	
	Non-current assets	**4,430,523**		**4,463,841**	
17	Inventories	987,318		1,102,560	
14	Trade receivables	666,427	1,367	704,558	6,377
15	Other receivables	267,535	8,485	341,404	40,536
18	Securities held for trading	48,090		224,717	
19	Cash and cash equivalents	879,897		679,794	
16	Tax receivables	55,604		28,246	
27	Derivative financial instruments	24,818		47,703	
	Current Asset	**2,929,689**		**3,128,982**	
	Total Assets	**7,360,212**		**7,592,823**	
20.1	Equity attributable to owners of the Parent:	2,376,066		2,337,403	
	● Share capital	1,343,285		1,343,285	
	● Reserves	729,207		607,009	*
	● Net income (loss)	303,574		387,109	*
20.2	Equity attributable to non-controlling interests:	60,523		52,026	
	● Reserves	57,605		47,575	
	● Net income (loss)	2,918		4,451	
20	**Equity**	**2,436,589**		**2,389,429**	
23	Borrowing from banks and other financial institutions	2,014,406	1,674	1,995,775	2,565
25	Other payables	76,853		70,643	
21	Provisions for liabilities and charges	116,745		142,230	
13	Provisions for deferred tax liabilities	49,956		56,056	
22	Employee benefit obligations	439,450		522,957	
26	Tax payable	3,537		4,172	
	Non-current liabilities	**2,700,947**		**2,791,833**	
23	Borrowing from banks and other financial institutions	316,653	-	440,526	877
24	Trade payables	1,244,466	41,075	1,268,683	5,305
25	Other payables	434,158	69	417,556	105
21	Provisions for liabilities and charges	90,089		110,839	
26	Tax payables	80,272	600	77,609	
27	Derivative financial instruments	57,038		96,348	
	Current liabilities	**2,222,676**		**2,411,561**	
	Total liabilities and equity	**7,360,212**		**7,592,823**	

(*) The figures of 2012 have been restated due to the new standard IAS 19 revised "employee benefits" being effective from 1.1.2013.

For a description of the items reflecting related party transactions, please refer to note 41 of the Explanatory Notes.

CONSOLIDATED INCOME STATEMENT (in thousands of euro)

		2013		2012*	
			of which related parties		*of which related parties*
29	Revenues from sales and services	6,146,160	1,872	6,071,535	3,813
30	Other income	252,309	3,126	241,630	849
	● of which non-recurring events	44,344		29,646	
	Change in inventories of work in progress, semi-finished and finished products	7,804		73,119	
	Raw materials and consumables (net of change in inventories)	(2,282,963)		(2,330,139)	
31	Personal expenses	(1,211,761)	(3,362)	(1,193,927)	(9,365)
	● of which non-recurring events	(45,435)		(28,827)	
32	Amortisation,depreciation and impairment	(296,492)		(282,246)	
	● of which non-recurring events	-		(10,261)	
33	Other costs	(1,827,550)	(70,058)	(1,791,671)	(40,331)
	● of which non-recurring events	(2,716)		-	
	Additions to property plant and equipment for internal work	3,507		4,171	
	Operating income	**791,014**		**792,472**	
34	Net income (loss) from equity investments	(78,298)		(52,247)	
	● share of net income (loss) of asscoiates and jv	(25,835)	(25,835)	(21,293)	(21,293)
	● gains on equity investments	9,551		513	
	● losses on equity investments	(63,304)		(33,359)	
	● dividends	1,290		1,892	
35	Financial income	64,787	(1,531)	43,012	14,372
36	Financial expenses	(260,619)		(193,452)	
	Net income (loss) before income taxes	**516,884**		**589,786**	
37	Income taxes	(210,392)	(600)	(198,225)	
	Net income (loss)	**306,492**		**391,560**	
	Attributable to:				
	Owners of the parent	303,574		387,109	
	Non controlling interests	2,918		4,451	
38	**Earnings (losses) per share (euro per shares)**	**0,623**		**0,794**	

(*) The figures of 2012 have been restated due to the new standard IAS 19 revised "employee benefits" being effective from 1.1.2013.

For a description of the items reflecting related party transactions, please refer to note 41 of the Explanatory Notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (in thousands of euro)

		2013	**2012 ***
A	**Net income (loss)**	**306,492**	**391,560**
	Components of other comprehensive income:		
B	**Items that will not be reclassified to income statement:**		
	Net actuarial gains (losses) on employee benefits	22,823	(52,713)
	Tax effect	12,225	4,326
	Total B	**35,048**	**(48,387)**
C	**Items reclassified / that may be reclassified to income statement:**		
	Exchange differences from translation of foreign financial statements	(230,773)	(66,934)
	Fair value adjustment of other financial assets:		
	Gains / (losses) for the period	37,499	2,912
	(Gains) / losses reclassified to income statement	933	20,846
	Fair value adjustment of derivatives designated as *cash flow hedges*:		
	Gains / (losses) for the period	(4,431)	(16,822)
	(Gains) / losses reclassified to income statement	16,277	28,856
	Tax effect	(2,946)	(825)
	Total C	**(183,441)**	**(31,967)**
	Share of other comprehensive income related to associates and joint ventures net of taxes	(2,175)	(1,701)
	Total D	**(2,175)**	**(1,701)**
E	**Total components of other comprehensive income (B+C+D)**	**(150,568)**	**(82,056)**
A+E	**Total comprehensive income (loss)**	**155,924**	**309,505**
	Attributable to:		
	Owners of the Parent	157,084	305,951
	Non-controlling interests	(1,160)	3,554

(*) The figures of 2012 have been restated due to the new standard IAS 19 revised "employee benefits" being effective from 1.1.2013.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 12.31.2013 (in thousands of euro)

	Attributable to owners of the Parent					*Non controlling interests*	*Total*
	Share Capital	*Translation reserve*	*Total IAS Reserves (*)*	*Other reserves/ retained earnings*	*Total attributable to owners of the Parent*		
Total at 12.31.2012 (:)	**1,343,285**	**(1,606)**	**(531,446)**	**1,527,171**	**2,337,403**	**52,026**	**2,389,429**
Other comprehensive income	-	(226,695)	80,205	-	(146,490)	(4,078)	(150,568)
Net income (loss)				303,574	303,574	2,918	306,492
Total comprehensive income	**-**	**(226,695)**	**80,205**	**303,574**	**157,084**	**(1,160)**	**155,924**
Dividends paid				(156,743)	(156,743)	(2,921)	(159,664)
Venezuela inflation effect				49,470	49,470	1,944	51,414
Other			(1,303)	(9,844)	(11,147)	10,634	(514)
Total at 12.31.2013	**1,343,285**	**(228,301)**	**(452,545)**	**1,713,628**	**2,376,066**	**60,523**	**2,436,589**

(:) The figures of 2012 have been restated due to the new standard IAS 19 revised "employee benefits" being effective from 1.1.2013.

(in thousands of euro)

	(*) Breakdown of IAS reserves				
	Reserve for fair value adjustment of avaible-for-sale financial assets	*Reserve for cash flow hedge*	*Reserve for actuarial gains/losses*	*Reserve for deferred taxes*	*Total IAS reserve*
Balance at 12.31.2012 (:)	**2.001**	**(44.971)**	**(539.559)**	**51.082**	**(531.446)**
Other comprehensive income	33.631	14.472	22.823	9.279	80.205
Other changes	-	-	(1.303)	-	(1.303)
Balance at 12.31.2013	**35.632**	**(30.499)**	**(518.039)**	**60.361**	**(452.545)**

(:) The figures of 2012 have been restated due to the new standard IAS 19 revised "employee benefits" being effective from 01.01.2013.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AT 12.31.2012 (in thousands of euro)

	Attributable to owners of the Parent					*Non controlling interests*	*Total*
	Share Capital	*Translation reserve*	*Total IAS Reserves (*)*	*Other reserves/ retained earnings*	*Total attributable to owners of the Parent*		
Total at 12.31.2011	**1,343,285**	**64,446**	**(513,494)**	**1,251,862**	**2,146,099**	**45,479**	**2,191,578**
Other comprehensive income	-	(66,052)	(15,106)	-	(81,158)	(882)	(82,040)
Net income (loss)				387,109	387,109	4,451	391,560
Total other comprehensive income	**-**	**(66,052)**	**(15,106)**	**387,109**	**305,951**	**3,569**	**309,520**
Capital increases (decreases)	-	-	-	-	-	5,487	5,487
Dividends paid				(132,382)	(132,382)	(3,006)	(135,388)
Venezuela inflation effect				21,245	21,245	835	22,080
Other			(2,846)	(664)	(3,510)	(338)	(3,848)
Total at 12.31.2012 (:)	**1,343,285**	**(1,606)**	**(531,446)**	**1,527,170**	**2,337,403**	**52,026**	**2,389,429**

(:) The figures of 2012 have been restated due to the new standard IAS 19 revised "employee benefits" being effective from 1.1.2013. There are no impacts on Equity as of 1.1.2012.

(in thousands of euro)

	*Breakdown of IAS reserves **				
	Reserve for fair value adjustment of avaible-for-sale financial assets	*Reserve for cash flow hedge*	*Reserve for actuarial gains/losses*	*Reserve for deferred taxes*	*Total IAS reserve*
Balance at 12.31.2011	**(19,216)**	**(55,304)**	**(486,562)**	**47,588**	**(513,494)**
Other comprehensive income	23,758	10,333	(52,691)	3,494	(15,106)
Other changes	(2,541)		(305)		(2,846)
Balance at 12.31.2012 (:)	**2,001**	**(44,971)**	**(539,558)**	**51,082**	**(531,446)**

(:) The figures of 2012 have been restated due to the new standard IAS 19 revised "employee benefits" being effective from 1.1.2013. There are no impacts on Equity as of 1.1.2012.

CONSOLIDATED STATEMENT OF CASH FLOW (in thousands of euro)

		2013		2012 *	
			of which related parties		***of which related parties***
	Net income (loss) from continuing operations before taxes	516,884		589,786	
	Amortisation, depreciation, impairment losses and reversals of impaired property, plant and equipment and intangible assets	296,492		282,246	
	Reversal of financial expenses	260,619		193,452	
	Reversal of financial income	(64,787)		(43,012)	
	Reversal of dividends	(1,290)		(1,892)	
	Reversal of gains/(losses) on equity investments	53,753		32,846	
	Reversal of share of net income from associates and joint ventures	25,835		21,293	
	Income taxes	(210,392)		(198,225)	
	Change in inventories	3,910		(73,967)	
	Change in trade receivables	(31,140)		29,885	
	Change in trade payables	98,904		(97,887)	
	Change in other receivables/payables	(50)		(168,319)	
	Change in provisions for employee benefits and other provisions	(58,407)		(14,440)	
	Other changes	(22,158)		(16,865)	
A	**Net cash flows provided by (used in) operating activities**	**868,173**		**534,900**	
	Purchase of property, plant and equipment	(402,281)		(455,548)	
	Disposal of property, plant and equipment	23,084		19,917	
	Purchase of intangible assets	(10,818)		(15,414)	
	Disposal of intangible assets	-		149	
	Acquisitions of subsidiaries - Russia	-		(168,887)	
	Acquisitions of retail investments	(11,173)		(93,039)	
	Disposals (Acquisition) of associates and joint ventures	(55,257)	(55,257)	-	
	Disposals (Acquisition) of other financial assets	(9,931)	(558)	3,584	(818)
	Dividends received	1,290		1,892	
B	**Net cash flows provided by (used in) investing activities**	**(465,086)**		**(707,346)**	
	Increase (reduction) in equity	-		5,487	
	Change in financial payables	(36,440)		705,293	
	Change in financial receivables/Securities held for trading	169,118		(107,196)	
	Financial income (expenses)	(195,832)		(150,440)	
	Dividends paid	(159,789)		(135,286)	
C	**Net cash flows provided by (used in) financing activities**	**(222,943)**		**317,858**	
D	**Total cash flows provided (used) during the period (A+B+C)**	**180,144**		**145,412**	
E	**Cash and cash equivalents at beginning of year**	**679,150**		**542,443**	
F	**Exchange differences on translation of cash and cash equivalents**	**(52,439)**		**(8,705)**	
G	**Cash and cash equivalents at end of the period (D+E+F) of which:**	**806,856**		**679,150**	
	cash and cash equivalents (note 19)	879,897		679,794	
	bank overdrafts	(73,041)		(14,790)	

(*) The figures of 2012 have been restated due to the new standard IAS 19 revised "employee benefits" being effective from 1.1.2013.

The Statement of Cash Flows shows transactions with related parties only if they cannot be directly derived from the other statements. Please refer to note 41 of the Explanatory Notes for further detail.

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, which are mainly active in the tyre sector. Other activities relate to the emissions control technologies, renewable energy sources and fashion industries.

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 27, 2014 the Board of Directors authorised publication of these consolidated financial statements.

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, 2013 consist of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Explanatory Notes, and are accompanied by the Directors' Report on Operations.
The format adopted for the Statement of Financial Position classifies assets and liabilities as current and non-current.
The Group has opted to present the components of profit or loss for the year in a separate Income Statement, rather than include these components directly in the Statement of Comprehensive Income. The Income Statement classifies costs by nature.
The Statement of Comprehensive Income includes the result for the period and, for homogeneous categories, the revenues and costs which, in accordance with IFRSs, are recognised directly in equity.
The Group has decided to present both the tax effects and reclassifications to the Income Statement of gains/losses recognised directly in equity in previous periods directly in the Statement of Comprehensive Income and not in the Explanatory Notes.
The Statement of Changes in Equity sets forth transactions with equity holders and the changes in the period of the retained earnings.
In the Statement of Cash Flows, the cash flows deriving from operating activities are presented using the indirect method, according to which the profit or loss for the period is adjusted by the effects of non-monetary items, by any deferment or accrual of past or future operating receipts or payments, and by any revenue or cost items connected with the cash flows arising from investing activities or financing activities.

Scope of Consolidation

The scope of consolidation includes the subsidiaries, associates and joint ventures.
All companies and entities whose financial and operating policies are subject to control by the Group are considered subsidiaries. This condition is normally satisfied when the Group owns more than half of the voting rights, unless it is clearly demonstrated that such ownership does not confer control. Subsidiaries are also considered to be those companies in which the Group has the power to control their financial and op-

erating policies through agreements with other shareholders, even if it owns less than or up to one-half of the voting rights. The financial statements of subsidiaries are included in the consolidated financial statements beginning on the date when control is acquired until the time when control ceases. Non-controlling interests in equity and net income (loss) are separately indicated on the consolidated Statement of Financial Position and Income Statement.
All companies over which the Group can exercise significant influence (as defined by IAS 28 – Investments in Associates) are considered associates. This influence is normally assumed to exist if the Group holds between 20% and 50% of the voting power of the investee or – even with a smaller proportion of voting rights – it has the power to participate in determining the financial and operating policies of the investee on the basis of particular legal relationships. Such relationships may take the form of shareholders' agreements together with other forms of significant exercise of governance rights.
Companies in which two or more parties operate a business under joint control on the basis of a contractual or statutory agreement are considered joint ventures.

The principal changes in the scope of consolidation during 2013 relate to:

- the line-by-line consolidation of Sino Italian Wire Tech. Co. Ltd, domiciled in China, previously classified as "investments in associates", as described in note 7 "Business combinations";
- reclassification of the investment in RCS Mediagroup S.p.A. from "investments in associates" to "financial assets available for sale" as described in notes 11 "Investments in associates and joint ventures" and 12 "Other financial assets";
- reclassification of the investment in PT Evoluzione Tyres, a joint venture operating in Indonesia, from subsidiary to joint venture.

Method of consolidation

The financial statements used for consolidation purposes are those of the companies included in the scope of consolidation, prepared at the reporting date of the parent and adjusted, as necessary, in accordance with the IAS/IFRSs applied by the Group.
The financial statements expressed in foreign currencies have been translated into euro at the period-end rates for the Statement of Financial Position and at the average exchange rates of the period for the Income Statement, with the exception of financial statements of companies operating in high-inflation countries, whose income statements are translated at the period-end exchange rates.
The differences arising from the translation of opening equity at period-end exchange rates have been recognised in the reserve for translation differences, together with the difference between the result for the period translated at the period-end rate and at the average rate for the period. The reserve for translation differences is recognised in the Income Statement upon disposal of the company that generated the reserve.

The consolidation policies may be summarised as follows:

- subsidiaries are consolidated on a line-by-line basis, according to which:
  - the assets, liabilities, revenue, and costs in the financial statements of subsidiaries are recognised in their full amounts, regardless of the percentage of ownership;
  - the carrying amount of investments is eliminated against the underlying share of equity;
  - the financial and operating transactions between companies consolidated on a line-by-line basis, including dividends distributed within the Group, are eliminated;
  - equity and income (loss) attributable to non controlling interest are presented separately in the Statement of Financial Position and Income Statement;
  - upon disposal of an investment with consequent loss of control, the gain or loss from that disposal takes into account the corresponding residual value of goodwill;
  - in the case of further interests acquired after acquisition of a controlling interest, any difference between the purchase cost and the corresponding fraction of acquired equity is

recognised in equity. Likewise, the effects of disposing non-controlling interests without loss of control are also recognised in equity;

- investments in associates and joint ventures are accounted for under the equity method, on the basis of which the carrying amount of the investments is adjusted by:
  - the investor's share of the post-acquisition results of the associate or joint venture;
  - the allocable amount of profits and losses recognised directly in the equity of the associate or joint venture, in accordance with the applied accounting standards;
  - dividends paid by the associate or joint venture;
  - when the Group's share in the losses of the associate/joint venture exceeds the carrying amount of the investment in the financial statements, the carrying amount of the investment is eliminated and the share of any further losses is recognised under "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 of equity interest in the acquiring entity.

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, 2013, 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 historical cost method, with the exception of:

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

Business combinations

Corporate acquisitions are accounted for under 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 case of acquisition of control of an entity in which a non-controlling interest is already held (step acquisition), the investment held previously must be recognised at fair value through profit or loss.
The costs for the business combination are recognised in the Income Statement.
Contingent consideration, i.e. the obligations of the buyer to transfer additional assets or shares to the seller if certain future events occur or specific conditions are fulfilled, should be recognised and measured at fair value at the acquisition date as a portion of the consideration transferred in exchange for the acquisition itself. Subsequent changes in the fair value of these agreements are normally recognised in the Income Statement.

Intangible assets

Intangible assets with finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.
Amortisation is calculated on a straight-line basis and 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.
In addition to goodwill, the Group has identified other intangible assets with an indefinite useful life.

Goodwill

Goodwill is an intangible asset with indefinite useful life, and consequently is not amortized. 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.

Customer relationships

Customer relationships are intangible assets acquired in a business combination and are recognised on the Statement of Financial Position at their fair value as at the purchase date. They are amortized according to their useful life.

Research and development costs

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.

Property, plant and equipment

Property, plant and equipment are recognised at their purchase or production cost, 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 of the related 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 as follows

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

Government grants related to 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 (defined as an asset that requires significant amount of time in order to be prepared for use) are capitalised as part of the cost of the asset. 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 shorter between the remaining useful life of the asset or the residual period of the lease agreement.
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 conditions for accruing such provisions are met. They are then depreciated over the remaining useful life of the assets to which they refer.
Assets acquired under finance lease agreements, in which substantially all the risks and rewards of ownership are transferred to the Group, are recognised as property, plant and equipment at their fair value or, if lower, at the present value of the minimum lease payments, with a corresponding entry for the relevant financial payable. The lease instalment payments are allocated between interest expense, recognised in the Income Statement, and principal repayment, which reduces 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 recoverable amount 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 useful 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 post-tax rate which reflects the current market assessments of the time value of the money and the risks specific to the asset. 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 to establish that no impairment has occurred.

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 under the equity method must be compared with the recoverable amount (impairment test). The recoverable amount corresponds to the higher between the fair value less costs to sell, and the value in use.

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 equivalent to its market value, irrespective of the percentage of ownership. The fair value of investments in unlisted financial instruments is assessed through estimates based on the best information available.

To determine the value in use of an associate or joint venture proportionally to the percentage of shares owned, the discounted value of future cash flows that are expected to be generated by the associate or joint venture is estimated, 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).

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

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

The reversal of an impairment loss on investments in

associates and joint ventures is recognised in the Income Statement.

Financial assets available for sale

Financial assets available for sale include investments in entities other than subsidiaries, associates and joint ventures and other financial assets not held for trading. They are recognised in the Statement of Financial Position as "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 reversed in the Income Statement. A prolonged (meaning more than 12 months) or significant (meaning more than 50% for instruments issued by entities operating in banking sector and more than one-third for instruments issued by entities operating in other sectors) reduction in the fair value of equity instruments and as compared with their cost is considered an indicator of impairment. Starting from the half-year financial statements at June 30, 2012, the quantitative limit was raised from one-third to 50% for banking sector financial instruments due to the exceptional increase in volatility of the sector.

This threshold revision was determined on the basis of the updated historical analysis carried out in 2008 and only reflects the adjustments in the new conditions. The significant increase in volatility of the financial markets and particularly in the banking sector has caused a series of exceptional circumstances to arise. Therefore, it was decided to revise the quantitative threshold for assessing impairment losses with regard to the securities related to this sector. Instead, there has been no change in the definition of the threshold duration of impairment losses (12 months).

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

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

Financial assets available for sale, 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 reporting date.

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

Inventories

Inventories are measured at the lower of cost, determined under 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.

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 cash 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 historical 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 historical 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 in 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 uncollectable after all necessary credit recovery procedures have been completed. When the receivable is derecognised, the relative 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 mainly purchased to be sold 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 in 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, and other forms of short-term investment whose original maturity is three months or less. Current account overdrafts are recognised as current liabilities under financial payables. The amounts included in cash and cash equivalents are recognised at their fair value and any changes are recognised in the Income Statement.

Provisions for liabilities and charges

Provisions for 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.
For defined benefit plans, actuarial gains and losses deriving from adjustments based on past experience and changes in actuarial assumptions are fully recognised in equity for the year in which they occur.
For other long-term benefits, actuarial gains and losses are recognised immediately in the Income Statement.
The provision for employees' leaving indemnities (TFR) of Italian companies with at least 50 employees is considered a defined benefit plan only for the portion accrued prior to January 1, 2007 (and not yet paid at the reporting date), whereas subsequent to that date, it is considered a defined contribution plan.
The net interest calculated on net liabilities is classified under financial expenses.
The costs relating to defined contribution plans are recognised in the Income Statement when incurred.

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 will be highly effective;
- its effectiveness can be measured reliably;
- the hedge is highly effective during the various accounting periods for which it is designated.

These derivative instruments are recognised at fair value.
The following accounting treatments are applied based on the type of hedge:

- *Fair value hedge* – if a derivative financial instrument is designated as a hedge against exposure to changes in the fair value of an asset or liability attributable to a specific risk, the gain or loss resulting from subsequent changes in fair value of the hedging instrument is recognised in the Income Statement. For the portion attributable to the hedged risk, the gain or loss on the hedged item modifies the carrying value of that item (basis adjustment), and it too is recognised in the Income Statement;
- *Cash flow hedge* – if a derivative instrument is designated as a hedge against exposure to the variable cash flow of an asset or liability recognised in the Statement of Financial Position 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 on 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 will not be reversed until the hedged item pro-

duces an effect in the Income Statement. Subsequently they are reversed in the Income Statement over the periods in which the acquired financial asset or assumed financial liability impact the Income Statement.
When the hedged item is no longer expected to have any impact on the Income Statement, the fair value adjustments accumulated in equity are immediately reversed in the Income Statement.

For the derivative instruments that do not satisfy the prerequisites established by IAS for adoption of hedge accounting, please see the section "Financial assets at fair value through profit & loss".

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 reporting 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 Statement of Financial Position 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 investments in subsidiaries, associates and joint ventures are not recognised if the participating entity can control the turnover of temporary differences and they are unlikely to arise in the foreseeable future.
Deferred taxes are not discounted.
Deferred tax assets and liabilities are credited or debited to equity if they refer to items that have been credited or debited directly in equity during the period or during previous periods.

Equity

Treasury shares

Treasury shares are recognised as a reduction in equity. If they are sold, reissued or cancelled, the resulting gains or losses are recognised in equity.

Costs of equity transactions

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

Recognition of revenue

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

Sales of products

Revenue from 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 that the risks and rewards of ownership are not in fact transferred, then the recognition date of the revenues is deferred until the date on which this transfer can be considered to have taken place.

Provision of services

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

Royalties

Royalties are 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 approved by the Shareholders' Meeting for the distribution of dividends.

Earnings (losses) per share

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

Operating segments

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

Accounting policies for hyperinflationary countries

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

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

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

Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying value is recovered mainly through sale rather than through continuous use. This occurs if the non-current asset or disposal group are available for sale under current conditions and the sale is highly probable, or if a binding program 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 Statement of Financial Position, 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 lower between carrying amount and fair value less costs to sell.
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, 2013

- **Amendments to IAS 1 – Presentation of Financial Statements – Presentation of other components recognised in equity**
  The principal changes to IAS 1 concern the new presentation of the components of the statement of comprehensive income: the other components recognised in equity will have to be grouped between those that may be recycled in future on the income statement and those for which this possibility is not envisaged.
  The following are examples of reclassification on the Income Statement: translation differences, fair value adjustment of cash flow hedge derivatives, fair value adjustment of financial assets available for sale. Actuarial gains/losses for defined benefit pension plans are an example of items that cannot be reclassified in the Income Statement.
  These changes are reflected in the statement of other comprehensive income for the year ended December 31, 2013 and 2012 as comparative.

- **Amendments to IAS 19 – Employee Benefits**
  Amendments to IAS 19 are 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 relate to:
  - 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” (“corridor approach”) has been eliminated;
  - elimination of the “expected return on plan assets” and “interest expense,” which will be replaced by a new quantity called “net interest,” calculated by applying the discount rate now used only for the gross liability to the net

liability (i.e. the gross liability net of the assets servicing the plan);
- request for additional information to be disclosed in the explanatory notes to the financial statements for a better understanding of the risks related to defined benefit plans;
- termination benefits: the benefits for termination of the employment relationship ("termination benefits") are recognised at the earliest date between when the Group may no longer withdraw the offer of such benefits and when the Group recognises restructuring costs.

The transition to the new accounting standard has not had any impact on equity at January 1, 2012. The elimination of "Expected return on plan assets" and the "Interest expense", replaced by the "Net interest", has caused the restatement of 2012 figures. Moreover, beginning January 1, 2013, net interest is classified as financial expenses, and no longer as a component of the operating result.

The effects on the Income Statement and equity at December 31, 2012 are summarised in the following table

(in thousands of euro)

	As of and for the year ended December 31, 2012		
	reported	***restated***	***change***
Operating income	780,791	**792,472**	11,681
Net income	398,236	**391,560**	(6,676)
Reserve	647,908	**654,584**	6,676
Equity	**2,389,429**	**2,389,429**	**0**

- **Amendments to IAS 12 – Income Taxes – Deferred Taxes: recovery of underlying assets**
  IAS 12 requires measurement of deferred taxes related to an asset or liability according to whether the carrying amount 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 the assumption 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 was consequently abrogated.
  These changes are not applicable to the Group.

- **Amendments to IFRS 1 – First-time Adoption of International Financial Reporting Standards – Severe hyperinflation and removal of fixed dates on first-time adoption**
  The amendments introduced relate to:
  - guidelines for preparing financial statements in accordance with IFRS after a period when application of IFRS was suspended due to hyperinflation;
  - removal of fixed dates on first-time adoption. Entities, first time adopters, will apply the requirements for derecognition of financial assets and liabilities prospectively, i.e. they are no longer obliged to reconstruct transactions occurred before first-time adoption of IFRS and that led to the derecognition of financial assets and liabilities.

These changes are not applicable to the Group.

- **IFRS 13 – Fair Value Measurement**
  IFRS 13 introduces unique guidelines for determining fair value 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. IFRS 13 also requires specific disclosure on the fair value, a portion of which substitutes the disclosure requirements previously envisaged by other standards, including IFRS 7 – Financial Instruments: Disclosure. The application of IFRS 13 has not had a material impact on the Group financial statements.

- **Amendments to IFRS 7 – Financial Instruments: Disclosure – Offsetting of Financial Assets and Liabilities**
  These amendments introduce the obligation of providing full disclosure in the notes of financial assets and liabilities offset on the basis of a statutory right to offsetting (e.g. net and gross amounts, guarantees granted and held).

- **Amendments to IFRS 1 – Government Loans**
  These amendments refer to government loans received at below-market rates and during transition allow adoption of the same accounting treatment applicable to financial statements that already use IFRS, rather than apply IAS 20, "Accounting for government grants and disclosure of government assistance" on a fully retrospective basis. These changes are not applicable to the Group.

- **"Improvements" to IFRSs between 2009 and 2011 (issued by the IASB in May 2012)**
  As part of the project begun in 2009, the IASB has issued a series of amendments to five current standards. The following table summarises the standards and issues addressed by these amendments

IFRS	***Subject of the amendment***
IFRS 1 – First-time Adoption of International Financial Reporting Standards	• An entity may apply IFRS 1 more than once in specific circumstances, for example when IFRS are actually adopted for the first time and after a period of suspended application of IFRS; • an entity may choose to adopt IAS 23 "Borrowing costs" during transition to IFRS or beginning from a prior date.
IAS 1 – Presentation of Financial Statements	Clarifications with regard to the comparative data that must be presented when an entity publishes three Statements of Financial Position on a voluntary basis or if required by IAS 8 – "Accounting Policies, Changes in Accounting Estimates and Errors".
IAS 16 – Property, Plant and Equipment	Classification of spare parts and servicing equipment as plant and machinery, and not as inventory, when they satisfy the definition provided in IAS 16.
IAS 32 – Financial Instruments: Presentation	Recognition of the tax effect on dividends paid to shareholders (in the Income Statement) and transaction costs (in equity).
IAS 34 – Interim Financial Reporting	Clarification on the disclosure of all assets and liabilities of operating segments in interim financial statements.

These changes have not had a significant impact on the Group 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 were not yet in force or not yet endorsed by the European Union at December 31, 2013, 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 IAS 32 – Financial Instruments: Presentation – Offsetting of financial assets and liabilities**
  These amendments better clarify the requirements for offsetting financial assets and liabilities, already provided in the standard, i.e.
  - the meaning of currently having the statutory right to offset 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 were endorsed by the European Union in December 2012 (EC Regulation no. 1256/2012) and are applicable from January 1, 2014. Application of these amendments has no impact on the Group financial statements.

- **IFRS 10 – Consolidated Financial Statements**
  The new standard replaces IAS 27 – Consolidated and Separate Financial Statements – for the portion relating to the consolidated financial statements – and SIC 12 – Consolidation – Special Purpose Entities. Following the issuance of the new standard, IAS 27 – renamed "Separate Financial Statements" – contains the principles and guidelines to be used in preparing the separate financial statements.

  The new version of IFRS 10 sets out just one control model that applies to all associates and joint ventures and represents the key factor in determining whether an associate or joint venture have to be consolidated. 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 requires management to exercise a higher degree 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 was endorsed by the European Union in December 2012 (EC Regulation no. 1254/2012) and will come into force on January 1, 2014.
  No impact on the consolidated financial statements is expected.

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

to the net assets or net income (loss) of the venture. Joint ventures must be consolidated under the equity method, while IAS 31 allowed the option of choosing between proportional consolidation method and consolidation under the equity method.

To determine what category a joint arrangement falls in, the substance of the agreement must be considered on the basis of the rights and obligations defined therein.
This standard was endorsed by the European Union in December 2012 (EC Regulation no. 1254/2012) and will come into force on January 1, 2014. No impact on the consolidated financial statements is expected.

- **IFRS 12 – Disclosure of Interests in Other Entities**
  IFRS 12 sets out – and extend – all the requirements governing the disclosure to be provided with regard to subsidiaries, associates, joint arrangements and other investments ("structured entities"). Many of the disclosures as per IFRS 12 were previously required by IAS 27 – Consolidated and Separate Financial Statements, IAS 28 – Investments in Associates, and IAS 31 – Interests in Joint Ventures, while others are new.
  This standard was endorsed by the European Union in December 2012 (EC Regulation no. 1254/2012) and will come into force on January 1, 2014.
  Application of this standard will have an impact on consolidated financial statement disclosures, and in particular with regard to the disclosure on subsidiaries.

- **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 sets out the application of the equity method for investments in joint ventures, in addition to associates. These amendments were endorsed by the European Union in December 2012 (EC Regulation no. 1254/2012) and came into force on January 1, 2014. Application of these amendments will not have any impact on the consolidated financial statements.

- **Amendments to IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements and IFRS 12 – Disclosure of Interests in Other Entities – Transition Guide**
  These amendments clarify the transitory rules for application of IFRS 10, which have been found too onerous. They also limit the obligation to provide restated comparative data only for the comparative period preceding first-time application of IFRS 10, 11 and 12.
  These amendments were endorsed by the European Union in April 2013 (EC Regulation no. 313/2013) and are applicable from January 1, 2014. The application of these amendments will impact the disclosures in the consolidated financial statements.

- **Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities**
  These amendments apply to a specific class of assets defined as "investment entities," whose corporate purpose consists of investing funds in order to realise capital gains or appreciation of the invested capital, or both. Examples of such entities include private equity and venture capital firms, pension funds, and other investment funds. As a consequence of these amendments, the companies controlled by investment entities must not be consolidated on a straight-line basis but instead recognised at fair value through profit or loss.
  These amendments were endorsed by the European Union in November 2013 (EC Regulation no. 1174/2013) and are applicable from January 1, 2014. These changes are not applicable to the Group.

- **Amendments to IAS 36 – Impairment of Assets – Recoverable amounts disclosures for non-financial assets**
  IFRS 13 – Fair Value Measurement requires additional disclosure on the recoverable amount of non-financial assets. The amendments to IAS 36 – Impairment of Assets require the publication of

such disclosures only if the recoverable amount is based on the fair value net of disposal costs.
These amendments were endorsed by the European Union in December 2013 (EC Regulation no. 1374/2013) and are applicable from January 1, 2014. No impact is expected on the disclosures in the explanatory notes to the consolidated financial statements.

- **Amendments to IAS 39 – Financial Instruments: Recognition and Measurement – Novation of derivatives and continuation of hedge accounting**
  These amendments, introduced as a consequence of the legislative changes which it is believed will lead to several novations of derivatives, allow the continuation of hedge accounting if derivative financial instruments designated as hedging instruments are modified to execute clearing with a central counterparty in response to legal obligations, provided that they have satisfied certain conditions. In such case, the novation indicates that the parties to a contract agree to replace the original counterparty with a new one.
  This amendment will also result in amendment of IFRS 9.
  These amendments were endorsed by the European Union in December 2013 (EC Regulation no. 1375/2013) and are applicable from January 1, 2014. No impact on the consolidated financial statements is expected.

- **IFRIC 21 – Levies**
  This interpretation clarifies the accounting treatment of tax liabilities and government levies other than income taxes. In particular, it defines the time when an entity may recognise these liabilities. Pursuant to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, one of the prerequisites for recognition of a liability is the existence of a current liability resulting from a past event. This interpretation clarifies that the liability is represented by the asset described in legislation and on which the requested payment of levies or taxes is based.
  This interpretation, which was expected to come into force effective January 1, 2014, has not yet been endorsed by the European Union. It is not expected that future application of this interpretation will have any impact.

- **Amendments to IAS 19 – Employee Benefits – Defined benefit plans: contributions by employees or third parties**
  Certain retirement funds require that employees or third parties contribute to the fund itself. These contributions reduce the cost of the benefit to the employer and were previously deducted from the cost of benefits accrued during the year when the contributions were paid. These amendments introduce the distinction between the following types of contributions:
  - contributions related to the service provided only in the period when they occur and which do not change according to the duration of the service: they must be deducted from the coast of benefits accrued during the period when the service is provided;
  - contributions related to the service provided over several periods and which vary according to the duration of the service: they must be recognised in the income statement on a straight-line basis according to the duration of the service itself;
  - contributions unrelated to the service provided: they must be included in the measurement of the liability and recognised in equity.

  These amendments, which are expected to come into force effective July 1, 2014, have not yet been endorsed by the European Union.
  It is not expected that future application of these amendments will have any impact.

- ***"Improvements" to IFRSs between 2010 and 2012 (issued by the IASB in December 2013)***
  The IASB has issued a series of amendments to seven standards that are currently in force. The following table summarises the standards and issues addressed by these amendments

IFRS	Subject of the amendment
IFRS 2 – Share-based Payment	Definitions of "vesting conditions", "service conditions" and "performance conditions" are clarified.
IFRS 3 – Business Combinations (Basis for conclusions)	Recognition of the "contingent consideration" in a business combination: the contingent consideration may not be recognised in equity.
IFRS 8 – Operating Segments	• Description of operating segments deriving from business combination and logic applied to combine them. • Reconciliation of the total amount of assets in the segments being reported with the total assets of the entity must be provided only if this reconciliation is periodically provided to the highest operating decision-making level.
IFRS 13 – Fair Value Measurement	Short-term payables and receivables not subject to a pre-set interest rate may continue to be measured at their original value if discounting has a negligible effect.
IAS 16 – Property, Plant and Equipment IAS 38 – Intangible Assets	Method for recalculation of value – proportionate recalculation of accumulated amortisation
IAS 24 – Related Party Disclosures	It is clarified that if an entity provides key management services to another entity without the individuals being employees of the latter, the two entities must be considered related parties.

These amendments, which are expected to come into force beginning July 1, 2014, with the exception of the amendments to IFRS 13, which have been applicable since December 31, 2013, have not yet been endorsed by the European Union. The amendments to IFRS 2, IAS 16 and IAS 38 are not applicable to the Group. It is not expected that the amendments to the other IAS / IFRS will have a material impact on the Group financial statements or disclosures.

- ***"Improvements" to IFRSs between 2011 and 2013 (issued by the IASB in December 2013)***
  The IASB has issued a series of amendments to four standards that are currently in force. The following table summarises the standards and issues addressed by these amendments

IFRS	Subject of the amendment
IFRS 1 – First-time Adoption of International Financial Reporting Standards (Basis for conclusions)	Meaning of "IFRS in force": on first-time adoption of IFRSs, an entity may choose whether to apply the IFRSs in force or those that are not yet in force, but for which early adoption is allowed.
IFRS 3 – Business Combinations	It is clarified that IFRS 3 does not apply to the joint arrangements introduced by IFRS 11. This exception applies only for recognition of the joint arrangement itself in the financial statements.
IFRS 13 – Fair Value Measurement	The allowed exception to the standard for fair value measurement of net positions exposed to market risks or credit risks ("portfolio exception") may be applied to financial assets, financial liabilities and other contracts falling into the scope of IAS 39 / IAS 9 (including non-financial arrangements).
IAS 40 – Investment Property	Clarification of the interrelationships between IFRS 3 and IAS 40. IAS 40 provides guidelines for classifying an investment as investment property or as a property for its own use. IFRS 3 provides guidelines for determining whether the acquisition of investment property represents a business combination.

These amendments, which are expected to come into force effective July 1, 2014, have not yet been endorsed by the European Union. No impact on the Group financial statements is expected.

- **IFRS 9 – Financial Instruments (issued in November 2009 and October 2010) and subsequent amendments (issued in December 2011 and November 2013)**
  IFRS 9 will ultimately supplant IAS 39 – Financial Instruments: Recognition and Measurement, and has the principal aim of reducing its complexity.
  IFRS 9 was planned to be released in three distinct phases:
  - Phase 1: Classification and measurement of financial assets and liabilities.
    In the version issued by the IASB in November 2009, the scope of IFRS 9 was limited to financial assets only. In October 2010 the IASB amended IFRS 9 adding the requirements for classification and measurement of financial liabilities, thereby completing the first phase of the project.
    A new Exposure draft was issued in November 2012, which proposes limited amendments to the model for recognition and measurement of the financial instruments defined in IFRS 9, in order to clarify certain aspects of application and account for the interaction with other projects, including convergence with U.S. GAAP. The Exposure Draft also proposes the introduction of a measurement category for fair value debt instruments recognised in equity on the basis of the entity's business model.
    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, financial assets available for sale 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 reversed from equity to the Income Statement (either in the event of impairment or in the event of sale). Dividends instead continue to be recognised in the Income Statement;
    - reclassifications between the two categories of financial assets are not allowed, except in rare cases where there is a change in the entity's business model. In this case, the effects of the reclassification are applied prospectively;
    - the disclosure required in the explanatory notes has been adapted to the classification and measurement rules introduced by IFRS 9;
    - exemption from retrospective application

of the standard to the comparative period at the date of first-time application of IFRS 9 is allowed, if specific additional information is provided to clarify the transition to IFRS 9.

With 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.

- Phase 2: impairment of financial instruments. The IASB issued an initial Exposure Draft in November 2009 and an amendment in November 2011. In March 2013 it issued a final Exposure Draft, which contains new proposals for the impairment of financial instruments that are based on a forecasting model where the expected losses on receivables are recognised more punctually.
- Phase 3: hedge accounting. The IASB amended IFRS 9 in November 2013 by introducing a new model for hedge accounting and related disclosure, with the principal aim of allowing entities to improve reflection of their management of financial risks in their financial statements.

The November 2013 amendments to IFRS 9 also remove the mandatory application date of IFRS, previously scheduled for January 1, 2015, insofar as Phase 2 of the project has not yet been completed. A new date will be set when the project is near to completion. However, the possibility of early application has not been changed.

IFRS 9 and all related amendments have not yet been endorsed.

It is currently not feasible to quantify the impact resulting from future application of this standard to the classification and measurement of financial assets and the new hedge accounting rules. The changes affecting financial liabilities are not applicable to the Group.

- **Amendments to IFRS 7 – Financial Instruments: Disclosure – 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 have not yet been endorsed by the European Union. The impact of future application of these amendments cannot be quantified at this time.

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 meet their obligations to the Group (credit risk), and raising funds on the market (liquidity risk).

Financial risk management is an integral part of Group business management and is handled directly by the headquarters in accordance with guidelines issued by the Finance Department on the basis of general risk management strategies defined by the Managerial Risk Committee.

4.1 TYPES OF FINANCIAL RISKS

Exchange rate risk

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

- **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 ex-

change gains or losses.

The Group aims to minimise the impact of transaction exchange rate risk related to volatility. 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 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 occur represents the 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 are met.

- **Currency translation risk**

The Group 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 these subsidiaries.

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.

About 25% of total consolidated net equity at December 31, 2013 was expressed in euro (compared to about 32% at December 31, 2012). The most important currencies for the Group other than the euro are the Brazilian Real (16%; 17% at December 31, 2012), the Turkish Lira (7%; 8% at December 31, 2012), the Chinese Renminbi (11%; 9% at December 31, 2012), the Romanian Leu (13%; 11% at December 31, 2012), the Venezuelan Bolivar (6%; 6% at December 31, 2012), the Egyptian Pound (3%; 3% at December 31, 2012), the British Pound (4%; 3% at December 31, 2012), the Argentine Peso (2%; 3% at December 31, 2012) and the U.S. Dollar (3%; 3% at December 31, 2012).

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%	
	12.31.2013	12.31.2012	12.31.2013	12.31.2012
Brazilian real	**42,233**	45,393	**(34,555)**	(37,140)
Turkish lira	**18,744**	20,771	**(15,336)**	(16,994)
Chinese renminbi	**28,978**	23,891	**(23,709)**	(19,547)
Romanian leu	**34,211**	27,946	**(27,991)**	(22,865)
Venezuelan Bolivar	**16,456**	15,354	**(13,464)**	(12,562)
Egyptian pound	**7,878**	8,966	**(6,445)**	(7,336)
British pound	**10,822**	8,238	**(8,855)**	(6,740)
Argentinian pesos	**6,144**	7,949	**(5,027)**	(6,503)
US Dollar	**8,933**	7,418	**(7,309)**	(6,070)
Total out of consolidated equity	**174,400**	**165,927**	**(142,691)**	**(135,757)**

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: 70% fixed and 30% 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%	
	12.31.2013	12.31.2012	12.31.2013	12.31.2012
Impact on net income (loss)	(4,488)	(5,183)	4,953	6,208
Total	**(4,488)**	**(5,183)**	**4,953**	**6,208**
Direct impact on equity	3,830	7,233	(5,404)	(12,314)
Total	**3,830**	**7,233**	**(5,404)**	**(12,314)**

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 4.6% of the total consolidated assets at December 31, 2013 (4.5% at December 31, 2012). Such assets are classified as financial assets available for sale, financial assets at fair value through profit or loss, or financial assets held for trading.

No derivatives contracts are made to limit the volatility of these assets.

The financial assets available for sale represented by listed equity instruments total euro 130,864 thousand (euro 73,602 thousand at December 31, 2012) and those represented by securities that are indirectly related to listed financial instruments (Fin. Priv. S.r.l. and Emittenti Titoli) total euro 16,365 thousand (euro 11,939 thousand at December 31, 2012). These financial assets represent 43.7% of all financial assets subject to price risk (24.5% at December 31, 2012). A 5% change in the aforementioned listed securities, all else being equal, would entail a change of euro 7,325

thousand (euro 4,233 thousand at December 31, 2012) in the Group's equity.

Restructuring of the financial receivable from Prelios S.p.A.
Following the restructuring of the financial receivable from Prelios S.p.A. completed in August 2013, the Company now owns three types of financial assets related to Prelios:

- investment in the associate Prelios S.p.A. (listed on the Stock Exchange);
- shares in the special purpose vehicle Fenice S.r.l., an associate which owns Prelios class B shares;
- the "convertendo" equity or debt instrument.

In addition to the price risk limited to the volatility of financial assets, such as listed shares, the company is also subject to the risk of economic and financial performance and execution capacity of the Prelios S.p.A. business plan.
Specifically in regard to the "convertendo" equity-for-debt financial instrument, the Group is exposed to the risk of fair value measurement of that instrument which may occur in consequence of variation in the market price of Prelios S.p.A. stock due to market conditions or in consequence of the earnings results of the associate.

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 certain cases customers are asked to provide guarantees. These mainly consist of bank guarantees issued by parties with the highest credit standing, or personal guarantees. Less frequently, mortgage guarantees may be requested.

Another instrument used by the Group to manage commercial credit risk are the insurance policies, that aim to prevent the risk of non-payment through accurate selection of covered customers in collaboration with the insurance company, which undertakes to indemnify the Group in the event of customer insolvency.
The Group operates only with highly rated financial counterparties for the management of its temporary cash surpluses or trading in derivative instruments, 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 14 "Trade receivables" and note 15 "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 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 or 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, while diversifying the products and their maturities to seize the best available opportunities. The EMTN (Euro Medium Term Note) programme was finalised in July 2013. This is a document platform for the issuance of bonds on the Euromarket – whose maximum amount was set at euro 2 billion. The Board of Directors periodically resolves on the maximum amount of bonds that may be issued and their time horizon under this programme. The program aims at promptly seizing the best financing opportunities to provide continuous support for business growth in the face of volatile financial markets and possible restrictions on access to credit. The bonds may be placed only with professional investors.
At December 31, 2013 the Group had, aside from cash and financial assets held for trading of euro 927,987 thousand, unused committed credit facilities of euro 625,000 thousand (euro 625,000 thousand at December 31, 2012) maturing on November 30, 2015.

The maturities of financial liabilities at December 31, 2013 may 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	1,244,466	-	-	-	1,244,466
Other payables	434,158	14,225	34,817	27,811	511,011
Derivative financial instruments	57,038	-	-	-	57,038
Borrowings from banks and other financial institutions	316,653	773,844	1,107,072	133,490	2,331,059
	2,052,315	**788,069**	**1,141,889**	**161,301**	**4,143,574**

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 575,000 thousand at December 31, 2013 has been classified under non-current borrowings from banks and other financial institutions due in 2015 (from 2 to 5 years). Reference is made to note 23.

The maturities of financial liabilities at December 31, 2012 may 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	1,268,683	-	-	-	1,268,683
Other payables	417,556	9,933	31,101	29,609	488,199
Derivative financial instruments	96,348	-	-	-	96,348
Borrowings from banks and other financial institutions	440,526	190,549	1,640,117	165,109	2,436,301
	2,223,113	**200,482**	**1,671,218**	**194,718**	**4,289,531**

4.2 FAIR VALUE MEASUREMENT

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

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

The following table shows assets and liabilities carried at fair value at December 31, 2013, divided into the three levels defined above

(in thousands of euro)

	Note	*Carrying amount at 12.31.2013*	*Level 1*	*Level 2*	*Level 3*
FINANCIAL ASSETS					
Financial assets carried at fair value through profit and loss:					
Securities held for trading	18	48,090	1,130	46,960	-
Current derivative financial instruments	27	22,268	-	22,268	-
Other financial assets	12	104,087	-	-	104,087
Hedging financial instruments:					
Current derivative financial instruments	27	2,550	-	2,550	-
Available-for-sale financial assets:					
Other financial assets					
● Equities		169,925	130,864	16,365	22,696
● Investment funds		15,084	-	15,084	-
	12	185,009	130,864	31,449	22,696
Total Assets		**362,004**	**131,994**	**103,227**	**126,783**
FINANCIAL LIABILITIES					
Financial liabilities carried at fair value through profit and loss:					
Current derivative financial instruments	27	(16,718)	-	(16,718)	-
Hedging financial instruments:					
Current derivative financial instruments	27	(40,320)	-	(40,320)	-
Total Liabilities		**(57,038)**	**-**	**(57,038)**	**-**

The breakdown at December 31, 2012 was as follows

(in thousands of euro)

	Note	Carrying amount at 12.31.2012	Level 1	Level 2	Level 3
FINANCIAL ASSETS					
Financial assets carried at *fair value* through profit and loss:					
Securities held for trading	18	224,717	755	223,962	-
Current derivative financial instruments	27	42,208	-	42,208	-
Hedging financial instruments:					
Current derivative financial instruments	27	5,495	-	5,495	-
Available-for-sale financial assets:					
Other financial assets					
● Equities		105,782	73,602	11,939	20,241
● Investment funds		12,343	-	12,343	-
	12	118,125	73,602	24,282	20,241
Total Assets		**390,546**	**74,357**	**295,948**	**20,241**
FINANCIAL LIABILITIES					
Financial liabilities carried at *fair value* through profit and loss:					
Current derivative financial instruments	27	(44,756)	-	(44,756)	-
Hedging financial instruments:					
Current derivative financial instruments	27	(51,592)	-	(51,592)	-
Total Liabilities		**(96,348)**	**-**	**(96,348)**	**-**

During 2013, 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 2013

(in thousands of euro)

	12.31.2013	12.31.2012
Opening balance	20,241	32,492
Increases / Subscription of capital	113,940	1,981
Disposals	-	(136)
Impairment	(6,185)	(12,055)
Fair value adjustments through Equity	(1,250)	(2,029)
Other changes	37	(12)
Closing balance	**126,783**	**20,241**

These financial assets are mainly represented by the Prelios S.p.A. "convertendo" (euro 104,087 thousand) and investments in Alitalia S.p.A. (euro 7,534 thousand), Istituto Europeo di Oncologia (euro 5,038 thousand), Equinox Two S.C.A. (euro 5,421 thousand) and Tlcom I LP (euro 700 thousand).

The **additions** mainly refer to the Prelios S.p.A. "convertendo" (euro 104,087 thousand) and the subscription of rights offering of Alitalia S.p.A (euro 7,534 thousand) and Equinox Two S.C.A. (euro 1,179 thousand).

The **impairments** mainly refer to the investments in Equinox Two S.C.A. (euro 1,232 thousand) and Alitalia S.p.A. (euro 4,925 thousand).

The **fair value adjustment through equity** refers mainly to the investment in the Istituto Europeo di Oncologia (negative for euro 494 thousand), Euroqube (negative for euro 178 thousand), and S.In.T. S.p.A. (negative for euro 527 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 investments classified as financial assets available for sale.

The fair value of financial instruments not traded on active markets (e.g. derivatives) is measured by means of techniques that maximise the use of observable and available market data, using widely applied financial measurement techniques:

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

The fair value of the "convertendo", a level 3 financial instrument, was determined on the basis of an appraisal prepared by an independent professional. For measurement purposes, the instrument is essentially composed of:

- a value assigned to a long position on Prelios shares;
- net of the value of a sold call option, which Prelios implicitly holds since it may exercise the right of conversion at a fixed countervalue.

The principal non-observable input used in the measurement is represented by the expected volatility of Prelios S.p.A, stock, in the amount of 32.16%. It was not possible to refer to the implicit volatility of the options when estimating the expected volatility, since there are no listed options on Prelios S.p.A. Therefore, the forecast volatility was estimated beginning with the historic volatility of the Prelios S.p.A. stock measured over a one-year time horizon, in the amount of 32.85%. The relation between the implicit volatility of the options and the historic volatility of a panel of comparable entities was subsequently analysed. The expected volatility of Prelios S.p.A. turned out to be lower than its historical volatility.
A +/- 5% change in expected volatility (compared with the 32.16% used to determine the fair value of the convertendo) would result in a euro 6,800 thousand decrease or increase, respectively, in the fair value of the instrument. Reference is made to note 12.

4.3 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 12.31.2013*	*Carrying amount at 12.31.2012*
FINANCIAL ASSETS			
Financial assets carried at *fair value* through profit and loss			
Securities held for trading	18	48,090	224,717
Current derivative financial instruments	27	22,268	42,208
Non-current other financial assets	12	104,087	
		174,445	**266,925**
Loans and receivables			
Non-current other receivables	15	169,463	370,210
Current trade receivables	14	666,427	704,558
Current other receivables	15	267,535	341,404
Cash and cash equivalents	19	879,897	679,794
		1,983,322	**2,095,966**
Available-for-sale financial assets			
Non-current other financial assets	12	185,009	118,125
Hedging financial instruments			
Current derivative financial instruments	27	2,550	5,495
		2,345,325	**2,486,511**
FINANCIAL LIABILITIES			
Financial liabilities carried at fair value through profit and loss			
Current derivative financial instruments	27	16,718	44,756
Financial liabilities carried at amortised cost			
Non-current borrowings from banks and other financial institutions	23	2,014,406	1,995,775
Non-current other payables	25	76,853	70,643
Current borrowings from banks and other financial institutions	23	316,653	440,526
Current trade payables	24	1,244,466	1,268,683
Current other payables	25	434,158	417,556
		4,086,536	**4,193,183**
Hedging financial instruments			
Current derivative financial instruments	27	40,320	51,592
		4,143,575	**4,289,531**

FABIO

Assistant Professor at La Sapienza University in Physics and Junior Fellow at Scuola Superiore di Studi Avanzati Sapienza, Fabio Sciarrino's research focus is on experimental quantum optics, quantum computation and information, and the foundations of Quantum Mechanics. His experiments have led to the development of new techniques in his field, and they have also contributed to the understanding of the foundations of quantum mechanics and quantum information theory. He works with optics and ultra-fast lasers to achieve his results. He also won a prestigious European Research Council Starting Grant for his work in Integrated Quantum Photonics, as well as numerous other grants and fellowships. He is the author of more than 100 publications in international journals (among which ten publications on Nature journals) and about 100 presentations at national and international conferences.

SCIARRINO SCIENTIST

36 YEARS OLD, ITALIAN

2014: Prize Sapio Junior per la Ricerca italiana – XIV Edition 2014
2011: Prize "Sapienza Ricerca 2011"
2011: Under 40 Premio Fondazione Sapienza
2008: Prize "Medaglia Le Scienze per la Fisica"
2008: Prize "Medaglia della Presidenza della Repubblica"

Fabio spends the majority of his time with ultra-fast lasers and optics. He is intense, and highly – fearfully – intelligent and he has a keen sense of the makeup of the world; seeing things that the rest of us don't or can't. He doesn't just envisage the wheel, he goes past that to see what's going on inside, somewhere in the hazy world of sub-particles. He answers not just the question 'how' but 'why'. I thought it was a wonderful idea to invite such an outspoken and perspicacious person to the event. His presentation was a radiant light display, configuring the pulses of laser beams into the twisting and turning shape of a wheel, using the quantum to represent something mechanical. In turn he turned a scientific instrument in a kind of paintbrush. Like art, he said, science proceeds by hunches and guesses, it tests the water and pushes into the unknown, on a trial by trial basis. He taught us that there is no strict divide between art and science, as is too often assumed, and how they are perceived from the outside. Both attempt to find meaning and knowledge through guess work, and great developments or masterpieces issue occasionally from a plethora of mistakes and errors. He reminded us that both disciplines are processes, and accretive. It was wonderful to spend time with someone so talented in a specific field, but to have an over-arching out look that seemed to encompass everything: artistic, scientific, existential and ontological.

[Hanif Kureishi]

Do you consider your talent a gift or a burden?

I would define talent not as a gift but rather as an opportunity to be exploited and developed. When you concentrate on one single activity to the point that it becomes almost an obsession in order to pursue your talent, that "gift" can become a constraint in life.

What you would do if one day you woke up and discovered you had lost your talent?

I'd have to invent a different life for myself. In a way it could be very stimulating... like a new challenge: I'd look to the world of economics or politics for example!

Who is the living talent you most admire?

I find it difficult to single out just one... the candidates range from political or sporting personalities to men and women of culture and obviously scientists. I've been lucky enough to get to know Alain Aspect and Serge Haroche, two physicists who have contributed to fundamental quantum physics and I was very impressed by both their professional and human attributes.

What do you like about your talent and what don't you like?

Honestly I wouldn't say that I had talent. I would call it a great passion for research. It's a kind of addiction that makes me constantly think of new ideas and solutions. It's hard to keep it under control, but life is also about affection, friendship and other interests.

When or where does your talent make you happy?

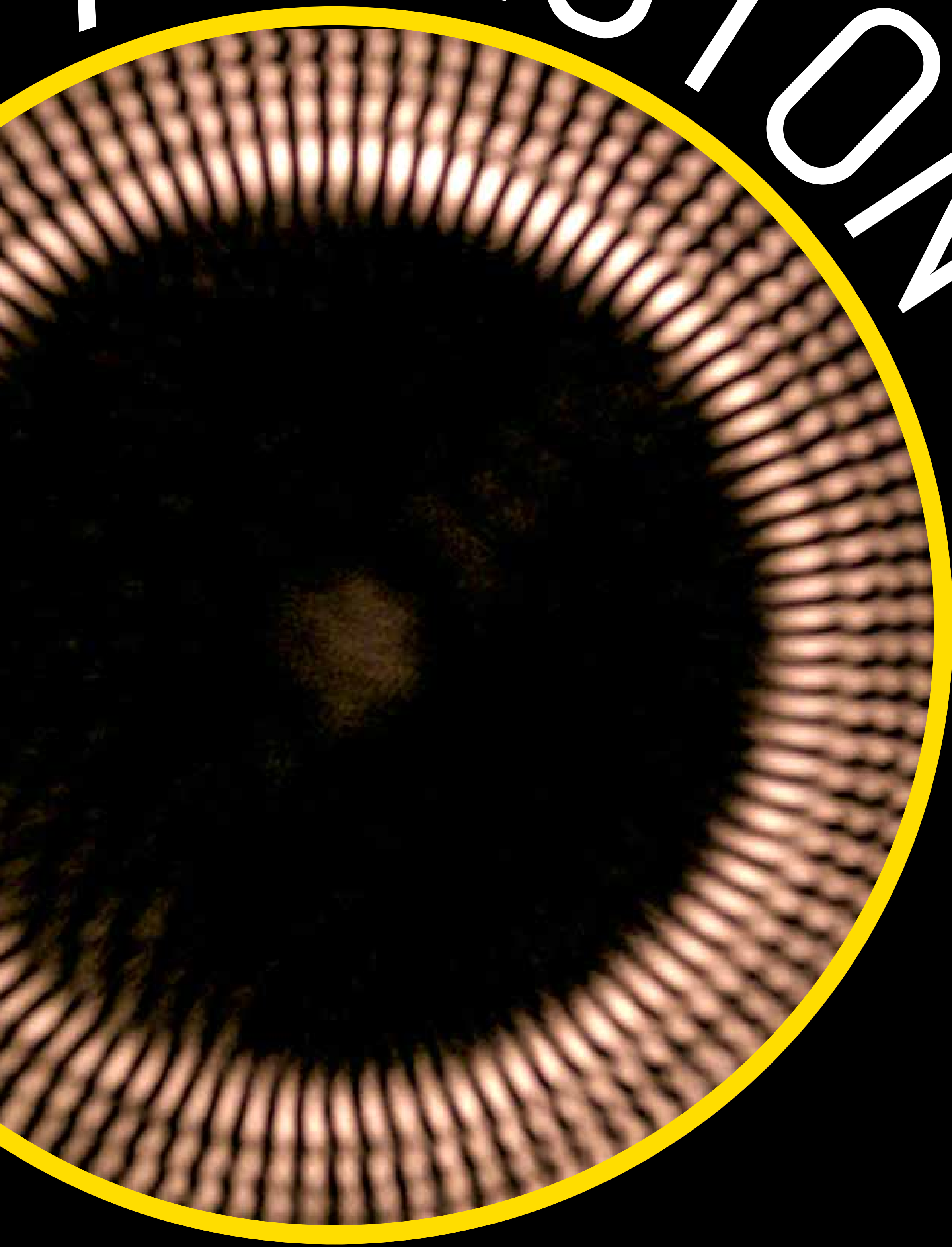
There are a lot of moments I remember with happiness. One of the greatest satisfactions I have ever experienced was winning a very prestigious European project, well financed by the European Research Council.

If you could change your talent, how you would change it?

I'm not sure... it's fine just the way it is: with its pros and cons!

The photonic gear is a new device: a "wheel of light" able to make the polarisation of light rotate faster. It is based on a novel liquid-crystal device, called the q-plate, which allows for the efficient manipulation of light profiles. The photonic gear has the potential for industrial applications, as well as for quantum metrology and quantum communication.

A PHOTON



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:

- 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, calculated as the sum of non-current assets and net working capital. The Group's objective is to have this ratio higher than the weighted average cost of capital (WACC);
- 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;
- R.O.E (Return on equity): this is calculated as the ratio between net income and average carrying amount of equity. It is an indicator representing the Group's ability to remunerate its shareholders. The objective is to have this indicator higher than the rate of return on a risk-free investment, correlated to the nature of the operated businesses.

The figures for 2013 and 2012 are shown below

		2013	2012
1	R.O.I. (operating income / average net invested capital)	17.81%	19.44%
2	Gearing (net financial position/equity)	0.54	0.50
3	R.O.E. (Return on Equity -net income / equity)	12.70%	17.39%

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.
It should be noted that the situation caused by the economic and financial crisis 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 for liabilities and charges, pension schemes and other post-employment benefits and are based on data that reflect the best current 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 requires the allocation of goodwill to cash generating units and subsequent determination of their recoverable amount, that is the greater between fair value and value in use.

If the recoverable amount proves to be lower than the carrying amount of the cash generating units, the goodwill allocated to them must be impaired. Determination of the recoverable value 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 in different countries for their employees, mainly in the United States, the United Kingdom and Italy.

Management uses different actuarial assumptions to calculate the liabilities and the future returns on assets serving these employee benefit plans. Actuarial assumptions of a financial nature regard the discount rate, the rates of future salary increases and trends in healthcare costs.

Demographic actuarial assumptions of a demographic nature essentially regard the rates of mortality, disability and resignations.

The Group has identified discounting rates deemed to be balanced, considering the context.

Deferred tax assets

Deferred tax assets are accounted for on the basis of expected future taxable earnings prospects. The measurement of prospective income to account for deferred taxes depends on factors that may change over time and materially impact the measurement of deferred tax assets.

To determine the adjustment, forecast figures and business 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 have been taken into account. Furthermore, the

accrued adjustments are deemed adequate to cover the risk of further worsening in the plan assumptions, considering that the accrued net deferred tax assets refer to temporary differences or tax losses for which a significant amount may be recovered over an extremely long period of time, and thus consistently with a context where exit from the crisis and economic recovery should last beyond the time horizon implicit in 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 the preparation of the Consolidated Financial Statements.

Measurement of the Prelios "convertendo" debt-for-equity instrument

As part of the arrangements to restructure the financial receivable from Prelios S.p.A. that were finalised in August 2013, Pirelli subscribed to the "convertendo" bond that was designated as a financial asset at fair value through profit or loss when initially recognised.

Estimates were used to measure the fair value of the financial instrument at December 31, 2013. Reference should be made to the note on the Financial Risk Management Policy – Fair value measurement for the analytical description of the measurement criteria that are used and the hierarchy level.

7. BUSINESS COMBINATIONS

Wagner acquisition (Germany)

Between July and October 2013 Pneumobil Gmbh, a German company controlled by Pirelli Tyre S.p.A through Deutsche Pirelli Reifen Holing GmbH, acquired 25 retail outlets in Bavaria, of which 15 belong to Reifen Wagner I.S. Autoservice GmbH & Co and 10 to Tire Wagner GmbH, for a value of euro 20,138 thousand.

With this transaction, Pirelli wishes to reinforce its commercial presence in Bavaria, and especially in the Munich area.

The fair value of the acquired assets is illustrated as follows

(in migliaia di euro)

	Fair value recognised on acquisition
Property, plant and equipment	1,540
● Customer relationship	331
● Trademarks	9,439
Intangible assets	9,770
Inventories	5,948
Fair value of total net identifiable assets acquired	**17,258**
Goodwill	**2,880**
Total consideration	**20,138**

The purchase price allocation (PPA) to the fair value of the assets and liabilities acquired in the business combination has been completed, in accordance with IFRS 3 – Business Combinations. Therefore, the calculation of goodwill resulting from the acquisition must be considered final.

The difference between the total consideration (euro 20,138 thousand) and the value of net acquired assets (euro 7,488 thousand) has been allocated as a euro 9,770 thousand addition to intangible assets (including trademarks for euro 9,439 thousand and customer relationships for euro 331 thousand). The residual goodwill consequently totals euro 2,880 thousand, entirely allocated to the consumer cash generating unit.
Incurred costs related to the transaction in 2013 total euro 22 thousand and have been recognised in the Income Statement as “other costs” and mainly refer to several advisory services provided in support of the acquisition process.

Full consolidation of the China JV

The investment in Sino Italian Wire Tech. Co. Ltd, amounting to 49%, was classified as a subsidiary at December 31, 2013, since the call option held by Pirelli became exercisable in 2013. If exercised, it would increase the Pirelli shareholding to 75%. In accordance with IAS 27, if call options can be exercised, they constitute potential voting rights that must be added to the voting shares counted to determine whether ornot there is control. At December 31, 2012 the investment was classified as an associate. The full consolidation of this investment is falling under IFRS 3, since it involves a step acquisition or a business combination achieved in stages, i.e. acquisition of control over an investee in which a non-controlling equity interest was already held.

The table shows the fair value of the investment and the assets and liabilities at the consolidation date

(in thousand of euro)

	Fair value recognised on Consolidation date
Property, plant and equipment	46,867
Inventories	4,458
Trade receivables	7,977
Other receivables	4,901
Cash and cash equivalents	842
	65,045
Trade payables	(4,100)
Other payables	(2,015)
Borrowings from banks and other financial institutions	(40,315)
	(46,430)
Total net identifiable assets consolidated	**18,615**
Non controlling interest 51%	**(9,494)**
Fair value 49% shareholding *	**9,121**

* Equivalent to the consideration for the acquisition of control.

8. OPERATING SEGMENTS

To align the presentation of the operating segments to the internal reporting of the Group, the operating segments presented at December 31, 2013 have been modified since December 31, 2012. In particular, the Total Tyre Business that in 2012 was presented as the only operating segment, has been split into:

- the Consumer Business segment that includes car and motorcycle tyres made for both the original equipment and replacement markets;
- the Industrial Business segment that includes truck tyres, tyres for agricultural equipment, made both for the original equipment and replacement markets, and the steel cord business.

Information of the holding companies and service companies (including the parent company) have been allocated to the operating segments by using reasonable and consistent principles. The "Other business" consists of the Pirelli Ambiente Group and the PZero Group.
The comparative information for 2012 have thus been restated.

The **results** for **2013** by operating segments are as follows

(in thousands of euro)

	CONSUMER	***INDUSTRIAL***	***OTHER BUSINESS***	***Total 12.31.2013***
Total net sales	**4,478,886**	**1,636,900**	**30,374**	**6,146,160**
Gross operating profit	**823,896**	**283,100**	**(27,049)**	**1,079,947**
Depreciation and amortisation	(227,532)	(57,500)	(3,901)	(288,933)
Operating income (loss)	**596,364**	**225,600**	**(30,950)**	**791,014**
Net income (loss) from equity investments				(78,298)
Financial income (expenses)				(195,832)
Net income (loss) before income taxes				**516,884**
Income taxes				(210,392)
Net income (loss)				**306,492**

The **results** for **2012** by operating segments are as follows

(in thousands of euro)

	CONSUMER	***INDUSTRIAL***	***OTHER BUSINESS***	***Total 12.31.2012***
Total net sales	**4,419,835**	**1,611,500**	**40,200**	**6,071,535**
Gross operating profit	**849,472**	**237,900**	**(23,493)**	**1,063,879**
Depreciation and amortisation	(206,800)	(59,800)	(4,807)	(271,407)
Operating income (loss)	**642,672**	**178,100**	**(28,300)**	**792,472**
Net income (loss) from equity investments				(52,247)
Financial income (expenses)				(150,440)
Net income (loss) before income taxes				**589,786**
Income taxes				(198,225)
Net income (loss)				**391,560**

The breakdown of **assets, liabilities and capital expenditure** by operating segment at **December 31, 2013** are as follows

(in thousands of euro)

	CONSUMER	***INDUSTRIAL***	***OTHER BUSINESS***	***OTHER***	***Total 12.31.2013***
Goodwill	587,233	325,784	-	-	913,017
Allocated assets	3,727,388	1,060,961	61,680	-	4,850,029
Unallocated assets	-	-	-	1,597,166	1,597,166
TOTAL ASSETS	**4,314,621**	**1,386,745**	**61,680**	**1,597,166**	**7,360,212**
Allocated liabilities	1,527,130	466,688	14,881	-	2,008,342
Unallocated liabilities	-	-	-	2,915,281	2,915,281
TOTAL LIABILITIES	**1,527,130**	**466,688**	**14,881**	**2,915,281**	**4,923,623**
Investments:					
● property, plant and equipment	318,400	83,100	781	-	**402,281**
● intangible assets	7,700	3,100	18	-	**10,818**

The breakdown of **assets, liabilities and capital expenditure** by operating segment at **December 31, 2012** are as follows

(in thousands of euro)

	CONSUMER	***INDUSTRIAL***	***OTHER BUSINESS***	***OTHER***	***Total 12.31.2012***
Goodwill	590,488	328,201	-	-	918,689
Allocated assets	3,756,537	1,176,374	85,800	-	5,018,711
Unallocated assets	-	-	-	1,655,423	1,655,423
TOTAL ASSETS	**4,347,025**	**1,504,575**	**85,800**	**1,655,423**	**7,592,823**
Allocated liabilities	1,511,300	520,600	21,100	-	2,053,000
Unallocated liabilities	-	-	-	3,150,394	3,150,394
TOTAL LIABILITIES	**1,511,300**	**520,600**	**21,100**	**3,150,394**	**5,203,394**
Investments:					
● property, plant and equipment	376,800	75,900	2,848	-	**455,548**
● intangible assets	11,100	4,000	314	-	**15,414**

Segment assets consist mainly of property, plant and equipment and intangible assets, leased assets, inventories, trade receivables and other receivables. Financial receivables, cash and 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 liabilities and charges and employee benefits. Financial payables and both current and deferred tax liabilities are excluded.

Investments in property, plant and equipment were focused on expanding the availability of premium products in Italy, Mexico, Romania and China. Work is also proceeding in Russia to align the production sites with Group processes and quality standards.

Investments in intangible assets include IT costs for improvement and development of business support platforms (GeoMarketing phase I, eCRM-CRM, O.E. System Evolution, B2B Platform Evolution), for business intelligence implementations (OE Aftermarket, Sell In and Out Optimisation Programme) and new, evolved functions for Forecast and Purchasing profitability – SAP SRM Enhancements.

The table below sets forth the **revenue by geographical area**, that are allocated on the basis of the country in which the customer is resident

(in thousands of euro)

	2013		2012	
Italy	379,451	6.18%	425,260	7.01%
Rest of Europe	1,679,367	27.32%	1,688,549	27.81%
Russia & CSI	254,122	4.13%	255,160	4.20%
Nafta	682,053	11.10%	692,618	11.41%
Central and South America	2,174,235	35.38%	2,067,525	34.05%
Asia/Pacific	481,493	7.83%	420,400	6.92%
Middle Est/Africa/India	495,439	8.06%	522,023	8.60%
	6,146,160	**100.00%**	**6,071,535**	**100.00%**

The table below sets forth **non-current assets by geographical area**, that are allocated on the basis of the country where these assets are located

(in thousands of euro)

	12.31.2013		12.31.2012	
Italy	463,064	12.78%	403,152	11.06%
Rest of Europe	695,374	19.20%	648,527	17.79%
Russia & CSI	255,637	7.06%	286,139	7.85%
Nafta	207,927	5.74%	195,422	5.36%
Central and South America	560,349	15.47%	633,746	17.38%
Asia/Pacific	334,789	9.24%	342,042	9.38%
Middle Est/Africa/India	192,270	5.31%	218,211	5.99%
Non-current assets not allocated	913,017	25.20%	918,689	25.20%
	3,622,427	**100.00%**	**3,645,928**	**100.00%**

The **allocated non-current assets** reported above consist of property, plant and equipment and intangible assets, excluding goodwill. The **unallocated non-current assets** pertain to goodwill (refer to note 10).

9. PROPERTY, PLANT AND EQUIPMENT

At December 31, 2013 the breakdown and changes of property, plant and equipment are as follows

(in thousands of euro)

	12.31.2013			12.31.2012		
	Gross Amount	**Accumulated Depreciation**	**Net Amount**	**Gross Amount**	**Accumulated Depreciation**	**Net Amount**
Land	106,896	-	106,896	108,399	-	108,399
Buildings	1,099,434	(429,450)	669,984	1,101,203	(416,187)	685,016
Plant and machinery	3,480,584	(1,909,024)	1,571,560	3,521,488	(1,971,572)	1,549,916
Industrial and commercial equipment	691,235	(507,690)	183,545	715,488	(524,765)	190,723
Other assets	230,162	(153,699)	76,463	260,803	(171,413)	89,390
	5,608,311	**(2,999,863)**	**2,608,448**	**5,707,381**	**(3,083,937)**	**2,623,444**

GROSS AMOUNT (in thousands of euro)

	12.31.12	Hyperinflation effect	Business combination effect	Translation differ.	Increases	Decreases	Reclassif.	Other	12.31.13
Land	108,399	1,581	5,025	(6,338)	18	(687)	1,703	(2,805)	106,896
Buildings	1,101,203	17,347	14,024	(80,097)	41,638	(12,143)	18,298	(836)	1,099,434
Plant and machinery	3,521,488	28,402	32,285	(296,000)	276,116	(89,061)	3,213	4,141	3,480,584
Industrial and commercial equipment	715,488	6,222	-	(66,510)	37,978	(26,108)	20,980	3,185	691,235
Other assets	260,803	17,152	2,948	(32,699)	46,531	(19,490)	(44,194)	(889)	230,162
	5,707,381	**70,705**	**54,282**	**(481,644)**	**402,281**	**(147,489)**	**-**	**2,795**	**5,608,311**

ACCUMULATED DEPRECIATION (in thousands of euro)

	12.31.12	Hyperinflation effect	Business combination effect	Translation differ.	Reclassif.	Decreases	Deprec.	Other	12.31.13
Buildings	(416,187)	(15,550)	(754)	38,040	(4,142)	3,114	(35,084)	1,115	(429,450)
Plant and machinery	(1,971,572)	(16,371)	(4,431)	167,880	688	80,908	(165,202)	(924)	(1,909,024)
Industrial and commercial equipment	(524,765)	(5,279)	-	49,595	1,792	23,554	(54,634)	2,047	(507,690)
Other assets	(171,413)	(3,268)	(690)	12,662	1,662	16,829	(14,996)	5,515	(153,699)
	(3,083,937)	**(40,468)**	**(5,875)**	**268,177**	**-**	**124,405**	**(269,916)**	**7,752**	**(2,999,863)**

NET AMOUNT (in thousands of euro)

	12.31.12	Hyperinflation effect	Business combination effect	Translation differ.	Increases	Decreases	Reclassif.	Depreciation	Other	12.31.13
Land	108,399	1,581	5,025	(6,338)	18	(687)	1,703	-	(2,805)	106,896
Buildings	685,016	1,797	13,270	(42,057)	41,638	(9,029)	14,156	(35,084)	278	669,984
Plant and machinery	1,549,916	12,032	27,854	(128,120)	276,116	(8,153)	3,901	(165,202)	3,216	1,571,560
Industrial and commercial equipment	190,723	943	-	(16,915)	37,978	(2,554)	22,772	(54,634)	5,232	183,545
Other assets	89,390	13,884	2,258	(20,037)	46,531	(2,661)	(42,532)	(14,997)	4,627	76,463
	2,623,444	**30,237**	**48,407**	**(213,467)**	**402,281**	**(23,084)**	**-**	**(269,917)**	**10,548**	**2,608,448**

The changes at December 31, 2012 were as follows

GROSS AMOUNT (in thousands of euro)

	12.31.11	Restatement *	12.31.11 restated	Hyperinflation effect	Business combination effect	Translation differ.	Increases	Decreases	Reclassif.	Other	12.31.12
Land	93,647	(700)	92,947	721	-	(1,406)	5,037	(1,159)	867	11,392	108,399
Buildings	970,824	37,608	1,008,432	7,909	29,459	(20,512)	59,625	(4,390)	25,255	(4,575)	1,101,203
Plant and machinery	3,322,727	14,800	3,337,527	9,380	46,542	(102,764)	286,664	(42,512)	(17,420)	4,071	3,521,488
Industrial and commercial equipment	650,694	-	650,694	2,554	18,501	(21,393)	43,218	(18,329)	37,889	2,354	715,488
Other assets	272,422	(7,597)	264,825	11,201	2,748	(4,870)	61,004	(30,218)	(46,591)	2,704	260,803
	5,310,314	**44,111**	**5,354,425**	**31,765**	**97,250**	**(150,945)**	**455,548**	**(96,608)**	**-**	**15,946**	**5,707,381**

ACCUMULATED DEPRECIATION (in thousands of euro)

	12.31.11	Restatement *	12.31.11 restated	Hyperinflation effect	Business combination effect	Translation differ.	Reclassif.	Decreases	Deprec.	Other	12.31.12
Buildings	(391,114)	-	(391,114)	(6,960)	(234)	10,897	781	3,150	(32,940)	234	(416,187)
Plant and machinery	(1,891,612)	-	(1,891,612)	(6,945)	(929)	54,029	7,842	28,869	(163,823)	997	(1,971,572)
Industrial and commercial equipment	(499,602)	-	(499,602)	(2,301)	(8,185)	16,589	2,943	15,887	(49,920)	(176)	(524,765)
Other assets	(171,370)	-	(171,370)	(1,466)	(1,405)	2,690	(11,566)	28,785	(13,382)	(3,699)	(171,413)
	(2,953,698)	**-**	**(2,953,698)**	**(17,673)**	**(10,752)**	**84,205**	**-**	**76,691**	**(260,065)**	**(2,644)**	**(3,083,937)**

NET AMOUNT (in thousands of euro)

	12.31.11	Restatement *	12.31.11 restated	Hyperinflation effect	Business combination effect	Translation differ.	Increases	Decreases	Reclassif.	Depreciation	Other	12.31.12
Land	93.647	(700)	92.947	721	-	(1.406)	5.037	(1.159)	867	-	11.392	108.399
Buildings	579.710	37.608	617.318	948	29.226	(9.615)	59.625	(1.240)	26.036	(32.940)	(4.342)	685.016
Plant and machinery	1.431.115	14.800	1.445.915	2.435	45.613	(48.735)	286.664	(13.643)	(9.578)	(163.823)	5.068	1.549.916
Industrial and commercial equipment	151.092	-	151.092	253	10.316	(4.804)	43.218	(2.442)	40.832	(49.920)	2.178	190.723
Other assets	101.052	(7.597)	93.455	9.734	1.344	(2.180)	61.004	(1.433)	(58.157)	(13.382)	(995)	89.390
	2.356.616	**44.111**	**2.400.727**	**14.092**	**86.498**	**(66.740)**	**455.548**	**(19.917)**	**-**	**(260.065)**	**13.301**	**2.623.444**

* The amounts at 12.31.2011 have been restated to include retrospectively the effects of the final purchase price allocation related to the acquisition in Russia

The **additions in 2013** mainly refer to investments to expand the availability of premium products in Italy, Mexico, Romania and China. Work is also proceeding in Russia to align the production sites with Group processes and quality standards.
The ratio of additions to property, plant and equipment to depreciation in 2013 was 1.49 (1.75 at December 31, 2012).

The effect from business combinations refers to the acquisition of 25 retail outlets in Germany that belonged to Reifen Wagner I.S. Autoservice GmbH & Co and Tire Wagner GmbH (euro 1,540 thousand) and the full consolidation of the Chinese company Sino Italian Wire Tech. Co. Ltd (euro 46,867 thousand). For more details, refer to note 7 "Business combinations".

Construction in progress at December 31, 2013, included in the individual categories of property, plant and equipment, totalled euro 274,703 thousand (euro 241,107 thousand at December 31, 2012).

Impairment during 2013, included in the column "gross value – decreases" of the table illustrated above, totalled euro 7,559 thousand (euro 10,839 thousand in 2012) and are related to the reduction in anti-particulate filters activity (in China and Romania), also in line with the strategy of focusing on the tyre business.

With regard to the restrictions on the ownership of assets, it should be noted that:
- the subsidiary Pirelli Tyres Alexandria Co. (Egypt) pledged its plant and machinery for a total of euro 3,561 thousand (euro 5,230 thousand at December 31, 2012) as collateral for loans granted by the National Bank of Egypt;
- the subsidiary Pirelli Pneus Ltda. (Brazil) pledged its machinery and land as collateral for a total of euro 42,452 thousand (euro 50,573 thousand at December 31, 2012) 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 (Argentina) pledged its own land and buildings for a total of euro 12,248 thousand as collateral for a loan granted by Banco de la Nacion Argentina (euro 11,019 thousand at December 31, 2012);
- the subsidiary Pirelli Neumaticos S.A. de C.V. (Mexico) pledged its own land, factories and plants as collateral worth euro 67,668 thousand for a loan granted by Bancomext.

9.1 FINANCE LEASE

The value of buildings and other assets for which the Group has entered into a finance leasing agreement is included in the related categories of property, plant, and equipment.

The table below sets forth the breakdown of the item

(in thousands of euro)

	12.31.2013			12.31.2012		
	Cost	**Accumulated Depreciation**	**Net amount**	**Cost**	**Accumulated Depreciation**	**Net amount**
Leased land	-	-	-	10,348	-	10,348
Leased buildings	2,860	(1,292)	1,568	52,537	(12,605)	39,932
Other leased assets	2,635	(2,091)	544	2,955	(2,158)	797
Leased plant and machinery	94	(94)	-	96	(96)	-
	5,589	**(3,477)**	**2,112**	**65,936**	**(14,859)**	**51,077**

The decrease in land and buildings held under finance lease compared to December 31, 2012 is mainly due to the redemption, occurred in July 2013, of the property and land held under finance lease, where the structures and Tyre R&D activities in Italy and the headquarter of Prelios S.p.A .are located (euro 12,562 thousand).

The payables for finance lease are included in financial payables (refer to note 23).

10. INTANGIBLE ASSETS

The breakdown and changes in intangible assets are as follows

(in thousands of euro)

	12.31.12	Translation differences	Effect of business combination	Increase	Decrease	Amortisation	Reclassif.	Other	12.31.13
Patents and intellectual property rights	19	(2)	-	-	-	(31)	63	-	49
Concessions/ licenses/trademarks	52,349	(2,518)	9,770	367	-	(6,914)	(370)	-	52,683
Goodwill	918,689	(8,552)	2,880	-	-	-	-	-	913,017
Application software	18,570	(70)	-	7,583	(52)	(8,168)	307	31	18,201
Other intangible assets	32,857	(2,289)	-	2,868	-	(3,904)	-	496	30,028
	1,022,484	**(13,432)**	**12,650**	**10,818**	**(52)**	**(19,016)**	**-**	**527**	**1,013,979**

The changes occurred in 2012 were as follows

(in thousands of euro)

	12.31.11	Effect of business combination (*)	12.31.2011 restated (*)	Translation differences da conv.	Effect of business combination	Increase	Decrease	Amortisation	Other	12.31.12
Patents and intellectual property rights	31	-	31	-	-	-	-	(12)	(0)	19
Concessions/ licenses/ trademarks	7,898	13,000	20,898	(593)	41,417	1,158	(19)	(4,496)	(6,017)	52,349
Goodwill	915,321	(50,985)	864,336	334	54,019	-	-	-	(0)	918,689
Application software	8,376	-	8,376	21	843	12,968	-	(3,912)	275	18,570
Other intangible assets	2,673	12,200	14,873	1,670	15,750	1,288	(130)	(2,922)	2,329	32,858
	934,299	**(25,785)**	**908,514**	**1,433**	**112,029**	**15,414**	**(149)**	**(11,342)**	**(3,414)**	**1,022,484**

* The amounts at 31.12.2011 have been restated to include retrospectively the effects of the final purchase price allocation related to the acquisition in Russia

The addition to **software application** mainly refers to IT costs for improvement and development of business support platforms (GeoMarketing phase I, eCRM-CRM, O.E. System Evolution, B2B Platform Evolution), for business intelligence implementations (OE Aftermarket, Sell In and Out Optimisation Programme) and new, evolved functions for Forecast and Purchasing profitability – SAP SRM Enhancements.

The **business combination effect** includes euro 2,880 thousand related to the goodwill resulting from the acquisition of 25 retail outlets belonging to Reifen Wagner I.S. Autoservice GmbH & Co and Tire Wagner GmbH, plus euro 9,770 thousand for the allocation to trademarks and customer relationships (see the previous note 7 "Business Combinations").

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

(in thousands of euro)

Operating segment	Cash generating unit	12.31.2013	12.31.2012	Recoverable amount
Consumer	Consumer	587,233	590,488	Value in use
Industrial	Industrial	325,784	328,201	Value in use
		913,017	**918,689**	

Goodwill was tested for impairment at December 31, 2013, relying on independent appraisals. This involved estimating the recoverable value 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 discount rate that reflects the specific risks of the single CGU at the measurement date.
The key assumptions used by management are estimates of future sales increases, operating cash flows, the growth of terminal values and the weighted average cost of capital (discount rate).
The forecast income flows cover a three-year period (2014-2016), and refer to the "Industrial Plan 2014-2017", presented to the financial community on November 6, 2013. If the consensus estimates are lower, the Ebit flows of each CGU were reduced by the negative difference between the consensus flows and the Business Plan flows.
The calculation also included the hypothetical flow deriving from the disposal of CGUs 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

Operating segment	Cash Generating Unit	2013			2012		
		discount rate (WACC)	growth rate (g)	WACC - g	discount rate (WACC)	growth rate (g)	WACC - g
Consumer	Consumer	8.56%	-	**8.56%**	9.28%	-	**9.28%**
Industrial	Industrial	8.56%	-	**8.56%**	9.28%	-	**9.28%**

On the basis of these tests, no impairment loss was recognised.

A sensitivity analysis of the results for the examined CGUs 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 100 basis points;
- a change in the growth rate by 100 basis points.

Concessions, licenses and trademarks mainly include the brands deriving from acquisition in 2013 of 25 retail outlets belonging to Wagner in Germany for euro 9,770 thousand, and from the acquisitions made during 2012 in

Russia (euro 7,542 thousand), the retail chains Däckia in Sweden (euro 24,206 thousand) and Campneus in Brazil (euro 9,443 thousand).

The **Other intangible assets** are mainly composed of the fair value measurement of customer relationships and commercial partnerships resulting from the acquisitions made in 2012 in Russia and Sweden (Däckia).

11. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

(in thousands of euro)

	12.31.2013	12.31.2012
Opening balance	**113,171**	**140,114**
Increases	76,780	-
Distribution of dividends	(1,947)	(3,928)
Impairment	-	(29)
Share of net income (loss)	(25,835)	(21,293)
Share of other components recognised in other comprehensive income	(3,932)	(1,701)
Reclassifications and other	(26,771)	8
Closing balance	**131,466**	**113,171**

The breakdown by individual investment is as follows

(in thousands of euro)

	12.31.2012	Increases	Distribution of dividends	Share of net income (loss)	Share of other components recognised in other comprehensive income	Reclassifications and other	12.31.2013
Eurostazioni S.p.A.	59,912	-	(1,947)	-	-	-	57,965
Prelios	-	21,523	-	(12,838)	-	313	8,998
Fenice S.r.l.	-	22,986	-	-	(4,801)	-	18,185
RCS MediaGroup S.p.A.	19,327	21,331	-	(13,573)	-	(27,085)	-
Sino Italian Wire Tech. Co Ltd	8,491	-	-	350	-	(8,841)	-
GWM Renewable Energy II S.p.A.	23,823	-	-	(191)	869	-	24,501
PT Evoluzione Tyres	-	10,338	-	637		8,966	19,941
Idea Granda Società Consortile r.l.	633	-	-	-		-	633
Other companies	985	602	-	(220)	-	(124)	1,243
Total	**113,171**	**76,780**	**(1,947)**	**(25,835)**	**(3,932)**	**(26,771)**	**131,466**

The investments in GWM Renewable Energy II S.p.A. (16.87%) and in Prelios S.p.A. (13.06% of voting shares, and 9.17% of total share capital), are classified as associates (although the percentage of participation in the share capital is below 20%), since the Group has a significant influence through the presence of its own managers on their Board of Directors and, with regard to Prelios, also through the investment in Fenice S.r.l. and the "convertendo" financial instrument (refer to note 12 "Other financial assets").

The fair value of the investment in Prelios S.p.A., listed on the Milan Stock Exchange, was calculated by using the quotation at December 31, 2013 (euro 0.5775 per share), and totals euro 20,912 thousand.

The **additions** during the year refer to:

- the conversion, for euro 21,523 thousand, of the financial receivable from Prelios S.p.A. (which amounted to euro 173,506 thousand at December 31, 2012) into ordinary shares of Prelios S.p.A. and from the establishment and subsequent subscription of the share capital increase of Fenice S.r.l., a special purpose vehicle that owns 117,597,496 Class B non-voting shares of Prelios S.p.A., for euro 22,986 thousand, as part of the restructuring of the financial receivable from Prelios S.p.A.;
- the subscription of the share capital increase of RCS Mediagroup S.p.A. (euro 21,331 thousand) and PT Evoluzione Tyres (euro 10,338 thousand), a joint venture operating in Indonesia.

In regard to the **share of net income (loss)**, refer to note 34.1 "Share of net income (loss) of associates and joint ventures."

In particular, it should be noted that:

- the investment in Prelios S.p.A. was acquired at the end of August 2013. At the date of preparation of this document, Prelios S.p.A. did not yet approve its draft annual report at December 31, 2013. Therefore, as provided by IAS 28, the value of the Group's share (9.17%) in theassociate, accounted for under the equity method, has been calculated on the basis of the only public and available figures related to the associate that refer to the last quarter 2013, i.e. the loss announced in the press release of February 12, 2014, related to disposal of the German platform (with an impact on consolidated earnings between euro 135 and 145 million). The Group's share of loss (euro 12,838 thousand) represents the 9.17% of the estimated loss (euro 140 million);
- the share of loss related to RCS Mediagroup S.p.A. was recognised for the period up to September 30, 2013 (a loss of euro 13,573 thousand), as the investment, in the fourth quarter 2013, was reclassified as a financial asset available for sale (see the comment below on "Reclassifications").

The share of **other components recognised in other comprehensive income** (negative for euro 3,652 thousand) mainly refers to the Group's share of the losses recognised directly in equity by Fenice S.r.l. in 4Q 2013 (euro 4,801 thousand), resulting from fair value adjustment of the Prelios S.p.A. Class B shares held by it. These shares are qualified by Fenice S.r.l. as financial assets available for sale, and the fair value of these shares was determined by applying an approximately 18% non-liquidity discount rate on the value of Prelios S.p.A. ordinary shares (euro 0.5775 per share at December 31, 2013). This discount was deemed necessary because of the nature of the Prelios S.p.A. Class B shares that will be automatically converted into ordinary shares when a sales procedure is initiated and coinciding with their transfer to third parties. The distinctive element between Class B shares and ordinary shares is thus constituted by the lock-up restriction implied by holding them.

The **reclassifications** mainly refer to:

- the investment in RCS Mediagroup S.p.A. reclassified from "associate" to "financial asset available for sale". The following indicators that Pirelli has significant influence were considered: its participation in the block voting shareholders' syndicate, intended to guarantee a stable ownership structure and unified corporate management of the RCS Group, the intensification of other forms of exercising governance rights, such as membership on the Board of Directors and other bodies. On October 31, 2013, the participants of the shareholders' block voting syndicate of RCS Mediagroup (including Pirelli) agreed not to renew the shareholders' agreement and to dissolve it prematurely, before its originally scheduled expiry date of March 14, 2014. Following this decision, it is believed that the assumptions justifying the existence of significant influence by Pirelli on RCS no longer exist. As per IAS 28, once Pirelli ceased to have significant influence, the investment was measured at its fair value (corresponding to the Stock Market quotation of RCS Mediagroup S.p.A. at

October 31, 2013 – euro 1.62 per share), and the difference between the fair value and the carrying amount of the shareholding (euro 27,085 thousand) was recognised in the Income Statement (with a positive effect of euro 10,395 thousand). The losses recognised directly in the equity of the associate were also reclassified to the Income Statement (euro 1,757 thousand). Therefore, the net impact of the reclassification to income statement was positive for euro 8,638 thousand;

- full consolidation of Sino Italian Wire Tech. Co. Ltd, domiciled in China, as described above in note 7 – Business Combinations;
- reclassification of the investment in PT Evoluzione Tyres, a joint venture operating in Indonesia, from subsidiary to joint venture.

The summarised highlights for the principal associates and joint ventures are shown as a total and not on a pro-rated basis, as follows

(in thousands of euro)

	12.31.2013	12.31.2012
Non-current assets	693,818	2,081,320
Current assets	105,449	862,926
Non-current liabilities	273,866	1,319,206
Current liabilities	100,981	969,038
Revenues from sales and services	73,838	1,260,453
Production costs	(54,968)	(1,643,793)
Net income (loss)	(87)	(396,581)

12. OTHER FINANCIAL ASSETS

Other financial assets totalled euro 289,096 thousand, compared to euro 118,125 thousand at December 31, 2012. The breakdown is as follows

(in thousands of euro)

	12.31.2013	12.31.2012
Financial assets available for sale	185,009	118,125
Financial assets at fair value through profit and loss	104,087	-
	289,096	**118,125**

The **financial assets at fair value through profit or loss** refer to the "convertendo" loan, a debt-for-equity financial instrument subscribed as part of the restructuring plan of the financial receivable from Prelios S.p.A. finalised in August 2013.

The financial instrument was designated as a financial asset at fair value through profit or loss ("FVTPL") at initial recognition, and is composed of 80,880 "convertendo" debt- for-equity tranche A bonds, convertible into ordinary Prelios S.p.A. shares (Class A shares), valued at euro 1,000 each, and initially recognised on the Statement of Financial Postion at a value of euro 80,880 thousand, and 67,492 "convertendo" tranche B bonds, convertible into Prelios S.p.A. Class B non-voting shares, valued at euro 1,000 each, initially recognised in the Statement of Financial Position at euro 67,492 thousand.

The number of Prelios S.p.A. shares that Pirelli will obtain at maturity (December 31, 2019) will correspond to the par value of the "convertendo" (euro 148,372 thousand) divided by the greater between the market price on conversion and the price of the capital increase (euro 0.5953 per share). The financial instrument bears interest at a rate of 1% (PIK interest rate), which is payable in shares on maturity.

For the measurement at December 31, 2013 Pirelli used the assistance of an independent professional. For measurement purposes, the instrument is essentially composed of:

- the value assigned to the long position on Prelios shares;
- net of the value of the call option sold, which Prelios implicitly holds since it may exercise the right of conversion at a fixed price.

The combination of the two effects resulted in a negative fair value adjustment, compared to the nominal value, of euro 44,285 thousand, recognised in the Income Statement. The carrying amount of the financial instrument at December 31, 2013 is thus equal to euro 104,087 thousand.
For further detail refer to the note 4.2 on the Financial Risk Management Policy – Fair value measurement.

The changes during the year in **financial assets available for sale** are the followings

(in thousands of euro)

	12.31.2013	***12.31.2012***
Opening balance	118,125	127,037
Exchange difference	67	-
Increases	9,931	1,981
Decreases	(29)	(1,727)
Impairment	(17,970)	(12,066)
Fair value adjustments through Equity	37,499	2,912
Transfer from investments in associated companies	37,480	-
Other	(94)	(12)
Closing balance	**185,009**	**118,125**

The breakdown by individual investment is as follows

(in thousands of euro)

	12.31.2013					12.31.2012
	Historical cost	***Cumulated FV adjustments through equity***	***FV adjustments through P&L***		***Fair value***	***Fair value***
			Previous periods	***2013***		
Listed stock	**A**	**B**	**C**	**D**	**A+B+C+D**	
Mediobanca S.p.A.	90,247	37,178	(16,805)	(10,429)	100,191	73,442
Prelios S.p.A.	211	-	(201)	(10)	-	45
RCS Mediagroup S.p.A.	37,480	(6,941)	-	-	30,539	-
Other companies	134	11	(11)	-	134	115
	128,072	**30,248**	**(17,017)**	**(10,439)**	**130,864**	**73,602**
Unlisted stock						
Alitalia S.p.A.	27,534	-	(15,075)	(4,925)	7,534	4,925
Fin. Priv. S.r.l.	14,458	4,836	(4,217)	(1,345)	13,732	10,241
Fondo Anastasia	13,250	1,834	-	-	15,084	12,343
Istituto Europeo di Oncologia S.r.l.	4,039	999	-	-	5,038	5,532
F.C. Internazionale Milano S.p.A.	7,213	-	(6,655)	-	558	-
Euroqube	373	-	-	-	373	550
Tlcom I LP	1,319	-	(591)	(28)	700	728
Emittenti Titoli	117	2,516	-	-	2,633	1,698
Equinox Two SCA	6,653	-	-	(1,232)	5,421	5,346
Other companies	4,154	-	(34)	(1,048)	3,072	3,160
	79,110	**10,185**	**(26,572)**	**(8,578)**	**54,145**	**44,523**
	207,182	**40,433**	**(43,589)**	**(19,017)**	**185,009**	**118,125**

The **increases** mainly relate to the capital increase related to the investments in F.C. Internazionale S.p.A. (euro 558 thousand), in Alitalia S.p.A. (euro 7,534 thousand, subscribed on November 27, 2013), and in Equinox Two S.C.A. (euro 1,179 thousand).

The **impairment** mainly refer to the investments in Mediobanca S.p.A for euro 10,429 thousand, Alitalia S.p.A. for euro 4,925 thousand, Fin. Priv. S.r.l. for euro 1,345 thousand and Equinox Two S.C.A. for euro 1,232 thousand. Refer also to note 34.3 - Losses from investments.
It should also be noted that the impairments of the investments in Mediobanca S.p.A. and Fin. Priv. S.r.l. were recogniosed in the condensed consolidated half-yearly financial statements at June 30, 2013, since the limits on duration of the impairment loss were exceeded. Because the IFRS do not allow the reversal of the impairment losses recognised in interim financial statements, the positive fair value adjustment at December 31, 2013 has been recognised as an increase to equity.

The **fair value adjustment through equity**, amounting to a net positive value of euro 37,499 thousand, mainly refers to the equity investments in Mediobanca S.p.A (positive for euro 37,178 thousand), RCS Mediagroup S.p.A. (negative for euro 6,941 thousand and refered to the period from the reclassification date of the investment from associate to financial asset available for sale and ending December 31, 2013), Fin. Priv. S.r.l. (positive for euro 4,836 thousand), Emittenti Titoli (positive for euro 935 thousand), Istituto Europeo di Oncologia (negative for euro 494 thousand), and Fondo Comune di Investimento Immobiliare – Anastasia (positive for euro 2,741 thousand).

The **transfer from investments in associated companies** (euro 37,480 thousand) refers to the investment in RCS MediaGroup S.p.A., reclassified from "Investments in associates" to "Other financial assets" following the dissolution of the shareholders' agreement, as described in the note related to "investments in associates and joint ventures" – refer to note 11.

The fair value of listed financial instruments corresponds to their stock market price at December 31, 2013.

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

13. DEFERRED TAX ASSETS AND PROVISION FOR DEFERRED TAX LIABILITIES

This breakdown is as follows

(in thousands of euro)

	12.31.2013	12.31.2012
Deferred tax assets	210,181	207,110
Provision for deferred tax liabilities	(49,956)	(56,056)
	160,225	**151,054**

Deferred tax assets and deferred tax liabilities are offset when a legal right exists to offset current tax receivables and current tax payables, and the deferred taxes refer to the same legal entity and the same tax authority. Their composition gross of the offsets made is as follows

(in thousands of euro)

	12.31.2013	12.31.2012
Deferred tax assets	**303,911**	**294,026**
● of which recoverable in 12 months	72,483	67,286
● of which recoverable after 12 months	231,428	226,740
Provision for deferred tax liabilities	**(143,686)**	**(142,972)**
● of which recoverable in 12 months	(27,247)	(3,947)
● of which recoverable after 12 months	(116,439)	(139,025)
	160,225	**151,054**

The tax effect of temporary differences and of tax losses carried forward which make up the item at December 31, 2013 and at December 31, 2012 is shown in the following table

(in thousands of euro)

	12.31.2013	12.31.2012
Deferred tax assets:		
Provisions for liabilities and charges	17,044	23,187
Employee benefit obligation	74,694	49,090
Inventories	19,161	14,402
Tax losses carried forward	123,254	151,661
Amortisation and depreciation	4,854	677
Trade receivables and other receivables	10,093	8,537
Trade payables and other payables	37,227	32,629
Derivatives	6,003	11,718
Other	11,582	2,125
Total	**303,911**	**294,026**
Provision for deferred tax liabilities:		
Amortisation and depreciation	(92,047)	(132,007)
Other	(51,639)	(10,965)
Total	**(143,686)**	**(142,972)**

At December 31, 2013 unrecognised deferred tax assets relating to temporary differences amounted to euro 53,132 thousand (euro 113,740 thousand at December 31, 2012), and those relating to tax losses amounted to euro 199,563 thousand (euro 167,087 thousand at December 31, 2012). These amounts refer to situations where recovery is not deemed likely at this time.

The breakdown by maturity of the value of tax losses, for which no deferred tax assets were recognised, are shown below

(in thousands of euro)

Year of expiry	12.31.2013	12.31.2012
2014	285	285
2015	1,414	1,424
2016	7,881	7,943
2017	5,389	5,418
2018	3,981	3,997
2019	3,148	3,159
2020	6,609	3,254
2021	6,870	6,993
2022	15,674	15,273
2027	503	503
2028	12,690	12,690
2029	878	878
2030	156	156
with no expiry	655,383	538,553
	720,861	**600,527**

Of the total tax losses without maturity, euro 462,995 thousand refer to losses recognised in the past by the subsidiary Pirelli Finance (Luxembourg) S.A., in relation to which no sufficient taxable income to recover those losses is expected.

The tax effect of gains and losses recognised directly in equity was positive for euro 9,279 thousand (positive for euro 3,501 thousand at December 31, 2012), and is disclosed in the Statement of Comprehensive Income. These changes were mainly due to the tax effects associated with actuarial gains/losses on employee benefits obligations and to the adjustment of derivatives in cash flow hedges to their fair value.

14. TRADE RECEIVABLES

The breakdown of trade receivables is set forth below

(in thousands of euro)

	12.31.2013			12.31.2012		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Trade receivable	708,000	-	708,000	755,641	-	755,641
Provision for bad debts	(41,573)	-	(41,573)	(51,083)	-	(51,083)
	666,427	**-**	**666,427**	**704,558**	**-**	**704,558**

Out of the total of trade receivables amounting to euro 708,000 thousand (euro 755,641 thousand at December 31, 2012), net of invoices or credit notes to be issued, and gross of the provision for bad debts, euro 89,276 thousand are overdue (euro 105,763 thousand at December 31, 2012).
Receivables overdue and not yet due were measured 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)

	12.31.2013	12.31.2012
Opening balance	**51,083**	**68,142**
Translation differences	(2,017)	(1,400)
Accruals	6,250	8,129
Decreases	(12,646)	(24,440)
Other	(1,097)	652
Closing balance	**41,573**	**51,083**

Accruals to the provision for bad debts are recognised in the Income Statement as "Other costs" (note 33).
For trade receivables, the carrying amount is considered to approximate the fair value.

15. OTHER RECEIVABLES

The breakdown of other receivables is as follows

(in thousands of euro)

	12.31.2013			12.31.2012		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Financial receivables	77,198	59,460	17,738	327,617	261,327	66,290
Accrued income and prepaid expenses	17,166	573	16,593	25,878	526	25,352
Receivables from employees	11,722	2,265	9,457	11,978	1,889	10,089
Receivables from social security and welfare institutions	11,910	-	11,910	5,015	-	5,015
Receivables from tax authorities non related to income taxes	135,209	7,857	127,352	171,819	7,158	164,661
Other receivables	184,415	99,308	85,107	169,595	99,310	70,285
	437,620	**169,463**	**268,157**	**711,902**	**370,210**	**341,692**
Provision for bad debts	(622)	-	(622)	(288)	-	(288)
	436,998	**169,463**	**267,535**	**711,614**	**370,210**	**341,404**

Non-current financial receivables (euro 59,460 thousand) principally include euro 47,317 thousand (euro 77,434 thousand at December 31, 2012) of amounts in escrow accounts in connection with tax and legal disputes of the subsidiary Pirelli Pneus Ltda (Brazil), bearing interests at market rates. The reduction is related to the release and subsequent collection of about euro 19 million related to amounts previously in escrow by the Brazilian subsidiary Pirelli Pneus Ltda.

In 2012 this item also included the loan to Prelios S.p.A. for euro 173,506 thousand. In 3Q 2013 euro 21,523 thousand of this receivable was converted into Prelios ordinary shares, and euro 148,372 thousand was converted into equity instruments (the "convertendo"), while the remaining euro 3,611 thousand was repaid by Prelios S.p.A. and collected.

Current financial receivables (euro 17,738 thousand) mainly include euro 8,225 thousand of loans to the associate company GWM Renewable Energy II S.p.A., euro 2,657 thousand of the Alitalia S.p.A. subordinated convertible bond issued on February 26, 2013 at a gross annual interest rate of 8%, and euro 4,223 thousand of the accrued coupon of the interest rate swap on the unrated bond placed by Pirelli & C. S.p.A. on the eurobond market in February 2011 for a total face value of euro 500 million, with a fixed coupon of 5.125% and maturity in February 2016.

The decrease compared to December 31, 2012 (euro 48,552 thousand) is mainly due to the effects of the full consolidation of the Chinese subsidiary Sino Italian Wire Technology Co Ltd, operating in the steel cord business. At December 31, 2013 it was fully consolidated, while at December 31, 2012 it was classified as an associate, and towards which at December 31, 2012 was recognised a financial receivable for euro 32,538 thousand.

Other non-current receivables (euro 99,308 thousand) mainly refer to amounts in escrow in connection with lawsuits and tax litigation involving the Brazilian units (for euro 72,200 thousand), receivables for guarantees to Pirelli (for euro 8,213 thousand) that may be exercised if contingent liabilities materialise in relation to the acquired company Campneus Lider de Pneumaticos Ltda (Brazil), and receivables relating to a cash contribution (for euro 8,250 thousand) in connection with the execution of a partnership agreement.

Other current receivables (euro 85,107 thousand) mainly include euro 33,997 thousand of advances paid to suppliers, euro 12,688 thousand of receivables deriving from the settlement of the Eletrobras lawsuit in Brazil, euro 3,099 thousand of receivables from the disposal of property not used for the industrial operations in Brazil, and euro 4,437

thousand of contributions for research and development to be received from the Region of Piedmont.

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

16. TAX RECEIVABLES

Tax receivables relate to income taxes and total euro 63,494 thousand (of which euro 7,890 thousand included in non-current assets, mainly related to amounts in escrow for tax litigation by the Brazilian subsidiary), compared to euro 37,543 thousand at December 31, 2012 (of which euro 9,297 thousand included in non-current assets). This amount mainly refers to receivables for tax prepayments made during the year, receivables for tax withholding paid to foreign entities and IRES (corporate income tax) for euro 15,551 thousand and receivables from previous years recognised in favour of Pirelli & C. S.p.A. for about euro 5,000 thousand.

17. INVENTORIES

The breakdown of inventories is as follows

(in thousands of euro)

	12.31.2013	***12.31.2012***
Raw and auxiliary materials and consumables	205,033	255,517
Sundry materials	7,029	6,448
Work in progress and semi-finished products	77,473	81,756
Finished products	691,781	747,724
Goods for resale	2,827	6,769
Advances to suppliers	3,175	4,346
	987,318	**1,102,560**

All components of inventories at December 31, 2013 were lower compared to December 31, 2012.
The impairment of inventories recognised at December 31, 2013 amounted to euro 5,337 thousand (euro 12,518 thousand at December 31, 2012).
Inventories are not subject to any collateral pledges.

18. SECURITIES HELD FOR TRADING

Securities held for trading amounted to euro 48,090 thousand, compared to euro 224,717 thousand at December 31, 2012, reflecting a decrease of euro 176,627 thousand essentially due to the reclassification of securities having a maturity lower than three months to the item “cash and cash equivalents”.
They were comprised of:

- unlisted floating-rate bonds for euro 25,309 thousand (euro 134,808 thousand at December 31, 2012);
- unlisted fixed-rate bonds for euro 21,613 thousand (euro 80,413 thousand at December 31, 2012);
- equities for euro 1,166 thousand (euro 8,347 thousand at December 31, 2012), including euro 1,130 thousand in listed stock (euro 755 thousand at December 31, 2012);
- other securities for euro 2 thousand (euro 1,149 thousand at December 31, 2012).

The fair value of listed financial instruments corresponds to their stock market price at December 31, 2013. The fair value of unlisted financial instruments was determined by making estimates on the basis of the best information available.
Changes in fair value are recognised in the Income Statement as "Financial expenses".

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents increase by euro 200,103 thousand, from euro 679,794 thousand at December 31, 2012 to euro 879,897 thousand at December 31, 2013. This was mainly due to the reclassification of securities having a maturity shorter than three months from "securities held for trading" and to the collection by the Brazilian subsidiary Pirelli Pneus Ltda of amounts previously in escrow totalling about euro 19,000 thousand.
Cash and cash equivalents are concentrated in the Group's holding companies and at companies that generate cash and invest it locally. They are essentially invested on the market for short-term maturity deposits with major banking counterparties at interest rates in line with the prevailing market terms.
In the statement of cash flows, the balance of cash and cash equivalents is net of bank overdrafts amounting to euro 73,041 thousand at December 31, 2013 (euro 14,790 thousand at December 31, 2012).

20. EQUITY

20.1 EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT

The **equity attributable to owners of the Parent** rose from euro 2,337,403 thousand at December 31, 2012 to euro 2,376,066 thousand at December 31, 2013.
The change from December 31, 2012 (positive for euro 38,663 thousand) is substantially due to the net result of the year (positive for euro 303,574 thousand), the combined effect of inflation/devaluation deriving from the application of inflation accounting in Venezuela (positive for euro 49,470 thousand), the fair value adjustment of derivative financial instruments in cash flow hedges net of its tax effect (positive for euro 14,472 thousand), the fair value adjustment of financial assets available for sale (positive for euro 33,631 thousand), actuarial gains on pension funds net of the related tax effect (positive for euro 22,823 thousand), offset by the negative changes related to dividend payouts (euro 156,743 thousand), and exchange differences from translation into euro of the financial statements of subsidiaries which have functional currencies other than euro (euro 226,695 thousand).
The subscribed and paid-up **share capital** at December 31, 2013 (including treasury shares) is represented by 475,740,182 ordinary shares and 12,251,311 savings shares, without par value and having normal entitlements, for a total of euro 1,345,381 thousand. The share capital is presented net of the value of treasury shares (351,590 ordinary shares and 408,342 savings shares), for a net total of euro 1,343,285 thousand. Total treasury shares represents 0.16% of share capital.

The **equity per share** was euro 4.869, compared to euro 4.790 at December 31, 2012.

20.2 EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

The equity attributable to non-controlling interests rose from euro 52,026 thousand at December 31, 2012 to euro 60,523 thousand at December 31, 2013. The net increase of euro 8,497 thousand is mainly due to the net result for the year (positive for euro 2,918 thousand) and to the 51% shareholding in Sino Italian Wire Tech. Co. Ltd, fully consolidated beginning on December 31, 2013 (euro 9,494 thousand), which is offset by the decrease due the dividends paid out (euro 2,921 thousand) and by the acquisition of 40% of Yanzhou Hixih Ecotech Environment Co. Ltd. raising the Group shareholding from 60% to 100% (euro 3,003 thousand, equal to its carrying amount).

21. PROVISIONS FOR LIABILITIES AND CHARGES

The changes that occurred during the period are shown below

PROVISION FOR LIABILITIES AND CHARGES - NON-CURRENT PORTION (in thousands of euro)

Opening balance	**142,230**
Translation differences	(15,294)
Increases	17,806
Uses	(19,192)
Reversals	(13,585)
Other	4,780
Closing balance at 31 December 2013	**116,745**

The **non-current portion of provisions for liabilities and charges** mainly refer to accruals made by the Brazilian subsidiary Pirelli Pneus Ltda for lawsuits and tax litigation (euro 45,223 thousand) and labour lawsuits (euro 30,239 thousand) and by the parent company Pirelli & C. S.p.A. for tax litigation (euro 19,067 thousand) and commercial risks, site remediation and labour disputes (euro 18,101 thousand).

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

The **uses** relate to costs incurred, mainly in labour lawsuits by the subsidiary Pirelli Pneus Ltda – Brazil and in labour lawsuits and site clean-up by the parent company Pirelli & C. S.p.A.

The **reversals** of excess provisions were largely related to tax litigation involving the parent company Pirelli & C. S.p.A. (euro 7,038 thousand) for challenges that were extinguished when the appellate court decisions against the Italian Revenue Agency (Agenzia delle Entrate) became final after that agency did not appeal to the Court of Cassation (the highest court of appeal in Italy), provisions related to license concession as at the parent company Pirelli & C. S.p.A. (euro 4,706 thousand) when the risk ceased to exist.

PROVISION FOR LIABILITIES AND CHARGES - CURRENT PORTION (in thousands of euro)

Opening balance	**110,839**
Translation differences	(4,296)
Increases	25,771
Uses	(19,877)
Reversals	(16,128)
Other	(6,220)
Closing balance at 31 December 2013	**90,089**

The **current portion of provisions for liabilities and charges** mainly include accruals for technical claims and product warranties (euro 22,815 thousand), site remediation of disused area of land (euro 8,042 thousand), reorganisation and closure of business units (euro 16,521 thousand), litigation for occupational diseases (euro 10,780 thousand), tax risks (euro 4,390 thousand), labour lawsuits (euro 4,117 thousand), industrial accident insurance (euro 4,601 thousand) and legal lawsuites (euro 3,883 thousand).

The **increases** mainly refer to provisions for product claims, occupational diseases, civil lawsuits and reorganisation or closure of activities.

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

The **reversals** of excess provisions mainly concerned technical claims (euro 8,270 thousand), product warranties (euro 1,663 thousand) and labour lawsuits (euro 1,512 thousand).

22. EMPLOYEE BENEFIT OBLIGATIONS

This item includes

(in thousands of euro)

	12.31.2013	***12.31.2012***
Pension funds:		
• funded	222,242	271,288
• unfunded	93,763	99,681
Employees'leaving indemnity (Italian companies)	44,496	47,007
Healthcare plans	17,333	20,403
Other long term benefits	61,616	84,578
	439,450	**522,957**

Pension funds

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

(in migliaia di euro)

	12.31.2013						
	Germany	***Sweden***	***Total unfunded pension funds***	***USA***	***UK***	***Other countries***	***Total funded pension funds***
Funded funds							
Present value of funded liabilities				124,986	973,635	4,527	1,103,148
Fair value of plan assets				(98,799)	(778,403)	(3,704)	(880,906)
Unfunded funds							
Present value of unfunded liabilities	90,087	3,676	93,763				
Net liabilities recognised	**90,087**	**3,676**	**93,763**	**26,187**	**195,232**	**823**	**222,242**

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

(in thousands of euro)

	12.31.2012						
	Germany	***Sweden***	***Total unfunded pension funds***	***USA***	***UK***	***Other countries***	***Total funded pension funds***
Funded funds							
Present value of funded liabilities				145,518	974,197	4,517	1,124,232
Fair value of plan assets				(94,134)	(755,093)	(3,717)	(852,944)
Unfunded funds							
Present value of unfunded liabilities	95,693	3,988	99,681				
Net liabilities recognised	**95,693**	**3,988**	**99,681**	**51,384**	**219,104**	**800**	**271,288**

The characteristics of the principal pension funds in place at December 31, 2013 are summarized below:

- **Germany**: this is an unfunded defined-benefit plan based on the last salary. It provides a pension in addition to the state pension. The plan was closed in October 1982; consequently the participants to thisplan are employees whose employment began prior to that date;
- **USA**: this is a funded defined-benefit plan based on the last salary. It provides a 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 participants to this plan have retired;
- **UK**: these are funded defined-benefit plans based on the last salary. They provide a pension in addition to the state pension and are administered in trusts. These plans were closed in 2001. The Pirelli Tyres Ltd 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, was already frozen at the date of the sale in 2005;
- **Sweden**: this involves a defined benefits plan (ITP2), which was closed to new participants, and the only participants are retired employees and recipients of deferred pensions.

The following changes occurred in the net liabilities in 2013

(in migliaia di euro)

	Present value of obligation	***Fair value of plan assets***	***Total***
Opening balance at 1 January 2013	1,223,913	(852,944)	370,969
Exchange difference	(26,077)	19,646	(6,431)
Movements through income statement:			
● Current service cost	923		923
● interest expense / (income)	50,201	(36,347)	13,854
	51,124	**(36,347)**	**14,777**
Remeasurements recognized in equity:			
● (gain) loss from change in demographic assumptions	(13,089)		(13,089)
● (gain) loss from change in financial assumptions	20,009		20,009
● experience (gains) losses	(1,702)		(1,702)
● return on plan assets, excluding amounts included in interest income		(23,376)	(23,376)
	5,218	**(23,376)**	**(18,158)**
Employer's contributions	-	(45,888)	(45,888)
Plan participants' contributions	28	(28)	-
Benefits paid	(56,865)	56,865	-
Other	(429)	1,165	736
Closing balance at 31 December 2013	**1,196,912**	**(880,907)**	**316,005**

The following changes occurred in the net liabilities in 2012

(in thousands of euro)

	Present value of obligation	***Fair value of plan assets***	***Total***
Opening balance at 1 January 2012	1,160,622	(809,204)	351,419
Exchange difference	18,788	(14,915)	3,873
Business combination	3,278		3,278
Movements through income statement:			
● Current service cost	811		811
● interest expense / (income)	55,326	(39,544)	15,782
	56,137	**(39,544)**	**16,593**
Remeasurements recognized in equity:			
● (gain) loss from change in demographic assumptions	-		-
● (gain) loss from change in financial assumptions	51,753		51,753
● experience (gains) losses	(3,142)		(3,142)
● return on plan assets, excluding amounts included in interest income		(5,298)	(5,298)
	48,611	**(5,298)**	**43,313**
Employer's contributions		(47,508)	(47,508)
Plan participants' contributions	27	(27)	-
Benefits paid	(63,109)	63,109	-
Other	(441)	441	-
Closing balance at 31 December 2012 *	**1,223,913**	**(852,944)**	**370,969**

* The figures of 2012 have been restated due to the new standard IAS 19 revised "employee benefits" being effective from 1.1.2013

The service cost is included in the item "Personnel expense" (note 31), while the interest expense / (income) is included in the item "Financial expenses" (note 36).

The following table shows the breakdown of funded pension fund assets

(in thousands of euro)

	12.31.2013				12.31.2012			
	listed	***unlisted***	***total***	**%**	***listed***	***unlisted***	***total***	**%**
Shares	70,300	170,224	240,523	27%	44,583	110,162	154,745	18%
Bonds	75,664	115,653	191,318	22%	56,506	166,010	222,516	26%
Insurances	-	3,704	3,704	0%	-	3,717	3,717	1%
Deposits	102,145	43,221	145,366	17%	-	211,270	211,270	25%
Balanced funds	-	250,004	250,004	28%	-	233,239	233,239	27%
Real Estate	-	29,448	29,448	3%	-	18,499	18,499	2%
Derivatives	8,926	1,934	10,860	1%	-	(590)	(590)	0%
Other	-	9,683	9,683	1%	-	9,549	9,549	1%
	257,036	**623,871**	**880,906**	**100%**	**101,089**	**751,855**	**852,944**	**100%**

The principal risks to which the Group is exposed in relation to the pension funds are detailed as follows:

- volatility in the assets servicing the plans: to limit the liabilities, the investment strategy privileges assets which are expected to have relatively high and stable returns over the long-term. This implies that certain investments, such as listed shares, feature high volatility over the short term, and that this exposes the plans to risks of reduction in the value of assets in the short-term, consequently increasing liabilities. However, this risk is mitigated by the diversification of the investments into different investment classes, through different investment managers and different investment styles. Moreover, the investments are continuously revised in response to market conditions, with adjustments to maintain the overall risk at adequate levels;
- changes in the yields of bonds and inflation forecasts: forecasts of falling returns on the bonds and/or rising inflation lead to an increase in the value of liabilities. The plans reduce this risk by making investments in "liability hedging" assets. In the United Kingdom, the protection assured by a portfolio of this type was built over the last several years, and in June 2014 the interest rate and inflation rate risks impinging on the liabilities will be fully hedged;
- life expectancy: growing life expectancy entails an increase in the value of plan liabilities. The plans do not protect themselves directly against this risk. The liabilities are measured by using prudent hypotheses whose adequacy is revised periodically.

In the United Kingdom, the management of assets servicing the plans was delegated to an asset manager who manages the assets in relation to a liability benchmark, which approximates the change in value of the liabilities. The key parameters of this mandate may be summarised as follows:

- a mix of assets under dynamic management over time, rather than a fixed strategic allocation;
- hedging of about 70-75% of the risk related to interest and inflation rates – constructed as a percentage of the asset value – through the use of debt instruments (government bonds) and derivatives;
- management of foreign exchange risk with the goal of hedging at least 70% of the exposure to foreign currencies held in the portfolio through use of forward contracts.

In the United Kingdom, the funding arrangements and funding policies are revised once every three years. The next funding review is scheduled to take place in 2014. In the United States, the funding assessments are made annually.

The contributions expected to be paid into the pension funds during 2014 total euro 42,901 thousand.

Employees' leaving indemnities (TFR)

Employees' leaving indemnities (for Italian companies) changed as follows

(in thousands of euro)

	12.31.2013	12.31.2012
Opening balance	**47,007**	**40,484**
Movements through Income Statement:		
● Current service cost	236	259
● Interest cost	1,446	1,772
Remeasurements through equity:		
● actuarial (gains) losses arising from changes in financial assumptions	(1,230)	7,231
● effect of experience adjustments	(617)	-
Payments/advances	(2,056)	(2,551)
Other	(290)	(188)
Closing balance	**44,496**	**47,007**

The service cost is included in the item "Personnel expense" (note 31), while the interest expense is included in the item "Financial expenses" (note 36).

Healthcare plans

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

(in thousands of euro)

	USA
Liabilities recognised at 12.31.2013	17,333
Liabilities recognised at 12.31.2012	20,403

The following changes occurred during the period

(in thousands of euro)

	12.31.2013	12.31.2012 Restated
Opening balance	**20,403**	**21,270**
Translation differences	(799)	(399)
Movements through Income Statement:		
● current service cost	5	4
● interest cost	710	881
Remeasurements through equity:		
● actuarial (gains) losses arising from changes in financial assumptions	(968)	1.535
● effect of experience adjustments	(777)	(1,575)
Benefits paid	(1,240)	(1,312)
Closing balance	**17,333**	**20,403**

The service cost is included in the item "Personnel expense" (note 31), while the interest expense is included in the item "Financial expenses" (note 36).

The contributions expected to be paid into the healthcare plan during 2014 total euro 1,397 thousand.

Additional information regarding post-employment benefits

Net actuarial losses accrued in 2013 and recognised directly in equity totalled euro 22,823 thousand (at December 31, 2012 net actuarial losses totalled euro 52,713 thousand).

The principal actuarial assumptions used at **December 31, 2013** are as follows

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

The principal actuarial assumptions used at **December 31, 2012** were as follows

	Italy	*Germany*	*Netherlands*	*Sweden*	*UK*	*USA*
Discount rate	3.15%	3.15%	3.15%	3.60%	4,55% - 4,60%	3.75%
Inflation rate	2.00%	2.00%	2.00%	2.00%	2,80% - 2,90%	-
Expected rate of wage and salary increases	-	3.00%	2.00%	-	-	-
Healthcare cost trend rates - initial	-	-	-	-	-	7.50%
Healthcare cost trend rates - final	-	-	-	-	-	4.50%

The following table shows the analysis of the payment by due dates related to the post-employment benefits

(in thousands of euro)

	within 1 year	*1 to 2 years*	*3 to 5 years*	*over 5 years*	*Total*
Pension funds	58,232	59,104	182,672	321,719	621,727
Employees' leaving indemnities (TFR)	1,754	1,675	6,121	31,843	41,393
Healthcare plan	1,397	1,378	4,104	6,376	13,255
	61,383	**62,157**	**192,897**	**359,938**	**676,375**

The weighted average duration of the obligations for post-employment benefits is 15.72 years.

The following table sets forth the sensitivity analysis for the relevant actuarial assumptions at the end of the financial year

(in %)

	Impact on defined benefit obligation				
	Change in assumption	Increase in assumption		Decrease in assumption	
Discount rate	0.25%	decrease by	3.73%	increase by	3.97%
Inflation rate (only UK plans)	0.25%	increase by	3.48%	decrease by	3.49%

The sole purpose of the analysis above consists in estimating the change in liability according to changes in the discount rates and inflation rate in the United Kingdom close to the principal assumption of the rates themselves, rather than referring to an alternative set of assumptions.

The sensitivity analysis of the liability related to post-employment benefits is based on the same method used to calculate the liability recognised in the Statement of Financial Position.

Other long-term benefits

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

(in thousands of euro)

	12.31.2013	12.31.2012
Long-term incentive plans	-	12,371
Jubilee awards	16,093	16,419
Leaving indemnities - non Italian companies	34,898	35,931
Other long-term benefits	10,625	19,857
	61,616	**84,578**

The long-term incentive plans, amounting to euro 12,371 thousand at December 31, 2012, represented the best estimate of the three-year Long Term Incentive 2012-2014 incentive plan reserved for Pirelli Group management. This plan was subordinated on pre-set performance targets being met at the Pirelli & C. S.p.A. Group level during the 2012-2014 period. This plan has been superseded. In fact, the Pirelli Board of Directors decided to terminate the LTI 2012-2014 plan effective December 31, 2013. It was terminated without any full or pro-rated payouts of the three-year incentive. At the same time, the Board of Directors approved adoption of a new plan in connection with the targets for 2014-2016 set out in the Industrial Plan 2013-2017.

23. BORROWINGS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

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

(in thousands of euro)

	12.31.2013			12.31.2012		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Bonds	607,157	607,157	-	614,150	614,150	-
Borrowings from banks	1,659,221	1,401,490	257,731	1,735,226	1,352,850	382,376
Borrowings from other financial institutions	11,740	2,929	8,811	6,466	4,890	1,576
Finance lease payables	1,345	1,080	265	17,354	4,313	13,041
Financial accrued expenses and deferred income	43,395	97	43,298	47,565	4,413	43,152
Other financial payables	8,201	1,653	6,548	15,540	15,159	381
	2,331,059	**2,014,406**	**316,653**	**2,436,301**	**1,995,775**	**440,526**

The item **bonds** refers to:

- the unrated bond placed by Pirelli & C. S.p.A. on the Eurobond market for an aggregate nominal amount in February 2011 of euro 500 million, with a fixed coupon of 5.125% and maturity in February 2016;
- the private placement made by Pirelli International Ltd on the American market for an aggregate nominal amount of USD 150 million (equal to euro 108,767 thousand based on the exchange rate at December 31, 2013), with a duration of between 5 and 12 years and an average coupon of 5.05%.

The carrying amounts of the bonds were determined as follows

(in thousands of euro)

	12.31.2013	12.31.2012
Nominal value	608,767	613,688
Transaction costs	(6,136)	(6,149)
Amortisation of effective interest rate	2,942	1,816
Adjustment for fair value hedge	1,584	4,795
	607,157	**614,150**

Bank borrowings, amounting to euro 1,659,220 thousand, mainly consist of:

- loans granted by the European Investment Bank (EIB) to Pirelli & C. S.p.A. and Pirelli Tyre S.p.A. for research and development projects and to S.C. Pirelli Tyres Romania S.r.l. for local industrial investments. These loans total Euro 250,000 thousand (euro 275,000 thousand at December 31, 2012), were fully used, and are classified as non-current bank borrowings (at December 31, 2012 euro 25,000 thousand classified as current bank borrowings and euro 250,000 thousand classified as non-current bank borrowings);
- euro 575,000 thousand for utilisation of the syndicated facility (euro 575,000 thousand at December 31, 2012), granted to Pirelli & C. S.p.A., Pirelli Tyre S.p.A. and Pirelli International Limited for a total amount of euro 1,200,000 thousand, subscribed on November 30, 2010 and having a duration of five years. These utilisations were classified as non-current bank borrowings;
- euro 154,542 thousand for the Schuldschein, a syndicated loan by the lender on the basis of a German law debt security, granted to Pirelli International Ltd and guaranteed by Pirelli & C. S.p.A. and Pirelli Tyre S.p.A., disbursed on December 14, 2012 with a duration of between 3, 5 and 7 years, classified under non-current bank borrowings;
- euro 161,839 thousand classified as non-current bank borrowings, granted by Banco Bilbao Vizcaya Argentaria to the Mexican subsidiaries in December 2012 with a duration of 5 years and by Bancomext in 1H 2013 with a

duration of 7 years. Both of these loans are guaranteed by Pirelli Tyre S.p.A. The loan received from Bancomext is covered by a secured guarantee;

- euro 15,861 thousand, including euro 10,224 thousand classified as non-current bank borrowings, granted by Banco Nacion Argentina between October 2011 and June 2012 to Pirelli Neumaticos S.A.I.C. The duration of the loan is 5 years and is covered by a secured guarantee;
- use of credit lines at local level, in China, Brazil and Turkey, for euro 451,302 thousand.

Aside from cash and securities held for trading of euro 927,987 thousand, at December 31, 2013 the Group had unused committed credit facilities of euro 625,000 thousand (euro 625,000 thousand at December 31, 2012) expiring in 2015.

The decrease in **payables for finance lease** compared to previous year (euro 12,562 thousand) is entirely due to the redemption, in July 2013, of the land and building held under finance lease where the Tyre R&D offices in Italy and Prelios S.p.A. are located (euro 12,562 thousand).

Accrued financial expenses and deferred financial income (euro 43,396 thousand) mainly refer to the portion of interest accrued on bonds (euro 21,974 thousand, unchanged from December 31, 2012) and interest rate swaps (euro 17,717 thousand; euro 17,854 thousand at December 31, 2012).

Other current financial payables include euro 6,284 thousand for the fair value of the put option in favour of the Faria da Silva family for the remaining 20% of Campneus Lider de Pneumaticos Ltda, 60% acquired by Pirelli in 1H 2012, with the obligation to acquire the first, additional share of 20% by June 30, 2014 and with the option granted to the seller to sell the last 20% to Pirelli by June 30, 2017. The decrease in other financial payables from 2012 is attributable to the aforementioned purchase of the first addditional 20%, which occurred in 1H 2013, in accordance with the provisions of the agreement.

Other non-current financial payables includes euro 1,650 thousand of security deposit towards Prelios S.p.A., related to the lease of the R&D building, for the entire duration of the lease (October 15, 2012 – October 14, 2018).

Current and non-current financial payables backed by secured guarantees (pledges and mortgages) totalled euro 74,503 thousand (euro 42,058 thousand at December 31, 2012).

Current financial payables include the portion of non-current financial payables, totalling euro 123,000 thousand (euro 297,000 thousand at December 31, 2012), that will be settled within one year.

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

(in thousands of euro)

	12.31.2013		12.31.2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Bond Pirelli & C. S.p.A.	499,217	533,010	501,291	533,010
Private placement - Pirelli International Ltd	107,940	108,774	112,860	108,774
Borrowings from banks	1,401,490	987,367	1,352,850	1,364,677
Othr non-current financial payables	5,759	5,759	28,775	28,775
	2,014,406	**1,634,910**	**1,995,776**	**2,035,236**

The bond issued by Pirelli & C. S.p.A. is listed on an active market and its fair value was measured its prices at the end of the year. It is thus classified as level 1 in the hierarchy.
The fair value of the private placement in U.S. dollars issued by Pirelli International Ltd and the fair value of the bank borrowings were calculated by discounting each debtor cash flow at the market swap rate for the currency and at the reference maturity date, increased by the Group credit rating. They are classified as level 2 in the hierarchy.

At December 31, 2013, the breakdown of bank borrowings and other payables to lenders by interest rate and by currency of origin of the debt is as follows

(in thousands of euro)

	Fixed rate		Floating rate		Total
EUR	46,446		6,139		52,585
BRL (Brazilian Real)	125,732		-		125,732
CNY (Chinese Renminbi)	54,835		-		54,835
RON (Romanian Leu)	(205)		-		(205)
TRY (Turkish Lira)	53,608		-		53,608
Other currencies	30,078		20		30,098
Current payables	**310,494**	**98%**	**6,159**	**2%**	**316,653**
EUR	1,303,486		124,531		1,428,017
US Dollar	29,588		80,895		110,483
BRL (Brazilian Real)	104,008		93,049		197,057
CNY (Chinese Renminbi)	-		58,878		58,878
RON (Romanian Leu)	-		49,812		49,812
MXN (Mexican Pesos)	-		160,296		160,296
ARS (Argentinian Pesos)	9,763		-		9,763
Other currencies	100		-		100
Non current payables	**1,446,945**	**72%**	**567,461**	**28%**	**2,014,406**
	1,757,439	**75%**	**573,620**	**25%**	**2,331,059**

The breakdown at at December 31, 2012 was as follows

(in thousands of euro)

	Fixed rate		Floating rate		Total
EUR	54,460		18,799		73,259
BRL (Brazilian Real)	264,645		-		264,645
CNY (Chinese Renminbi)	40,894		-		40,894
RON (Romanian Leu)	25,873		-		25,873
TRY (Turkish Lira)	29,943		-		29,943
Other currencies	5,912		-		5,912
Current payables	**421,727**	**96%**	**18,799**	**4%**	**440,526**
EUR	1,316,519		121,793		1,438,312
US Dollar	37,998		81,195		119,193
BRL (Brazilian Real)	36,197		130,492		166,690
CNY (Chinese Renminbi)	-		71,696		71,696
RON (Romanian Leu)	-		49,996		49,996
MXN (Mexican Pesos)	-		116,592		116,592
ARS (Argentinian Pesos)	22,197		-		22,197
Other currencies	-		10,400		10,400
Non current payables	**1,413,611**	**71%**	**582,164**	**29%**	**1,995,775**
	1,835,338	**75%**	**600,963**	**25%**	**2,436,301**

The value of fixed-rate payables indicated above includes those established by contracts as fixed-rate payables and those established by contracts as variable-rate payables, for 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)

	12.31.2013			12.31.2012		
	Total	Fixed rate	Floating rate	Total	Fixed rate	Floating rate
Up to 6 months	872,224	298,604	573,620	889,636	419,430	470,206
From 6 to 12 months	6,589	6,589	-	12,701	12,701	-
From 1 to 5 years	1,424,426	1,424,426	-	1,506,501	1,375,744	130,757
More than 5 years	27,820	27,820	-	27,463	27,463	-
	2,331,059	**1,757,439**	**573,620**	**2,436,301**	**1,835,338**	**600,963**

The average cost of debt during 2013 was 6.23%.

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

- the revolving credit line granted to Pirelli & C. S.p.A., Pirelli Tyre S.p.A. and Pirelli International Limited for a total of euro 1,200,000 thousand, and withdrawn for euro 575,000 thousand, is subject to one financial covenant: a certain ratio between consolidated net indebtedness and gross operating profit must be maintained. This param-

eter was fully satisfied at December 31, 2013. With regard to the negative pledges, the credit facility provides for a commitment not to grant secured guarantees, above a threshold defined as the greater between euro 100,000 thousand and 3% of Total Assets (as per the consolidated financial statements of Pirelli & C. S.p.A.), with the exception of secured guarantees on the existing debt or debt to replace it, to be granted pursuant to law, relating to trade finance, project finance and subsidised finance or on loans provided by supranational entities;

- the private placement for a total of USD 150 million with due dates falling between December 5, 2017 and December 5, 2024 envisages, aside from the commitments indicated hereinabove:
  - the respect of the ratio between non-centralised indebtedness (referred to companies other than Pirelli International Limited, Pirelli & C. S.p.A. and Pirelli Tyre S.p.A.) and total assets as reported in the consolidated financial statements of Pirelli & C. S.p.A. set at 25% (and the ratio between secured debt and total assets not exceeding 15% in any event);
  - introduction of a financial covenant whereby the ratio between gross operating profit and financial expenses as reported in the consolidated financial statements of Pirelli & C. S.p.A. be greater than or equal to 3.5 when the ratio between net consolidated indebtedness and gross operating profit is greater than 2.5. Both of these parameters were satisfied at December 31,2013;
- the *Schuldschein* obtained by Pirelli International Limited for a nominal total amount of euro 155,000 thousand, with due dates falling between June 14, 2016 and December 14, 2019 envisages, in the case of negative pledges, the undertaking not to grant secured guarantees beyond the threshold defined as being the higher between euro 100,000 thousand and 3% of Total Assets (as per the consolidated financial statements of Pirelli & C. S.p.A.), with the exception of secured guarantees on existing debt or debt to replace it, to be granted pursuant to law, relating to trade finance, project finance and subsidised finance, or on loans granted by supranational entities.

The other outstanding financial payables do not contain financial covenants.

24. TRADE PAYABLES

(in thousands of euro)

	12.31.2013			12.31.2012		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Suppliers	1,233,162	-	1,233,162	1,251,404	-	1,251,404
Notes payable	11,304	-	11,304	17,279	-	17,279
	1,244,466	**-**	**1,244,466**	**1,268,683**	**-**	**1,268,683**

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

25. OTHER PAYABLES

The following table sets forth the breakdown of other payables

(in thousands of euro)

	12.31.2013			12.31.2012		
	Total	**Non-current**	**Current**	**Total**	**Non-current**	**Current**
Trade accrued liabilities and deferred income	79,897	36,054	43,843	77,033	28,393	48,640
Tax payables	93,799	5,038	88,761	103,967	8,860	95,107
Payables to employees	111,317	856	110,461	86,555	154	86,401
Payables to social security and welfare intitutions	64,027	22,781	41,246	60,867	20,862	40,005
Dividends payable	2,076	-	2,076	1,870	-	1,870
Other payables	159,895	12,124	147,771	157,907	12,374	145,533
	511,011	**76,853**	**434,158**	**488,199**	**70,643**	**417,556**

Non-current trade accrued liabilities and deferred income include euro 28,571 thousand for capital grants received for investments made in Mexico and Romania.

Current trade accrued liabilities and deferred income include euro 11,360 thousand for the tax incentive tied to the Gravataì project realised in Brazil and apportioned on the duration of the investment amortisation period, euro 6,402 thousand for public contributions paid by the Region of Piedmont, related to the plant financing granted to build the New Technological Centre and whose benefits are recognised in the Income Statement in proportion to the costs for which the contribution was made, and euro 3,506 thousand for insurance coverage.

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

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

Other current payables (euro 147,771 thousand) mainly consist of:

- euro 84,531 thousand for the purchase of property, plant and equipment (euro 95,568 thousand at December 31, 2012);
- euro 11,993 thousand for income withholding tax (euro 7,838 thousand at December 31, 2012);
- euro 8,993 thousand for the acquisition of 25 retail outlets belonging to Reifen Wagner I.S. Autoservice GmbH & Co and Tire Wagner GmbH (Germany);
- euro 8,835 thousand for customer advances (euro 7,491 thousand at December 31, 2012);
- euro 6,693 thousand for payables to representatives, agents, professionals and consultants (euro 5,263 thousand at December 31, 2012);
- euro 2,527 thousand for payables to directors, statutory auditors and supervisory bodies (euro 3,041 thousand at December 31, 2012).

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

26. TAX PAYABLES

The tax payables mainly relate to national and regional income taxes and total euro 83,809 thousand (of which euro 3,537 thousand recognised in non-current liabilities), compared to euro 81,781 thousand at December 31, 2012 (of which euro 4,172 thousand recognised in non-current liabilities).

27. DERIVATIVE FINANCIAL INSTRUMENTS

This item includes the fair value of derivative instruments outstanding at December 31, 2013. The following table shows the breakdown

(in thousands of euro)

	12.31.2013		12.31.2012	
	Current Assets	*Current Liabilities*	*Current Assets*	*Current Liabilities*
Hedge accounting not adopted				
Foreign currency derivatives - commercial transactions	17,255	(13,544)	28,847	(25,588)
Foreign currency derivatives - included in net financial position	4,438	(3,175)	13,065	(19,168)
Other derivatives - included in net financial position	575	-	296	0
Hedge accounting adopted				
• **cash flow hedge:**				
Foreign currency derivatives - commercial transactions	384	(1,482)	603	(927)
Interest rate derivatives	513	(38,824)		(50,665)
Other derivatives		(14)	117	
• **fair value hedge**				
Interest rate derivatives - included in net financial position	1,653		4,775	
	24,818	**(57,039)**	**47,703**	**(96,348)**
Total derivatives included in net financial position	6,666	(3,175)	18,136	(19,168)

Derivative financial instruments without adoption of hedge accounting

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

Derivative financial instruments with adoption of hedge accounting

CASH FLOW HEDGE

The value of **interest rate derivatives**, recognised under current liabilities for euro 38,824 thousand (euro 50,665 thousand at December 31, 2012), consists mainly of:

- euro 20,302 thousand (euro 39,566 thousand at December 31, 2012) for the fair value of 12 "plain vanilla" interest rate swaps on a total notional amount of euro 575 million maturing in February 2015, which envisage the payment of an average fixed interest rate and collection of a variable interest rate. These derivatives were made to hedge against the risk of change in interest rates associated with the variable rate revolving syndicated credit facility granted to Pirelli & C. S.p.A., Pirelli Tyre S.p.A. and Pirelli International Limited for a total amount of euro 1,200,000 thousand and of which euro 575,000 thousand was used at December 31, 2013.

The amount recognised in equity during the period for the effective part was euro 15,068 thousand, broken down as follows:

- euro 10,669 thousand for profits recognised in equity during the period;
- euro 4,399 thousand for reclassification to the Income Statement of losses previously accumulated in equity (refer to note 36 "financial expenses");

- euro 17,423 thousand (euro 8,420 thousand at December 31, 2012) for the fair value of four cross currency interest rate swaps negotiated in November 2012 to hedge exposure to currency risk and limit exposure to the interest rate risk associated with the private placement by Pirelli International Ltd on the American market for an aggregate nominal amount of USD 150 million, having a duration of between 5 and 12 years (refer to note 23 "Borrowings from banks and other financial institutions"). The aim is to hedge against changes in the cash flows of the payable denominated in foreign currency (both principal and interest) tied to changes in foreign exchange rates. A negative amount for euro 4,437 thousand was recognised in equity for the year.

FAIR VALUE HEDGE

The value of **interest rate derivatives** recognised as current assets for euro 1,653 thousand (euro 4,775 thousand at December 31, 2012) includes the fair value of five 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 (refer to note 23 "Borrowings from banks and other financial institutions"). Fair value hedge accounting was adopted for these derivative financial instruments, according to which the negative change in fair value of the derivative instrument (euro 3,122 thousand at December 31, 2013) is recognised in the Income Statement and is offset by a gain on the bond attributable to the risk hedged for the same amount, recognised in the Income Statement as financial income and that adjusted the carrying amount of the bond ("basis adjustment").

28. COMMITMENTS AND CONTINGENCIES

Commitments to purchase property, plant and equipment

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

Commitments to purchase of equity interests/fund units

These refer to commitments to subscribe units of the company Equinox Two S.c.a., a private equity company specialised in investments in listed and unlisted companies with high growth potential, for a maximum countervalue of euro 2,801 thousand.

Guarantees given on the sale of Olimpia

On the sale of the interest in Olimpia S.p.A., the sellers (Pirelli and Sintonia) remained contractually liable for all the contingent tax liabilities regarding the years up to the date of sale. The settled or outstanding tax litigation can be summarised as follows.

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

More precisely, on the basis of an absolutely unfounded assumption both legally and economically, the Agenzia delle Entrate had found that non-existent financial income had been realised on the Bell Bond Loan redeemable with Olivetti shares, with a consequent IRAP tax of euro 26.5 million (with euro 21.2 million being the portion attributable to the owners of Pirelli & C. S.p.A.), plus penalties for the same amount. The Company appealed against this tax assessment, claiming that the ascertained taxable income was manifestly non-existent. At the trial level, the Trial Tax Court accepted the Company's appeal, cancelling the entire tax assessment. The Agenzia delle Entrate subsequently appealed this decision. The appeal by the Agenzia delle

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

In the assessment for the **2002** tax year, served at the end of 2007, Olimpia was classified as a "shell company," on the basis of perfectly arbitrary reclassification of items on its financial statements and arbitrary statutory interpretations. The tax challenge was extinguished when the Appeal Court decision became final and the Agenzia delle Entrate did not file appeal in the Court of Cassation against the Appeal Court decision.

At the end of 2008, a second notice of assessment was served for the **2003** tax year, in which Olimpia was once again classified as a "shell company." The IRPEG (corporate income tax) claim amounted to euro 28.5 million (with euro 22.8 million being the portion attributable to the owners of Pirelli & C. S.p.A.), plus penalties for the same amount.

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

Following extinguishment of the similar tax claim previously made for the 2002 tax year and the subsequent one concerning the 2004 tax year, the Agenzia delle Entrate requested at the hearing held on October 23, 2012 that discussion of the claims be postponed until February 26, 2013. After that postponement, the case was postponed a second time, until September 24, 2013. Both postponements were aimed at preparing a similar abandonment of the claims, after first obtaining the necessary authorisation to do so from the Lombardy DRE (Regional Revenue Agency Head Office).

In its own written submission, the Agenzia delle Entrate formally stated its wish to abandon continuation of its claim regarding the asserted classification of Olimpia as a shell company.

The Regional Tax Court accepted this abandonment of claim, thereby finalising the previous favourable decision.

Instead, the Agenzia delle Entrate has appealed to the Court of Cassation against the decision by the Regional Tax Court to apply the merely formal penalty on the shareholder loss not reported in the previously submitted income tax return.

The Company in turn, purely in defence of a principle, is preparing its own counterarguments. In fact, the dispute does not determine the accrual of liabilities.

Finally, at the end of 2009, a third notice of assessment was served for the **2004** tax year, in which Olimpia was yet again classified as a "shell company." The IRES (corporate income tax) claim amounts to euro 29.6 million (with euro 23.7 million being the portion attributable to the owners of Pirelli & C. S.p.A.), plus penalties for the same amount.

This assessment, just like the ones that preceded it, is absolutely unfounded. Therefore, the Company lodged an appeal against it too before the Tax Court of first instance, which ruled in favour of the Company just as it had done before.

The Agenzia delle Entrate lodged an appeal against the Trial Tax Court decision. The Company then submitted its own counter-arguments against that appeal.

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

Once again, the Agenzia delle Entrate did not appeal this third tax claim against the "shell companies", just as in the case of the 2002 tax year and subsequent 2003 tax year claim. Therefore, this third tax claim has also been extinguished for failure to appeal to the Court of Cassation against the Regional Tax Court decision becoming final.

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 Commission has not made

any charge of direct participation by Pirelli in the alleged cartel.
Pirelli has submitted its own defence arguments in regard to its involvement as parent company and has continued to maintain its own line of defence during the subsequent phases of the proceeding before the European Commission. It is expected that the European Commission will issue its decision in 2Q 2014.

29. REVENUE FROM SALES AND SERVICES

The breakdown of revenue from sales and services is as follows

(in thousands of euro)

	2013	**2012**
Revenue from sales of goods	6,036,768	5,969,183
Revenue from services	109,392	102,352
	6,146,160	**6,071,535**

30. OTHER INCOME

The breakdown of this account is as follows

(in thousands of euro)

	2013	**2012**
Gains on disposal of property, plant and equipment	37,862	22,485
Rent income	9,831	9,035
Insurance indemnities	8,485	12,676
Recoveries and reimbursements	63,000	59,519
Government grants	6,483	9,157
Other income	126,648	128,758
	252,309	**241,630**

Gains from disposal of property, plant and equipment include euro 31,142 thousand from the sale of several properties not used for the industrial activity in Brazil and euro 2,767 thousand for the disposal of land in Great Britain.

Recoveries and reimbursements mainly consist of taxes and duties refunds totalling euro 26,563 thousand, and other tax refunds totalling euro 12,606 thousand resulting from tax incentives applied in the Brazilian State of Bahia, for merchandise manufactured locally and then exported.

The item **other income** mainly includes income from sports activities for euro 36,270 thousand, income from the sale of receivables under litigation for euro 13,202 thousand, reversal of provision accrued for the superseded three-year 2012-2014 incentive plan euro 12,371 thousand, and income from reversal of provisions for liabilities and charges (euro 22,674 thousand) and provisions for bad debts (euro 7,926 thousand).

The gains resulting from disposal of properties not used for the industrial activity in Brazil (euro 31,142 thousand) and the income resulting from sale of receivables under litigation (euro 13,202 thousand) are classified as **non-re-**

curring events (17.6% of the total). In 2012 non-recurring events included the gains on disposal of properties in Brazil and the income resulting from elimination of the earn-out associated with the acquisition in Russia, for a total of euro 29,646 thousand (12.3% of the total).

31. PERSONNEL EXPENSE

The breakdown of this account is as follows

(in thousands of euro)

	2013	2012
Wages and salaries	937,560	898,059
Social security and welfare contributions	168,049	193,306
Expenses for employees' leaving indemnity and similar costs (*)	29,498	31,396
Expenses for defined contribution pension funds	20,577	19,798
Expenses for defined benefit pension funds	923	811
Expenses for jubilee awards	888	2,594
Expenses for defined contribution healthcare plans	36,140	39,032
Other costs	18,126	8,931
	1,211,761	**1,193,927**

* Includes Italian and foreign companies

Personnel expense includes **non-recurring events** for a total amount of euro 45,445 thousand (3.8% of the total), which include euro 25,447 thousand for restructuring costs (euro 28,827 thousand in 2012, or 2.4% of the total) and euro 19,998 thousand for charges related to the settlement of a lawsuit in Brazil.

32. AMORTISATION, DEPRECIATION AND IMPAIRMENT

The breakdown of this account is as follows

(in thousands of euro)

	2013	2012
Amortisation	19,016	11,342
Depreciation	269,917	260,065
Impairment of property, plant and equipment	7,559	10,839
	296,492	**282,246**

Impairment is essentially related to reduction of the anti-particulate filter activities (in China and Romania), also as consequence of the focus on the Tyre Business.

33. OTHER COSTS

The breakdown o this item is as follows

(in thousands of euro)

	2013	2012
Selling costs	293,627	274,928
Purchases of goods for resale	302,857	381,326
Fluids and power	235,476	228,468
Advertising	200,189	196,208
Professional advice	47,197	54,252
Maintenance	66,223	64,767
Warehouse operating costs	44,908	46,485
Leases, rental and lease instalments	101,619	91,103
Outsourcing	36,276	25,350
Travel expenses	47,852	49,252
IT expenses	27,060	26,156
Compensation of key managers	7,724	6,255
Other provisions	32,542	13,352
Duty stamps, duties and local taxes	37,263	35,876
Canteen	18,047	14,014
Bad debts	6,250	8,129
Insurance	29,579	27,149
Cleaning expenses	19,533	17,756
Waste disposal	23,295	26,286
Security expenses	12,286	12,234
Telephone expenses	11,109	11,556
Other	226,639	180,769
	1,827,550	**1,791,671**

It includes euro 2,716 thousand qualified as non-recurring events (0.1% of the total) related to the real estate gains realised in Brazil.

34. NET INCOME (LOSS) FROM EQUITY INVESTMENTS

34.1 SHARE OF NET INCOME (LOSS) OF ASSOCIATES AND JOINT VENTURES

The Group's share of net income (loss) of associates and joint ventures accounted for under the equity method was negative for euro 25,835 thousand, compared to the negative result of euro 21,293 thousand in 2012.
This result mainly consists of the amounts recognised for the shareholding in RCS Mediagroup S.p.A. (negative for euro 13,573 thousand, compared with the negative result of euro 20,132 thousand in 2012), in Prelios S.p.A. (negative for euro 12,838 thousand), in Sino Italian Wire Technology Co. Ltd (positive for euro 350 thousand in 2013, compared to the negative result of euro 2,453 thousand in 2012), in GWM Renewable Energy II S.p.A. (negative for euro 191 thousand, compared to the negative result of euro 1,568 thousand in 2012) and in PT Evoluzione Tyre (positive for euro 637 thousand).
To this regard, reference should be also made to the previous note 11 "Investments in associates and joint ventures".

34.2 GAINS ON EQUITY INVESTMENTS

The breakdown is as follows

(in thousands of euro)

	2013	2012
Fair value adjustment of RCS Mediagroup S.p.A	8,638	-
Other gains on equity investments	913	513
	9,551	**513**

With regard to the **fair value adjustment of RCS Mediagroup S.p.A.**, reference should be made to the previous note 11 "Investments in associates and joint ventures".

34.3 LOSSES FROM EQUITY INVESTMENTS

The breakdown of this item is as follows

(in thousands of euro)

	2013	2012
Impairment of financial assets avaible-for-sale	19,018	33,290
Evaluation of financial assets designated at fair value through profit and loss	44,286	-
Other losses on investments	-	69
	63,304	**33,359**

The **impairment of financial assets available for sale** refers mainly to the investments in Mediobanca S.p.A (euro 10,429 thousand), Alitalia S.p.A. (euro 4,925 thousand), Equinox Two SCA (euro 1,232 thousand), Fin. Priv. S.r.l. (euro 1,345 thousand) and S.In.T S.p.A (euro 917 thousand). In 2012 this item mainly included impairment of the investment in Mediobanca S.p.A. (euro 16,805 thousand), F.C. Internazionale Milano S.p.A. (euro 6,655 thousand), Alitalia S.p.A. (euro 4,775 thousand) and Fin. Priv. S.r.l. (euro 4,217 thousand).

The **evaluation of financial assets designated at fair value through profit or loss** refers to the impairment of the equity instrument of Prelios S.p.A. ("convertendo") owned by Pirelli & C. S.p.A. following the financial reorganisation of Prelios S.p.A. In this regard, also refer to note 12 – Other financial assets.

34.4 DIVIDENDS

The dividends received in 2013 totalled euro 1,290 thousand and mainly refer to euro 610 thousand from mutual funds (euro 924 thousand in 2012), euro 103 thousand from Fin. Priv. S.r.l. (same amount as in 2012) and euro 481 thousand from Sint S.p.A..

35. FINANCIAL INCOME

The breakdown of this account is as follows

(in thousands of euro)

	2013	2012
Interest	31,170	35,520
Other financial income	10,180	7,492
Fair value measurement of securities held for trading	353	-
Fair value measurement of currency derivatives	23,084	-
	64,787	**43,012**

Interest relates mainly to interest on interest rate swaps for euro 9,551 thousand (euro 3,194 thousand in 2012) and interest on fixed income securities for euro 8,622 thousand (euro 6,123 thousand in 2012). In 2012 this item also included euro 13,467 thousand of interests beared on the financial receivable from Prelios S.p.A., which was converted into equity instruments in 2013.

Other financial income includes interest income on receivables claimed from the Brazilian tax authorities for euro 5,688 thousand and income for euro 3,211 thousand from the basis adjustment of the financial liabilities that were hedged against interest rate risk, for which fair value hedge accounting has been applied.
This adjustment is offset by the negative change in fair value of the hedging instrument included in the financial expenses recognised in the income statement as "Fair value measurement of other derivative instruments" (see note 36).

Fair value measurement of currency derivatives relates to forward purchases/sales of foreign currencies to hedge commercial and financial transactions, in accordance with the Group foreign exchange risk management policy. For transactions outstanding at the end of the year, the fair value is determined using the forward exchange rate at the reporting date. Measurement at fair value is made up of two elements: the interest component linked to the interest rate spread between the two currencies subject to the individual hedges, a net hedging cost of euro 35,219 thousand, and the exchange rate component, a net gain of euro 58,303 thousand.

36. FINANCIAL EXPENSES

The breakdown of this account is as follows

(in thousands of euro)

	2013	2012
Interest	119,105	106,388
Commissions	19,987	20,865
High inflation effect	18,680	6,427
Other financial expenses	1,870	4,588
Net losses on exchange rates	73,576	24,356
Net interest costs on employee benefit obligations	19,374	20,969
Fair value measurement of securities held for trading	-	85
Fair value measurement of currency derivatives	-	7,041
Fair value measurement of other derivatives	8,027	2,733
	260,619	**193,452**

Interest includes euro 26,673 thousand on the bond issued by Pirelli & C. S.p.A. in 2011 (euro 26,620 thousand in 2012), euro 5,894 thousand on the private placement made by Pirelli International Ltd on the American market at the end of 2012 (euro 419 thousand in 2012) and euro 18,262 thousand for interest on interest rate swaps (euro 18,829 thousand in 2012).

The **net losses on exchange rates** of euro 73,576 thousand (losses from exchange rate of euro 886,008 thousand and gains from exchange rate of euro 812,432 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 currency hedges negotiated as part of the Group currency risk management strategy (net gain of euro 58,304 thousand, as previously indicated at the item "fair value measurement of currency derivatives" included in "financial income") shows that management of foreign exchange risk is substantially in balance, considering that the negative unbalance, amounting to euro 15,272 thousand, is mainly related to the devaluation for euro 8,539 thousand of the local currency by the Venezuelan subsidiary and the losses from foreign exchange for euro 2,270 thousand of the Egyptian subsidiary.

Net interest cost on employee benefit obligations includes the new measure introduced by the revised version of IAS 19 – Employee Benefits, which came into force on January 1, 2013, and which replaced the "expected return on plan assets" and the "interest expense". The net interest is calculated by applying the discount rate previously used only for the gross liability to the net liability (i.e. the gross liability net of the plan assets). This item mainly consists of euro 13,854 thousand for pension funds, euro 1,446 thousand for employees' leaving indemnities (TFR), and euro 710 thousand for healthcare plans (see note 22 "Employee benefit obligations").

Fair value measurement of other derivative instruments (see note 27 "Derivative financial instruments") mainly consists of:

- negative amount for euro 4,399 thousand related to the reclassification in the Income Statement of losses that were previously accumulated in equity and referred to interest rate derivatives for which hedge accounting was interrupted (negative for euro 3,749 thousand in 2012);
- euro 3,211 thousand of fair value adjustment on interest rate swaps made to hedge the interest rate associated with financial liabilities, for which hedge accounting (fair value hedge) has been implemented (positive for euro 653 thousand in 2012).

37. INCOME TAXES

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

(in thousands of euro)

	2013	2012
Current taxes	209,307	195,031
Deferred taxes	1,085	3,194
	210,392	**198,225**

The reconciliation between theoretical taxes and effective taxes is presented below

(in thousands of euro)

	2013	2012
Income (loss) before income taxes	516,884	599,073
Reversal of net income (loss) of associates and joint ventures	25,835	21,293
A) Total taxable income	**542,719**	**620,366**
B) Theoretical taxes	**174,877**	**206,724**
Main causes for changes between theoretical and effective taxes:		
Income not subject to taxation	(59,012)	(54,819)
Non-deductible costs	43,579	47,063
Use of tax losses carried forward	(2,894)	(7,897)
Unrecognised deferred tax assets and/or release of deferred tax assets previously recognised	36,829	20,269
Taxes not related to income and costs for tax assessment	42,792	17,792
Oher	(25,779)	(30,908)
C) Effective taxes	**210,392**	**198,225**
Theoretical Tax rate (B/A)	32%	33%
Effective tax rate (C/A)	39%	32%

The Group's effective tax burden for 2013 is mainly attributable to taxes payable by the Tyre Business (euro 176,617 thousand) for the positive taxable income of its subsidiaries.
The amount of taxes also includes accounting recognition by Pirelli & C. S.p.A. of the positive effects deriving from the option for domestic tax consolidation.
The total tax burden reflects the impact resulting from assessment of the sustainability of deferred tax assets recognised in relation to prior-period tax losses.
The percentage of effective taxes in relation to total taxable income was 39%, considering the impairment of the Prelios S.p.A. "convertendo", which negatively impacted on pre-tax income.

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

	2013	**2012**
Europe		
Italy	31.40%	31.40%
Germany	29.55%	29.48%
Rumania	16.00%	16.00%
Great Britain	23.25%	24.50%
Turkey	20.00%	20.00%
Russia	20.00%	20.00%
NAFTA		
USA	40.00%	40.00%
Mexico	30.00%	30.00%
Central and South America		
Argentina	35.00%	35.00%
Brazil	34.00%	34.00%
Venezuela	34.00%	34.00%
Asia / Pacific		
China	25.00%	25.00%
Middle East / Africa		
Egypt	25.00%	25.00%

The nominal tax rate in Great Britain fell from 24.50% in 2012 to 23.25% in 2013, in accordance with local tax laws (Finance Act 2012).

38. 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)

	2013	**2012**
Net income (loss) attributable to owners of the Parent	303,574	387,109
Net income (loss) attributable to savings shares reflecting 2% minimum dividend	(7,523)	(9,593)
Adjusted net income (loss) attributable to owners of the Parent	296,051	377,516
Basic earning (loss) per ordinary share (in euro per share)	**0.623**	**0.794**
Weighted average of outstanding ordinary shares (in thousands)	475,389	475,389

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

39. DIVIDENDS PER SHARE

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

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

40. 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 since the 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.

	Index	*Conversion Factor*
December 31, 2011	265.6	1.2007
December 31, 2012	318.9	1.5619
December 31, 2013	498.1	1.0000

The losses on the net monetary position are recognised in the income statement as “Financial expenses” (note 36) for an amount of euro 18,680 thousand (euro 6,427 thousand in 2012).

41. RELATED PARTY TRANSACTIONS

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

The statement below shows a summary of the statement of financial position, income statement and statement of cash flows that includes transactions with related parties and their percentage impact

(in millions of euro)

	Total reported at 12.31.2013	of which related parties	% share	Total reported at 12.31.2012	of which related parties	% share
BALANCE SHEET						
Non-current assets						
Other financial assets	289.1	104.1	36.00%	118.1	-	-
Other receivables	169.5	-	-	370.2	174.0	46.99%
Current assets						
Trade receivables	666.4	1.4	0.21%	704.6	6.4	0.91%
Other receivables	267.5	8.5	3.17%	341.4	40.5	11.87%
Non-current liabilities						
Borrowings from banks and other financial institutions	2,014.4	1.7	0.08%	1,995.8	2.6	0.13%
Current liabilities						
Borrowings from banks and other financial institutions	316.7	-	-	440.5	0.9	0.20%
Trade payables	1,244.5	41.1	3.30%	1,268.7	5.3	0.42%
Other payables	434.2	0.1	0.02%	417.6	0.1	0.03%
Tax payables	80.3	0.6	0.75%	-	-	-
	2013	**of which related parties**	**% share**	**2012**	**of which related parties**	**% share**
INCOME STATEMENT						
Revenues from sales and services	6,146.2	1.9	0.03%	6,071.5	3.8	0.06%
Other income	252.3	3.1	1.24%	241.6	0.8	0.35%
Personnel expenses	(1,211.8)	(3.4)	0.28%	(1,193.9)	(9.4)	0.78%
Other costs	(1,827.6)	(70.1)	3.83%	(1,791.7)	(40.3)	2.25%
Financial incomes	64.8	1.5	2.36%	43.0	14.4	33.41%
Taxes	(210.4)	(0.6)	0.29%	(198.2)	-	-
CASH FLOW						
Acquisition of equity investments in associates and joint ventures	(55.3)	(55.3)	100.00%	-	-	-
Disposals/(Acquisition) of equity investments	(9.9)	(0.6)	5.62%	3.6	(0.8)	n.s.

The effects of related party transactions on the consolidated income statement, statement of financial position, and statement of cash flows of the Pirelli & C. Group at December 31, 2013 are shown below

RELATIONS WITH ASSOCIATES AND JV (in millions of euro)

Revenues from sales and services	1.6	The amount mainly concerns services provided by: Pirelli Tyre S.p.A. (euro 0,6 million) and Pirelli Steelcord S.r.l. (euro 0.1 million) to Sino Italian Wire Technology Co. Ltd; Pirelli & C. Ambiente S.p.A. to Idea Granda Società Consortile S.r.l. (euro 0.6 million); Poliambulatorio Bicocca S.r.l. to Prelios S.p.A. (euro 0.2 million) and costs recovered by Pirelli & C. S.p.A. from Fenice S.r.l. (euro 0.1 million).
Other incomes	2.9	The amount mainly refers to rental income and associated operating expenses to Prelios Group (euro 2.2 million) and services provided by Pirelli Tyre Co. Ltd to Sino Italian Wire Technology Co. Ltd. (euro 0.3 million).
Other costs	47.6	The amount mainly concerns: costs for purchase of products of Pirelli Tyre Co. Ltd (euro 21.6 million) from Sino Italian Wire Technology Co. Ltd., purchase of energy of Pirelli Deutschland GmbH from Industriekraftwerk Breuberg GmbH (euro 25.2 milion), services provided by CORIMAV to Pirelli & C. S.p.A. (euro 0.2 million) and other services received by Prelios Group S.p.A. (euro 0.1 million).
Financial incomes	1.5	The amount relates to interest income on the loan granted by Pirelli International Ltd (euro 0.4 milion) and Pirelli Tyre Co. Ltd (euro 0.7 million) to Sino Italian Wire Technology Co. Ltd. and to interest income on the loan granted by Pirelli & C. Ambiente S.r.l. to GWM Renewable Energy II S.p.A. (euro 0.4 million).
Taxes	0.6	The amount refers to tax charges due to the companies of Prelios Group participating to the Tax Consolidation.
Other financial assets	104.1	The amount concerns the convertible loan of Prelios S.p.A..
Current trade receivables	1.1	The amount mainly concerns receivables for services provided by: Pirelli Tyre S.p.A. to Prelios Group (euro 0.3 million) and PT Evoluzione Tyre (euro 0.1 million); Pirelli & C. Ambiente S.r.l. to Idea Granda Società Consortile S.r.l. (euro 0.4 million) and Pirelli & C. S.p.A. to Fenice S.r.l. (euro 0.1 million).
Current other receivables	0.3	The amount concerns: receivable by the disposal of Pirelli & C. Ambiente S.r.l. plant to GWM Renewable Energy II S.p.A. (euro 0.3 million).
Current financial receivables	8.2	The amount concerns mainly of receivables of: Pirelli & C. Ambiente S.r.l. to GWM Renewable Energy II S.p.A. (euro 8.2 million).
Non-current borrowings from banks and other financial institutions	1.7	Guarantee deposit to Prelios Group.
Current trade payables	37.8	The amount consists of payables for services provided by Industriekraftwerk Breuberg GmbH to Pirelli Deutschland GmbH (euro 37.5 million) for energy purchases and by Pirelli & C. S.p.A. to Prelios Group S.p.A. (euro 0.1 million) and Corimav (euro 0.1 million).
Current other payables	0.1	The amount refers to payables of Pirelli & C. S.p.A. to Prelios S.p.A. for R&D building rental.
Tax payables	0.6	The amount refers to payables to the companies of Prelios Group participating to the Tax Consolidation.
Cash flow - increase in share capital	55.4	The amount mainly relates to the subscription of the share capital in the associated companies Fenice S.r.l. (euro 23.0 million), RCS Mediagroup S.p.A. (euro 21.3 million) and in the indonesian company JV PT Evoluzione Tyre (euro 10.4 million).

TRANSACTIONS WITH RELATED PARTIES THROUGH DIRECTORS (in millions of euro)

Revenues from sales and services	0.3	The amount refers to services provided by Poliambulatorio Bicocca S.r.l., Pirelli Sistemi Informativi S.p.A. and Pirelli & C. S.p.A. to Camfin Group.
Other income	0.3	The amount mainly refers to rental income and related operating expenses to Camfin Group (euro 0,1 million).
Other costs	13.0	The amount refers to advertising costs owed to FC Internazionale Milano S.p.A..
Current trade receivables	0.2	The amount refers to receivables connected to the services provided to Camfin Group.
Current trade payables	3.3	The amount refers to payables to FC Internazionale Milano S.p.A. for sponsorship agreement as detailed above.
Cash outflow for share capital increase	0.6	This refers to the share capital increase of F.C. Internazionale Milano S.p.A..

TRANSACTIONS WITH OTHER RELATED PARTIES (in milllions of euro)

Other costs	1.8	The amount mainly refers to insurance costs of Pirelli Industrie Pneumatici S.r.l. (euro 0.2 million), Pirelli Tyre S.p.A. (euro 1,1 million) and Pirelli & C. S.p.A. (euro 0.4 million) owed to Allianz S.p.A., Assicurazioni Generali S.p.A. and Fonsai S.p.A..

Benefits for key managers of the Company

The remuneration payable to key managers, i.e. to those who have the power and responsibility, directly or indirectly, for planning, managing and controlling the business of Pirelli & C. S.p.A., totalled euro 11,086 thousand in 2013 (euro 15,620 thousand in 2012). The portion relating to employee benefits was recognised in the income statement as "personnel expense" for euro 3,362 thousand (euro 9,365 thousand in 2012) and euro 7,724 thousand in the income statement as "other costs" (euro 6,255 thousand in 2012). The remuneration also includes euro 960 thousand for employees' leaving indemnity (TFR) and retirement benefits (euro 983 thousand in 2012).

42. SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

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

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

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

Executive Officer of Pirelli & C., Marco Tronchetti Provera, the Deputy Chairman, Alberto Pirelli (as senior manager), the General Manager Operations, Gregorio Borgo, the key managers Maurizio Boiocchi (Chief Technical Officer), Maurizio Sala (Chief Planning and Controlling Officer), Francesco Tanzi (Chief Financial Officer and Financial Reporting Manager) and Christian Vasino (Chief Human Resources Officer).

43. OTHER INFORMATION

Research and development expenses

Research expenses rose from euro 178.9 million in 2012 (2.9% of sales) to euro 199.2 million in 2013 (3.2% of sales). They were expensed on the income statement as incurred as they did not meet IFRS requirements for capitalisation.

Compensation of directors and statutory auditors

(in thousands of euro)

	2013	2012
Directors	6,928	5,351
Statutory Auditors	200	189
	7,128	**5,540**

Employees

The breakdown by category of the average consolidated headcount of employees is as follows

	2013	2012
Executives and white collar staff	7,461	7,060
Blue collar staff	27,593	26,595
Temporary workers	2,701	2,729
	37,755	**36,384**

Compensation of independent auditors

The following statement, prepared pursuant to Article 149–*duodecies* of the Consob Issuers Regulation, shows the fees accruing to financial year 2013 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

(in thousands of euro)

	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.	530		
	Reconta Ernst & Young S.p.A.	Subsidiaries	705		
	Network Ernst & Young	Subsidiaries	1,811	3,046	98.8%
Services other than auditing	Reconta Ernst & Young S.p.A.	Pirelli & C. S.p.A.			
	Reconta Ernst & Young S.p.A.	Subsidiaries	35 [2]		
	Network Ernst & Young	Subsidiaries	1 [3]	36	1.2%
				3,082	**100.0%**

[1] The item "independent auditing services and certification services" includes amounts paid for auditing services and other services that envisage the issuance of an auditor's report as well as amounts paid for the so called certification services since they create synergies with the auditing services.
[2] Supporting activities for the Framework consolidation of critical suppliers and for the assessment in an additional production site.
[3] Tax assistance services.

Transactions resulting from unusual and/or exceptional operations

Pursuant to Consob Notice of July 28, 2006, the Group certifies that any unusual and/or exceptional transaction was carried out in 2013, as defined in the Notice itself.

Exchange rates

The main exchange rates used for consolidation purposes are as follows

(local currency against euro)

	Period-end		Change in %	Average		Change in %
	12.31.2013	12.31.2012		2013	2012	
Venezuelan Bolivar Fuerte	8.6883	5.6734	53.14%	8.6883	5.6734	53.14%
Swedish Krona	8.8591	8.5820	3.23%	8.6513	8.7052	(0.62%)
Australian Dollar	1.5423	1.2712	21.33%	1.3769	1.2413	10.92%
Canadian Dollar	1.4671	1.3137	11.68%	1.3681	1.2846	6.50%
Singaporean Dollar	1.7414	1.6111	8.09%	1.6615	1.6059	3.46%
U.S. Dollar	1.3791	1.3194	4.52%	1.3279	1.2854	3.31%
Taiwan Dollar	41.0572	38.2666	7.29%	39.4096	38.0010	3.71%
Swiss Franc	1.2276	1.2072	1.69%	1.2308	1.2053	2.12%
Egyptian Pound	9.5821	8.3964	14.12%	9.1343	7.8059	17.02%
Turkish Lira (new)	2.9418	2.3630	24.49%	2.5345	2.3153	9.47%
New Romanian Leu	4.4710	4.4445	0.60%	4.4191	4.4581	(0.88%)
Argentinian Peso	8.9931	6.4888	38.59%	7.2835	5.8516	24.47%
Mexican Peso	18.0291	17.1902	4.88%	16.9666	16.9191	0.28%
South African Rand	14.5660	11.1727	30.37%	12.8251	10.5537	21.52%
Brazilian Real	3.2265	2.6962	19.67%	2.8716	2.5129	14.27%
Chinese Renminbi	8.4082	8.2931	1.39%	8.2243	8.1140	1.36%
Russian Ruble	44.9699	40.2286	11.79%	42.4001	39.9083	6.24%
British Pound	0.8337	0.8161	2.16%	0.8490	0.8110	4.68%
Japanese Yen	144.7200	113.6100	27.38%	129.6245	102.6099	26.33%

SANDIN PUCE

Only 29 years old, director Sandin Puce is originally from Bosnia Herzegovina, but studied directing at the prestigious Film Academy in Ludwigsburg, Germany. He won the 2013 Young Director Award, given in conjunction with the Cannes Film Festival, for his film "Frenki". He was a co-founder of the Film Club and the Short Film Festival in Mostar, and has worked on projects for companies like Adidas, Johnnie Walker and Opel, as well as working for the New York film critic Howard Feinstein.

FILM DIRECTOR

29 YEARS OLD, BOSNIAN

2013: Young Director Award – Film Festival di Cannes

Sandin was interested in the relationship between the artists and the marketplace into which his work enters. This is an issue for writers in the most-part, but more pressingly, I think for script-writers and writers for cinema. He was also interested in exploring the connection between producers, artists and creatives and the general populace, and what they might want from an artist, what was expected of the artist, and what an artist might want to say about this relationship. This was a question that arose repeatedly: what is the relation between the public and the artist, and how do they influence each other? Sandin seemed to be of the opinion, somewhat congruent with my own, that the job of the artist was to lead the public – as modernism saw itself doing. The public cannot be sure of what it wants until the artist presents them with an idea, criticism and reverence come thereafter. In some sense, he suggested, the artist has to be ahead of the public in terms of taste, they can then be lead.

His presentation, a sketch for a film, sought to investigate the rapid technological advancements in the world with the effort of its human population. A wheel rotated in the centre of the screen, and as we get closer we see interlocking limbs; hands grasping feet, faces contorted; a human drive chain. Through a window in this Brueghelian drama, we witness the developing world, its growth animated by the movement of the human wheel. Sandin's filmography is prodigious, he's made adverts for some really big companies, and each one has been highly conceptual; mixing his unique style with an underlying philosophical idea. They are like charged short stories, potent and immediate.

[Hanif Kureishi]

Do you consider your talent a gift or a burden?

I definitely see my talent as a great gift. The nice thing about this kind of gift is that it's always changing, not like you are getting a computer or another object that does not evolve.

What you would do if one day you woke up and discovered you had lost your talent?

I would search for it in books, galleries, films and people until I found it again.

Who is the living talent you most admire?

People who pursue their dreams and beliefs

What do you like about your talent and what don't you like?

With my talent I never feel alone, and I like that very much. On the other hand, it takes a lot of time, like a little child, where you have sometimes less time for "normal" life.

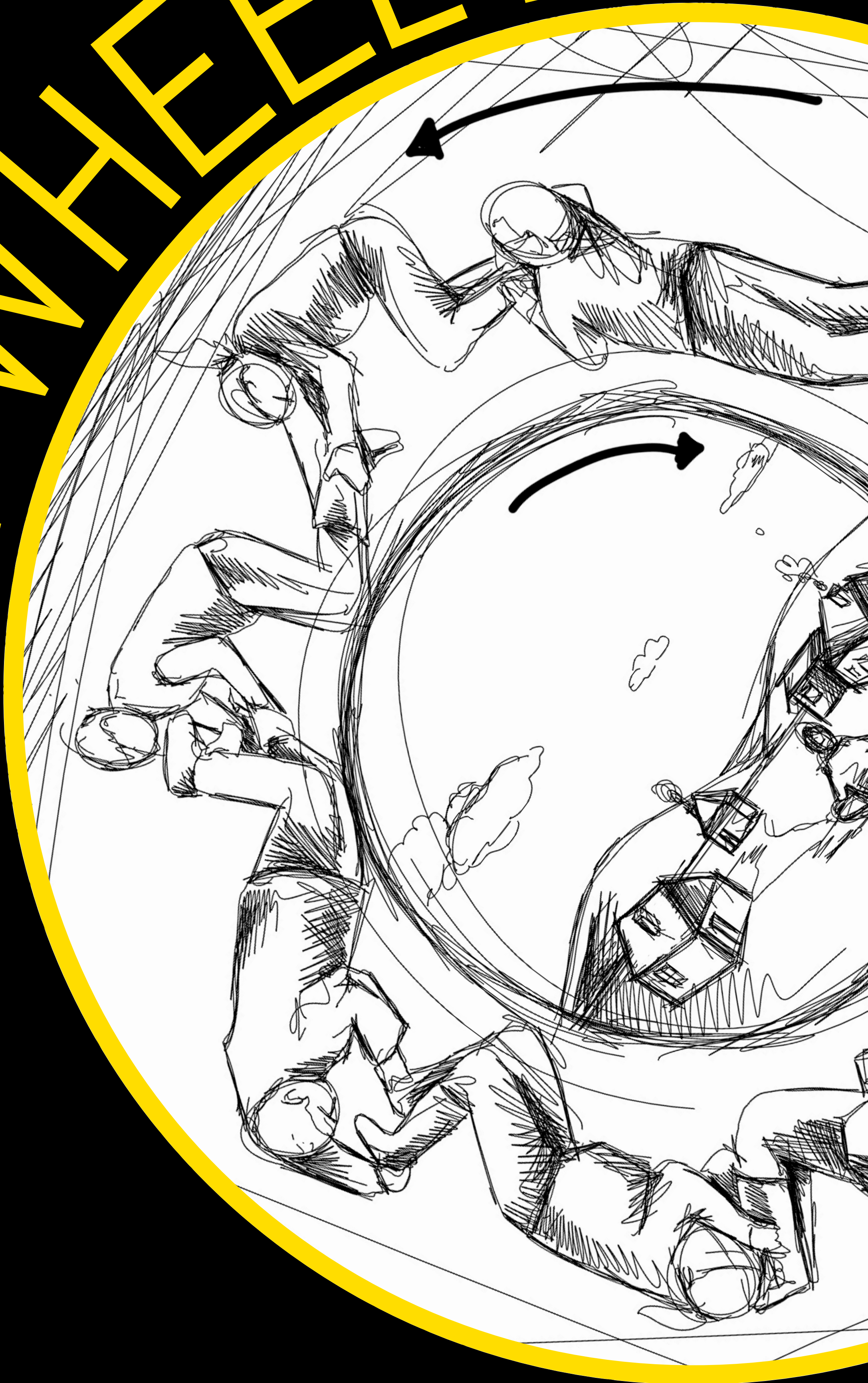
When or where does your talent make you happy?

Always when I have a new idea, I'm happy.

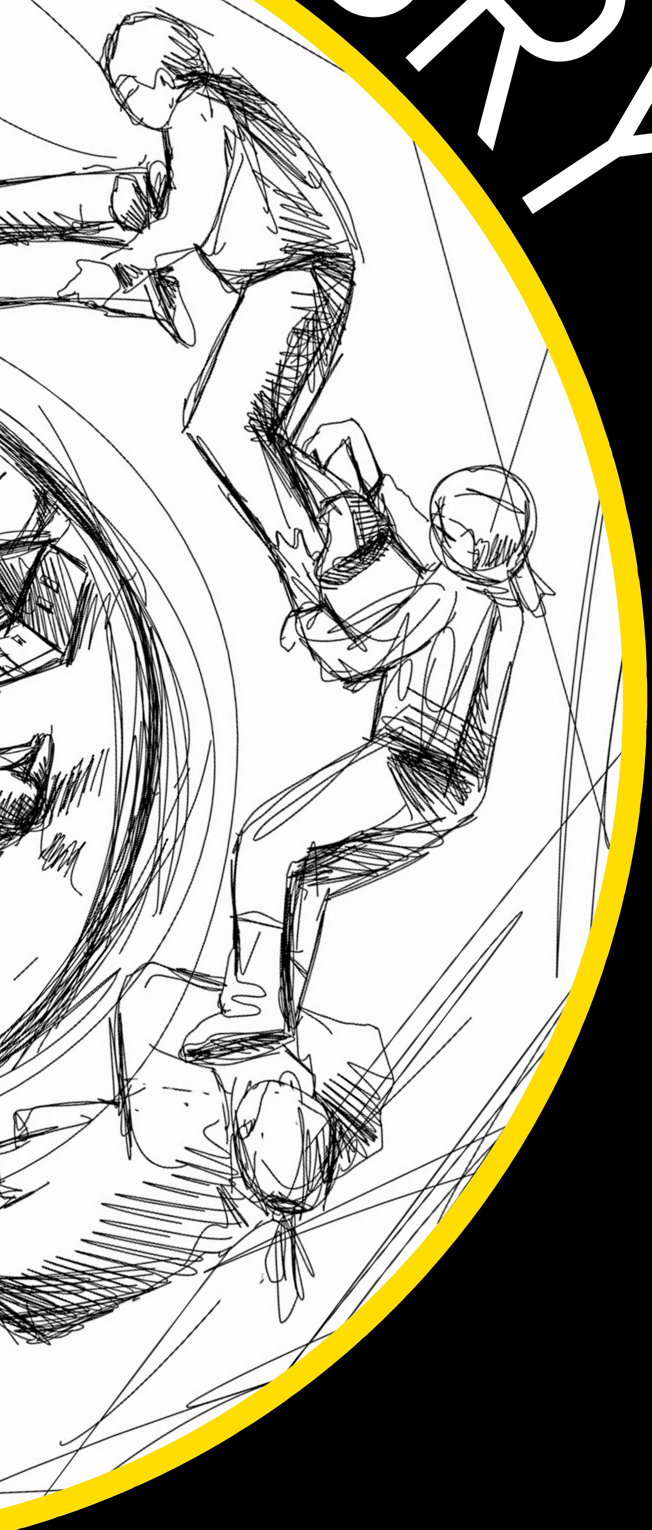
If you could change your talent, how you would change it?

Honestly, I have no need to change it even I could, because it is constantly changing itself and thus me too.

MY WHEEL IS A



STORY



My wheel is not something physical, but mental, human, a driving force that can put us in motion. My wheel is a human wheel, realised through an animated movie, in which we see our world spinning faster and faster. I strongly believe that we need to constantly work on our inner wheels. Only if we manage to invent our own inner force can we invent new things that make our life easier.

Net financial (liquidity)/debt position

(alternative performance measure not envisaged by the accounting standards)

(in migliaia di euro)

	Note	12.31.2013		12.31.2012	
			of which related parties		of which related parties
Current borrowing from banks and other financial institutions	23	316,653	-	440,526	877
Current derivative financial instruments (liabilities)	27	3,175		19,168	-
Non-current borrowing from banks and other financial institutions	23	2,014,406	1,674	1,995,775	2,565
Total gross debt		**2,334,234**		**2,455,469**	
Cash and cash equivalents	19	(879,897)	-	(679,794)	-
Securities held for trading	18	(48,090)	-	(224,717)	-
Current financial receivables	15	(17,738)	8,234	(66,290)	(38,723)
Current derivative financial instruments (assets)	27	(6,666)	-	(18,136)	-
Net financial debt *		**1,381,843**	**-**	**1,466,532**	**-**
Non-current financial receivables	15	(59,460)	-	(261,327)	(173,506)
Total net financial (liquidity) debt position		**1,322,383**		**1,205,205**	

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

Gross debt decreased by euro 121.3 million from December 31, 2012, falling from euro 2,455.5 million to euro 2,334.2 million.

Following conclusion of the capital transaction resolved by Prelios S.p.A. at the end of March 2013, aimed at relaunching the business development prospects of the real estate group and strengthening the financial position of the group owned by Prelios S.p.A., as well as rebalancing its overall financial structure, and as accepted by Pirelli, the non-current portion of the financial receivable of euro 173.5 million outstanding at December 31, 2012 was converted into Prelios S.p.A. ordinary shares for euro 21.5 million, into equity instruments (the "convertendo") for euro 148.4 million, while the remaining euro 3.6 million was repaid by Prelios and thus collected.

The reduction in non-current financial receivables also reflected the recognition in Brazil of the release and consequent collection of about euro 19 million in escrow deposits for tax litigation and lawsuits.

In regard to current financial receivables, the reduction from December 2012 includes about euro 33 million resulting from the effects of the full consolidation of the Chinese subsidiary operating in the steel cord business at December 31, 2013 (previously classified as an associate and toward which there was a financial receivable at December 31, 2012).

SCOPE OF CONSOLIDATION

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Head-quarter	Curren-cy	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	Brussels	Euro	700,000	100.00%	Pirelli Tyre (Suisse) S.A.
Francia						
Gecam France S.a.S.	Sustainable mobility	Villepinte	Euro	130,205	70.00%	Pirelli & C. Ambiente S.r.l.
Pneus Pirelli S.a.S.	Tyre	Villepinte	Euro	1,515,858	100.00%	Pirelli Tyre S.p.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 C.S.A.	Tyre	Kallithea (Athens)	Euro	11,630,000	99.90%	Pirelli Tyre S.p.A.
					0.10%	Pirelli Tyre (Suisse) S.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	72.80%	Elastika Pirelli C.S.A.
Hungary						
Pirelli Hungary Tyre Trading and Services Ltd	Tyre	Budapest	Hun. Forint	3,000,000	100.00%	Pirelli Tyre S.p.A.
Ireland						
Pirelli Reinsurance Company Ltd (in liquidation)	Reinsurance	Dublino	US $	7,150,000	100.00%	Pirelli Finance (Luxembourg) S.A.

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Head-quarter	Curren-cy	Share Capital	% holding	Held by
Italy						
Driver Italia S.p.A.	Tyre	Milan	Euro	350,000	71.21%	Pirelli Tyre S.p.A.
Driver Servizi Retail S.p.A.	Tyre	Milan	Euro	120,000	100.00%	Pirelli Tyre S.p.A.
IN & OUT S.r.l.	Fashion	Milan	Euro	20,000	100.00%	PZero S.r.l.
Maristel S.p.A.	Telecommunica-tions	Milan	Euro	1,020,000	100.00%	Pirelli & C. S.p.A.
Pirelli & C. Ambiente S.r.l. (ex Pirelli & C. Eco Technology S.p.A.)	Sustainable mobility	Milan	Euro	5,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Industrie Pneumatici S.r.l.	Tyre	Settimo Torinese (To)	Euro	40,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Labs S.p.A.	Research and Development	Milan	Euro	5,000,000	100.00%	Pirelli & C. S.p.A.
Pirelli Servizi Amministrazione e Tesoreria S.p.A.	Services	Milan	Euro	2,047,000	100.00%	Pirelli & C. S.p.A.
Pirelli Sistemi Informativi S.r.l.	Information Systems	Milan	Euro	1,010,000	100.00%	Pirelli & C. S.p.A.
Pirelli Steelcord S.r.l.	Tyres	Milan	Euro	12,010,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyre S.p.A.	Tyre	Milan	Euro	756,820,000	100.00%	Pirelli & C. S.p.A.
Poliambulatorio Bicocca S.r.l.	Services	Milan	Euro	10,000	100.00%	Pirelli Tyre S.p.A.
PZero S.r.l.	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.
					1.95%	Pirelli & C. Ambiente S.r.l.
					0.95%	Pirelli Servizi Amministrazione e Tesoreria S.p.A.
					0.95%	Pirelli Labs S.p.A.
					0.95%	Pirelli Sistemi Informativi S.r.l.
					0.95%	PZero S.r.l.
Luxembourg						
Pirelli Finance (Luxembourg) S.A.	Financial	Luxembourg	Euro	13,594,910	100.00%	Pirelli & C. S.p.A.
Poland						
Driver Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	100,000	70.00%	Pirelli Polska Sp.ZO.O.
Pirelli Polska Sp.ZO.O.	Tyre	Warsaw	Pol. Zloty	625,771	100.00%	Pirelli Tyre S.p.A.
Romania						
S.C. Cord Romania S.r.l.	Tyre	Slatina	Rom. Leu	36,492,150	80.00%	Pirelli Tyre S.p.A.
S.C. Pirelli & C. Eco Technology RO S.r.l.	Sustainable mobility	Oras Bum-besti-Jiu	Rom. Leu	20,000,000	100.00%	Pirelli & C. Ambiente S.r.l.
S.C. Pirelli Tyres Romania S.r.l.	Tyre	Slatina	Rom. Leu	853,912,300	100.00%	Pirelli Tyre S.p.A.
Syro Consumer S.r.l.	Sustainable mobility	Bumbe-sti-Jiu	Rom. Leu	10,000	95.00%	Pirelli & C. Ambiente S.r.l.
					5.00%	Pirelli Tyre S.p.A.

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Head-quarter	Curren-cy	Share Capital	% holding	Held by
Russia						
Closed Joint Stock Company "Voronezh Tyre Plant"	Tyre	Voronezh	Russian Rouble	1,520,000,000	100.00%	Limited Liability Company Pirelli Tyre Russia (ex-Limited Liability Company E-Volution Tyre)
OOO Pirelli Tyre Services	Tyre	Moscow	Russian Rouble	54,685,259	95.00%	Pirelli Tyre (Suisse) SA
					5.00%	Pirelli Tyre S.p.A.
Limited Liability Company "AMTEL-Russian Tyres"	Tyre	Moscow	Russian Rouble	10,000	100.00%	Limited Liability Company Pirelli Tyre Russia (ex-Limited Liability Company E-Volution Tyre)
Limited Liability Company Pirelli Tyre Russia (ex-Limited Liability Company E-Volution Tyre)	Tyre	Moscow	Russian Rouble	4,000,000	99.91%	E-VOLUTION Tyre B.V.
					0.09%	OOO Pirelli Tyre Services (ex-OOO Pirelli Tyre Russia)
Limited Liability Company "Vyatskaya Shina"	Tyre	Kirov	Russian Rouble	4,912,000	100.00%	Open Joint Stock Company "Kirov Tyre Plant"
Open Joint Stock Company "Kirov Tyre Plant"	Tyre	Kirov	Russian Rouble	354,088,639	100.00%	Limited Liability Company Pirelli Tyre Russia (ex-Limited Liability Company E-Volution Tyre)
Slovakia						
Pirelli Slovakia S.R.O.	Tyre	Bratislava	Euro	6,639.00	100.00%	Pirelli Tyre S.p.A.
Spain						
Euro Driver Car S.L.	Tyre	Barcelona	Euro	924,000	54.22%	Pirelli Neumaticos S.A. Sociedad Unipersonal
					0.33%	Omnia Motor S.A. Sociedad Unipersonal
Omnia Motor S.A. Sociedad Unipersonal	Tyre	Barcelona	Euro	1,502,530	100.00%	Pirelli Neumaticos S.A. -Sociedad Unipersonal
Pirelli Neumaticos S.A. Sociedad Unipersonal	Tyre	Barcelona	Euro	25,075,907	100.00%	Pirelli Tyre S.p.A.
Tyre & Fleet S.L. Sociedad Unipersonal	Tyre	Barcelona	Euro	20,000	100.00%	Pirelli Neumaticos S.A. Sociedad Unipersonal
Sweden						
Dackia Aktiebolag	Tyre	Taby	Swed. Krona	31,000,000	100.00%	Pirelli Tyre S.p.A.
Inter Wheel Sweden Aktiebolag	Tyre	Karlstad	Swed. Krona	1,000,000	100.00%	Dackia Aktiebolag
Pirelli Tyre Nordic Aktiebolag	Tyre	Bromma	Swed. Krona	950,000	100.00%	Pirelli Tyre S.p.A.
Switzerland						
Pirelli Group Reinsurance Company S.A.	Reinsurance	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	261,700,000	65.00%	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

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Head-quarter	Curren-cy	Share Capital	% holding	Held by
Turkey						
Celikord A.S.	Tyre	Istanbul	Turkey Lira	44,000,000	98.733%	Pirelli Tyre S.p.A.
					0.631%	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	204,500,000	99.84%	Pirelli Tyre S.p.A.
					0.15%	Pirelli Industrie Pneumatici S.r.l.
United Kingdom						
CPC 2010 Ltd	Tyre	Burton on Trent	British Pound	10,000	100.00%	Pirelli UK Tyres Ltd
CTC 1994 Ltd	Tyre	Burton on Trent	British Pound	984	100.00%	CTC 2008 Ltd
CTC 2008 Ltd	Tyre	Burton on Trent	British Pound	100,000	100.00%	Pirelli UK Tyres Ltd
Pirelli International Ltd	Financial	Burton on Trent	Euro	250,000,000	100.00%	Pirelli Tyre S.p.A.
Pirelli Motorsport Services Ltd	Tyre	Burton on Trent	British Pound	1	100.00%	Pirelli Tyre S.p.A.
Pirelli Tyres Ltd	Tyre	Burton on Trent	British Pound	16,000,000	100.00%	Pirelli UK Tyres Ltd
Pirelli UK Ltd	Finance Holding Company	Burton on Trent	British Pound	163,991,278	100.00%	Pirelli & C. S.p.A.
Pirelli UK Tyres Ltd	Tyre	Burton on Trent	British Pound	85,000,000	100.00%	Pirelli Tyre S.p.A.
NORTH AMERICA						
Canada						
Pirelli Tire Inc.	Tyre	St-Laurent (Quebec)	Can. $	6,000,000	100.00%	Pirelli Tyre (Suisse) SA
U.S.A.						
Pirelli North America Inc.	Tyre	New York (New York)	US $	10	100.00%	Pirelli Tyre S.p.A.
Pirelli Tire LLC	Tyre	Rome (Georgia)	US $	1	100.00%	Pirelli North America Inc.

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Head-quarter	Curren-cy	Share Capital	% holding	Held by
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	83,054,019	99.83%	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	7,099,055	97.10%	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%	Pirelli Ltda
Chile						
Pirelli Neumaticos Chile Limitada	Tyre	Santiago	Chile Peso/000	1,918,451	99.98%	Pirelli Pneus Ltda
					0.02%	Pirelli Ltda
Colombia						
Pirelli de Colombia SA	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%	TLM - Total Logistic Management Serviços de Logistica Ltda
					1.60%	Comercial e Importado-ra de Pneus Ltda
					1.60%	Cord Brasil - Industria e Comercio de Cordas para Pneumaticos Ltda
Mexico						
Pirelli Neumaticos de Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	35,098,400	99.98%	Pirelli Pneus Ltda
					0.02%	Pirelli Ltda
Pirelli Neumaticos S.A. de C.V.	Tyre	Silao	Mex. Peso	1,291,654,000	99.00%	Pirelli Tyre S.p.A.
					1.00%	Pirelli Pneus Ltda
Pirelli Servicios S.A. de C.V.	Tyre	Silao	Mex. Peso	50,000	99.00%	Pirelli Tyre S.p.A.
					1.00%	Servicios Pirelli Mexico S.A. de C.V.
Servicios Pirelli Mexico S.A. de C.V.	Tyre	Mexico City	Mex. Peso	50,000	99.00%	Pirelli Pneus Ltda
					1.00%	Pirelli Ltda
Venezuela						
Pirelli de Venezuela C.A.	Tyre	Valencia	Ven. Bo-livar/000	20,062,679	96.22%	Pirelli Tyre S.p.A.

COMPANIES CONSOLIDATED LINE-BY-LINE

Company	Business	Head-quarter	Curren-cy	Share Capital	% holding	Held by
AFRICA						
Egypt						
Alexandria Tire Company S.A.E.	Tyre	Alexandria	Egy. Pound	393,000,000	89.08%	Pirelli Tyre S.p.A.
					0.03%	Pirelli Tyre (Suisse) SA
International Tire Company Ltd.	Tyre	Alexandria	Egy. Pound	50,000	99.80%	Alexandria Tire Company S.A.E.
South Africa						
Pirelli Tyre (Pty) Ltd.	Tyre	Centurion	S.A. Rand	1	100.00%	Pirelli Tyre (Suisse) 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. Ren-minbi	1,721,150,000	90.00%	Pirelli China Tyre N.V.
Pirelli Tyre Trading (Shangai) Co. Ltd.	Tyre	Shangai	US $	700,000	100.00%	Pirelli China Tyre N.V.
Sino Italian Wire Technology Co. Ltd.	Tyre	Yanzhou	Renminbi	227,500,000	49.00%	Pirelli Tyre S.p.A.
Yanzhou HIXIH Ecotech Environment Co. Ltd.	Sustainable mobility	Yanzhou	Ch. Renminbi	130,000,000	100.00%	Pirelli Tyre Co. Ltd
Korea						
Pirelli Korea Ltd.	Tyre	Seoul	Korean Won	100,000,000	100.00%	Pirelli Asia Pte Ltd
Japan						
Pirelli Japan Kabushiki Kaisha	Tyre	Tokyo	Jap. Yen	2,200,000,000	100.00%	Pirelli Tyre S.p.A.
Singapore						
Pirelli Asia Pte Ltd.	Tyre	Singapore	Sing. $	2	100.00%	Pirelli Tyre (Suisse) 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	Head-quarter	Curren-cy	Share Capital	% holding	Held by
EUROPE						
Germany						
Industriekraftwerk Breuberg GmbH	Cogeneration	Hoechst / Odenwald	Euro	1,533,876	26.00%	Pirelli Deutschland GmbH
Greece						
Eco Elastika S.A.	Tyre	Athens	Euro	60,000	20.00%	Elastika Pirelli S.A.
Italia						
A.P.I.C.E. - S.r.l. (in liquidazione)	Enviroment	Rome	Euro	86,112	50.00%	Pirelli & C. Ambiente S.r.l.
Consorzio per la Ricerca di Materiali Avanzati (CORIMAV)	Financial	Milan	Euro	103,500	100.00%	Pirelli & C. S.p.A.
Eco Emission Enterprise S.r.l. (in liquidazione)	Enviroment	Milan	Euro	10,000	50.00%	Pirelli & C. Ambiente S.r.l.
Eurostazioni S.p.A.	Financial	Rome	Euro	160,000,000	32.71%	Pirelli & C. S.p.A.
Fenice S.r.l.	Financial	Milan	Euro	23,345,263	32.83%	Pirelli & C. S.p.A.
GWM Renewable Energy II S.p.A.	Enviroment	Rome	Euro	15,063,016	16.87%	Pirelli & C. Ambiente S.r.l.
Idea Granda Società Consortile S.c.r.l.	Enviroment	Cuneo	Euro	1,292,500	49.00%	Pirelli & C. Ambiente S.r.l.
Prelios S.p.A.	Financial	Milan	Euro	189,896,923	13.06%	Pirelli & C. S.p.A. del capitale votante
Serenergy S.r.l.	Enviroment	Milan	Euro	25,500	50.00%	Pirelli & C. Ambiente S.r.l.
Romania						
S.C. Eco Anvelope S.A.	Tyre	Bucarest	Rom. Leu	160,000	20.00%	S.C. Pirelli Tyres Romania S.r.l.
Spain						
Signus Ecovalor S.L.	Tyre	Madrid	Euro	200,000	20.00%	Pirelli Neumaticos S.A. - Sociedad Unipersonal
ASIA						
Indonesia						
PT Evoluzione Tyres	Tyre	Kamojing (West Indonesia)	$ USA	40,460,000	60.00%	Pirelli Tyre S.p.A.

OTHER INVESTMENTS CONSIDERED SIGNIFICANT

Company	Business	Head-quarter	Curren-cy	Share Capital	% holding	Held by
Belgium						
Euroqube S.A. (in liquidation)	Services	Brussels	Euro	84,861,116	17.79%	Pirelli & C. S.p.A.
France						
Aliapur S.A.	Tyre	Lion	Euro	262,500	14.29%	Pirelli Tyre S.p.A.
Italy						
Fin. Priv. S.r.l.	Financial	Milan	Euro	20,000	14.29%	Pirelli & C. S.p.A.
Poland						
Centrum Utylizacji Opon Organizacja Odzysku S.A.	Tyre	Warsaw	Pol. Zloty	1,008,000	14.29%	Pirelli Polska Sp. ZO.O.
United Kingdom						
Tlcom I Ltd Partnership	Financial	London	Euro	1,154	10.83%	Pirelli UK Ltd
Tunisia						
Société Tunisienne des Industries de Pnéumatiques S.A.	Tyre	Tunis	Tun. Dinar	12,623,472	15.83%	Pirelli Tyre S.p.A.

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2013 – December 31, 2013.

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, 2013 was determined on the basis of an assessment of the internal control system. This assessment was based on a specific process defined in accordance with the criteria laid down in the "Internal Control – Integrated Framework" guidelines issued by the "Committee of Sponsoring Organizations of the Treadway Commission" (COSO), which is a reference framework generally accepted at the international level.

3. We also certify that:

   3.1 The consolidated financial statements:

   - 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;
   - correspond to the information in the account ledgers and books;
   - 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 27, 2014

The Chairman of the Board of Directors and Chief Executive Officer	The Corporate Financial Reporting Manager
(Marco Tronchetti Provera)	(Francesco Tanzi)

INDIPENDENT AUDITOR'S REPORT

Reconta Ernst & Young S.p.A.
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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 Group") as of December 31, 2013 and for the year then ended, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flow and the related explanatory notes. The preparation of these consolidated 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 consolidated 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 of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

   The consolidated financial statements of the prior year are presented for comparative purposes. As described in the explanatory note n. 3 "Accounting Policies", Directors have restated certain comparative data related to the prior year with respect to the data previously presented, on which we issued our auditor's report dated March 29, 2013. We have examined the method used to restate the comparative financial data and the information presented in the explanatory notes in this respect, for the purpose of expressing our opinion on the consolidated financial statements as of December 31, 2013 and for the year then ended.

3. In our opinion, the consolidated financial statements of the Pirelli Group at December 31, 2013 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 Group for the year then ended.

Reconta Ernst & Young S.p.A.
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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 Group at December 31, 2013.

Milan, April 10, 2014

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

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

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In line with Pirelli's Green Sourcing Policy, the planning phase or this report included an analysis of the environmental impact of the materials used with the help of the supplier chosen, which has been certified by way of an environmental management system. Thanks to this approach, in order to carry out this project, we have used FSC-certified paper, vegetable-based inks, and water-based paints. The final packages is made out of recyclable cardboard and polypropylene.

Thanks to our colleague Giovanni Tamanza – Pirelli Tyre – for the great photographs